01.01.01 Legislative and Regulatory Obligations and Policy Requirements

October 2014

Contents

1 Legislative and regulatory obligations and policy requirements

This summary document examines the key legislative and regulatory obligations, and the key Queensland Government policy requirements, that Ergon Energy must comply with in the current[1] and next[2] regulatory control periods.

Clauses 6.3.1(c)(2) and 6.8.2(d) of the National Electricity Rules (NER) require Ergon Energy's Building Block Proposal and Regulatory Proposal to comply with the requirements of, and to contain or to be accompanied by the information required by, any relevant Regulatory Information Notice (RIN).

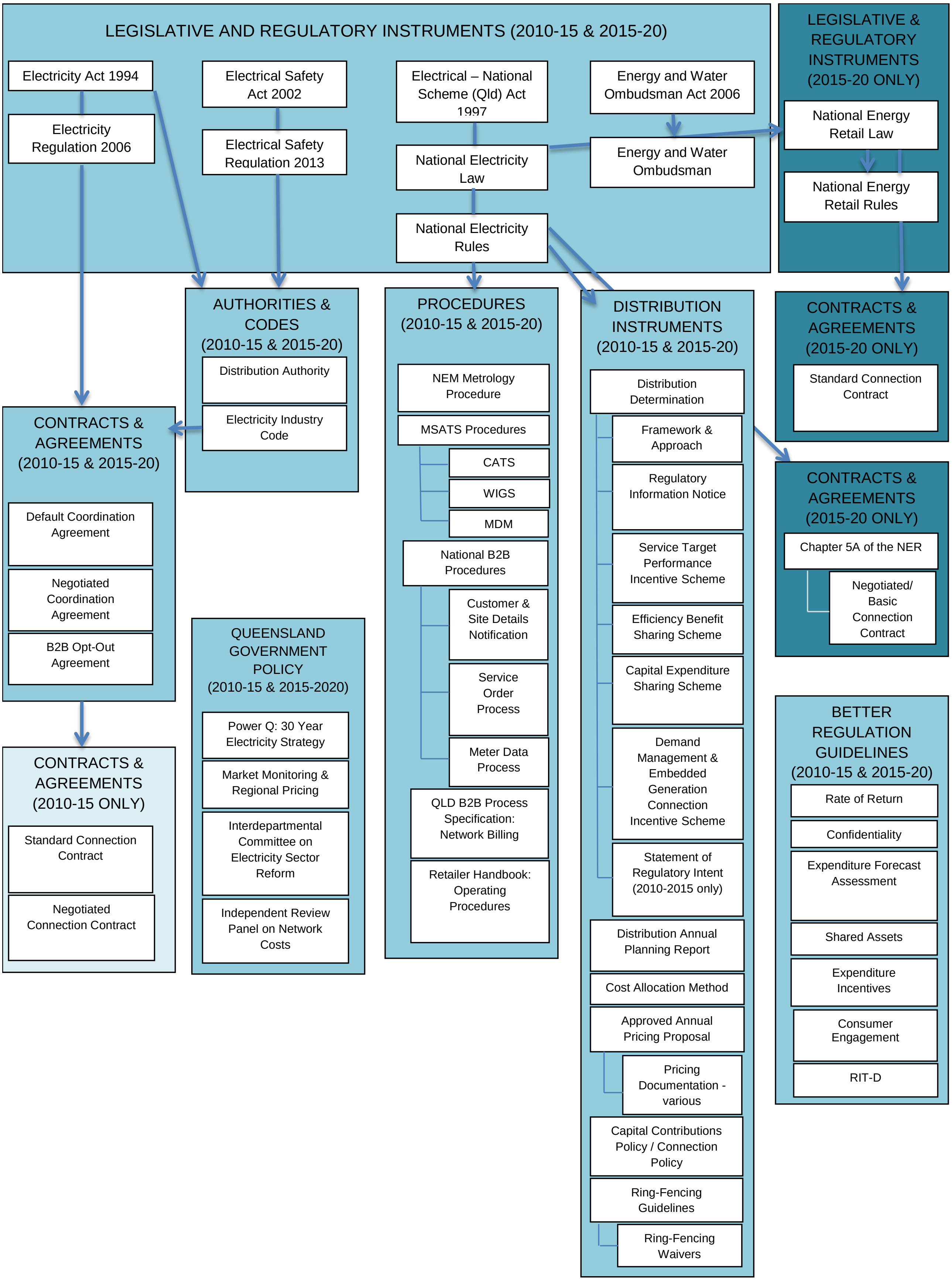
Section 5.1(d) of the RIN requires Ergon Energy to provide certain information about the obligations and requirements that have been relied upon in the development of the Regulatory Proposal and the impact on step changes in capital expenditure.

