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30 January 2015

Mr Sebastian Roberts
General Manager
Australian Energy Regulator
QLDelectricity2015@aer.gov.au
submitted electronically

Dear Mr Roberts,

Energex Regulatory Proposal 2015-20

Thank you for the opportunity to provide comments on Energex's Regulatory Proposal for 2015-20.

COTA Queensland is a state based organisation committed to advancing the rights, needs and interests of people as they age in Queensland. We aim to help create a more just, equitable and caring community in which older people are actively involved and have access to appropriate support, services and care. COTA Queensland believes that everyone, regardless of age, health status, wealth or social status has a fundamental right to sustainable, ongoing, secure and affordable access to energy.

Significant increases in the cost of living, particularly in the overall level of electricity charges remain a major concern for older Queenslanders, especially for those with low or fixed incomes. We understand that network charges comprise approximately 50% of the typical residential electricity bill for south-east Queensland residents. While COTA Queensland appreciates that Energex has proposed reductions in network tariffs for the 2015-20 period, (but only if Solar Bonus Scheme Payments are removed from electricity charges)¹, we believe that further reductions in prices are both achievable and essential.

Our specific areas of concern are outlined below.

1. Rate of Return

We note that Energex has proposed a rate of return of 7.75%², as well as departures from the AER's Rate of Return Guideline³. COTA Queensland believes that, based on the AER's recent draft decisions and application of its guideline for the NSW electricity distribution service providers⁴ which are similar businesses to Energex, the allowed rate of return for Energex should not exceed 7.15%. Furthermore, we

¹ Energex Regulatory Proposal 2015-20, p.10

² Energex Regulatory Proposal 2015-20, p. 6

³ AER, Rate of return guideline, December 2013

⁴ www.aer.gov.au/networks-pipelines/determinations-and-access-arrangements

encourage the AER to apply the recommendations of the AER's Consumer Challenge Panel on Rate of Return⁵ to deliver a rate of return which is more aligned to consumers' long term interests and expectations.

COTA Queensland does not support Energex's rationale for any departures from the Rate of Return Guideline.

2. Capital Expenditure

We note that Energex is proposing capital expenditure of \$3,239.6m in 2015-20⁶, a reduction of 27% compared with the previous period. In spite of this overall reduction however, we observe that there is a proposed increase of 66% in asset replacement expenditure⁷. Given the substantial asset replacement program in 2010-15, we question whether this proposed level of expenditure is necessary for the next regulatory period. Consistent with our expectations, we note that the AER has expressed a view that "replex levels should remain relatively constant over time".⁸

Energex has claimed that capital expenditure requirements are substantially influenced by the need to maintain high levels of network reliability and to replace ageing assets.⁹ Analysis of asset age trends since 2006 appears to suggest that the network's average asset age is decreasing rather than increasing¹⁰, suggesting less need to invest in replacement of ageing assets.

COTA Queensland understands that Energex undertook a Customer Engagement Research Program during 2013 to inform development of its 2015-20 Regulatory Proposal. While the customer views on reliability resulting from this program may have provided general guidance to Energex in the preparation of its proposal, we believe that they are at too high a level to be used as justification or support for specific capital expenditure programs.

3. Operating Expenditure

COTA Queensland commends the AER on the benchmarking work that it has carried out for electricity service network providers in the NEM. From this analysis, it is apparent that there is potential scope for Energex to make efficiency improvements to reduce the performance gap between it and its peers. It is

⁵ <http://www.aer.gov.au/sites/default/files/CCP%20report%20prepared%20for%20AER%20Board%20-%20Rate%20of%20Return.pdf>

⁶ Energex, 2015-20 Regulatory Proposal Overview, p.32

⁷ AER, Issues paper, Qld electricity distribution regulatory proposals 2015-16 to 2019-20, p.15

⁸ AER, Issues paper, Qld electricity distribution regulatory proposals 2015-16 to 2019-20, p.15⁸

