Consumer
Challenge
Panel

CCP14

Advice to the AER on the Energex and Ergon Energy 2020-25 Regulatory Proposals

AER Consumer Challenge Panel Sub-Panel CCP14

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Acknowledgements

CCP14 wishes to acknowledge the cooperation and support from staff of the AER and Energy Queensland, as well as members of stakeholder groups associated with the Queensland Electricity Distribution Regulatory Reset, who have generously provided information and insights to assist the sub-panel in its review of the businesses' consumer engagement programs.

We also advise that to the best of our knowledge this advice neither presents any confidential information nor relies on confidential information for our comments.

1 Introduction and summary

Customer Challenge Panel 14 (CCP14) was established by the AER to provide advice regarding the Energy Queensland (Ergon Energy and Energex) electricity distribution regulatory determinations for 2020-25.

Following publication of their Draft Plan in August 2018, Energex and Ergon Energy submitted their individual Regulatory Proposals on 31 January 2019 (the Proposals).

Energy Queensland (EQ) has approached the engagement and content of the Proposals in a very positive manner, demonstrated not least by the attendance of the EQ Chief Executive and the many of the executive team at most of the community engagement events. At times, members of the EQ Board also attended some workshops. CCP observed similar executive involvement in the recent regulatory determination for Essential Energy in NSW; a process considered by many, including the ENA and ECA, as a very positive and productive reset. It is clear that the EQ executive and staff are committed to a positive regulatory process that meaningfully considers the requirements of their customers. This attitude is reflected in the nature and behaviours of the EQ staff involved in the reset process, both leading up to the Proposals being submitted and after.

Whilst in general the Proposals reasonably reflect the engagement with community groups, there are a number of significant matters in the Proposals that remain of concern, to the point that it is not possible for CCP14 to commend the Proposals in their current form to the AER as 'being capable of acceptance'.

The Tariff Structure Statement (TSS) remains a 'work in progress', and a complete draft TSS is not expected to be submitted to the AER until mid-June. The justification for the proposed ICT capex and opex expenditure are still under active discussion. Energy Queensland has offered to work with the AER to look at its ICT proposal within the framework of the recently announced AER ICT Expenditure Assessment Review. The narrative to support the increase in Ergon Energy asset replacement capital and safety expenditure also remains of concern to customers, as it is, we understand, to the AER.

CCP 14 made a submission on the Draft Plan[1]. We presented our comments on the Proposals at the AER's public forums held in Brisbane on 9 April 2019[2], Cairns on 20 May 2019 and in Townsville on 21 May 2019.

Energy Queensland continues to demonstrate a strong willingness to work with the AER, CCP14 and community groups to address the areas of disagreement in the Proposals and has indicated a willingness to consider submitting revisions to its Proposals before the Draft Decisions.

Given this fluidity in significant aspects of the Proposals for Energex and Ergon Energy, CCP14 has, with the agreement of the AER, elected to submit this truncated response to the Energex and Ergon Energy Proposals at this time. We expect to provide further advice on specific matters associated with the reset in due course.

[1] https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/energex-determination-2020-25/proposal

[2] https://www.aer.gov.au/system/files/CCP%2014%20-%20Presentation%20-%20Public%20Forum%20-%209%20April%202019_2.pdf

2 CCP scope

In our advice to the AER, CCP14 is guided by the National Energy Objective (NEO), which is:

> "*to promote efficient investment in, and efficient operation and use of, energy services for the long-term interests of consumers of energy with respect to price, quality, safety, reliability and security of supply of energy*."

A number of decisions by the AER are set by the regulatory framework and the National Electricity Rules, and therefore are not under consideration by the CCP. These 'out-of-scope' matters are:

- Rate of Return – based on the AER Binding Guideline of December 2018
- Opex productivity – from the AER Decision of March 2019 for 0.5% per year
- Taxation allowance – from the AER decision of December 2018
- Regulatory depreciation

Therefore, in our assessment of Ergon Energy and Energex's Proposals, we consider:

- How prudent and efficient is proposed capex and opex expenditure?
- How will the incentive schemes be implemented and affected?
- How will costs be allocated to different consumers through the TSS?
- How does the Proposal reflect the changing electricity market and long-term issues?

Importantly, the CCP considers how well the Ergon Energy and Energex Proposals reflect fair and balanced interaction with their community and customers and where aspects of the Proposals have received informed support from their customers and stakeholders.

3 Summary of key issues

Both networks have been on a significant change journey in the current regulatory period. They have been merged to form Energy Queensland with significant merger savings being achieved. Bringing together two organisations with different histories and ways of doing things is always going to be a challenge, and EQ management should be applauded for the progress they have made. Nevertheless, the latest AER productivity benchmarking suggests that further progress is required, particularly for Ergon, to get close to the best performing DNSPs. The Proposals show the organisations' commitment to continue this journey.

Overall, we are supportive of the process and focus of the Energex and Ergon Energy regulatory proposals. The engagement processes were generally robust and effective with the notable exception of tariffs.

While the proposed price reductions are welcomed by consumers, we highlight two categories of concerns:

(i) Five specific areas to address in the Proposals

Within the Proposals, we raise five areas of concern where the best interests of customers may not be evident. These are:

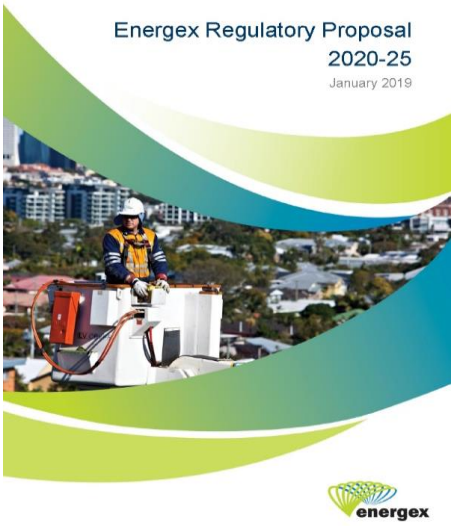
1. Ergon Energy proposes an increase of around 25% in asset replacement capital expenditure. We believe that Ergon Energy can clearly demonstrate through rising risk indicators that their network requires greater investment in replacement and repair; however we are concerned that customers perhaps should not fund a situation that, on the surface, may have been a result of less efficient and prudent spending in past periods.
2. EQ has highlighted the need to better identify and respond to the risk of failed neutral connections to customer's premises. We support this initiative as being consistent with an environment of continually improving the approach to public safety; however we question the cost-effectiveness of the solution chosen by the distributors and seek further investigation into other options.
3. EQ has proposed a significant investment in ICT, and we seek further clarity on the prudency, efficiency and past funding of this facility. We also raise the treatment of legacy assets and their transfer into the Energex and Ergon Energy RAB.
4. Ergon's opex is "not materially inefficient" and
5. The delay in publishing a final Tariff Structure Statement for consideration by customers.

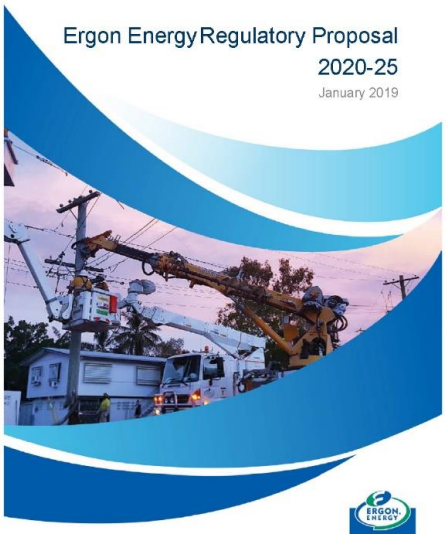
(ii) We question "How sustainable are the Proposals beyond the 2020-25 period?"