The key industry specific legislative and regulatory instruments, and Queensland Government policies, that are relevant to Ergon Energy are represented in Figure 1:

- The light shaded instruments and policies apply in the current regulatory control period only.
- The medium shaded instruments and policies apply in the current regulatory control period and will also apply in the next regulatory control period.
- The dark shaded instruments and policies will apply in the next regulatory control period only.

[1] 1 July 2010 to 30 June 2015
[2] 1 July 2015 to 30 June 2020

Figure 1: Electricity legislative and regulatory instruments



2 Obligations and requirements in 2010-15

Ergon Energy must comply with a variety of national and Queensland-specific legislative and regulatory instruments in the current regulatory control period. The following is a summary of the key industry specific legislative and regulatory instruments.

2.1 National legislative and regulatory instruments

The key national legislative and regulatory instruments that apply to Ergon Energy in the current regulatory control period are as follows:

- *Electricity – National Scheme (Qld) Act 1997* – this legislation provides that the National Electricity Law (NEL) and the NER apply as a law of Queensland. This act incorporates the NEL as an attachment
- NEL – this law:
    - states a market objective to govern the National Electricity Market's (NEM) development
    - establishes the governance arrangements for the NEM and Queensland's participation in the national market – including conferring policy oversight and review powers on the Council of Australian Governments' (CoAG) Energy Council and functions and powers on the Australian Energy Market Commission (AEMC), the Australian Energy Regulator (AER) and Australian Energy Market Operator (AEMO)
    - provides for the making of rules
    - confers powers and responsibilities with respect to the safety and security of the national system
    - provides immunity for service providers in certain circumstances
- NER – these Rules are made under the NEL and set out the rights and obligations of participants in the NEM, AEMO as the market operator, and the market institutions. Of particular relevance to our Regulatory Proposal are:
    - Chapter 5, which deals with network connections and network planning and expansion
    - Chapter 6, which deals with the economic regulation of distribution services
    - Chapter 7, which deals with metering
    - Chapter 9, which deals with jurisdictional derogations and transitional arrangements
    - Chapter 11, which details transitional arrangements.
- Metrology Procedure – this document sets out Ergon Energy's obligations as a Responsible Person and Financially Responsible Metering Provider in relation to the engagement of Metering Service Providers for:
    - the provision, installation, routine testing and maintenance of metering installations. The Metrology Procedure also gives force to Queensland Government policy, which requires the installation of manually read interval meters in new or replacement situations for all customers consuming below 100 MWh. The meter must be capable of being upgraded for use in a type 4 metering installation without the need to remove the meter; but the meters must continue to be read as accumulation meters
    - measurement of electrical energy and the provision of data to AEMO, so that it can convert consumption energy data into trading interval data to facilitate the efficient operation of the market