⁹ Energex, Regulatory proposal, p. 4

¹⁰ Hugh Grant & Bev Hughson, CCP, Preliminary Perspectives, Energex & Ergon Revenue Proposals, December 2014

our expectation that the AER will revise Energex's opex forecasts based on the benchmarking results in accordance with its obligation to estimate the efficient costs incurred by a prudent operator in light of realistic demand forecasts.¹¹ Should the AER determine that a revision needs to be made to opex forecasts to close the efficiency gap, we consider that a transition over a 1 to 2 year timeframe is realistic. Also, in these circumstances, we do not consider it reasonable to allow the proposed efficiency benefit sharing scheme carryover amount of \$33.8m, as it appears that previous opex allowances were already over-generous.

COTA Queensland acknowledges that the Solar Bonus Scheme payment arrangements are subject to change by the Queensland Government. Current feed-in-tariff (FiT) costs will impose large overheads on customers' bills if the current arrangements continue. If FiT payments continue to be recovered through network charges, it is requested that Energex be required to adopt the same approach as Ergon ie retain the current two year payment delay into the future, thus avoiding 'double payments' occurring in the 2015-20 period.

4. Metering

COTA Queensland understands that reclassification of metering services for residential consumers from standard control to alternative control is an enabler for a range of metering service contestability reforms initiated by the COAG Energy Council. At present, this is a confusing scenario for consumers as the impacts for different groups of consumers remain unclear. The intended benefits of these reforms are likely to be undermined however, unless each step in the reform process is clearly explained to consumers, and is perceived by consumers to be fair and equitable. In this regard, COTA Queensland has some concerns with the approach to some of Energex's proposed meter service fees.

We understand that Energex proposes an exit fee of up to \$430 (in 2015-16), rising to \$486 (in 2019-20) for consumers wishing to replace an existing metering installation with an advanced meter¹². This would certainly present an impediment to the transfer to advanced meters for typical residential consumers, and a huge barrier for vulnerable consumers. Whilst we accept that a small administrative charge may be applicable in this situation, we do not believe it is fair and equitable to seek to recover an 'average written down value' for the stranded asset. Our preference would be to simply write off the asset if it cannot be redeployed, or alternatively to include a forecast of these costs in the total metering service charge allocated to all consumers.

We also note the proposed charge of \$365.40 (in 2015-16) for a customer requested meter test¹³. We believe this charge should be waived if the Energex-owned meter is tested and determined to be faulty.

¹¹ AER, Issues paper, Qld electricity distribution regulatory proposals 2015-16 to 2019-20, p.21

¹² Energex, Regulatory proposal, p. 280

¹³ Energex, Regulatory proposal, p. 279

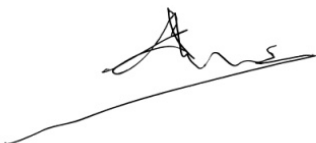
5. Consumer Engagement

COTA Queensland valued and appreciated the time and considerable effort Energex invested in providing a series of information sessions during 2014 to explain the contents of its 2015-2020 Regulatory Proposal to consumer group representatives. As part of this process, we had an opportunity to hear from, and pose questions to the Energex Chief Executive and other senior managers in the business.

We are aware that the AER has developed a Consumer Engagement Guideline for network service providers¹⁴. The guideline makes reference to the IAP2 Public Participation Spectrum to describe a range of engagement activities and their resulting public impact.¹⁵ Our entire engagement experience with Energex on the Regulatory Proposal was conducted at the 'Inform' level of the Public Participation Spectrum. The information sessions which we attended were not designed to foster engagement at the 'Consult' level or beyond. We look forward to engaging with Energex at the 'Consult' and more challenging levels of the spectrum in future activities.

If you require additional information about COTA Queensland or its energy policy position, please contact me on telephone (07) 3316 2999 or by email to mte@cotaqlld.org.au.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Mark Tucker-Evans', written over a horizontal line.

Mark Tucker-Evans
Chief Executive

¹⁴ AER, Consumer engagement guideline for network service providers, November 2013

¹⁵ IAP2 at <http://www.iap2.org.au/resources/iap2s-public-participation-spectrum>