The major factors driving the price falls in 2020-25 are "one-offs" – merger savings, lower WACC and handing back the EBSS and CESS benefits from the current period. If the interest rate cycle turns up from its current historic lows, reductions in capex and opex levels will have to do the heavy lifting to achieve further price reductions in the 2025-30 period. Consumers need comfort that the improvement measures in 2020-25 period will provide a firm foundation to continue the improvement in the following reset period and the price falls in 2020-25 are not reversed.

These issues must be addressed before the Proposals can generally be considered as *capable of being accepted*.

4 An overview of the Proposals





Energy Queensland, as the holding company for electricity distributors Energex (South-east Queensland) and Ergon Energy (regional Queensland) commenced their engagement for the 2020-25 regulatory reset around 12 months ago. Despite the two distributors operating as separate regulated entities with separate revenue Proposals, much of the engagement and early documentation reflected very much a 'joint and common approach'. As with our submission on the Draft Plan, we have prepared this single advice in relation to both Proposals.

4.1 A focus on revenue reduction

A substantial part of EQ's Proposal is to reduce its revenue, and hence distribution network charges, in the 2020-25 period. Energex is targeting a reduction in the network tariff cost component of 0.1% average over the regulatory period, and Ergon Energy an increase of 0.2%. The reduction in the first year of the 2020-25 regulatory period, generally referred to as the P0 adjustment, in real terms ($2019-20) is proposed to be reductions of 10.3% for Energex and 9.4% for Ergon Energy ($2019-20), with constant real revenues thereafter (X factor of 0%).

Both utilities note the reductions are due to:

- the results of the AER binding WACC Guideline and lower market interest rates (a major proportion with the reductions increasing post Proposal given the AER decision on tax allowances and further falls in market interest rates);
- savings from the capital investment program for 2015-20 which result in a lower than forecast opening RAB;
- 1.72% annual productivity improvement for Energex, and 2.6% for Ergon Energy (which are considerably greater than the AER mandated 0.5%);
- for Energex, lower forecast capital and operational expenditure in the 2020-25 period than in the previous period; and
- subject to approval of the regulatory Proposal, foregoing certain incentive payments (CESS and EBSS) from efficiencies in the current period.

Further reductions beyond what is shown in the Proposals will occur due to the changes flowing from the AER review of calculation of the tax allowance and further reductions in interest rates.

Whilst this focus on revenue reduction and the somewhat aggressive passing on of savings to customers is welcomed, we must ask "what EQ will do in 2020-25 to sustain these productivity improvements to enable further price falls for 2025-30?"

4.2 Common approach

Predominant in this interrelationship between the two Proposals is the TSS, which influences both companies through the pricing arrangements that prevail in Queensland through the operation of the Queensland Competition Authority (QCA). Similarly, the ICT aspect of the two Proposals overlaps both distributors through common efficiency objectives and shared outcomes. Both companies are proposing a common approach to managing the emerging public risk of shocks due to failed neutral connections. The reduction in operating costs and changes to business operations through the establishment of a common 'head office' structure of Energy Queensland also impacts the Proposals of both businesses.

Both Energex and Ergon Energy note that they have applied the 2018 rate of return values in their Proposals.

Neither company is proposing opex step changes or contingent projects.

4.3 Energex Proposal

Energex has proposed a revenue requirement of $6,541M (nominal), which is a 9.4% decrease in real terms from the last regulatory decision in 2015-20.

In opex, Energex's Proposal for the 2020-25 regulatory period includes total forecast opex of $1,805.8 million ($2019-20). This is:

- a decrease of $105.5 million (or 5.5%) compared to its estimated opex over the 2015-20 regulatory period
- $99.7 million (or 5.2%) less than the opex forecast included in the AER final decision for the 2015-20 regulatory period.

Energex is proposing a *decrease* in opex to account for forecast average annual productivity growth of 1.7% ($91.2 million, $2019-20).

Energex proposes to achieve a downward trend in opex in each year of the next regulatory period through a combination of downward adjustments to its 2018-19 base year opex and a negative rate of change.

For capex, Energex has proposed a total forecast net capex of $2.0B ($2019-20), a *decrease* of 20% from their forecast net capex expenditure for the 2015-20 period. Energex presented in their workshops the case for reduced capex across all aspects of their capital proposal; raising little concern from customer groups. There appears to be general alignment with stable demand forecasts and asset performance trends, including the current review by the QCA into network reliability standards.

We wish to highlight our concerns with three issues within Energex's Proposal:

1. the options analysis associated with the *Strategic Proposal for LV Network Safety*;
2. the ICT investment proposal of $294M, a continuation of significant ICT investment from the current regulatory period; and
3. the treatment of $147M of ICT legacy assets previously part of SPARQ Services, and transferred into the Energex RAB.

These three matters are discussed later in this advice. Otherwise, we raise no significant concerns with the Energex Proposal.

Overall, we believe that much of the Energex Proposal reflects a stable, capable and in some areas innovative plan for the next regulatory period. We welcome the net decreases in capital and operating costs, which based on the information provided by Energex to customers is achievable, sustainable and demonstrates a commitment to energy affordability.

We have highlighted however a number of key areas as not being reflective of the long-term interests of consumers, and not fully receiving the informed backing of consumer groups. Other than these specific matters, we are generally supportive of the Energex Proposal.

4.4 Ergon Energy Proposal

Ergon Energy proposes a revenue requirement of $6,515.8M (nominal), which is a 5.4% decrease in real terms from the last regulatory decision in 2015-20. We welcome that position.

In opex, Ergon's Proposal for the 2020-25 regulatory period includes total forecast opex of $1,834.6 million ($2019-20). This is:

- a decrease of $195.5 million (or 9.6%) compared to its estimated opex over the 2015-20 regulatory period
- $92.5 million (or 4.8%) less than the opex forecast included in the AER final decision for the 2015-20 regulatory period.

Ergon Energy is proposing a decrease in opex to account for forecast average annual productivity growth of 2.6% ($141.4 million, $2019-20). As for Energex, Ergon Energy proposes to achieve a downward trend in opex in each year through a combination of downward adjustments to its 2018-19 base year opex and a negative rate of change. We welcome this downward trend in operating costs, but remain wary of the implications of statements by Energy Queensland of its reliance on the ICT investment to underpin these productivity benefits.

Regarding capex, Ergon Energy is proposing a net capex of $2.7B ($2019–20), an *increase* of 8% from Ergon's net capex for the 2015-20 period. The AER in its Issues Paper notes Ergon Energy's net capex was relatively consistent between 2005–06 and 2014–15 in real terms, spending around $4.3 billion in capex across the 2005–10 and 2010–15 regulatory periods. Ergon Energy's forecast net capex in 2015–20 is $2.5 billion, representing a decrease of more than 40% compared with the previous regulatory period.

Prominent in this capital proposal is the 23% increase in proposed spend in replacement capital to $1,094M. The prudency and efficiency of this increase is of concern to customers, and is discussed in more detail later in this submission. In addition, we note a proposed increase in expenditure of 12% for fleet and equipment, 5% on property and 4% on capitalised overheads. We do not believe these increases have been well explained to customers.

Due to the 'headline' price reduction, much of the Ergon Energy Proposal has general agreement and support from consumer groups as being in the interests of consumers. However, we again highlight our concerns around the level of replacement capital investment, including safety-related capital, and the proposed ICT investment, as areas that have not yet been clearly articulated and justified as being reasonable and appropriate. We are also concerned about Ergon Energy's operating efficiency and the appropriate starting point to measure productivity given Ergon Energy's poor relative efficiency on the AER's benchmarking tables.

