Meeting Held: 9.00am, Tuesday, 22 July 2014

Chair: Keith Lockey – Director Advisory, KPMG

Attendees:

Ergon: Brendon Crown – Manager Regulatory Determination & Pricing, Sara Collins – Community Strategy Manager, Andrew Deme – General Manager Network Development (Future Network)


MEETING ITEMS

Network Utilisation

This topic was discussed at a high level. However, it was largely deferred to enable Energy Users Association participation in the discussion.

Action: Consider follow up options for interested members.

Review NSW Regulatory Proposals / Review of Ergon Energy’s Documentation

The group was provided a link to the NSW regulatory proposals in the meeting request to help them consider in advance what they expected/required from our documentation. The requirements of the regulations for the Overview were discussed. Ergon’s draft documents for the Quick Guide, the Overview, and the Table of Contents for the Regulatory Proposal were also presented.

Two key themes of the discussion were the group’s requirements for our final documentation to provide:

- the confidence that the forecast expenditure in the Regulatory Proposal was a prudent, and appropriately planned (capex in particular), and that the cost of capital was based on prudent assumptions.
- transparency of the drivers of costs (eg. maintenance of service standards, how forecast expenditure aligns with forecasts demand).

The feedback was that the NSW documents needed to have a stronger story around the cost drivers, and the risks and assumptions going forward (especially around the demand scenarios).

There was also discussion on the need for the documents to have a customer outcomes focus (the strategy to deliver was largely the distributor’s decision, but stakeholders needed to have confidence that it was prudent). They also needed to provide an overview of the consideration given to emerging technologies, and explain the drive to seek innovation improvements.
When reviewing our documentation, there was resonance in the term ‘Peace of Mind’… as it related to electricity being an essential service. There was some concern on the term ‘Best Possible Price’; needs to be put in the context of value for money and prudency/efficiency.

We had a discussion about how to best explain the drivers and the need to explain the impact of the size of the asset base and the cost of capital. These should include explanations of how Ergon has reduced its Regulated Asset Base. Providing some order of magnitude to the impact of the revenue adjustments, especially the incentive schemes, was also discussed.

As stakeholders they wanted to see the implications for Retail bills, however, they recognised the difficulty of doing this for different customer groups. One challenge in engaging with customers on the price outcome is that a large proportion of customers are not exposed the Ergon Network Use of System charge in the regulated retail price. It was also pointed out that the price impact was dependent on the consumption level.

There was strong interest in the demand forecasts with a preference for a regional ‘picture’ of where demand was increasing. There was also interest in the demand management program.

Benchmarking data was also seen as beneficial. Suggested perhaps visually showing the scale of Ergon Energy’s service areas compared to other provider’s service areas. Adding measures of efficiency would also be useful.

There was also some discussion on tariffs, and the link to better utilisation, and meters.

Overall, the group were looking for a Regulatory Proposal that provided price relief with reliability standards maintained (particularly important for business).

**Status Update of QCA’s Review of Regional Electricity Price Regulation**

The Queensland Government reviews into electricity pricing and the potential future implications were discussed. Reclassifying metering services from standard control to alternative control services will see costs recovered by a separate charge from Ergon Energy (however the treatment in regulated tariffs is uncertain). Retail prices might also vary depending on whether: Energex’s or Ergon’s network charges are factored into future regulated retail tariffs or the Community Service Obligation payment is paid to Ergon Energy Retail or Ergon Energy Distribution.

**Working Group Report to Ergon**

The opportunity for the Work Group to submit a report to Ergon on the issues/concerns they have become aware of from the pre submission engagement, as well as any feedback on the engagement process itself was discussed. It was agreed that this could be useful if KPMG facilitated it, however, it was felt there was some limitations as the group has not yet seen the detail of the proposal.

*Action: KPMG to develop a framework for a possible report from their perceptions and contact each member individually to develop a draft for consideration at the August meeting and confirm the deadline for the report.*
Possible next agenda items

The following items were discussed as potential agenda items for August:

- Reschedule asset utilisation discussion.
- How the cost of capital (WACC) is determined. The assumptions (incl risk in future environment) and the potential impact of the Government’s private investment proposal.
- Further information on forecasts / materiality of different costs (including the incentive schemes).
- The potential impact of loss of synergies from a retail / distribution split.
- An update on the metering outcome.

