

Framework and approach paper—classification of services and control mechanisms to apply to Energex and Ergon Energy 2010–15

Roundtable

Tuesday 22 July 2008

ACCC Brisbane Office

Attendees:

Mal Richards (MR)	Electrical and Communications Association
Kevin Kehl (KK)	Energex
Sue Lee (SL)	Energex
Tony Pfeiffer (TP)	Ergon Energy
Troy McKay-Lowndes (TML)	Ergon Energy
Carmel Price (CP)	Ergon Energy
Jenny Doyle (JD)	Ergon Energy
Michael Fullelove (MF)	Local Government Association Queensland
Mark Leyland (ML)	Local Government Association Queensland
Madonna Mead (MM)	Origin Energy
Mark Henaway (MH)	Queensland Department of Main Roads
Kate Ryan (KR)	Queensland Department of Mines and Energy
Gillian Gout (GG)	Queensland Department of Mines and Energy
Megan Jolly (MJ)	Queensland Department of Mines and Energy
Simon Perkins (SP)	Simon Perkins and Associates
Jane Errey (JE)	Simon Perkins and Associates
Richard Martin (RM)	Theiss Services
Robin Russell (RR)	Robin Russell Associates
Martin Zaltron (MZ)	Urban Development Institute of Australia Queensland
Wayne Land (WL)	Vision Energy
Ron Craggs (RC)	Energy and Management Services
Mike Buckley (MB)	AER
Scott Haig (SH)	AER
Pradeep Fernando (PF)	AER
Peter Hicks (PH)	AER

1. Introduction: Overview of the proposed positions paper

MB: Welcomed the participants to the roundtable. He stated that the purpose of the roundtable is two fold: for the AER to explain its proposed classification of services and control mechanisms and for participants to inform the AER of any significant issues arising from its proposed positions.

MB: Provided an overview of the AER's proposed service classifications and control mechanisms.

2. Identifying significant issues

Participants introduced themselves and identified their specific areas of interest.

MB: Noted that the participants highlighted four specific areas of interest:

- Pricing and tariffs
- Contestability
- Street lighting services
- The design and construction of connection assets.

3. Responding to significant issues: explaining the proposed positions

Pricing

MB: Stated that the distribution pricing requirements are set out in the National Electricity Rules (NER) and that the AER is not required to consider them at this stage of the regulatory process. He noted that there would be an opportunity for interested parties to make submissions on pricing separately in the future. He also noted that currently the AER does not have a role in distribution pricing but that it will be required to approve the tariffs that apply to Energex's and Ergon Energy's direct control services in the first year of the next regulatory control period, 2010–11.

Contestability

MB: Stated that at the stage of classifying services, the issue was to decide on the services that should be included in the bundle of non-contestable services and in making this decision the AER has to consider the factors listed in the NER. Particularly relevant considerations are whether there is potential for competition to develop and whether costs can be directly attributable to a user.

Street lighting

PF: Stated that the AER considered street lighting services were distribution services and that the NSW transitional arrangements in the NER demonstrates a policy intent that street lighting services should continue to be treated as distribution services. The AER's assessment of the NER factors indicated there is potential for the development of competition for these services. The cost of providing these services could be directly attributable to the relevant customer. Therefore, the AER proposed to classify street lighting services as alternative control services.

MF: Stated that street lighting was provided via assets owned by the DNSPs and used for other distribution services as well. He expressed concern that there is currently no mandated maintenance schedule for street lighting assets. If street lighting services were unregulated then small and rural councils may find it difficult to obtain a maintenance contractor. If the AER decided to deregulate this service then Energex and Ergon Energy should be the street lighting maintenance service provider of last resort at the regulated rate, where service contractors are unavailable.

MB: Noted that some street lighting assets were owned and maintained by the user.

SP: Stated that there are three available rates that recognise the type of ownership and maintenance arrangements in Queensland. He indicated that street lighting services could be

provided in a competitive market but it may be difficult to secure operating and maintenance in rural areas.

