



# Reflections, progress and next steps on our Regulatory Proposals and Tariff Structure Statements

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Part of the Energy Queensland Group

# Reflections

- Customer feedback was key to shaping our Regulatory Proposals and Tariff Structure Statements
- Affordability was a central concern
- Our submissions to date have aimed to improve affordability, with commitments to reduce network costs
- The Draft Decisions handed down from the AER seek further decreases in expenditure and revenue
- Our challenge is how to balance our customer commitments of affordability with safety, security and sustainability for 2020 and beyond

# Our Customer Commitments

## Reflected in Our Regulatory Proposals

- Our proposals made commitments in four key areas
- Reflecting what we heard was important
  - in our engagement with you, and
  - in our customer research
- The draft decisions challenge our ability to deliver these



### SAFETY FIRST

Our number one priority is safety – our commitment is to the people and communities who we work with and support every day. We aspire to be an industry leader in health, safety, environment and cultural heritage.



### AFFORDABILITY

We continue to look for ways to make electricity more affordable across our networks, and to advocate for the reforms needed for a bright energy future for all Queenslanders.



### SECURITY

We're here 24/7 to keep the lights on – providing peace of mind with a safe, reliable electricity supply, and the knowledge that we'll be there 'after the storm'.

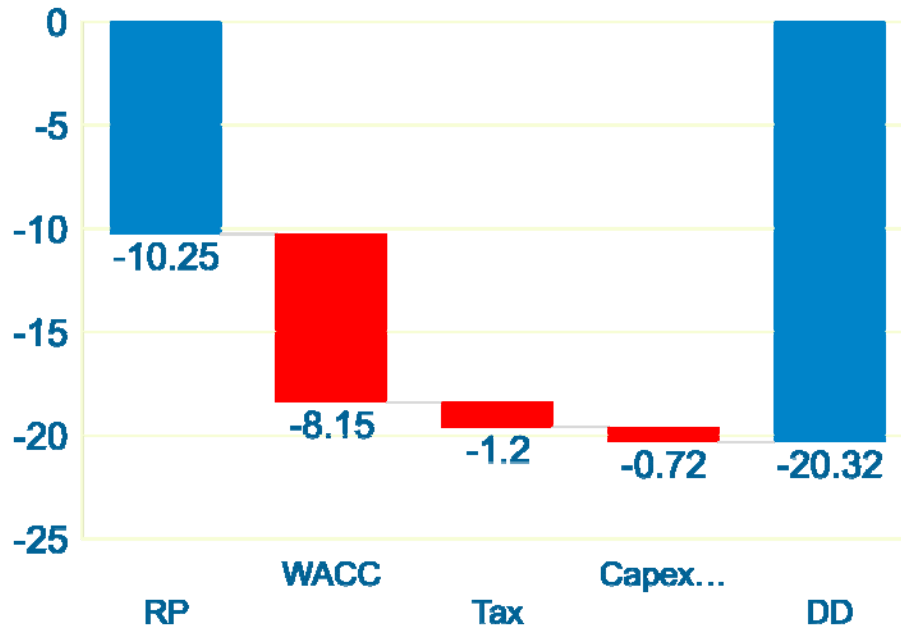


### SUSTAINABILITY

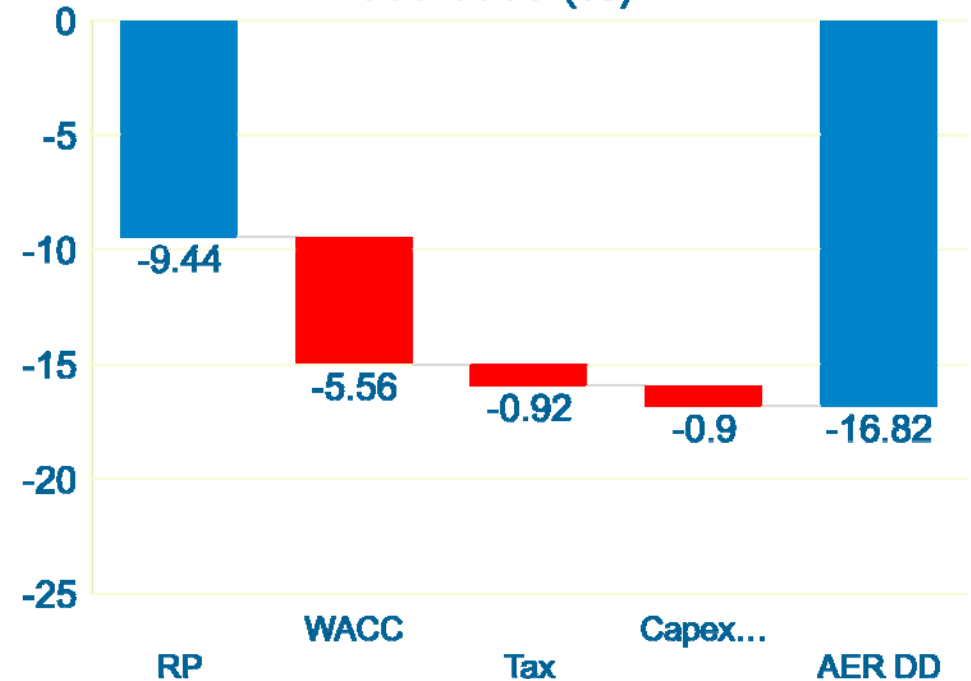
Enabling your use of new and emerging technologies and providing easier access to the network - we give you as much control as you choose for your energy solutions with information and more sustainable choices.