*Action: Arrange next meeting with tentative meeting date for 27 August with the 28 as an alternative.*

In April 2014 Ergon Energy established a new Customer Council working group, as an extension of our standing Customer Council (our peak body consultative forum, which brings together representatives from nine peak organisations across regional Queensland, established in 2011). The purpose of the smaller subgroup was to support the capacity of our key customer representative peak bodies to better understand and contribute to Ergon Energy’s developing expenditure proposal for the 2015 to 2020 regulatory control period.
Review of Ergon Regulatory Proposal Document Suite
Customer Council AER Working Group
22 July
## Agenda

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<th>Item</th>
<th>Time</th>
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<tbody>
<tr>
<td>1.</td>
<td>9.00am</td>
<td>Introductions</td>
<td>Andrew Deme</td>
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<td>Brendon Crown</td>
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<td>2.</td>
<td>9:05am</td>
<td>Network Utilisation</td>
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<td>3.</td>
<td>9:50am</td>
<td>Review NSW Regulatory Proposals</td>
<td>Keith Lockey</td>
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<td>• Documentation and AER Issues Paper</td>
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<td>• Introduction to Ergon Documentation Suite</td>
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<td>4.</td>
<td>10.15am</td>
<td>Coffee Break</td>
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<td>5.</td>
<td>10.30am</td>
<td>Review of Ergon Documentation Suite</td>
<td>Keith Lockey</td>
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<td>6.</td>
<td>11:10pm</td>
<td>Status Update of QCA’s Review of Regional Electricity Price Regulation</td>
<td>Keith Lockey</td>
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<td>7.</td>
<td>11:30am</td>
<td>Working Group Report to Ergon</td>
<td>Keith Lockey</td>
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<td>• Potential issues to be documented</td>
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<td>• Feedback on engagement</td>
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<td>8.</td>
<td>12.00noon</td>
<td>Independent Closing Session</td>
<td>Keith Lockey</td>
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<td>• Feedback / Questions on matters discussed</td>
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<td>• Input for next agenda</td>
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<td>• Engagement required once Regulatory Proposal is finalised</td>
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<td>9.</td>
<td>12.30pm</td>
<td>Close Meeting – Lunch to then be provided.</td>
<td>All welcome</td>
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Overview documents

- Is the level of detail right?
- Does it provide a sufficient plain-English summary of the regulatory proposal?
- Does it help you understand the regulatory proposal? Does it provide a sufficient standalone picture?
- Does it allow you to understand what the business is proposing and why it is proposing it?
- What changes would you like to see in Ergon’s overview documents?

Regulatory Proposals

- Is the level of explanation right? Does it strike the right balance between what is included in the body and in the attachments?
- Does it give you enough information to form your views about the businesses’ proposals without needing to rely too heavily on the attachments? Does it provide a standalone picture?
- Is it drafted in accessible language?
- Do you have any concerns about confidentiality claims?
- Are the attachments pitched at the right level of detail?
- What changes would you like to see in Ergon’s regulatory proposals?
Draft structure of Ergon’s regulatory proposal package

Quick Guide

Overview Document

Regulatory Proposal

Expenditure Category Summaries

Regulatory Specific Documents

Business as Usual Documents
Quick Guide (6 pages) – covers service commitments, price impacts (and an explanation of prices), and an overview of our capital and operational investment categories.

The Overview (25 pages)
- Ergon Energy in Profile
- Overview of our Engagement Plans, what ‘you’ said, our response (service commitments)
- The scale of the challenge:
  - our journey to the best possible price (with opex/capex trends) and the service improvements that we have achieved (reliability, solar connections, etc)
  - an overview of some of our unique operating challenges
  - the consideration we have made to the changing market place.
- Our future investment plans in the context of our service commitments (including the profile of our opex/capex plans)
- Other details in our Regulatory Proposal:
  - Service classifications
  - The building blocks
  - Treatment of Solar Bonus Scheme
  - Pricing methods for Alternative Control Services
  - Metering Services
  - Public Lighting.
The Regulatory Proposal

1. Introduction
   1.1 Overview of our Regulatory Proposal
   1.2 Regulatory Proposal documentation
   1.3 Ergon Energy as a business
   1.4 Other relevant matters
   1.5 Supporting documentation

2. Classification of services and control mechanisms
   2.1 Background
   2.2 Service classification
   2.3 Control service mechanisms
   2.4 Supporting documentation
3. Revenue building blocks for Standard Control Services

