

31 May 2019

Mr Warwick Anderson  
General Manager, Networks Finance and Reporting  
Australian Energy Regulator  
GPO Box 3131  
Canberra ACT 2601

Dear Mr Anderson

**Response to AER Issues Paper:  
Qld electricity distribution determinations, Energex and Ergon Energy, 2020 to 2025**

National Seniors Australia welcomes the opportunity to respond to the AER *Qld electricity distribution determinations, Energex and Ergon Energy, 2020 to 2025* Issues Paper.

This submission has been developed by the National Seniors Queensland Policy Advisory Group (Qld PAG). A representative of Qld PAG, Mr David Warner, participated in the Energy Queensland Regulatory Proposal – Tariff Structure Statement (EQ RP-TSS) working group process.

The Qld PAG acknowledge the helpfulness, transparency and resources that have been allocated to facilitating the stakeholder workshops. However, we are disappointed the tariff development process for the 2020 to 2025 regulatory period has been rushed. As a result, the financial impact of the proposed tariffs on various residential customer cohorts have not been accurately calculated or trialled. This leaves open the risk of unintended adverse consequences on people with low and fixed incomes and who are least able to afford the impact of such consequences. We are concerned that this may result in outcomes that are not in line with the the relevant Rules.

We believe that one option worth considering is delaying the implementation of any new tariffs, for a period of 12 months. This would permit Energy Queensland to undertake appropriate financial impact modelling and to arrange adjustments and/or support for those who may be adversely impacted.

We cannot support the TSS until customer impacts of the new proposed tariffs are modelled and properly understood and any adverse consequences are adequately dealt with.

Yours sincerely

**Vera Somerwil**  
**Qld Policy Advisory Group Chair**

## Response to AER Issues Paper: Qld electricity distribution determinations, Energex and Ergon Energy, 2020 to 2025

### Introduction

A representative from National Seniors' Queensland Policy Advisory Group (Qld PAG), Mr David Warner, was a participant in the stakeholder working group formed by Energy Queensland (EQ) to provide input and feedback on the development of the Ergon Energy and Energex Regulatory Proposal and Tariff Structure Statements. Mr Warner participated in the working group to provide a voice for vulnerable older residential customers, including those on low and fixed incomes.

### Guiding principles

In preparing for participation in this working group, Qld PAG members formulated a set of guiding principles to test the outcomes of the EQ RP-TSS process. We believe there is general agreement among other consumer advocates within the EQ working group on these guiding principles.

Guiding principles:

- **Improved affordability** must be the priority. If new tariff options do not improve affordability for all clients they should be discarded.
- **Leave no one behind** – benefits of new tariffs must be available to ALL clients.
- The issue of **making digital meters widely available** must be addressed in association with the development of new tariff options. It will be of no use having more affordable tariffs if the clients are unable to access them because they do not have the required metering. National Seniors understands a tariff is being developed that will provide clients on type 6 meters options every bit as good as those with digital meters and we look forward to learning more about this.
- Ensure **new tariffs are fair and equitable for ALL clients** and **do not maintain or introduce new cross subsidies**, especially around the costs associated with renewable energy.
- New tariffs **must aim to deliver cost savings for all clients**.
- New tariffs **must, at worst, offer a cost neutral outcome** – increases for vulnerable clients, especially those on low and fixed incomes, must be avoided.
- New tariffs **must be flexible, transparent and simple to understand**.
- New tariffs **must offer a cost neutral “set and forget” option** for vulnerable and older clients who are unable to respond to time, volume and price levers. This option could be linked to a network residential load control tariff to ensure “accidental” peak usage is avoided.
- New tariffs **must be extensively modelled and trialled before being introduced** to ensure expected outcomes are achieved.
- New tariffs should be introduced in ways that **allow clients to trial the option they prefer** (test the financial outcome) before being asked to commit to a new tariff option.
- New tariffs must be designed in ways that **ensure customers can easily move between tariffs**. Changing a tariff should be as easy as changing an electricity retailer.

The following advice is provided to the AER based on our representatives' participation in the EQ RP-TSS working group process by reflecting on the guiding principles listed above.

## Section 2.1: Stakeholder engagement

We note that the following were put forward by Energex and Ergon Energy as generally agreed customer and stakeholder values:

- Safety first
- More affordable electricity
- A secure supply
- A sustainable future

We believe, and have stated at the workshops, that the issues of safety, security and sustainability are “hygiene issues”. Older people would expect that safety, security and sustainability of electricity supply are provided as a given by the Queensland Government and are non-negotiable.

Beyond safety, security and sustainability we would argue the following are the most important values, which must be given priority:

- affordability and
- fairness / equity.

Regarding affordability and equity, we would contend that any changes to revenue and tariff structure encompasses the following elements:

- **Affordability** cost neutral outcomes at worst with reductions the highest priority, all measured against a “do nothing” option.
- **Elimination of cross-subsidies** where those that can least afford to are subsidising the costs of those who least need to be subsidised.
- **Fairness and equity** across all residential customers.
- **Leave no one behind** ensure all customers are provided with the opportunity to take advantage of new technologies and other market developments.
- **Flexible, transparent and simple to understand tariff structure** provide processes for customers to model their circumstances to ensure they are properly informed before committing to a new tariff
- **A competitive “set and forget” tariff** for those unable to manage their usage for medical, financial or other reasons.
- **100 per cent of cost reductions passed on to customers by retailers.**
- **Support for hardship and vulnerable residential customers.**

## **Section 3, 4 & 5: Key elements of the Energex and Ergon Energy revenue proposal**

Below are some general observations in response to the specific elements in the Energex and Ergon Energy revenue proposals.

