

Ergon Energy

Public Compliance Commitment

30 June 2000

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1. Introduction

“Ergon Energy” (comprising Ergon Energy Corporation Limited and Ergon Energy Pty Ltd, Ergon Energy Gas Pty Ltd, Ergon Energy (Victoria) Pty Ltd, and Northern Electricity Retail Corporation Pty Ltd (NERC) is making a public commitment to comply with the law governing The New Tax System and with the Australian Competition & Consumer Commission (ACCC) GST Pricing Guidelines.

Ergon Energy has been undertaking detailed planning and preparation for The New Tax System and giving such an assurance to our customers and other stakeholders is an important part of this process.

The Ergon Energy group principally comprises six key business units.

- Regulated network assets;
- Non-regulated network assets;
- Contestable retail services;
- Services to (non-contestable) franchise customers;
- Gas Bottle Retailing (Vantage Utilities Trust); and
- Retail Appliance Trading (EA North Queensland Pty Ltd).

The two principal operating legal entities are Ergon Energy Corporation Limited (EECL) and Ergon Energy Pty Ltd (EEPL). EECL is the owner of the network assets. EEPL and a subsidiary carry on the retail business principally comprising the supply of energy and related services to both contestable customers and non-contestable (franchise) customers (referred to above as “contestable retail services” and “services to (non-contestable) franchise customers.” EECL is an amalgamation of six former Queensland regional electricity distribution corporations that were amalgamated by the Queensland Government on 30 June 1999 under the Scheme of Arrangement provisions in the Corporations Law.

Ergon Energy’s major network services and services to franchise customers are subject to regulation by the Queensland Government. The Queensland Department of Mines and Energy is well advanced in determining the changes to the regulatory arrangements that will be necessary to accommodate the impact of the tax changes. These changes will be consistent with the price exploitations provisions of the *Trade Practices Act 1974* and take account of the specific regulatory requirements of the Queensland regime, including a maximum uniform retail tariff. Given the work being undertaken by the Department of Mines and Energy, this Public Compliance Commitment focuses on the services which fall outside the Queensland regulated regime – non-regulated network services and services to contestable customers. That said, many of the processes that are described in the document are being implemented on an Ergon Energy wide-basis and accordingly this commitment will provide an assurance to all our customers of our commitment to comply with the Trade Practices Act.

EA North Queensland Pty Ltd and Vantage Utilities Trust are separate legal entities and given the unique nature of their businesses (i.e. retail appliance trading and gas bottle retailing, respectively) as compared with the more traditional service offerings of the remainder of the Ergon Energy Group, it was considered that the financial and economic analysis undertaken using the STATAX model was not practical to apply to those activities. Accordingly EA North Queensland Pty Ltd and Vantage Utilities Trust are not covered by this Public Compliance Commitment. We note that these businesses provide a relatively nominal contribution to the profitability of the Ergon Group. These businesses are undertaking their own cost and pricing reviews to ensure compliance with the Trade Practices Act. We also note that both these businesses operate in very competitive retail markets (electrical appliance retailing through the Retravisson franchise, and gas bottle retailing). The pricing policies adopted by EA North Queensland Pty Ltd post-GST reflect scheduled prices provided by the Retravisson franchisor.

2. Commitment to comply

As part of this commitment, Ergon Energy will:

- comply with the Trade Practices Act, in particular Part VB of the Act relating to price exploitation;
- not engage in price exploitation in relation to the New Tax System;
- comply with the ACCC's price exploitation guidelines, as expanded in this commitment;
- pass on to consumers any net cost savings arising from the New Tax System changes;
- advertise and display GST-inclusive prices in a manner that is not misleading or deceptive, and
- ensure it has an effective GST compliance program.

3. Cost changes

Ergon Energy is committed to passing on to its customers net cost savings arising from the New Tax System. Cost savings are expected from the reduction and abolition of wholesale sales tax and other indirect taxes.

We commissioned a detailed analysis from Arthur Andersen to identify and forecast the estimated cost savings arising from the New Tax System for each of our core businesses and the time frame within which these savings could be captured and passed on to customers.

For its regulated services, Ergon Energy has submitted these modelling results to the Department of Mines and Energy for pricing determinations in respect of these services. Those pricing decisions are the subject of State Government determination.

For the other services, Ergon Energy will ensure that all modelled savings are passed on to customers even though those modelled savings are yet to be realised. Indeed, we will go beyond this. To ensure that there are no customers who are disadvantaged by the existence of hedging contracts governing their electricity supplies, Ergon will make a commitment to, at the very least, limit the price rise for all our electricity customers – both franchise customers and contestable customers - to the rise applying to our franchise customers as determined by the Department of Mines and Energy. No price will rise by more than 10% as a result of changes arising from the New Tax System in accordance with ACCC guidelines. The principal exception to this approach is for supplies made to customers under “grandfathered” contracts which broadly remain outside the GST regime until a “review opportunity” arises. As of the date of making this commitment, final tariffs for franchise customers had not been made public by the Department of Mines and Energy.

We will continue to monitor our supplier base closely to ensure we capture the savings anticipated and will pass on to customers any additional savings that accrue.

We are committed to ongoing review of any cost savings being passed on to our customers, to ensure they reflect actual figures or improved estimates as they become available. For the regulated services, the results of this review will be provided to the Department of Mines and Energy to be taken into account in its next pricing determinations. For the other services, prices will be reviewed on, at least, a semi-annual basis (around 31 December 2000, June 2001, December 2001 and June

2002) to ensure actual net cost savings arising from the New Tax System are properly and promptly passed on to customers.