3.1  Background
3.2  Regulatory Asset Base
3.3  Return on capital
3.4  Return of capital (depreciation)
3.5  Operating expenditure
3.6  Corporate income tax
3.7  Revenue increments/decrements
3.8  Annual Revenue Requirement
3.9  X-factors
3.10 Applying 2015-20 incentive schemes
3.11 Supporting documentation
4. Controls on revenue and prices for Standard Control Services
   4.1 Background
   4.2 Application of the standard control formula
   4.3 Pricing arrangements
   4.4 Indicative prices
   4.5 Proposed pass through events
   4.6 Contingent projects
   4.7 Supporting documentation
The Regulatory Proposal

5. Alternative Control Services .................................................................
   5.1 Background ..............................................................................
   5.2 Form of control mechanism ....................................................
   5.3 Basis of the control mechanism ............................................
   5.4 Formula for Alternative Control Services ............................
   5.5 Default Metering Services ......................................................
   5.6 Public Lighting Services ..........................................................
   5.7 Other Alternative Control Services ........................................
   5.8 Assigning customers to tariff classes ....................................
   5.9 Supporting documentation ....................................................
Appendix A: Operating expenditure forecast for Standard Control Services
Appendix B: Capital expenditure forecasts for Standard Control Services
Appendix C: Rate of Return
Appendix D: Proposed Connection Policy
Appendix E: Approach to confidential information
Appendix F: Compliance matrix
Glossary
Expenditure category summaries

Expenditure Category Summaries (30-40 pages)

- About this summary document
- Expenditure profile (i.e. for past, current and future regulatory period)
- Nature of expenditure
- Current period outcomes (i.e. expenditure and performance)
- Expenditure forecasting method
- Next period outcomes (i.e. expenditure and performance)
- Meeting Rules’ requirements

Categories

- Capex – Corporation Initiated Augmentation, Asset Renewals, Reliability and Quality Supply, Customer Initiated, Other System, Non-System
- Opex
Status of review of regional electricity price regulation

- **Independent Commission of Audit (Feb 2013)**
  - Recommended refining uniform tariff policy (UTP) and community service obligation (CSO) to target most needy consumers, reduce costs and volatility, and support retail competition
  - Government accepted in-principle

- **Interdepartmental Committee on Electricity Sector Reform (May 2013)**
  - Recommended reviewing UTP and CSO and identified need to “address barriers to the growth of retail competition in regional Queensland, including moving towards a network based UTP CSO within three years, in parallel with reform of Ergon Energy Retail”
  - Government accepted in-principle targeting UTP to consumers most in need and improving transparency of CSO

- **QCA review of regional electricity price regulation (April 2014)**
  - Provided report to Minister in response to April 2014 direction to investigate and report on matters relating to the UTP and retail price regulation in regional Queensland
  - Report not yet publicly released

- **Government introduced proposed legislation (May 2014)**
  - Aim to remove barriers to competition in SEQ, open up the retail market to greater competition and innovation and to remove the constraints on EEQ’s ability to compete
  - QCA will monitor market for residential and small business consumers in SEQ from 1 July 2015
  - QCA will regulate electricity prices in regional areas while Government investigates options to expand competition

- **Government released 30 year strategy for the sector “PowerQ” (June 2014)**
  - Strategy includes proposal to consider ways to better target assistance given under UTP, while continuing to support regional electricity consumers

- **Commission of Audit Taskforce (Current)**
  - Currently examining how best to address Independent Commission of Audit’s recommendations to better target, and to improve the transparency of, the CSO
Implications

• Reclassifying metering services from standard control to alternative control services will reduce costs recovered by MUT

• Costs of metering services will be recovered by additional charge from Ergon Energy – options:
  - Upfront charge for new and additional meters (labour costs only) plus $/day charge for other metering services (materials, maintenance, reading, provision of data)
  - Upfront charge for new and additional meters (labour and equipment costs) plus $/day charge for other metering services (maintenance, reading, provision of data)
  - $/day charge for all metering services

• Retail prices might vary depending on whether:
  - Energex’s or Ergon’s network charges are factored into future regulated retail tariffs
  - CSO is paid to Ergon Retail or Ergon Distribution
Potential issues

- Classification of services
- Form of metering charge
- Confidentiality
- Carry forward of revenue under-recoveries
- Feed-in tariffs
- Expenditure forecast scenarios
- Incentive schemes
  - Service target performance incentive scheme
  - Efficiency benefit sharing scheme
  - Capital expenditure sharing scheme
  - Ex post capex adjustments
  - Demand management incentive scheme
- Regulatory proposal and supporting documentation
- Effectiveness of consultation