

**Minutes of the Queensland public forum on Energex's and Ergon
Energy's draft distribution determinations
(1 July 2010 to 30 June 2015)**

Location: Christie Centre
Level 1 Caribbean, Room 320 Adelaide Street, Brisbane

Date: Tuesday, 8 December 2009 (9.00 am to 12.45 pm)

Forum Chair: Steve Edwell, Australian Energy Regulator

Attendees: See Appendix 1

Summary of forum

A summary of the discussions from the forum is set out below.

1. Opening remarks by the Chair

Steve Edwell (Chair) opened the forum and made introductions. He outlined:

- the agenda, and noted that a record of the meeting will be made available following the forum
- that the purpose of this forum was for interested parties to make oral submissions on the AER's draft determinations for Energex and Ergon Energy
- the key aspects of AER's draft determinations for Energex and Ergon Energy.

The AER's presentation slides are available on the AER website at:
<http://www.aer.gov.au/content/index.phtml?itemId=733069>

Comments and questions on Steve Edwell's opening remarks

Ariel Liebman (EUAA) noted that the totals for opex and capex in the AER slides differed from those the EUAA was using in its assessment.

Steve Edwell responded that any differences could be clarified with AER staff.

Roman Domanski (EUAA) sought clarification on the AER's assessment that the Qld networks were relatively new.

Steve Edwell responded that the process of renewal of the Qld networks had begun during the current regulatory period and that this would be a feature of the next regulatory control period also.

Roman Domanski followed up his question by asking whether the AER had access to information to compare the asset lives of the different distribution networks in Australia.

Steve Edwell responded that the AER had acquired such information for the NSW and ACT networks during its recent reset for those distributors and for the Qld networks during the current reset process.

Ariel Liebman sought clarification on the whether the AER expected the requirements of the ESDS review to have been met by the Qld distributors by the end of next regulatory control period or whether customers should expect further increases in prices flowing from the ESDS review beyond 2015?

Steve Edwell responded that the AER expected that the requirements of the ESDS review would be largely met by the Qld distributors by the end of the next regulatory control period and therefore that some levelling off of costs in terms of meeting the requirements of the ESDS review would be expected in the subsequent period.

2. Presentation of draft determination for Energex

Steve Edwell presented the results of the AER's draft determination for Energex.

3. Presentation by the EUAA

Roman Domanski noted that the views to be presented were preliminary as the EUAA had only a week to digest the draft determination of the AER. He also noted that his comments would be equally relevant for Energex and Ergon Energy. The key themes of Mr Domanski's presentation were:

- The AER had not performed sufficient benchmarking in reaching its draft determinations for the Qld distributors. EUAA would like more done in this area and would like further engagement on this issue.
- The AER had implemented a demand management incentive scheme but was still disappointed about the lack of action that is likely to take place in this area, particularly given the size of the proposed capex spends by the distributors.
- Wanted to see more price transparency and welcomed the AER's request to the distribution businesses to try to increase the notice period. Mr Domanski also welcomed the Qld distributors' willingness to engage with the EUAA on pricing, agreeing that pricing cannot be undertaken accurately at this stage but that it could be done by the middle or end of the first quarter of 2010.
- Believed pricing transparency would be increased through the AER reporting average annual increases for DNSPs and that prices should not be presented as total bill impacts using assumptions about distribution costs being a percentage of total costs.

The EUAA's presentation slides are available on the AER website at: <http://www.aer.gov.au/content/index.phtml?itemId=733069>

Comments on previous two presentations

Steve Edwell in response to the EUAA presentation noted that the AER had conducted benchmarking for the draft determination. He indicated that the scope and nature of this benchmarking will be something to discuss further and for the EUAA to address in its submission to the draft determination.

Ian Jarratt (Qld Consumers Association) noted the significant imbalance in the resources for advocacy between the businesses and Qld consumers. He also stated that the Qld Government had indicated at the time of the ESDS review that the costs of implementing the reviews recommendations would be picked up by the taxpayer, not by users.

Mr Jarratt noted that he had not yet looked at the detail but was very supportive of the introduction of the incentive schemes. However, he considered that consumers should get a significant share of any benefits achieved. Mr Jarratt also believed that a review of the network areas of Energex and Ergon needed to be undertaken to see whether the current division was the most efficient.