4. Supplier program

In addition to our commitment to pass on net cost savings to our customers, Ergon Energy has implemented a program to ensure its suppliers do the same.

This program includes comprehensive sampling of our suppliers across major expenditure areas to ensure our customers receive the maximum benefit of the tax system changes.

5. Compliance costs

Ergon Energy has put together a team for the GST Readiness Project and expects to be fully GST-compliant by 1 July 2000. The scope of the project encompasses the development of economic models in order to determine cost/price/ profitability impacts as a result of the New Tax System; the negotiation with Department of Mines and Energy on "revenue cap" and retail tariff implications and then to submit the Public Compliance Statement to the ACCC; an Impact Assessment Study to determine the impact of GST on Ergon's processes and systems; identification and resolution of issues relating to the implementation of GST; the development of Ergon's processes and systems to be GST compliant; the conduct of training for Ergon's staff; and the communication of impacts and changes to all staff, customers, and suppliers

Ergon Energy's GST Readiness Project has a budget that is primarily based on the cost of the people working on the project in order to complete all of the above. Ergon Energy expects to incur on-going costs after the introduction of GST as there will continue to be issues raised, rulings required and, in particular, customer queries that need to be processed.

The GST compliance costs have been amortised over five years on a straight-line basis as per the ACCC guidelines. Ergon Energy has and will continue to carefully monitor the incremental compliance costs associated with implementing the tax changes.

6. Impact of New Tax System changes

A particular feature of the electricity industry is the relatively high level of fixed capital costs and the fact that a large proportion of electricity purchases are covered by long term (derivatives) contracts under which electricity savings may not arise in an economic sense until such derivative contracts expire or are re-negotiated. Such characteristics have a significant bearing on the net cost reductions arising from indirect tax reform. In particular, they act to limit the level of cost savings that will result in the initial period although greater costs savings will be achievable over the longer term.

7. Customer information

Ergon Energy is committed to a transparent communication process with its customers on the effects of the New Tax System and the level of savings expected to accrue to different business areas. Our Customer Service Representatives have received training in the procedures to be followed regarding customers' GST enquiries. All written correspondence received from customers is answered promptly by return letter. Our standard communication pack includes frequently asked questions and answers, as well as GST terms and definitions.

We will, where possible, provide clients and retailers with information on their obligations to assist them to comply with the new tax laws. To this end, we have established a GST page on the Ergon Energy internet site. This page contains the answers to the most common questions that customers

have asked us, and a brief explanation of the activities that we are undertaking to ensure we are GST ready by 1 July 2000. The page also has a link to our GST email address for customers to contact us with their questions.

8. Complaints handling procedure

Ergon Energy already has a comprehensive complaints handling procedure, which ensures customer complaints are handled quickly and appropriately. We will ensure that the necessary processes and systems are upgraded and the necessary training conducted so that complaints relating to the New Tax System can be effectively and efficiently handled by this procedure.

Ergon Energy's Customer Care Call Centre staff will record complaints directly related to the introduction of the New Tax System. These in turn will be directed to the GST Support Unit (GSU) that is part of Ergon's Group Finance section. The GSU unit will be manned with experienced staff who were part of the implementation team and would have access to tax and legal technical support to quickly resolve both simple and complex issues. Service Level Agreements will be established to ensure that we have, within reason, a 24-hour response to any customer complaint.

9. Price display and pricing policy

Ergon Energy is committed to showing the GST inclusive price in a manner that is not misleading or deceptive. All invoices will clearly indicate the amount of GST and the GST-inclusive price unless business practices warrant otherwise (e.g. certain dealings relating to the electricity pool will involve pool prices being quoted on a GST exclusive basis).

10. Compliance program

Ergon Energy has a comprehensive compliance and customer management program, which incorporates the New Tax system. This includes:

- Appointment of the Chief Financial Officer to be responsible for compliance in the organisation and the implementation of Ergon's GST programme. Appointment of the Company Secretary to take a direct role in overseeing the GST programme. In addition, the Chief Executive Officer and Boards of Directors have endorsed the GST programme being undertaken by Ergon.
- Staff that are trained in their responsibilities and customer rights
- Systems to review our performance regularly, as regards meeting customer enquiry, capturing cost savings and passing cost savings to customers
- A comprehensive complaints handling procedure, which ensures they are considered and responded to quickly and appropriately.
- The development and implementation of an all-encompassing GST programme to ensure all appropriate personnel within the business are appropriately educated and able to communicate appropriately with clients and customers.

11. Liaison with the Australian Competition & Consumer Commission

Ergon Energy is committed to complying with the legal obligations of the New Tax System. As part of this commitment, the GST Project Manager will be the liaison officer who will be the first point of contact for the ACCC.

We will continue our consultative process with the ACCC regarding our obligations in relation to compliance with Part VB of the Trade Practices Act and in other matters to ensure Ergon Energy meets its good corporate citizen responsibilities.

12. Reporting and information provision

Ergon Energy will provide a six-monthly report to the ACCC in relation to the calculation of price changes associated with the New Tax System.

The report will assess the estimated and actual figures for the previous six months as a basis for setting the prices of the non-regulated services for the following 12 months. It will be in a format agreed with the ACCC, updating the information provided to it on a confidential basis at the time of this commitment. Ergon Energy will separately maintain its normal reporting responsibilities with the Department of Mines and Energy in relation to its regulated services.



Kim Griffith
Chief Executive Officer
Ergon Energy Corporation Limited