# AER Draft Decisions | Revenue Drivers

**Energex real revenue decrease (%)**



**Ergon Energy Network real revenue decrease (%)**



# Draft Decision Outcomes

## Energex:

Topic	RP	DD	Variance \$	Variance %
Revenue (smoothed) (Nominal \$M)	6,541	5,840	-701	-10.7%
PO (initial real revenue decrease in 2020/21)	10.25%	20.32%	10%	+98.2%
Operating expenditure (opex) (Real \$M)	1,805	1,947	+142	+7.8%
Net Capital expenditure (capex) (Real \$M)	2,020	1,793	-227	-11.2%

## Ergon Energy:

Topic	RP	DD	Variance \$	Variance %
Revenue (smoothed) (Nominal \$M)	6,516	5,787	-729	-11.2%
PO (initial real revenue decrease in 2020/21)	9.44%	16.77%	7.33%	+77.6
Operating expenditure (opex) (Real \$M)	1,835	1,964	129	7%
Net Capital expenditure (capex) (Real \$M)	2,724	2,151	-573	-21.0%

# Key Capex considerations

01

## Closing the evidence gap

Focusing on addressing the evidence and justification gaps identified by the AER to support our safety, legislation and compliance driven Capex Program.

02

## Delivering Safety

Developing a fit for purpose Capex Program that ensures the safety of the network, staff, customers and community and the legislative compliance obligations of the business.

# Reflections and new factors

## Demand Forecast

### *Energex consideration*

Demand Forecast for **Energex** has increased since the Regulatory Proposal was submitted in January 2019.

It is now anticipated that energy delivered annual average growth of around 0.4% over the 2020-2029 period.

Although there is an anticipated growth, **Energex** is considering what action needs to be taken in the next regulatory period.

## CTG/CTS

### *Ergon consideration*

Ergon identified a significant number of additional Clearance to Ground / Clearance to Structure defects in February 2019.

**Ergon Energy Network** has also received Electrical Safety Office notices associated with these defects requiring immediate remediation action.

**Ergon Energy Network** did not forecast for these defects in its Regulatory Proposal in January 2019.

**Ergon Energy Network** has also started remediation action deferring currently planned work to fund the current remediation work.

## Poles

### *Ergon consideration*

**Ergon Energy Network** has reviewed its Pole Inspection and Assessment Methodology due to increases in pole failure rates.

This change has identified a significant number of poles that need remediation action.

**Ergon Energy Network** did not forecast for these pole replacements in its Regulatory Proposal in January 2019.

# AER Draft Decision | Opex Next Steps

## Key Considerations

01

### Sustainability

A reduced WACC and changes in the regulatory tax approach have resulted in revenue reduction that exceeds the reduction we included via proposed Opex efficiencies.

02

### Affordability

We remain committed to improving affordability and will now get there easily, but we must balance that against sustainability of the businesses

03

### Severe weather events

Increasing frequency and severity of storm, cyclone, flooding and fire events across the network is a necessary consideration. These events are increasingly becoming a business-as-usual cost rather than one-off costs.

04

### Transparency of benefits

We are assessing the quantified efficiencies in our businesses cases (e.g. for ICT and for property) to account for these in the revised regulatory proposals and ensure they are achievable and sustainable.