Due to these issues, we are not able to consider Ergon Energy's proposal as being capable of being accepted by consumers.

5 Matters arising from the Proposals

5.1 Price reduction imperative

Energy Queensland (EQ) has highlighted in the Energex and Ergon Energy engagement that affordability and lower prices is a primary objective in their Proposals. The Draft Plans proposed a '*once-off 10 % real reduction in distribution charges commencing July 2020 for the average residential customer in Queensland* [3]'. This is equivalent to an 8% reduction in nominal terms. This reduction is based on Energex's network distribution charges and will flow through to residential and small business Ergon Retail customers through the Queensland Uniform Tariff Policy and associated Community Service Obligations.

In their highlighting of affordability and price reduction as a priority in the Proposals, Energy Queensland has claimed three commitments to customers regarding affordability:

1. passing on a reduction in overhead costs by 10%;
2. incorporating savings from a 3% productivity improvement for 2020-25; and
3. foregoing the benefit of incentive scheme revenue.

Since the release of the Draft Plans, EQ has advised in the Proposals of a further reduction of $514M (nominal) in the combined revenue requirement of Energex and Ergon Energy. This will result in:

- for the average residential customer in Queensland - 10.3% real reduction in distribution network charges from 2019-20 to 2020-21 on their legacy default network tariffs and
- for a small business customer, an 11.4% reduction

The opportunity for further reductions exist should customers choose to opt-in to one of the new cost reflective tariffs.

These is always a risk that a focus on revenue reduction can have adverse impacts on network performance, safety and service delivery - in the short term in resource capability, and in the long term in relation to sub-optimal asset management strategies and increases in risk profiles.

EQ has gone to lengths to highlight that the bulk of these savings and productivity improvements have been delivered through the merger process and optimisation of 'back office' and support processes. Forecasts of network performance and safety risks show EQ's expectation that service delivery and performance will not be adversely affected, particularly should the planned investment in ICT proceed.

Such an approach appears reasonable in the way it was presented to consumers; however vigilance will be needed in the 2020-25 period on the key performance indicators affecting service, safety and reliability.

Since publication of the Proposals, the approach of consumer groups has been to accept the headline reduction on network revenue as a given and not seek to engage in any detail on its constituent parts. This is because of their strong opposition to the Tariff Structure Statements submitted by EQ to the AER as part of its Proposals. Given limited resources, they have concentrated on how the pie is divided up rather than seeking to further reduce the size of the pie.

We note below that EQ has poorly handled the engagement on tariffs with the various customer groups. While some progress has been made in recent weeks, EQ is yet to publish a revised TSS to which the various consumer groups can properly respond.

[3] *Our Draft Plans* – Energy Queensland, p3

5.2 An increase in asset replacement Investment in regional Queensland (Ergon Energy)

Energex and Ergon Energy have signalled an overall reduction in capital requirements when compared to the current period of 18% and 2% respectively.

Within this trend however, Ergon Energy proposes an extra $208M (23%) since the Draft Plan to address concerns related to asset safety and replacement in regional Queensland. We have also been presented with a general intention in EQ to extend the more pro-active *condition-based maintenance asset management* approach of Energex to Ergon Energy based on two key reasons:

1. asset condition is falling, as highlighted by an increasing number of pole failures, greater risk of conductor failure, and a high number of safety non-compliances as issued by the *Queensland Electrical Safety Office*; and
2. an Increasing trend in asset maintenance costs.

In the deep dives EQ highlighted the emerging public safety risks from the past Ergon Energy asset management strategy - the high number of safety related concerns, asset failure risks and non-compliances. This has led to a proposed increase in asset replacement capital as Ergon Energy addresses these concerns in the short term and adjusts their maintenance practices to a more condition-based approach that is proposed to result in lower costs in the long term.

It is difficult for customers to assess Ergon Energy's increased allowance for asset replacement (repex). On one hand, Ergon Energy has made a powerful case for increased repex based on the condition assessment and failure risks of major plant items across their region. Statistics on pole failure rates, conductor condition and substation plant failure risk support the case the increased expenditure is justified.

On the other hand, CCP14 does not believe that Ergon Energy has made a strong case that this increased replacement capital expenditure should be fully funded by customers in the next regulated reset. Our questions centre largely on how such a situation was able to arise, and who carries the responsibility to fund both the proposed actions to rectify the current non-compliances and to establish a more robust risk-based future maintenance regime. We acknowledge the increase in repex expenditure by Ergon Energy in the current period, signifying the genuine concern within the organisation to meet their safety and performance obligations. We just have the perception that consumers are "paying twice" – originally and then again in 2020-25 to fix past problems. Given the regulatory framework is designed to reflect what happens in a workably competitive market, this cost should be borne by the shareholders, not consumers.

We understand that the proposed replacement capital, in particular for Ergon Energy, is a current matter for detailed engagement with the AER and Energex and Ergon Energy. We ask however:

- Is the amount being sought and inherent change in maintenance approach what is needed in regional Queensland?
- Is the correct level of risk in rural and regional networks being set ? We believe that some of SAPN's network is regional in nature, as is much of that for Essential Energy. We encourage the AER repex team to benchmark the right level of risk for Ergon Energy in the regional context.
- Is Ergon Energy undertaking the pro-active asset management needed in regional Queensland in the next 15 months of the current regulatory period, bringing forward work and reducing the level of funds needed in the next period ?

5.3 Addressing public safety risks, in particular failed neutral connections

Energex and Ergon Energy have highlighted concerns regarding public safety risk of electrocutions as a result of broken neutral connections. This issue is discussed in detail in their submission document '*7.093 – Strategic Proposal – LV Safety and Network Visibility*', where a capital expenditure (unmodelled repex) of

over $100M is planned to build the capability across both networks to detect faults in low voltage networks, particularly at the connection to customers' premises.

We support initiatives intended to address public safety risk, especially where there is clear evidence of a degrading situation and increasing risk, and where new technologies can reasonably be employed. EQ has provided evidence that the number of service-related shocks is increasing, particularly in the Ergon Energy region. Our concern is around the way the risk and the prudent reaction has been portrayed, without some context around the meaning of 'as low as reasonably practicable'. In addition, we believe that the solution proposed - installing new-technology network monitoring devices at a customer's premises, does not represent a full and fair assessment of the options available.

We believe this example highlights what may be a missed opportunity in the narrative and business cases for asset replacement generally, where the counterfactuals and 'compromise' solutions may not have been fully considered.

5.4 Proposed investment in Information and Communications Technology (ICT)

Energex and Ergon Energy have expressed a priority to seek synergies from the ICT investments and business processes across both Energex and Ergon Energy. The case for change in the Energy Queensland environment has been well made, even if the actual significant amount of the proposed investment has not yet been clearly justified.

Our current view is that the ICT is excessive and not well justified, and beyond the claim of underpinning productivity benefits the detailed benefits are unclear. We expand on this in Section 7 of this advice.

CCP14 will also be making a submission to the AER ICT review.

5.5 Legacy ICT assets and their impact on the RAB

Energy Queensland proposes to include $147M of legacy ICT assets for Energex, and $154M for Ergon Energy, in their respective RABs at 1 July 2020.

These assets were previously owned by *SPARQ Solutions* (SPARQ). SPARQ was established on 1 July 2004, and, until its inclusion into Energy Queensland in 2016, operated as an ICT service provider to its joint owners Energex and Ergon Energy. SPARQ was established to provide ICT services for Energex and Ergon Energy on an asset usage fee model. The cost for providing the services was included as part of Energex and Ergon Energy's regulated opex allowance for these previous regulatory periods. EQ stated in the Proposals that the reason to include these ICT assets into the RABs in the forthcoming period is to improve regulatory transparency. Where an asset cannot be specifically assigned to either Energex or Ergon Energy because they are shared, EQ proposes to allocate them to either Energex or Ergon Energy through its cost allocation method (CAM).