- Market Settlement and Transfer Solution (MSATS) Procedures: Consumer Administration and Transfer Solution (CATS) Procedures Principles and Obligations – these procedures set out the principles governing customer transfers, the registration of metering installations and the management of standing data in the NEM
- MSATS Procedures: Procedures for the Management of Wholesale, Interconnector, Generator and Sample (WIGS) National Metering Identifiers (NMI) – these procedures set out the principles that govern consumer transfer, the registration of metering installations and management of standing data for NMIs that are classified as wholesale, interconnector, generator or sample
- MSATS Procedures: Meter Data Management (MDM) Procedures – these procedures define and document the management of metering data within MSATS
- Business to Business (B2B) Procedures: Customer and Site Details Notification Process – these procedures define the business rules and transactions for regular updates of customer and premises between a retailer and a Distribution Network Service Provider (DNSP)
- B2B Procedures: Service Order Process – these procedures define the business rules and transactions for a retailer to request a DNSP to undertake a service order on behalf of the retailer or a customer and for the DNSP to provide advice regarding the outcome of the request
- B2B Procedures: Meter Data Process – these procedures define the business rules and transactions for Metering Data Providers (MDPs) to send data to retailers, DNSPs and other MDPs and for these parties to communicate about the data, for example, by raising queries
- Ergon Energy Distribution Determination 2010-11 to 2014-15 – this document sets out the revenue Ergon Energy receives to recover its costs and the regulated prices that can be charged to customers for distribution services in the 2010-15 regulatory control period. This document will cease to apply from 1 July 2015.
- AER guidelines:
  - Cost Allocation Guidelines (Distribution) – these guidelines outline the required content of Ergon Energy's Cost Allocation Method (CAM) and the basis on which the AER will assess that method for approval
  - Regulatory Investment Test for Distribution (RIT-D) – the RIT-D is a cost-benefit test that DNSPs must apply when assessing the economic efficiency of different investment options
  - Jurisdictional Ring-Fencing Guidelines – distribution Ring-Fencing guidelines developed by any jurisdictional regulator prior to the transfer of regulatory functions to the AER will be deemed to have been prepared by the AER. These guidelines remain in force subject to amendment, revocation or replacement by guidelines developed under the new regulatory regime
  - Consumer Engagement Guideline – this guideline gives NSPs a high level framework to integrate consumer engagement into their business-as-usual operations
- schemes – the AER issued three schemes that Ergon Energy is required to comply with in the current regulatory control period:
  - Service Target Performance Incentive Scheme (STPIS) – clause 6.6.2 of the NER requires the AER to develop and publish a STPIS. The STPIS is designed to ensure DNSPs improve efficiency without deterioration in service performance for customers, and improve service performance where customers are willing to pay for these improvements

  - Efficiency Benefit Sharing Scheme (EBSS) – the EBSS aims to provide for a fair sharing between DNSPs and network users of efficiency gains and efficiency losses in accordance with clause 6.5.8 of the NER
  - Demand Management Incentive Scheme (DMIS) – the DMIS provide incentives for DNSPs to implement efficient non-network alternatives or to manage the expected demand for standard control services in some other way.

Additional information on the obligations, requirements and standards applicable to Ergon Energy and which have been relied upon in the development of this Regulatory Proposal is included in the RIN Template 7.3.

2.2 Queensland-specific legislative and regulatory instruments

The key Queensland legislative and regulatory instruments that apply to Ergon Energy in the current regulatory control period are as follows:

- *Electricity Act 1994* (the Act) and *Electricity Regulation 2006* – these are the primary instruments governing Queensland's electricity supply industry. Among other things, they are the basis for establishing:
  - Ergon Energy's Distribution Authority
  - a large number of Ergon Energy's contractual relationships with retailers and customers
  - Ergon Energy's rights and obligations for carrying out our operations
  - the industry regulatory framework, including giving regulators powers to make industry codes
- Distribution Authority – the Queensland Regulator (the Department of Energy and Water Supply) has issued Ergon Energy a Distribution Authority in accordance with the Act. It contains a broad range of obligations on Ergon Energy, including in relation to compliance with Guaranteed Service Levels (GSLs) as notified from time to time
- Demand Management Plan – under the *Electricity Regulation 2006*, it is a condition of each Queensland DNSP's Distribution Authority that it must annually prepare a Demand Management Plan for approval by the regulator. The Demand Management Plan must include strategies, plans, cost estimates and performance targets for undertaking demand management initiatives
- *Electrical Safety Act 2002* and *Electrical Safety Regulation 2013* – these instruments establish a safety framework by imposing obligations on persons who may affect the electrical safety of others. The *Electrical Safety Act* also supports Codes of Practice which provide practical advice regarding the discharge of obligations under the *Electrical Safety Act* and *Electrical Safety Regulation*
- *Energy and Water Ombudsman Act 2006* and *Energy and Water Ombudsman Regulation 2007* – these instruments establish an independent dispute resolution mechanism for small customers who have a complaint about their energy supply
- Default Coordination Agreement – this is a deemed agreement that applies between Ergon Energy and any retailer with whom we have a common customer. It is contained at Annexure C to the Queensland Electricity Industry Code (EIC). The agreement defines the way in which the parties will discharge their respective obligations to customers and establishes common protocols for communicating customer information, in circumstances where a Negotiated Coordination Agreement has not been entered into

- Negotiated Coordination Agreement – Ergon Energy can negotiate with any retailer with whom we have a common customer. This agreement defines the terms and conditions under which the parties will discharge their respective obligations to customers and establishes common protocols for communicating customer information. Any such agreement would replace the Default Coordination Agreement
- B2B Opt-Out Agreement – this Agreement between Ergon Energy Corporation Limited and Ergon Energy Queensland allows the two businesses to communicate a B2B communication on a basis other than as set out in the B2B Procedures (as is permitted under clause 7.2A.4(k) of the NER) and the Queensland B2B Process Specification: Network Billing (as is permitted under section 5.3(e) of the EIC)
- Standard Connection Contract – this is a deemed contract that details the rights and obligations of Ergon Energy and our customers regarding the provision of customer connection services, in circumstances where they have not entered into a Negotiated Connection Contract. It is contained at Annexure A to the EIC
- Negotiated Connection Contract – this is a negotiated contract that details the rights and obligations of Ergon Energy and our customers regarding the provision of customer connection services. Any such agreement would replace the Standard Connection Contract (or standard non-market large customer contract)
- EIC – this Code has been made under the Act and contains a wide range of obligations that impact on Ergon Energy's operations, including establishing:
    - Minimum Service Standards (until 30 June 2014)
    - GSLs
    - reporting and monitoring arrangements
    - arrangements governing the provision of customer connection services, including under a Customer Charter and in accordance with a Standard Connection Contract
    - arrangements governing the provision of services between Ergon Energy and retailers, including under a Standard Coordination Agreement
    - customer transfer and consent arrangements for the purposes of full retail competition

      metering obligations in relation to type 7 meters and isolated/excluded customers.

  The EIC currently provides for Ergon Energy to operate under the 'minimalist transitioning approach'[3] (MTA) until such time as the Queensland Competition Authority (QCA) issues a notice declaring it will no longer do so. The MTA details requirements in relation to NMI discovery and creation requests and the population of MSATS.

  Removal of the MTA would require Ergon Energy to make significant investments in systems and processes to enable compliance with the NER, the EIC and other AEMO requirements.
- Queensland B2B Process Specification: Network Billing – this document describes the automation of the network billing process, its associated transactions and the associated business rules. It has been prepared in accordance with clause 5.3 of the EIC
- Retailer Handbook: Operating Procedures – this document defines the standard protocols for communication and transactions between Ergon Energy and retailers operating within our distribution area. In the Default Coordination Agreement, it is known as the 'Operational Procedures'

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[3] Clause 6.8.