# Efficiency Incentive schemes

- In their Draft Decisions, the AER allowed us the flexibility to reassess our approach to the efficiency incentive schemes in our RRP:  
*“If, in its revised proposals, Energex/Ergon Energy elects to claim its EBSS and CESS rewards, then we will adjust the total revenue for the next regulatory control period in our final decision by adding the EBSS and/or CESS rewards it has accrued in the current period”*
- Energex and Ergon Energy elected to forgo efficiency incentive scheme payments subject to the AER’s acceptance of their regulatory proposals
- As the AER’s DD did not accept the regulatory proposals, Energex and Ergon Energy are reconsidering the inclusion of these payments in their revised regulatory proposal submissions

# AER Draft Decision | Network Tariffs Next Steps

## Key Considerations

01

### Affordability

Downward pressure on prices. In all of our considerations we have listened to customers – with the focus on affordability. We have also focused on ensuring that customer impact is managed through the development of transitional cost reflective structures, setting rates and providing tariff options.

02

### Simplicity

Developing network tariffs that can be understood by customers to ensure they can respond to the price signal. We are also intending to work collaboratively with retailers to develop education material to inform customers about our tariff suite.

03

### Cost-reflectivity

Equitable charging for the use of the network by unwinding cross-subsidies. Providing opportunities to control and save through changes in behaviour by consuming electricity outside the peak period.

04

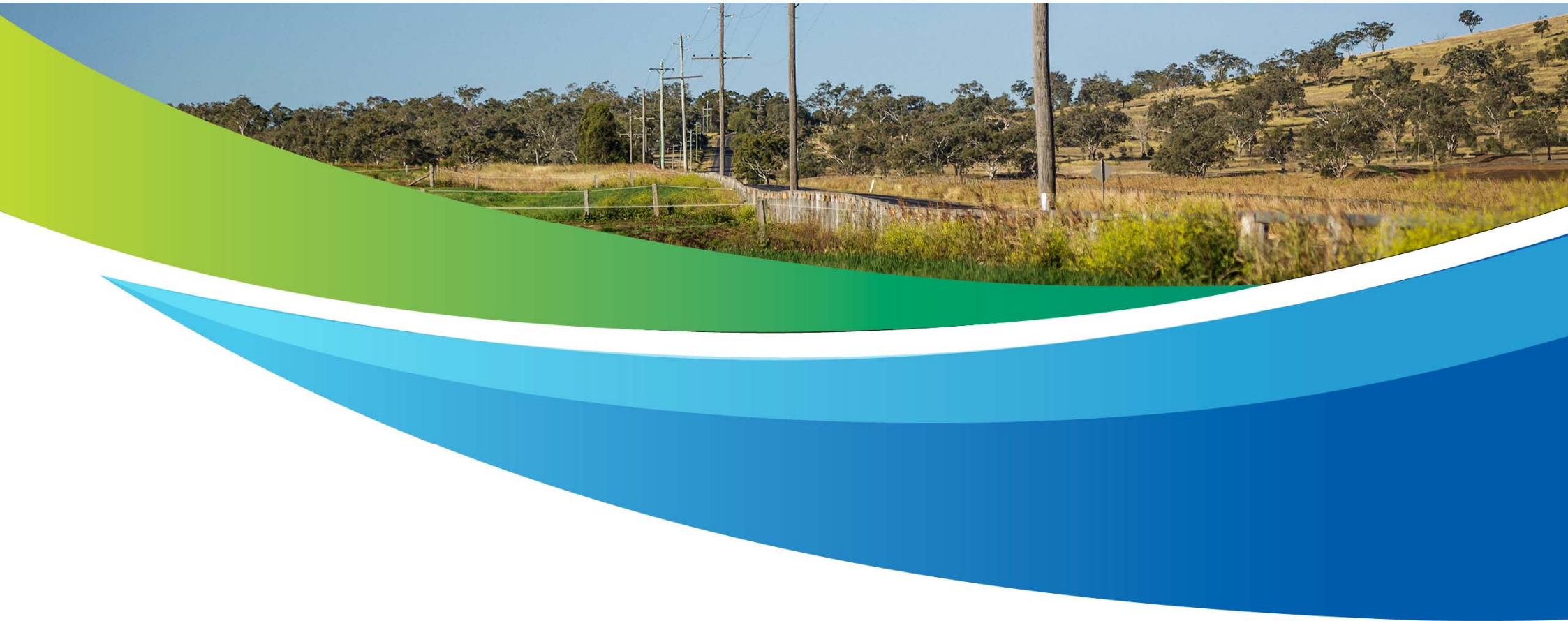
### Choice

Giving customers an opportunity to benefit by providing tariff options in recognition of customers ever changing consumption behaviour and expectations.

# AER Draft Decisions | Next Steps

## Our continued engagement

- We have been actively engaged and working with the AER and will continue to do so as we progress our RRP
- We will continue to engage with our stakeholders and customers on the issues critical to them
- We will discuss TSS related customer impact analysis and proposed rates with stakeholders and customers at future working groups and other forums



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