The treatment of these assets and the forecast additional expenditure on ICT is considered in more detail in section 7 of this advice.

We acknowledge that EQ did consult with customers around the asset lives for the legacy assets and increased the life from 5 years to 10 years in the Draft Plan. However, there is a strong concern about double payment by customers and at the Brisbane Public Forum we raised the issue of whether it is appropriate for EQ to include any residual SPARQ assets in the RABs, as the role of SPARQ is unwound. CCP14 urges the AER to carefully review this issue including spending over previous regulatory periods when SPARQ was in operation.

5.6 Foregone revenue from incentive schemes

In a significant change from the Draft Plan to the Proposal, EQ has decided to forego their entitlement to revenue that they are entitled to under the Capital Efficiency Incentive Scheme (CESS) and Efficiency Benefit Sharing Scheme (EBSS) from the current 2015-20 period. This entitlement is valued by EQ as being $265M for Energex and $223M for Ergon Energy, although we recognise that this is a forecast, and subject to AER confirmation this amount could be significantly lower.

At one level we can understand that doing this is consistent with the aim of returning merger benefits to customers – why should EQ trumpet the large merger savings and yet seek to get 30% back in incentive payments?

At another level we note EQ's suggestion in the workshops that the relinquishing of the benefits will in customer's minds be seen as some compensation for the increase in asset replacement investment required by Ergon Energy. While this can be viewed as an aspect of a 'proposal as a whole' we see this matter as completely separate from consideration of the efficient and prudent level of capex and opex.

5.7 Tariff Structure Statement (TSS)

Energy Queensland has struggled to prepare and issue a TSS that has the support, or at least the acknowledgment, of industry stakeholders. The TSS was to be lodged on 31 January 2019, and the AER approved an extension to 1 May 2019. The TSS as currently available is incomplete and still has limited customer impact analysis, and detailed discussions with many key industry groups on the form and transition to proposed tariffs continue. This is proving very time consuming for EQ, the AER, customers and customer advocates.

In the TSS process, we are noticing that consumer groups have consultation fatigue and are not well resourced for ongoing engagement they are being asked to participate in. They remain frustrated that the case studies supplied by EQ are not representative and were not a substitute for customer impact modelling.

We are expecting that Energy Queensland will now provide their complete draft TSS to customers and the AER by mid-June 2019. Despite the AER extending the date for submissions on the EQ Proposals until 31 May 2019, none of the submissions, including this one, will be able to respond fully on the draft TSS by this date and the AER will need to consider how it deals with this gap in its Draft Decisions on the TSS. It is also distracting attention away from the revenue aspect of the Proposals as consumer groups are 'banking' the 10% price reduction (the majority of which is not due to EQ's actions on opex and capex). Consumer advocates are focussed on trying to understand how the 10% will be allocated between customer groups and how their constituencies will be impacted by any transition to greater cost reflectivity in 2020-25, particularly when current transitional tariffs are scheduled to end.

As noted earlier in this advice, these outstanding matters are currently the subject of further engagement with the AER, Energy Queensland and CCP14.

Our discussion on the EQ TSS continues in detail in section 8 below.

5.8 Opex costs and productivity

Given the relative positions of both Energex and Ergon over the last 10 years we look at three aspects of opex – the base year, step changes and the trend.

CCP14 presented the following slide (Figure 1) at the EQ Public Forum in Brisbane on 9th May 2019:

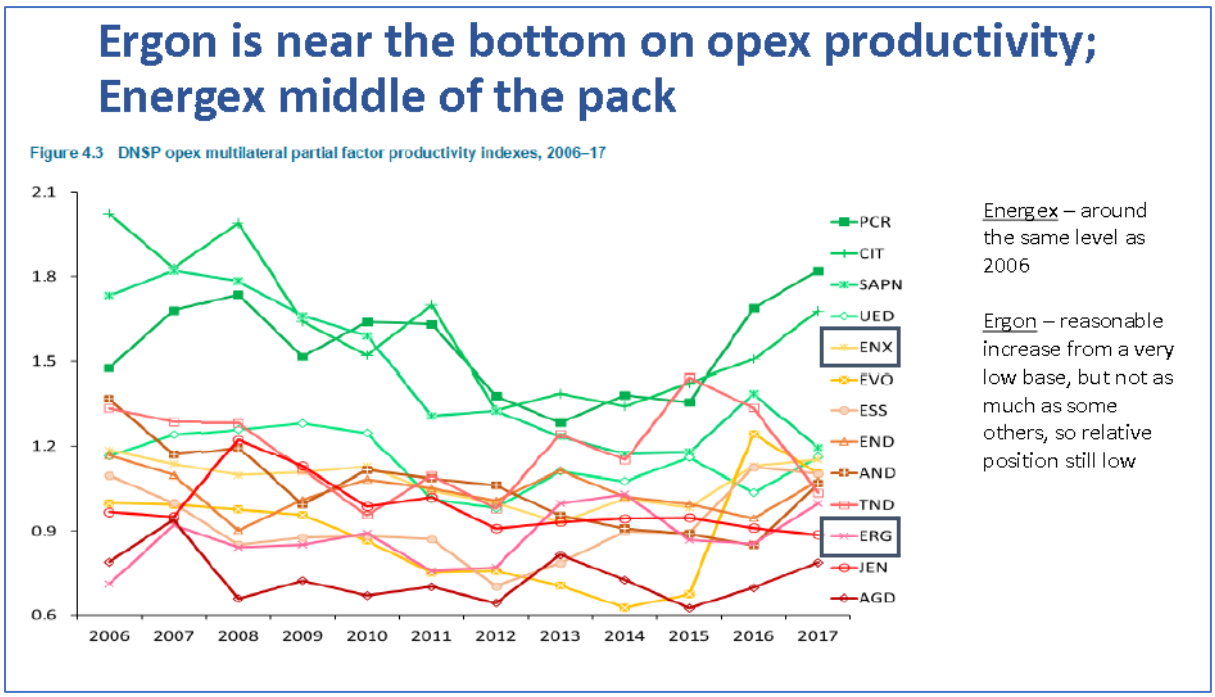


Figure 1: Opex productivity benchmarks 2006-17 (Source: *AER*)

On the base year, we look forward to the AER closely examining whether the proposed Ergon Energy base year of 2018-19 is "not materially inefficient". While the savings achieved in the last couple of years are not reflected in the AER benchmarking results shown in Figure 1 (latest year is 2016-17), it remains to be seen if these changes, along with application of the latest Sapere-Merz OEFs, have been enough to meet the AER's benchmark. We also look forward to better understanding of how the SPARQ opex in the 2015-20 period is adjusted for in the base year.

We are pleased to observe the absence of step changes and the delivery of merger efficiencies in terms of productivity improvement.

EQ has claimed the efficiencies in the form of a 3% improvement in the delivery of their works programme:

- for Energex: $261M, as a productivity improvement of 1.72% annual
- for Ergon Energy, $248M, as a productivity improvement of 2.58% annually.

Energy Queensland has not demonstrated clearly how these values have been derived in detail, nor provided sufficient analysis to prove that these benefits have not been 'double counted'. In the broad sense however, customers have welcomed the overall focus on reduction of overheads leading to more efficient delivery of work, underpinning the concept of productivity improvement. This commitment, when compared to the recent AER opex productivity review conclusion of 0.5% annually, is welcome.

Given that EQ have stated that the proposed increase in ICT investment is central to achieving these productivity gains it would have been good to see a clearer linkage between the ICT investment and productivity improvement. The importance of this linkage has been a common theme throughout a number of recent submissions by CCPs to the AER, and in our opinion only Essential Energy in their recent reset has made a reasonable case to link ICT investment with productivity improvement.