Mr Jarratt asked how any overspend in the current regulatory period would be treated. He also questioned why there was a significant price increase in the first year.

Steve Edwell responded that any overspend on opex during the current regulatory period was simply a cost the business would bear. Any overspend on capex during the current regulatory period would be rolled into the regulatory asset base. He noted that, while there is no prudency assessment of capex overspending, it was not in a distributor's interest to overspend its capex allowance as it would forego return on and of capital on the overspend during the current regulatory control period.

In relation to the high price in the first year, Steve Edwell indicated that it was a result of the overspend in the current period and the drivers such as population growth and real input cost increases.

4. Presentation by Bruce Mountain

Bruce Mountain presented a critique of the AER's benchmarking and a description of the benchmarking approach used by Ofgem (the UK regulator). His critique of the AER's benchmarking focused on the scope of the benchmarking undertaken and the method used. In this latter regard, Mr Mountain considered that the 'line of best fit' – the least squares fit that the AER had drawn should not intersect the X-axis as the AER's line does. He developed two regressions which distinguished between publicly and privately owned distributors. In terms of scope, Mr Mountain noted that Ofgem benchmarked both capex and opex and that benchmarks were used directly to set the allowed expenditure for around 66 per cent of total expenditure. He noted that Ofgem had refined its approach to benchmarking over four regulatory resets.

Carbon Market Economics' presentation slides are available at:
<http://www.aer.gov.au/content/index.phtml?itemId=733069>

Comments on Bruce Mountain's presentation

Steve Edwell stated that there was not sufficient time to discuss the issues raised but the AER would consider these issues as part of its final determination. He also noted that the EUAA had written to the AER on issues surrounding benchmarking and there would be further correspondence on these issues.

5. Presentation of draft determination for Ergon Energy

Steve Edwell presented the results of the AER's draft determination for Ergon Energy (the presentation slides for this area are available from the link set out under point 1).

6. Presentation by EUAA

Roman Domanski presented on the Ergon Energy determination reiterating a number of his points from his presentation on Energex's draft determination. In particular the EUAA:

- considered the reductions in opex and capex to be limited
- was disappointed with the AER's response on benchmarking
- expected a more aggressive approach on demand management given the high capex levels and believe insufficient priority is being given to this area
- raised the issue of pricing transparency and the need to show compounding nominal prices
- noted that it was trying to satisfy itself of the significant differences between ETSA and the Qld DNSPs
- raised the differences in the rates of returns allowed by the AER and those allowed by Ofgem in the UK.

Comments on previous two presentations

Bruce Mountain (Carbon Market Economics) noted a significant difference in the cost of capital allowed by the AER and Ofgem. He considered that the rates of return allowed by the AER and Ofgem should be similar.

Steve Edwell disagreed with this comment noting a number of differences between the UK and Australian situations, primarily the risk free rate.

Mike Buckley also noted possible explanations for the differences, including that the 10 year bond yield in the UK being around 200 basis points lower than in Australia.

Bruce Mountain considered that there was no reason to believe that, when averaged over a long period, there was a difference in the real risk free rate in the UK and Australia

Gordon Jardine (Powerlink) questioned the AER's demand forecasts stating that what the AER has come up with does not match what is being seen on the ground. He suggested that physical demand growth may not be reflected in monetary measure of Gross State Product (GSP). He considered that whilst in many instances the dollar value was a useful proxy, this

may not be the case in the current circumstances, citing a recent Qld economic report which showed that over the past 12 months coal and minerals prices had fallen by about 48%, which would drag down the GSP despite underlying levels of physical activity. He suggested that since the Global Financial Crisis (GFC) began, despite an initial fall in mining, export volumes had rebounded and increased, but that this increased activity would not show in measure of GSP as commodity prices had fallen so much since this time. He also suggested the GFC had not affected population growth in Queensland, particularly in South East Queensland. He believed that this needed further consideration by the AER and its consultants.

Mike Buckley noted that the AER's consultants, MMA, had applied real GSP figures and not a nominal one, to which **Mr Jardine** questioned whether CPI or commodity prices had been used as the deflator. **Mr Buckley** suggested that CPI was unlikely to be the deflator used.

