Attachment 01.01.02

The Effect of Transitional Arrangements

Contents

1. Introduction

1.1 Overview

Clause 11.16 of the National Electricity Rules (NER) sets out the transitional arrangements for the first Distribution Determination made by the Australian Energy Regulator (AER) for the Queensland Distribution Network Service Providers (DNSPs). These transitional arrangements applied for the current regulatory control period and will cease to have effect in the next regulatory control period 2015-20. In addition, changes to the NER during the current regulatory control period resulted in a number of transitional arrangements which will also cease to have effect.

1.2 Rule requirements

The AER issued Ergon Energy with a Regulatory Information Notice (RIN) under Division 4 of Part 3 of the National Electricity (South Australia) Law (Qld) that requires Ergon Energy to provide the information specified in the RIN.

For transitional arrangements, the RIN requires Ergon Energy to:

34.1 Provide information on transitional issues (expressly identified in the Rules or otherwise) which Ergon Energy expects will have a material impact on it and should be considered by the AER in making its distribution determination. For each issue, set out the following information:

(a) the transitional issue;

(b) what has caused the transitional issue;

(c) how the transitional issue impacts on Ergon Energy; and

(d) how Ergon Energy considers the transitional issue could be addressed.

This attachment addresses the above requirements for each of the transitional arrangements identified by Ergon Energy.

1.3 Transitional arrangements

The transitional arrangements set out in clause 11.16 of the NER related to the following matters:

- the treatment of certain assets included in the Regulatory Asset Base (RAB)
- capital contributions policy
- Efficiency Benefit Sharing Scheme (EBSS)
- Service Target Performance Incentive Scheme (STPIS)
- jurisdictional schemes
- the recovery of charges for using the non-regulated 220 kV network which supplies the Cloncurry township (Chumvale)
- the recovery of entry and exit charges relating to non-prescribed connection points between Powerlink's transmission network and our distribution network (Powerlink).

In addition, there are transitional arrangements set out in clause 11.60 of the NER relating to the timing and application of the AER's distribution determination for 2015-2020, and arrangements in clause 11.46 relating to interim connection charging rules.

2. Effect of transitional arrangements

The following sections summarise the effects of the cessation of the transitional arrangements on Ergon Energy's Regulatory Proposal.

2.1 Shared assets in the RAB

Clause 11.16.3 of the NER required the AER to accept the approach proposed by Ergon Energy in the current regulatory control period regarding the treatment of certain assets in the RAB, provided the approach was consistent with the 2005 determination. As a result, some assets were included in the RAB that were used to provide services other than just Standard Control Services. This was consistent with legacy regulatory arrangements

Under clause 6.5.1(a) of the NER, assets must only be included in the RAB to the extent that they are used to provide Standard Control Services. In its final Framework and Approach paper, the AER stated that we should provide an updated Cost Allocation Method (CAM) and establish our RAB for the next regulatory control period with asset costs allocated to service types, with verification by an audit process.[1]

For the 2015-20 regulatory control period, the cost of new assets will be allocated between Standard Control Services and other services in accordance with our revised CAM, which has been approved by the AER and will take effect from 1 July 2015.

We propose to retain in the opening RAB for the 2015 regulatory control period those assets that are used to provide services other than Standard Control Services, consistent with the current arrangements. To ensure that our customers do not pay for these assets twice and are no worse off than under the current determination, we propose to apply an offsetting revenue adjustment, equivalent to the sum of the depreciation and return on assets, for the component of the shared assets that are used for purposes other than Standard Control Services.

The total revenue adjustment that we propose to make to account for shared assets in the RAB is shown in the table below.

Table 1: Estimated revenue adjustment associated with the use of shared assets

$m (nominal)	2015–16	2016–17	2017–18	2018–19	2019–20
Revenue adjustment	(6.02)	(6.18)	(6.34)	(6.50)	(6.67)

Further information on the calculation of the revenue adjustment to account for those assets in the RAB that are used to provide services other than Standard Control Services is provided in chapter 3 of our Regulatory Proposal or in our supporting document 03.01.02 – Other Revenue Adjustments.

2.2 Capital contributions policy

Transitional clauses 11.16.10 of the NER provides for the operation of a capital contributions policy.