MR: Noted that demarcation of responsibility for shared assets appears to be an issue and a practical solution for this is not a difficult exercise. A default rate for part of the market could undermine the basic principle that demand and supply will set the efficient price.

ML: Noted that a street lighting maintenance schedule was not available.

RR: Considered that street lighting is a load not a distribution service and therefore should not be regulated and noted that these installations are designed to comply with Australian standard AS 3000, *wiring rules*, and not to the DNSPs specification. He also stated that the rate 2 and 3 maintenance charges are not cost reflective.

CP: Stated that street lighting tariffs (rate 1, 2 and 3) are the retail prices.

JD: Street lighting tariffs in Ergon Energy's region are notified prices set by the Queensland Government.

PF: Asked CP whether the retail tariffs recognised the underlying three types of street lighting services provided by the DNSPs.

CP: Stated that the underlying types of services were recognised in the retail tariff rates.

MB: Stated that there appears to be willingness and capacity for third parties to provide street lighting services but with some concern from users about the availability of a suitable maintenance regime.

Design and construction of connection assets

PF: Stated that the AER classified the design and construction of connection assets as alternative control services. The AER considered there is potential for the development of competition for the provision of these services but the market is not sufficiently competitive to be classified as a negotiated or unclassified service at this time. There did not appear to be any legislative barrier preventing the provision of these services. These services can be directly attributed to the customer. He noted that, however, given the lack of a suitable accreditation system that is required to support a contestable market for small customer connections, the AER proposed to continue small customer connections as a standard control service (non-contestable).

MB: Asked for comments on the AER's assessment, particularly whether there were any issues that will impair the AER's proposed classification.

SP: There was a lack of an independent accreditation and auditing process for electrical contractors in Queensland. He also noted that there was delays in connecting third party constructed connection assets resulting in a lack of a 'level playing field' between the DNSPs and third party providers.

RR: Supported the view that any accreditation system should not be under the DNSPs control. He also noted that the standard of workmanship is an issue that could affect competition as the standard required of third parties were higher than the DNSP's own

standard. He further noted that there were significant delays in connecting third party constructed connection assets.

RM: Noted that the NSW three tier accreditation system works well and that the service agreements with the DNSPs provided acceptable connection timeframes and generally did not result in delays. Assets must be commissioned within seven working days of a request in NSW.

MB: Indicated that the practical functioning of accreditation systems and commissioning delays were not issues directly affecting the framework and approach paper and some of these concerns may be matters to be considered under general competition laws or under competitive neutrality principles.

ML: Time delays for connections are likely to be shorter in a competitive environment as it could free up additional resources for the DNSP.

KK: Indicated that the AER's proposed classification would result in customers paying up front for the full cost of these services whereas currently, depending on the type of customer, they either (a) make an upfront contribution for the uneconomic component of their connection and the balance via network tariffs or (b) via the network charge which includes a site-specific charge to recover connection asset cost.

SP: Stated that property developers currently pay up front for these services.

TP and KK: Indicated that the DNSP's capital contribution policy has been approved by the QCA and is available on their respective websites.

CP: Noted that the AER's proposed classification would apply at the 100MWh level and this captures a broad range of customers' not just large customers.

MZ: Stated that it was essential that the DNSPs provide services on a timely basis to ensure that the growth in the development industry is supported. He also noted that the DNSPs should continue to make contributions to land subdivisions.

RR: Asked what the AER's position on restrictive trade practices was.

MB: Stated that restrictive trade practices can be dealt with through law, via the *Trade Practices Act* or through Government policy. Through the classification of services, the NER (Government policy) can facilitate the efficient provision of monopoly and competitive services. The regulatory process seeks to mitigate any cross-subsidisation between monopoly and competitive services.

4. Summing up: the finalisation process

MB: Outlined the steps to finalising the framework and approach paper relating to the classification of services and control mechanisms and thanked participants for contributing to the discussion. He also noted that submissions on the AER's proposed positions paper close on 28 July 2008.