



Part of Energy Queensland

17 April 2023

Warwick Anderson
General Manager
Australian Energy Regulator
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Dear Warwick

Submission on the AER's preliminary positions on the framework and approach papers

Energex Limited (Energex) and Ergon Energy Corporation Limited (Ergon Energy Network) appreciate the opportunity to comment on the Australian Energy Regulator's (AER's) preliminary position paper on the framework and approach papers for Energex, Ergon Energy Network, SA Power Networks and Directlink, for the forthcoming 2025-30 regulatory control period, published on 17 March 2023. The publication of the AER's preliminary positions follow Energex's and Ergon Energy Network's request, in October 2022, to replace or amend the current framework and approach paper and the AER's subsequent decision, published in December 2022, to review or amend the current framework and approach.

The framework and approach paper is the first step in the regulatory reset process and sets out the AER's positions of several important elements of regulatory determinations including the classification of services, application of incentive schemes, control mechanisms, and approach to depreciation. The framework and approach process facilitates early consultation on these matters and the AER's likely positions provide guidance in preparing our regulatory proposals. In this regard, Energex and Ergon Energy Network appreciate the staff-level engagement with the AER during the current process and welcome continued engagement ahead of the AER finalising the framework and approach paper in July 2023.

Energex and Ergon Energy Network broadly support the AER's preliminary positions in relation to the classification of services, application of incentive schemes, control mechanism, application of the expenditure forecast guideline, depreciation, and dual function assets. We note that the AER's preliminary positions are largely consistent with our October 2022 request to amend or replace the existing framework and approach paper. However, we also wish to provide the following brief comments on the matters raised in the AER's preliminary positions paper.

Application of the Service Target Performance Incentive Scheme (STPIS)

We note that the AER's preliminary positions paper requests stakeholders' feedback on which revenue at risk (either the current ± 2 per cent or the default revenue at risk of ± 5 per cent under the STPIS) is more appropriate to incentivise Ergon Energy and Energex to improve reliability versus consumer price impact in the next regulatory period. We would like to reiterate our position to maintain the current ± 2 per cent revenue at risk threshold under the STPIS instead of the default ± 5 per cent revenue at risk threshold set out in the scheme. Due to the impact of rising interest rates on network revenues, affordability is a significant concern over the next regulatory period. We do not consider that the next regulatory period is the most appropriate time for us to transition to the default revenue at risk under the STPIS. Furthermore, our historical performance under the lower revenue at risk shows that that we have consistently delivered the right reliability and customer service outcomes for customers.

Application of an export service incentive scheme

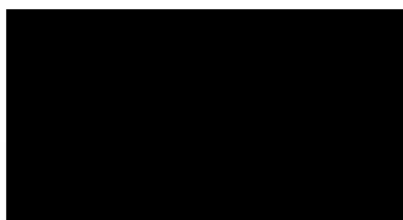
The AER is currently developing an export service incentive scheme that is due to be published in July 2023. This scheme allows networks to develop bespoke incentives related to export services based on their network circumstances, customer preferences and evidence based performance data. The AER's preliminary position paper considers that this scheme could apply to Energex and Ergon Energy Network in the 2025-30 regulatory period. Our position is that this scheme should not apply to Energex and Ergon Energy Network in the next regulatory period. We do not consider that we have robust data that would allow us to both develop metrics and targets and test these with customers.

Revenue cap formulae

Energex and Ergon Energy Network note that the AER's preliminary positions paper rejected a request made by SAPN to amend the form of control formulae to account for under or over recoveries at the end of the solar feed-in tariff jurisdictional scheme – due to end 2028. We have undertaken some analysis of the matter and consider that there is merit in SAPN's proposal. We acknowledge that AER staff have agreed to have further discussions with us and SAPN and look forward to resolving this matter prior to finalisation the framework and approach paper.

Should the AER have any queries or wish to discuss any aspect of this request further, please contact Trudy Fraser on 0467 782 350.

Yours sincerely



Nicola Roscoe
General Manager Strategy and Regulation