Clause 11.16.10 requires us to comply with a capital contributions policy for the regulatory control period 2010-15. That policy must be based on the Network Pricing Principles Statements

[1] AER (2014), *Final Framework and approach for Energex and Ergon Energy, Regulatory control period commencing 1 July 2015,* April 2014, p. 158.

approved by the Queensland Competition Authority immediately in force prior to 1 July 2009. Clause 11.16.10 also provides mechanisms for the AER or us to modify this policy if necessary.

As clause 11.16.10 will no longer have any effect upon commencement of the next regulatory control period, and with the introduction of the National Energy Customer Framework in Queensland[2] requiring preparation of a connection policy in accordance with clause 6.7A.1 of the NER, Ergon Energy must put in place a connection policy for the next regulatory control period. The required connection policy incorporates our approach to capital contributions, consistent with the AER's guidelines.[3]

Our proposed connection policy is included in Appendix D of our Regulatory Proposal or our supporting document 09.01.01 – Ergon Energy Connection Policy.

2.3 Efficiency Benefit Sharing Scheme (EBSS)

Transitional clause 11.16.4 stipulated that an Efficiency Benefit Sharing Scheme (EBSS) for Ergon Energy was not to cover efficiency gains and losses related to capital expenditure. It further required the AER to have regard to the obligations on us through the current regulatory control period to implement the recommendations of the Queensland Government's Electricity Distribution and Service Delivery for the 21st Century review (EDSD Review).

With the passing over of this transitional clause, the AER could have implemented an EBSS for us that covers efficiency gains and losses related to capital expenditure. However, the AER's final Framework and Approach paper stated that the EBSS would only apply to operating expenditure efficiency gains and losses.[4] This is consistent with the requirements of new clause 6.5.8 of the NER, which explicitly limits the application of the EBSS to operating expenditure only.

This means the EBSS will continue to only include operating expenditure. However, we note that the AER will apply a new Capital Expenditure Sharing Scheme (CESS).[5] This means that we will be subject to an incentive scheme on capital expenditure in the 2015-20 regulatory control period, but not by virtue of the transitional arrangements ceasing to apply.

There will be minimal impact from the AER not needing to take into consideration the recommendation of the EDSD Review for the EBSS, as these recommendations do not affect our operating expenditure forecasts for the 2015-20 regulatory control period.

We further consider the proposed application of incentive schemes, including the EBSS and the CESS, in chapter 3 of our regulatory proposal, or in our supporting document 03.01.03 – Application of Incentive Schemes.

2.4 Service Target Performance Incentive Scheme (STPIS)

Clause 6.6.2 of the NER sets out the factors that the AER must take into consideration in the development of a Service Target Performance Incentive Scheme (STPIS). In the current regulatory control period, the AER was required by transitional clause 11.16.5 of the NER to take

[2] The introduction of the National Energy Customer Framework in Queensland is expected to occur on 1 July 2015.

[3] AER (2012), *Connection charge guidelines for electricity retail customers,* June 2012.

[4] AER (2014), *Final Framework and approach for Energex and Ergon Energy, Regulatory control period commencing 1 July 2015,* April 2014, p. 75.

[5] Ibid p. 82.

into account a number of extra factors when making its decision on the application of a STPIS to Ergon Energy. These additional factors were:

- the obligations on us through the current regulatory control period to implement the recommendations of the Queensland Government's Electricity Distribution and Service Delivery for the 21st Century review
- the impact of severe weather events on service performance
- whether the scheme should be applied as a paper trial or whether a lower powered incentive is appropriate.

With the passing of this transitional clause, the AER is no longer required to take into account the extra factors as detailed above in its application of an STPIS. In the next regulatory control period, the AER will make and implement a STPIS in accordance with clause 6.6.2. This means that, in the regulatory control period 2015-20, Ergon Energy may be subject to potential penalties resulting from under performance due to severe weather events.

Further detail on our proposed approach to the application of incentive schemes, including the STPIS, is provided in chapter 3 of our regulatory proposal, or in our supporting document 03.01.03 – Application of Incentive Schemes.

2.5 Jurisdictional schemes

Although not a transitional requirement specified in the NER, we note that there will be a change in the next regulatory control period in how the costs from the Queensland Solar Bonus Scheme (SBS) will be treated.