Gordon Jardine also questioned how the prospect of an Emissions Trading Scheme (ETS) should be factored into the demand forecasts given its uncertainty. He noted, for example, there were other factors such as compensation schemes for low income families that may offset any possible reduction in demand due to the ETS. He also noted that there was another uncertain factor that would result in higher demand – CSIRO's forecast of rising summer temperatures due to greenhouse gases which were already in the atmosphere. He suggested that picking one factor and applying it was problematic and that the AER should either ignore the effects of any possible ETS or it should model the additional factors he had noted.

Steve Edwell stated acknowledged that things had moved fast and that when the AER had made its draft determination it was likely that we were going to have an ETS. Mr Edwell indicated that the AER would take on board Mr Jardine's comments.

Linda Parmenter (QCOSS) noted that large increases were being proposed in terms of tariffs. Ms Parmenter indicated that her organisation's main concern was how the approved revenues would be allocated to the different tariff classes. She noted that tariff design could be used to achieve a number of different goals and could take into consideration social issues. Ms Parmenter noted that the Qld distributors had displayed a willingness to listen to her organisation suggestions, although a specific suggestion of an energy only tariff (no fixed component) to assist disadvantaged customers did not appear to be supported by the distributors.

Steve Edwell noted that the AER's role in the pricing approval process was limited by the National Electricity Rules but that the AER was willing to engage with QCOSS on pricing issues.

Ian Jarratt sought clarification as to whether the regime would prevent overspending by the distributors in the future.

Steve Edwell noted that the AER treated publicly, and privately, owned distributors equally and that it was the incentive properties of the regulatory regime that should prevent a distributor from overspending.

Bruce Mountain indicated that publicly owned distributors were more likely to overspend. He stated that Government-owned network service providers had consistently overspent their regulatory allowances.

Concluding comments

Steve Edwell advised participants of the AER's timetable and process going forward. He noted that revised proposals from the Qld distributors are due by 14 January 2010, while written submissions on draft determinations close on 16 February 2010. He advised that the AER's final determinations for the businesses must be released by the end of April.

Steve Edwell expressed his appreciation to the presenters and attendees for their participation and closed the meeting at approximately 12.45 pm.

Appendix 1: List of attendees

Organisation	Attendees
AGL	Meng Goh, Sallie Proctor
Aurora Energy	Leigh Mayne, Kim Posinski
Australian Energy Regulator (AER)	Steve Edwell (Chair), Mike Buckley, Scott Haig, Moston Neck, Michael Wydeveld, Robyn Le
Carbon Market Economics	Bruce Mountain
CitiPower/Powercor Australia	Brent Cleeve, Neil Watt, Stephanie McDougall
EnergyAdvice	Ian Delahunty
Country Energy	Maree Richards
Department of Resources, Energy and Tourism	David de Jongh
Energex	Terry Effeney, Kevin Kehl, Paul Rainbird, Neil Andersen, Sue Lee, Jane-Ellen Corkeron, Damian Platts, Maria Ceresa Alati, Susan Hayes
Energy Users Association of Australia	Roman Domanski, Ariel Liebman
Envestra	Andrew Staniford
Ergon Energy	Andrew Fox, Tony Pfeiffer, Troy McKay-Lowndes, Loren Blauensteiner, Jenny Doyle, Kem Casey, Leon Hawley, Allison White
Hill Michael	Craig Aumuller, Colin Watson, Soruby Bharathy
Infrastructure and Regulation Services	Scott Young
KPMG	Ross Franklin
Lifeline Community Care QLD	Fiona Hawthorne
Office of Clean Energy	Andrea Harvey
Parsons Brinckerhoff (PB)	John Thompson, Victor Petrovski
Powerlink	Gordon Jardine, Stewart Bell, Jennifer Harris
Qld Consumers Association	Ian Jarratt

Qld Mines and Energy	Kristen Findley, Louise McCue, Ilona Cenefels, Katie Mulder, Claire Tune
Queensland Council of Social Services	Linda Parmenter, Nadine Lester
Queensland Office of Clean Energy	Peter Cronin
Queensland Treasury	Steve Williams
Queensland Treasury Corporation	Lachlan Whitta, Peter Rawlings, Rosemary O'Hagan, Scott Wilson, Mark Brice
Utility Asset Management	Peter Collins, Ken Sheldon