3 Anticipated or incremental regulatory obligations

3.1 National legislative and regulatory instruments

All of the national legislative and regulatory instruments will continue to apply in the next regulatory control period, although various changes will have been made to each instrument between the two periods.

The following new national regulatory instruments did not apply in the current regulatory control period but will apply in the next regulatory control period:

- Distribution Determination – the AER will issue a Distribution Determination for Ergon Energy in accordance with clause 6.2.4(a) of the NER
- Framework and Approach – the AER issued its Framework and Approach for Ergon Energy in accordance with clause 6.8.1 of the NER on 30 April 2014
- Regulatory Information Notice – the AER issued a RIN for Ergon Energy on 26 August 2014 in accordance with section 28F(1)(a) of the NEL. Ergon Energy has addressed the requirements of this RIN in our Regulatory Proposal
- Chapter 5A of the NER
- AER Guidelines –
  - Connection Charge Guideline – these guidelines set out how DNSPs should charge new electricity customers for connecting to their networks. Ergon Energy's Connection Policy must be prepared in accordance with this guideline.
  - Rate of Return Guidelines – these guidelines set out the approach the AER will use to estimate the returns on equity and debt for a benchmark efficient business
  - Confidentiality Guideline – this guideline sets out how network service providers (NSPs) must make confidentiality claims over information they submit to the AER
  - Expenditure Forecast Assessment Guideline – this guideline describes the process, techniques and associated data requirements for the AER's approach to setting efficient expenditure allowances for NSPs
  - Shared Assets Guideline – this guideline sets out how the AER reduces consumer costs for shared assets, through forecasting the annual unregulated revenue that a network business is expected to earn from shared assets, and comparing this to the revenue that is required to provide regulated services
  - Expenditure Incentive Guideline – this guideline is specifically concerned with further improving the incentives facing NSPs to undertake efficient and prudent capital expenditure (capex)
- models – the AER has issued two models that Ergon Energy has used in submitting our Regulatory Proposal to the AER:
  - Post Tax Revenue Model (PTRM) – the AER has issued a PTRM and an associated PTRM Handbook. The AER is currently consulting on a revised PTRM.
  - Roll Forward Model (RFM) – the AER has issued a RFM and an associated RFM Handbook

- schemes – the AER has issued one additional scheme and amended the DMIS. Ergon Energy has addressed these in submitting our Regulatory Proposal to the AER:
  - Capital Expenditure Sharing Scheme (CESS) – the CESS provides financial rewards for DNSPs whose capex becomes more efficient and imposes financial penalties for those that become less efficient. Consumers benefit from improved efficiency through lower regulated prices, in accordance with clause 6.5.8A of the NER
- CAM – the AER has approved the CAM that Ergon Energy submitted to it in accordance with the Cost Allocation Guidelines and clause 6.15 of the NER. This document will be used by Ergon Energy for the purposes of attributing costs to, or allocating costs between, our distribution services, and other unregulated activities within the Ergon Energy Group.

The AEMC is currently consulting on proposed rule changes which will require changes to network pricing and metering processes. Given that these changes are still in the consultation process and not yet in force, they have not been considered in developing our Regulatory Proposal.

3.2 Queensland-specific legislative and regulatory instruments

All of the Queensland-specific legislative and regulatory instruments detailed above will continue to apply to Ergon Energy in the next regulatory control period. However, the introduction of the National Energy Customer Framework (NECF) on 1 July 2015 will have a substantial impact on our business. While the details of the NECF for Queensland are yet to be finalised, it will affect how we interact with our customers, particularly around customer protections, connections and communications.

The NECF legislation contains protections specific to consumers in regional and remote Queensland and will support a number of electricity market reforms. For instance:

- all small customers in regional Queensland will have access to a standard retail contract at the regulated price
- large customers will have access to customer retail services despite weak competition
- retail competition restrictions will continue in areas where technical limitations exist or there is not economic benefit to do so.

