

Department of Energy and Water Supply submission to the AER's Preliminary Framework and Approach for Energex and Ergon Energy

Queensland customers are concerned about substantial increases in electricity prices in recent years, which have contributed significantly to rising cost of living pressures. Much of the increase in electricity costs is attributable to rising network prices.

In setting network prices for 2015/16 – 2019/20, it is understood the AER will consider carefully the impact of these cumulative price rises on customers, and ensure that the new determinations reflect the efficient cost of providing the level of reliability Queensland customers seek.

Queensland Electricity Reform Context

In 2012, the Queensland Government commissioned an Inter-Departmental Committee (IDC) on Electricity Sector Reform to advise how the delivery of electricity to Queensland customers may be made more cost-effective. A key input into this process was a review by the Independent Review Panel on Electricity Network Costs, which targeted the impact of both distribution and transmission network costs on electricity prices (combined, network costs comprised half of the regulated residential retail electricity tariff in 2011/12).

An extensive reform agenda has been initiated in Queensland as a result of these reviews, as announced by the Government on 16 June 2013. Some of the outcomes of these processes are still to be realised and will be the subject of Government consideration during 2014.

Classification of Services

- *Small Connection Services*

I note the Framework and Approach is proposing to retain the existing Standard Control Service (SCS) classification for small customer connection services.

The Queensland Government is committed to identifying opportunities for the private sector to compete for what are currently monopoly services, where this is effective and efficient. The optimal extent for introducing competition for small customer connection services is one area warranting further examination.

My Department is currently considering the implications for customers of contestability in small customer connections.

- *Metering Services*

My Department supports the AER's proposal to reclassify Type 5 (interval) and Type 6 (accumulation) metering services as Alternative Control Services (ACS) from the current Standard Control Service (SCS) classification for the 2015-2020 determination period. This is consistent with recommendations by the Australian Energy Market Commission in its Power of Choice review, and agreed to by the Queensland Council on Energy and Resources, to facilitate more choice for customers in metering arrangements.

My Department is currently investigating the implications of the reclassification of metering services for its impact on customers and the market-led deployment of advanced metering in Queensland.

Load Control

I acknowledge that Queensland network businesses have raised concerns regarding administrative costs and the inclusion of load control services in the proposed reclassification. The Department agrees with the importance of continued availability of load control, and note that certainty about its availability is important to the networks' demand forecasts and planning decisions. It is the Department's view that the AER is best placed to consider these concerns, but I encourage the AER to work with Queensland's network businesses on these issues in the development of the final Framework and Approach paper.

Incentive Schemes

In light of the rapid rise of electricity network costs in recent years, I support the proposal of both DNSPs to limit the incentive for the Service Target Performance Incentive Scheme to the minimum of $\pm 2\%$ of Maximum Allowable Revenue in any given year. Greater incentives to improve reliability do not appear justifiable in the current environment, particularly as the approaches to reliability standards, and the value of reliability to customers, are under review both in Queensland and nationally.