We also raise the question: "If the ICT costs are a necessary component to deliver productivity improvement, should therefore the productivity improvements be quoted *net of the ICT costs*?"

As we put all these factors together, we look to the AER to ensure the combination of efficient base year and productivity change meets the NEO. It might be much better for customers in the long term to have a lower base year and lower headline productivity improvement.

5.9 EQ's approach to the growth in Distributed Energy Resources (DER)

Given that the penetration of rooftop solar PV and the growth of DER is at world-leading levels in Queensland, we are somewhat surprised that Energy Queensland has not raised as a major issue the requirement for significant expenditure to address the network challenges of DER growth. We compare this approach with that of SAPN, who are a leader in addressing DER issues in their network. SAPN has proposed significant expenditure on matters such as LV remediation, network monitoring and advanced protection and control systems.

We trust that the recent regulatory change in Queensland adopting a network voltage of 230V, down from the previous standard 240V, has assisted Energy Queensland incorporate higher levels of embedded generation without significant investment in network augmentation, particularly at the low voltage level.

The report *7.093 – Strategic Proposal – LV Safety and Network Visibility* does make some issue of the need for greater visibility of the LV network.

Ergon Energy, in its report '*7.095 - Strategic Proposal - Power Quality 2020–25'*, notes a requirement of $15.1M to continue monitoring and remediation of the LV network. We also note the investment required under the proposal *'Strategic Proposal - Intelligent Grid Enablement - 2020-25'* (investment amount not stated here due to confidentiality requirements).

We view these investments as reasonable and prudent given the high level of DER continuing to be installed by customers in Queensland. We support the AER in considering the total value of all actions to meet DER penetration – augmentation, power quality and control systems – to reasonably identify the cost to customers to meet DER needs.

On a related issue, we would encourage Energy Queensland to pursue the impact a prudent tariff framework will have to assist to resolve DER issues and help manage the effect of increasing solar power export on the network.

5.10 Impact of the AEMC recommendation on stand-alone power systems

We note the recent announcement by the Australian Energy Market Commission that recommends regulatory changes that enable distribution network services providers such as Ergon Energy supply their more remote customers with stand-alone power systems where it is cheaper than maintaining a connection to the grid[4].

Of course, it will take time for the changes to make their way into legislation and then be practically implemented in networks. We do encourage Ergon Energy to outline what impact this change may have on their longer-term view of capital investment generally, and network asset replacement in particular.

[4] https://www.aemc.gov.au/sites/default/files/2019-05/SAPS%20Priority%201%20Final%20Report%20-%20FOR%20PUBLICATION.pdf

6 Customer and Community Engagement

6.1 Delayed start to engagement

Early in 2018, CCP14 expressed concern that the engagement period for both Energex and Ergon Energy may not be adequate for the businesses to effectively discover, consider and respond to community issues regarding their electricity distributor. Changes to key personnel delayed action, and the integration of common business practices delayed action on the reset itself.

However, a wide range of active community groups, including CCP14, have been welcomed to an intensive programme of workshops, information sessions and reference group meetings throughout 2018 that have led to the publishing of the Draft Plan in September 2018 and then the Proposals in January 2019. The website *Talking Energy* appears to be well maintained, informative, timely and responsive.

Despite the late start, CCP14 has been supportive of the way Energex has communicated with the Queensland community in the lead up to the development of its Proposal. We believe that Ergon Energy, however, was not as effective in their engagement in regional areas, due in part to the wide range of industries that needed to be involved and the geographic challenges of a large and diverse regional footprint.

We encourage Ergon Energy to consider the features of regional engagement demonstrated by SAPN and Essential Energy, both of whom were able to operate effective early consumer engagement in regional areas on their plans for their regulatory proposals. Later in the process however, Ergon Energy was able to further the public engagement on tariffs with regional customers with some workshops in Cairns and Townsville in May 2019.

6.2 Changes seen since the Draft Plan was published

Following the publishing of the Energy Queensland Draft Plan, CCP14 and consumer groups were able to provide feedback and responses through subsequent workshops. CCP14 also provided feedback, which can be found on the AER website. [5] In summary, our response to the Draft Plan included the following:

- the engagement initially was focussed on merger and integration and staffing issues;
- it was an ambitious catch up plan with strong regional focus;
- EQ had established an active Customer Council, but its effectiveness was yet to be demonstrated;
- we welcomed the formation of the Digital Strategy Working Group 2030; and
- we noted that EQ trialled different approaches in RWG meetings including market stalls.

We expressed some concern to Energy Queensland that the Draft Plan still may not lay the foundation for maximum efficiency to deliver long–term sustainable price reductions. We attempted to impress on Energy Queensland that a critical measure of consumer engagement is to apply what was heard in the workshops and respond effectively to the feedback from customers.

Pleasingly, we observed EQ responding to that feedback in a number of ways, including

- a change to the treatment of property leases
- SPARQ legacy asset lives were extended to 10 years
- a modest decrease of $43M in the ICT program for Energex, $17M for Ergon Energy
- an $11M reduction in connections expenditure for Energex and
- a $3M reduction in property capex for Energex.

[5] https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/energex-determination-2020-25/proposal

In addition, Energy Queensland released a 21-point response detailing how they were addressing key issues raised by CCP14 following our submission on the Draft Plan, depicted in Figure 2 below.