The introduction of the NECF will also result in changes to a number of the jurisdictional legislative and regulatory instruments referenced in Section 2.2 above. These changes will be necessary to avoid any duplication or inconsistency between the various instruments.

As noted previously, the EIC currently provides for Ergon Energy to operate under the MTA. Removal of the MTA during the regulatory control period 2015-20 would necessitate significant expenditure on systems and processes to ensure Ergon Energy is capable of complying with the EIC.

3.3 Queensland Government electricity sector reforms

It is expected that Queensland Government policies will change over time and Ergon Energy cannot anticipate the nature or timing of any such changes given that they would ultimately be a matter for the Queensland Government to decide. However, Ergon Energy notes that changes to requirements and obligations are inevitable as a result of ongoing market reform and outworking of energy sector reviews such as:

Electricity Sector Reform - PowerQ: a 30-year strategy for Queensland's electricity sector

PowerQ, a long-term strategy for Queensland's electricity sector, released on 20 June 2014, is a strategy set across a 30-year timeframe, designed to transition to a resilient, cost-effective and customer-focused electricity industry.

PowerQ was developed following extensive public consultation and focuses on a shared accountability model, where government, the market and customers engage in shaping Queensland's future electricity supply by setting out short, medium and long term actions.

For customers, the intended outcome is to improve value with the most competitively-priced electricity in Australia and ensure customers are educated and empowered so they can challenge the electricity market to deliver innovative products and services that meet their individual needs.

For the electricity market, a competitive and efficient marketplace that promotes investment, facilitates market entry and meets residential and business customer needs is planned.

Market Monitoring and Regional Pricing

From 1 July 2015, the QCA will no longer set retail electricity prices in South East Queensland (SEQ) and market monitoring will replace retail price regulation for residential and small business customers.

To enable customers to benefit from these reforms, pre-conditions must be satisfied, including:

- ensuring sufficient competition in SEQ exists;
- implementing appropriate support mechanisms to protect vulnerable customers;
- developing a customer engagement strategy to improve consumer confidence and enable quick responses; and
- establishing an effective regulatory framework, with clearly defined roles for retailers, regulators and government, including viable methodologies to determine prices.

The QCA will continue to monitor the market, assist customers to better understand and take advantage of the choices on offer, and inform the government on how the market is developing.

Customers outside SEQ will still have access to regulated retail prices under the Uniform Tariff Policy. The QCA is currently consulting on how these prices will be set.

Interdepartmental Committee (IDC) on Electricity Sector Reform

The IDC was established in mid-2012 to investigate the impacts of increasing costs on electricity prices, network costs, electricity supply and retail competition. The IDC's objectives were to ensure that electricity in Queensland is delivered in a cost-effective manner for consumers, and is delivered by a viable, sustainable and competitive electricity industry in a financially sustainable manner for the Queensland Government.

Independent Review Panel (IRP) on Network Costs

The IRP was engaged by the IDC to investigate the impact of Queensland's electricity network on prices and develop solutions for a secure and cost-effective network. The IRP was directed to make specific recommendations on:

- optimal structures for Government-owned distribution network providers, in the context of reform processes occurring in other jurisdictions;
- the efficiency of network capital and operational expenditure and options to:
  - address peak demand issues and improve forecasting;
  - improve capital expenditure /operational expenditure efficiencies;
  - plan for/respond to economic growth;
  - deliver savings in corporate overhead costs (including information technology);
  - reduce the Community Service Obligation for non-contestable customers;
  - consider customer values in setting security/reliability performance standards in network planning;
  - consider Queensland’s options to influences national regulatory reform agenda; and
  - develop a timeframe for potential network price reductions.

The recommended changes to the security standards have been accepted by the IDC and Queensland Government. As such, Ergon Energy’s new security criteria and MSS have been included in its most recent Distribution Authority. Other recommendations are currently being outworked by the Queensland Government and may be implemented in the next regulatory control period.