### **Proposed Revenue**

We do not believe that all possible savings have been reflected in the revenue proposals. This is important because small savings can generate significant reductions for customers. Both Energex and Ergon have forecast the need for increased revenues each year from 2021 to 2025. However, this does not reflect the need to improve on “business as normal” to improve productivity and efficiency on a year on year basis. We are also concerned about the impact of renewables and the size of the ICT budget on the revenue proposal.

### **Incentive Payments - CESS and EBSS**

We do not believe the offer by EQ to forego incentive payments should be conditional. Achieving improved efficiencies should be a standard requirement, with only outstanding performance warranting reward. In this case, incentives appear to be rewarding required and expected rather than outstanding performance.

### **RAB, WACC and Return on Capital**

We note the very substantial impact these items have on the total distribution costs of EQ. We also note the payment of “dividends” to the owner over the recent past may have been financed by borrowings which have increased the debt carried by EQ.

Given the impact of these items we raise the following questions:

- Does the valuation of the RAB adequately reflect the potential for some assets to become redundant earlier than normal due to legacy energy being replaced with renewables, including customers going off the grid?
- Does the WACC adequately reflect the current and forecast low inflation and interest rate environment?
- Is the Return on Capital excessive considering that this is essentially a very low risk business which is generating very generous returns for the owner, especially in the current and forecast low interest rate environment?

### **Outsourcing and sharing of costs**

We note that both Energex and Ergon predominantly conduct their operations in-house and that opportunities to share costs on shared assets, such as clearing vegetation around poles and wires, are not pursued. We believe that outsourcing opportunities for non-critical tasks should be investigated to ensure the current cost base reflects best market practice and pricing. We also believe shared costs on shared assets should be pursued to reduce operating costs.

### **Best of breed comparative analysis**

From information shared at the workshops it does not appear that Energex and Ergon operations and associated expenditure have been subject to an international, best of breed comparative analysis. We understand that the focus has been on combining the two businesses under the umbrella of EQ and achieving synergy savings. However, with that now complete we believe the EQ businesses should be analysed to ensure cost efficiencies are being achieved.

## Capex

Considering the very substantial investment in capex that peaked around 2015, the capex costs included in the Regulatory Proposal appear to be high. We understand that some of this results from Ergon Energy needing to become more proactive in identifying and replacing assets in poor condition but still think this item requires further scrutiny.

## Section 8: Tariff structure statements

We have appreciated the opportunity to participate in the EQ Working Group and acknowledge the transparency, openness and support provided by the EQ team during the RP-TSS process.

Regrettably, most of the consultation process to date has been taken up with the development of the Energex and Ergon budgets for the 2020 to 2025 period. As such, discussion of the tariff development process was limited within the working group process.

It was made clear to EQ, throughout the working group process, that unless tariffs were subject to financial impact modelling they would not be supported. Such modelling is essential to demonstrate if the principles and priorities set out above is achievable.

We requested that this modelling be undertaken using a variety of variables to represent different cohorts within the community. These demographics include:

- Age
- Income
- Employment status
- Energy consumption
- Family size
- Impact of high consumption appliances – e.g. air-conditioning, pools, car charger, battery etc
- Load control vs no load control
- Non-solar vs solar
- Postcode
- Tenure
- Vulnerability/disadvantage e.g. pensioner, disability, Aboriginal or Torres Strait Islander etc

This modelling should cover the full regulatory period 2020 to 2025 and not simply the first year when the benefits of cost reductions will be applied.

We understand that the AER requires that pricing principles reflect demand and service costs so that consumers can make informed and appropriate choices on whether to consume more, or less, electricity. We also note the need to consider short and long-term costs.

Unfortunately, consumers on low and fixed incomes, renters and other vulnerable people are currently faced with electricity bills that exceed their ability to pay. Many are not able to make complicated behavioural changes to reduce these expenses other than to switch off appliances, which can create negative impacts on

their health and wellbeing. **It is this knowledge that drives our desire to completely understand the financial impact of the proposed tariff changes.**

We are very concerned about the issue of cross subsidisation in the existing tariffs. Cross subsidies should not force vulnerable consumers, who can least afford it, to subsidise the costs of those who least need them. A vivid example of a cross-subsidy is the way that distribution costs associated with importing energy from (replace into) the grid are charged when distribution costs associated with export are not. Feed-in tariff costs are another example. National Seniors has seen no strategy development by EQ to address these subsidies in the next regulatory period.

There has been much discussion about the impact of load control as an effective mechanism to assist in demand management within the EQ working group. We believe that the benefits of load control should be available to all consumers regardless of their personal circumstances. No or low-cost options should be available to those who cannot afford the required metering and/or hard wiring costs.

Unfortunately, comprehensive financial impact modelling of the proposed tariff structures has not been completed to date. Given the outcome of the new tariffs are unable to be measured, we are not able to support the tariff options presented to date.

## **In conclusion**

National Seniors appreciates the opportunity to have representatives from the Qld PAG participate in the EQ RP-TSS process.

We are disappointed that the tariff development process for the 2020 to 2025 regulatory period has been rushed and, as a result, the financial impact of the proposed tariffs has not been adequately calculated. This leaves open the risk that the new tariff structure will fail to achieve the guiding principles set out earlier in this submission and will have negative impacts on vulnerable customers especially on low and fixed-income older Queenslanders.

For this reason, we are not currently able to support or endorse the TSS section of the EQ Regulatory Proposals for Energex and Ergon Energy. We call on the AER to delay the implementation of tariff reforms for a period of 12 months to allow EQ to undertake the necessary modelling to understand the impacts of the proposed tariff reforms.