Ref Number	Page	Draft Plan Feedback	Response
3.1	4	Demand forecasts in the January 2019 submission to understand trends in a certain format	Proposal document -Energex Tables 10 & 11 page 37 -Ergon Tables 10 & 11 page 36
3.3	5	Forecast revenue vs AER allowances in a certain format	Proposal document -Energex Table 53 page 118 -Ergon Table 53 page 115
3.8	6	CCP14 proposes that EQ arrange another specialised deep-dive workshop to further explain reduction in Energex capital investment and treatment of IT	RP-TSS Working Group - Wed, 07 November 2018
4	9	"Overall opex appears comparable to our peers once our operating environment is considered using both the AER current and draft Sapere-Mertz approaches" More comprehensive data being provided in the submission to substantiate the conclusion made in the Draft Plan	Proposal document -Energex Section 6.7.3 page 48 & Section 6.7.4 page 50 -Ergon Section 6.7.3 page 47 & Section 6.7.4 page 49 Attachments EGX ERG 6.002,6.003,6.009
4	9	A good indicator of the impact of this over-investment is asset utilisation levels	Attachments EGX ERG 7.028,7.035,7.037,7.044, 7.047,7.051,7.053,7.054,7.055,7.080,7.090 ERG 17.034 EGX 7.081
5.1	10, 11 & 12	Level and impact on the so called "Merger Savings" information provided is somewhat confusing	Proposal document -Energex Section 3.2.1 page 22 -Ergon Section 3.2.1 page 21
5.1	13	EQL net savings compared to AER allowance in a certain format	Proposal document -Energex Table 4 page 23 -Ergon Table 4 page 22
5.2	13	More information is required on the impact of merger savings on unit costs of doing work including vegetation and overheads	Attachment EGX ERG 6.003
5.3	14	Seeing data on forecast asset utilisation for the 2020-25 period to see the level of improvement on the current rates of around 43% for Energex & 53% Ergon	Ergon Energy and Energex present and discuss actual and forecast distribution feeder asset utilisation for the 2020-2025 period in the following attachments to the proposals: • ERG 7.092 Strategic Proposal - Distribution Feeder Augmentation JAN19 PUBLIC.pdf; and • EGX 7.091 Strategic Proposal - Distribution Feeder Augmentation JAN19 PUBLIC.pdf Regarding levels of sub-transmission or substation utilisation refer to proposal document EGX ERG 7.048 Customer Reliability Strategy section 5.4
5.4	14	More detail on demand forecast	Proposal document -Energex Chapter 5 page 36 -Ergon Chapter 5 page 35
5.6	15	Role of various incentive schemes is unclear Further data to better understand the impact of the opex and capex reductions in the current period on CESS and EBSS and revenue in the 2020-25 period	Proposal document -Energex Chapter 11 page 105, Attachment EGX 11.001 -Ergon Chapter 11 page 102
5.7	15	The issue of DER growth in QLD and the transition to a DSO remains an area of interest for customers. Seek further clarity regarding of EQ's investment plans in future network technology, with a specific focus on the costs and engagement of all consumers	Attachment EGX ERG 7.054
5.7	16	Particularly interested in how EQ addresses the impact of DER and the state renewable energy policy in their proposal and responds to the concerns raised in our advice to the AER on SAPN	Attachment EGX ERG 7.054 Our Future Grid Roadmap extract of document -The roadmap builds on the efforts of both Ergon Energy Network and Energex over recent years, through our leadership in demand management and an impressive list of technology developments, as well as the significant investment we have already made to evolve of our networks, to support already high levels of DERs, and to ensure we can continue to deliver into the future for Queensland communities.
5.8	16	Look forward to EQ providing more details on specific consumer feedback on the proposed capex program	Attachment EGX ERG 2.001 and EGX ERG 7.052
6.3	19	We expect to see historical overhead and IT costs provided	Proposal document -Energex Section 7.10.1 page 75 -Ergon Section 7.10.1 page 74
6.3	19	EQ advised of plans for a significant simultaneous change to many of the IT systems in the next regulatory period. Other than the cost/benefits of such an undertaking, this raises a number of concerns	Attachment EGX ERG 7.007
6.3	20	When EQ makes more detailed information available on IT, we would be seeking	Attachment EGX ERG 7.008 to 7.025
7.2	21	Energex data required in a certain format eg AER allowance/submission against forecast EQ providing comprehensive analysis to support these conclusions in their submission and then the AER's assessment of this analysis	Overview document Energex page 42
7.3	22	Ergon data required in a certain format eg AER allowance/submission against forecast	Overview document Ergon page 52
8	24	EQ needs to justify to its customers that the Draft Proposal: -does not contain one single dollar more investment then is necessary -delivers benefits that are in consumers interest, and -is equitable between its different customer groups	Entire Regulatory Proposal

Figure 2: Graphic of the Draft Plan feedback from Energy Queensland

6.3 Increases since the draft plan

The Proposals include a number of cost increases since the release of the Draft Plan. They include [6]:

- a $4.8M increase in opex for Energex, and $45M for Ergon Energy, driven by changes in escalation and growth factors, and the capex / opex allocations and
- further increases in Ergon Energy property capex (an additional $2M) and, notably, a $211M increase in safety-driven capex.

[6] Energy Queensland presentation to the AER Public Forum, 9 April 2019, slide 11

7 Information and Communications Technology

7.1 The need for transparency

Overall, ICT investment by utilities is growing rapidly as the role of corporate support systems, real-time control systems, data gathering, and data analysis plays a much greater role in network businesses. Data analytics, enhanced low voltage network monitoring and operation, meeting new regulatory commitments and complying with cyber security obligations are all placing upward pressure on ICT requirements.

Utilities such as Energy Queensland need to be held accountable for these significant investments in ICT, with clear discussion and validation of the benefits these investments deliver for the organisation and ultimately for customers. Consumers need to be more informed of the requirements, benefit, prudency and risk implications of investment in ICT and related assets, as they gain an increasing influence on business performance and efficiency (and hence operating cost), depreciation (again, influencing price to customers), data risk, service delivery, customer choice and network supply risk and performance.

Energex is proposing a capital investment of $294M in ICT in 2020-25 after ICT expenditure of $307M in 2015-20. That amounts to a total for Energex of $601m in 2015-25.

Ergon Energy is proposing a capital investment of $367m in ICT in 2020-25 after ICT expenditure of $367m in 2015-20. That amounts to a total for Ergon Energy of $731M in 2015-25.

CCP14 presented the following slide (Figure 3) at the EQ Public Forum in Brisbane on 9th May 2019:

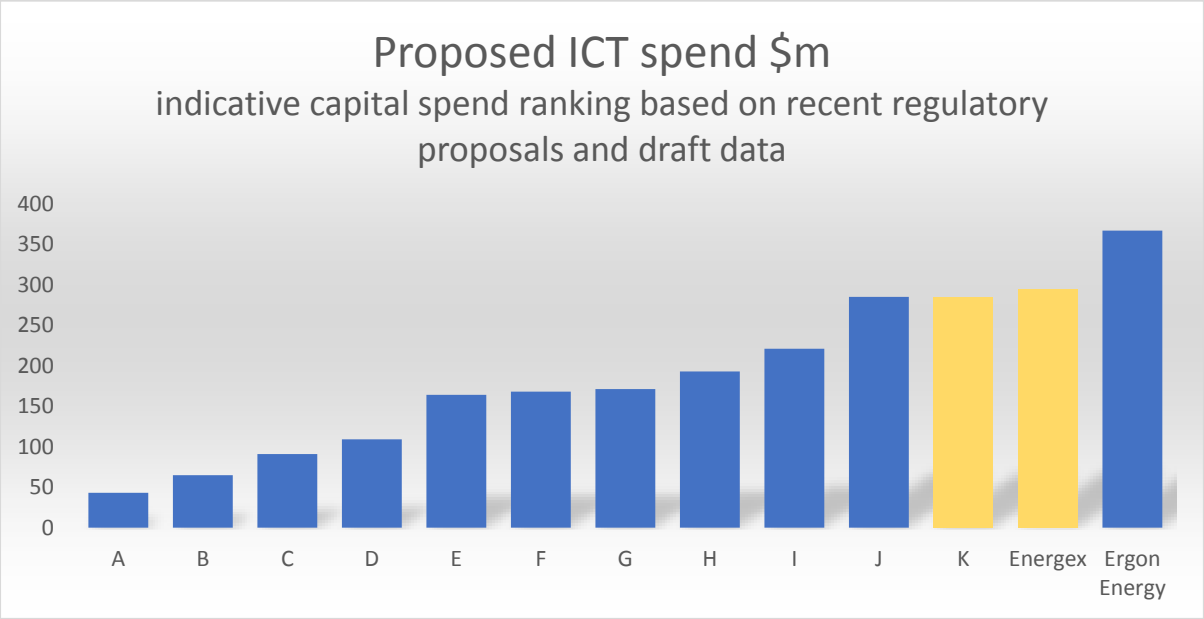


Figure 3: Approximate ranking of DNSPs regarding planned ICT expenditure (Source: CCP analysis)

Several CCP sub panels have raised the issue of increasing ICT expenditure in various resets. We welcome the AER's ICT review and CCP14 will be making a detailed submission to that review. We look forward to the AER requiring networks to provide much stronger justifications and counterfactuals for their ICT proposals. Similar to the 2019-24 Essential Energy revenue proposal, ICT must be tied to the efficiencies.

In all ICT proposals by utilities we require:

a) Greater transparency on need, cost and purpose of the ICT investments;

b) An understanding of the options available to the utilities, and how these options (or counterfactuals) manifest as risk / price trade-offs to service quality and price to customers;

c) An insight into the true cost to customers of investments to meet changes to market obligations, such as cybersecurity and market rule changes;

d) A view on the customer benefits of information and services 'moving to the cloud', and a total cost view of ICT that includes both capital investment and regular operating costs;

e) Consideration on how business productivity improvement costs and benefits can best be shared with customers; and

f) Confidence that competition in the supply of ICT services to utilities exists, and is actively pursued.