In the current regulatory control period, differences between the feed-in tariff (FiT) amounts that we forecast and the actual amounts that we paid have been recovered by way of a nominated pass through event. This method of recovery was approved by the AER in its 2010–15 revenue determination.[6]

The method of recovery of jurisdictional scheme amounts affects the way we price our services and the planning of our cash flows.

In the next regulatory control period, we propose to treat the SBS as a Jurisdictional Scheme under clause 6.18.7A of the NER and recover the FiT payments we make through our annual pricing proposal process. Furthermore, to avoid a recovering both FiT pass through amounts and SBS jurisdictional scheme amounts in the same years, we propose to recover the FiT payments we make to customers with a two year lag.

Further information on how we will treat the SBS and other jurisdictional schemes is set out in chapter 4 of our proposal and Attachment 04.01.02 – Jurisdictional Schemes.

2.6 Chumvale and non-regulated connection points

Ergon Energy owns an unregulated network represented by a 105km 220kV line from the Mica Creek "C" Switchyard at Mount Isa to and including an Unregulated 220/66kV substation at Chumvale supplying a number of very large directly connected customers through unregulated arrangements.

[6] AER (2010), Final Decision: Queensland Distribution Determination, May 2010, pp. 311-312.

Some of these Chumvale unregulated assets also provide network support to the Cloncurry township which forms part of the Mount Isa-Cloncurry network that is subject to economic regulation under the NER.

Under clause 11.39.6 of the NER, charges for the use of Chumvale are treated as designated pricing proposal charges for the current regulatory control period. In other words transitional arrangements allow Ergon Energy to charge distribution customers for the use of the Chumvale unregulated network, by including it as a TUOS charge in our network tariffs. This means, Chumvale takes on the same characteristics of the charges we pay to Powerlink and pass onto customers in other parts of the network.

Clause 11.39 also allows Powerlink charges for entry and exit services at four non-prescribed connection points between Powerlink's transmission network and our distribution network to be treated as designated pricing proposal charges for the current regulatory control period.

In the next regulatory control period, clause 11.39.6 will no longer apply, and as a result these charges will no longer be designated pricing proposal charges. This will affect the way we recover these costs from customers.

We propose that charges related to Chumvale will be treated as operating expenditure in the next regulatory control period and have included it as a bottom up adjustment in our operating expenditure forecasts. The AER has indicated that it will assess charges related to this isolated network under the relevant rules as an element of our regulatory proposal.[7]

We have also included the charges levied by Powerlink for entry and exit services at the three ongoing non-prescribed connection points in the operating expenditure forecasts for standard control services for 2015-16 and 2016-17. We understand that Powerlink is considering applying to the AER to have these connection services classified as prescribed services for its next regulatory control period, commencing on 1 July 2017. Subject to approval by the AER, the costs will therefore be reflected in the TUOS charges from 2017-18 onwards.

We provide further detail on these matters in:

- supporting document 04.01.01 – Designated Pricing Proposal Charges.
- supporting document 06.01.01 – Opex Forecast Summary

2.7 Timing of distribution determination

Clause 11.60 of the NER sets out the special transitional provisions regarding the making of a distribution determination for Ergon Energy (and Energex and SA Power Networks) for the next regulatory control period.

The transitional provisions effectively provide that a final Distribution Determination (the Preliminary Determination) will be made by the AER by 30 April 2015, with a revocation and substitution of the Preliminary Determination (the Substitute Determination) by 31 October 2015. They remove the necessity of the AER making a draft distribution determination.

Although the Substitute Determination will not be made until after the commencement of the next regulatory control period, it will be applied as from 1 July 2015, with a 'true-up' applied to account for changes between the Preliminary Determination and the Substitute Determination. These 'true-up' adjustments are set out by transitional clauses 11.60.4(d) and (e).

[7] AER (2014), *Final Framework and approach for Energex and Ergon Energy: Regulatory control period commencing 1 July 2015*, April 2014, p. 154.

These transitional arrangements modify the usual timeline for the making of the AER's decisions regarding our revenue controls. In turn, this modifies the timeline for the submission of our regulatory proposal, revised regulatory proposal, and other documents associated with the revenue determination process. We will address this issue by submitting the required proposals in accordance with the transitional provisions.