Energy Queensland has, to their credit, recognised our concerns, and has offered to participate in the AER ICT Investment Assessment Review (ICT Review) in parallel with the assessment of this part of their Proposals.

7.2 The linkage to productivity

EQ has argued that its commitments to improve its program of works delivery by 3% and to reduce overheads by 10% across 2020-25 will be achieved through business process improvement. EQ has highlighted in a number of forums that this will be underpinned by digital transformation of the business and network operations through the introduction of technology and a corporate approach to people and change.

In CCP14's view this has not yet been well-justified. In the counterfactual argument, we have not seen evidence that these efficiencies will disappear if the ICT program is curtailed.

7.3 Requirements for Energex and Ergon Energy Proposals

Part of the work by EQ and the AER will need to focus on the unwinding of SPARQ and the movement of ICT expenditure between opex and capex over previous regulatory periods. The unwinding of SPARQ is complicating both opex and capex analysis, and needs to be carefully reviewed by the AER. ICT was an operating expense 2015-20 but SPARQ ceased part way through that regulatory period, and became a capital investment capex in 2015-20 of $307m for Ergon Energy and $364 for Energex.

It has been hard to follow the EQ information provided regarding the transition, with adjustments through 'like-for-like' tables.

CCP14 and other consumer groups have raised the fact that the rationalisation and alignment of systems and delivery business productivity improvements arising from the use of common ICT applications was also a key objective in the establishment of SPARQ in 2010. Like the asset replacement case, the intent of the proposed ICT investment for Energex and Ergon Energy and its relationship to delivering productivity benefits has been well made to consumers. However, there is a strong belief that not only has the high cost of the proposed expenditure not been justified, the two companies have already been funded by customers in past proposals to deliver the proposed benefits.

Further, in considering the recent investment in SPARQ and its impact on the 2020-25 proposal, we ask:

- What happened to the extra opex that was allowed for 2015-20?
- Has it been taken out of the base year for both Ergon Energy and Energex?
- Has that opex been excluded from the EBSS benefit ?
- What process did Energex and Ergon Energy undergo to ensure the preferred provider was the best option for customers ?

- What is the relationship between the ICT spend of $367M in 2015-20 and the deferral of Ergon Energy repex ? This is important as other networks have highlighted the claim that their ICT spend can assist with asset management and deferring repex.

7.4 Deliverability

Experience has shown that major ICT upgrades, such as that proposed by EQ, involve significant process changes, extensive staff training, high amounts of data cleansing and translation and business operation restructuring and the like.

In their engagement, EQ has not provided supporting information that gives customers confidence that the significant ICT investment programme can be undertaken efficiently and effectively, especially against a background of high-profile media reports of failed or over-budget major IT upgrades in other government sectors in Queensland.

We welcome the AER's proposal to introduce a post implementation review of prior ICT expenditure as part of the ICT Review and look forward to the AER back-casting and assessing what benefits customers actually received in 2015-20 from the $671m paid by customers.

8 Tariff and pricing proposals (TSS)

At the time of writing this advice, EQ have not lodged a complete TSS with the AER. The AER website notes that the information that the TSS information, now some 4 months after the lodgement of the Proposals, remains incomplete.

As we observed in our submission on the Draft Plan, EQ had an extensive engagement program on its suite of tariffs including the Lifestyle tariffs during 2018. In its letter dated 14 February 2019, EQ explained that they intended to shift away from the Lifestyle tariffs towards other intermediate tariffs, and commence the development of a completely different TSS.

Since then EQ has lodged material with the AER about the development of demand and capacity tariffs. We have observed several engagement sessions between EQ and residential and small business customers and Ergon and foundries (large customers), and we will be participating in the engagement with agricultural customers next week, despite the engagement being based on incomplete material.

Our assessment of engagement on tariffs since February 2019 is:

a) all stakeholders remain very concerned about lack of clarity of TSS due to EQ's last-minute change of direction;

b) the concerns extend to design and assignment and impact as insufficient financial impact information is available;

c) because of the time pressures it has created for itself, EQ is making errors and causing confusion. For example in its engagement on 9 May 2019, EQ advised the customer advocates that its *Peaksmart* tariff was being withdrawn, whereas in fact it has since clarified that it meant the smart control tariff;

d) EQ struggled to explain to the customer advocates interested in residential tariff impacts what is 'the problem EQ is trying to solve';

e) EQ has advised that its new tariff strategy is not focussed on reducing peak demand nor attempting to shift excessive solar exports to consumption to manage the 'duck curve solar

trough'. EQ was encouraged recently to consider the introduction of a *solar sponge* time of use (ToU) tariff similar to the one that SAPN has included in its 2020-25 revenue proposal;

f) The new strategy is described as a "high level strategy to align with a capacity future or signal to a customer how much network asset it takes to deliver electricity to the customer". We question the long-term aim of moving to capacity with no time of use component. We do not understand what signal is being sent by an any time capacity tariff that is not correlated to a coincident peak;

g) EQ acknowledges that the design of its opt-in residential capacity tariff still needs more work as they still haven't got the exceedance fees right yet. EQ executives indicated in a recent engagement session that they thought these design concerns might continue right up until the revised revenue proposal;

h) Stakeholders raised issue of vulnerable customers and complexity of the demand tariff; and

i) Business customers are particularly concerned about being caught in a 'pincer movement' where the QCA will mandate the end of transitional tariffs on 20th June 2020, and the AER have a requirement for cost reflective tariffs to follow. Without a change from 1 July 2020, the current default tariffs will increase annual bills for some customers by >200% which the business cannot sustain.

We understand that the AER is now requiring EQ to lodge full draft TSS by 15 June 2019. We support this requirement as the situation is causing distress and commercial uncertainty amongst its customers. It will be very difficult for customers to assess the impact of the new tariffs and respond to the AER in time for the AER to consider the implementation of the new tariffs from 1 July 2020.

In order for the Energex and Ergon Energy TSS to be capable of acceptance by the AER, the proposed TSS should include:

1. clear price paths over 5 years across all groups, and not just 12- month case studies for only a few sample customers,
2. a better understanding of those customer who will be (in terms of their likely bill) worse off across the 5 years (i.e. supported by modelling)
3. greater support/transition for those customers worse off, rather than just relying on the customer opting out back to a flat tariff. Why should these customers have to take the initiative to move tariffs ?
4. support for vulnerable customers if they can be identified in the modelling,
5. the AER to be given transparency around the residual cost allocation methodology,
6. consideration of how support for customers affected by the removal of transitional tariffs may be implemented, although we acknowledge this is a Government issue,
7. flexibility for large customers to switch between tariffs, and
8. confirmation of outcomes at the retail level in regional Queensland.

As we noted above the ongoing delays and frustration with the EQ TSS engagement is impacting the ability of customer groups to engage with EQ on revenue issues. This is unfortunate as some of the revenue issues we referred to above in section 5 are very important in the long term including addressing safety issues in regional Queensland, the efficient investment of ICT capital to deliver benefits to customers and optimum DER management issues.

9 Ongoing engagement

Energy Queensland continues to demonstrate a strong willingness to further engage with consumer groups, through an enhanced process, with an intention to produce revisions to its Proposals that might result in them being 'capable of being accepted'.

Energy Queensland has indicated a willingness to consider submitting revisions to its Proposals in the near future, although it is not clear to us how customer groups will be able to engage on any revisions when the TSS remains unresolved and is so time consuming for those groups. In our view EQ's approach to the unresolved TSS and ongoing engagement is undermining some of the trust that EQ has carefully fostered with its stakeholders during its engagement in the last 12 months.

CCP14 supports whatever reasonable action can be taken to arrive at Proposals that best meets the requirements of the distributor, its customers and the regulator as early as possible in the regulatory reset process.

We believe this represents the best overall value for electricity consumers, encompassing high levels of trust, reputation strength, transparency and stakeholder support. Such an action has the support of CCP14, on the basis that the AER and Energy Queensland are able to continue to work together to establish an understanding of where the opportunities for a more appropriate proposal exist.

However both the AER and EQ must recognise the starting point for those discussion in its Proposals and the issues we have identified and the capacity of customer groups to continue to engage in view of their limited resources.

10 Alternative Control Services

10.1 Public Lighting

Both Energex and Ergon Energy have proposed using a limited building block model to generate the allowable revenue for public lighting, which they then translate into tariffs.

Both businesses have a limited roll-out of LEDs (1.3 per cent for Energex and 0.4 per cent for Ergon Energy as at March 2018), and have responded to requests by councils to increase the roll-out of LEDs so as to achieve 47 per cent LED penetration by 2025.

This action is consistent with the requirements of the Minamata Convention on Mercury, which is actively influencing the reduction in the number of mercury vapour public lamps in use.

The businesses are proposing to introduce specific LED versions of the existing public lighting tariffs, as well as a new LED specific tariff. Energex will also be changing its method of apportioning revenue to be consistent with Ergon Energy.

We have observed this engagement with councils, and believe that the proposal reasonably reflects their needs.

11 Benchmarking of network charges

The majority of electricity customers pay their distribution network bill in the form of a cents per kilowatt hour, plus a fixed charge. CCP14 has attempted to initiate some discussion regarding the rate for electricity that a customer pays, on the basis that it in some ways reflects the efficient distribution of that energy.

The customer's electricity bill includes many things, and these components vary in nature and cost across jurisdictions. Our focus is the unit cost of the distribution charge component of the customer's bill, in cents per kilowatt hour. It the cost of this commodity, essentially a transport charge, that can prompt a customer to ask why it differs from state to state, distributor by distributor.

We certainly acknowledge that there are many variables that influence this basic indicator, including customer density, load factor, environment, and network design fundamentals. However, we stand by this simple analysis to generate conversation and engagement, based on the simple measure asked by a customer - 'is that a fair price for the distribution service and why is it different to that in other places?'

CCP14 has carried out some basic analysis on public data to at least initiate this discussion, with the intent to highlight that a utility should be able to reasonably demonstrate to an electricity consumer that the price paid per unit is fair and efficient.

Of course, the entire regulatory reset process is targeted at ensuring a fair and efficient price. Ultimately however, the vast majority of customers can only judge fairness when it is expressed in a simple metric, and when there is reasonable justification, when compared with others, for the particular price of a service.

11.1 AEMC report – 'Residential electricity price trends 2018'

On 21 December 2018 the Australian Energy Market Commission (AEMC) published its annual Residential Electricity Price Trends report. The report identifies changes in the energy supply chain cost components that are driving residential electricity prices and bills for each Australian state and territory, and nationally, from 2017-18 to 2020-21.

When the distribution charges alone are considered, the AEMC report indicates the distribution charge for 2018/19 in South-east Queensland to be of the order of 10.41 c/kWh, including the metering charge. This charge is exclusive of the cost of transmission costs and environmental policies.

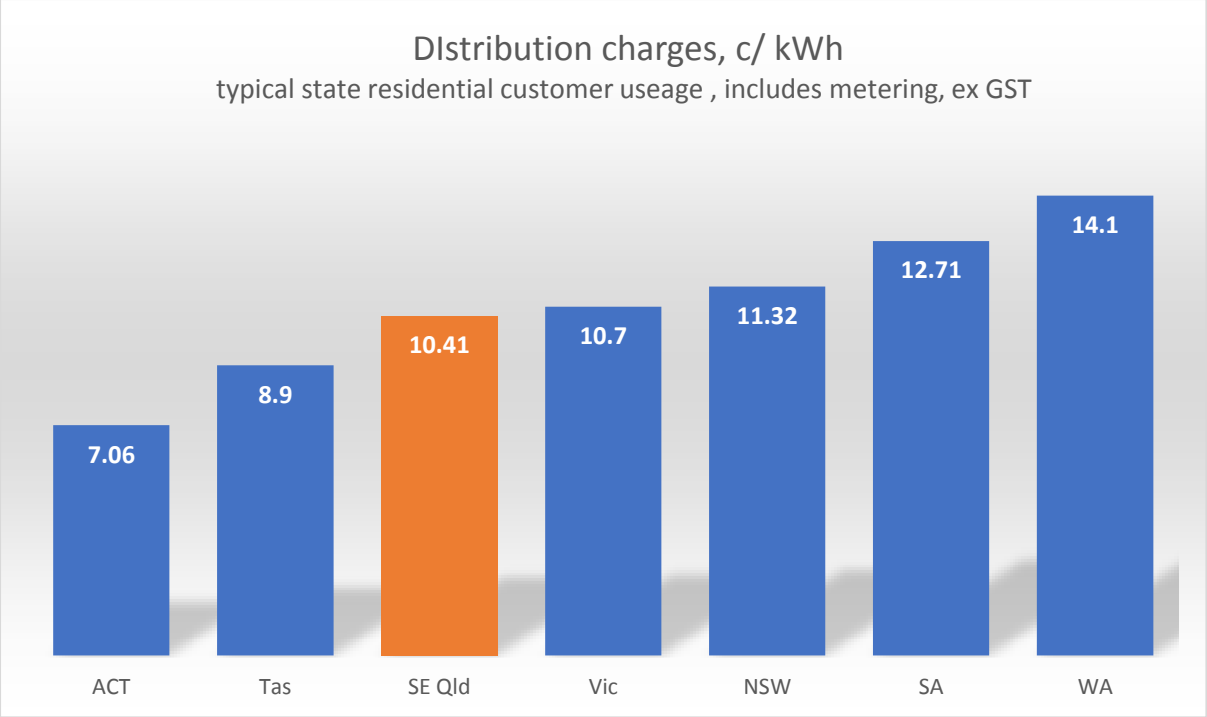


Figure 4: Distribution charge per kWh, 2018-19 for a typical customer in the state

(Source, AEMC Residential Electricity Price Trends, Dec 2018, tables A1 – I1)

The AEMC analysis uses an average residential consumption per annum of 4251 kWh for customers in South-east Queensland. With this information, our analysis indicates that Energex's per-unit distribution charge is average to relative to that for other electricity distribution utilities.

This data suggests that there remains 'room for improvement' for Energex to reduce their revenue requirement, and hence network charges, especially against a background of only moderate customer growth and relatively flat energy growth.

12 Glossary

AER	Australian Energy Regulator
AMI	Advanced metering infrastructure
Augex	Network Augmentation capital expenditure
CCP	Consumer Challenge Panel
CESS	Capital Efficiency Sharing Scheme
DER	Distributed Energy Resource (small scale energy generation or storage devices that are grid connected)
DM	Demand Management
DNSP	Distribution Network Service Provider
EBSS	Efficiency Benefit Sharing Scheme
ECA	Energy Consumers Australia
ENA	Energy Networks Australia
EQ	Energy Queensland
EUAA	Energy Users Association of Australia
EWON	Energy and Water Ombudsman NSW
ICT	Information and Communicating Technology
LMR	Limited Merits Review
QCOSS	Queensland Council of Social Services
NEL	National Electricity Law
NEM	National Electricity Market
Opex	Operating expenditure
PTRM	Post-tax revenue model
RAB	Regulated Asset Base
Repex	Network Asset Replacement capital expenditure
RIN	Regulatory Information Notice
TSS	Tariff Structure Statement