



15 January 2020

Mr Warwick Anderson  
General Manager  
Australian Energy Regulator  
GPO Box 520  
Melbourne Vic 3001

Email: [EnergyQueensland2020@aer.gov.au](mailto:EnergyQueensland2020@aer.gov.au)

Dear Mr Anderson

**RE: AER DRAFT DECISION AND REVISED REGULATORY PROPOSALS FOR QUEENSLAND ELECTRICITY DISTRIBUTORS 2020-25**

Origin Energy appreciates the opportunity to provide a submission to the Australian Energy Regulator's (AER) assessment of the regulatory revenue proposals submitted by the Queensland electricity distribution businesses for the period 2020-25 and the associated revised proposals.

Origin supports the significant progress that the AER has made in driving the Queensland networks towards achieving more efficient expenditure levels and the resultant impact on affordability. Origin believes the AER draft determinations contribute positively to affordability and a reduction in Queensland consumers' network bills. We are therefore supportive in principle of the Energex and Ergon Energy (Energy Queensland (EQ)) revised proposals being largely in line with the AER's draft decision recommendations.

Origin appreciates the efforts of both Energex and Ergon Energy in containing network expenditure and the resultant tariff reductions flowing on to customers. Nevertheless, we encourage the AER to rigorously assess the prudence and efficiency of the revised expenditure proposals to ensure expenditure remains appropriate.

Origin notes that that EQ have proposed additional revenue compared to that recommended by the AER in its draft decision. While a further reduction in the rate of return has resulted in a reduction in forecast revenue, both businesses have proposed increases in capex and the re-institution of incentive scheme payments.

With respect to tariffs, we are pleased that EQ have accepted the bulk of the AER's recommendations. We consider that the AER's recommendations strike an appropriate balance between extending cost reflectivity and maintaining simplicity of tariffs. As Origin have previously argued, we consider that customer engagement and understanding are critical for the successful uptake of any tariff reform.

We remain concerned with the development of fees associated with alternative control services. In light of the intense scrutiny on core network revenue i.e. revenue from standard control services, revenue from alternative control services has become an increasingly important revenue source for distribution businesses. We consider it critical that the AER continue to rigorously review costs associated with alternative control services to ensure that these are cost reflective.

Further comment on these issues is presented below.

## **Capital expenditure**

In its draft decision the AER rejected elements of EQ's capital expenditure proposals largely on the basis of insufficient justification in support of the proposed expenditure. EQ have responded by incorporating additional information and risk assessment analysis in support of the proposed expenditure. The bulk of the revised capex is related to replacement and augmentation expenditure, with Ergon Energy, in particular, proposing replacement expenditure in excess of that incorporated in its initial regulatory proposal. Ergon argue that the increased replacement expenditure is required in response to additional safety issues identified since the initial regulatory proposal.

While we are naturally supportive of maintaining the reliability and safety of the network, we nevertheless encourage the AER to closely scrutinise the revised expenditure proposals to ensure prudence and efficiency.

## **Incentive schemes**

In their initial regulatory proposals both Energex and Ergon chose to forgo payments associated with the AER's incentive schemes. However, EQ notes that revenues have since declined materially as a result of the substantial reduction in interest rates (and the rate of return) and changes in the regulatory tax approach. To ensure that EQ have sufficient funds for critical investments and maintenance, EQ are proposing to reclaim the incentive scheme revenues. While Origin supports the application of incentive schemes and associated payments where warranted, we encourage the AER to assess the application of the schemes to ensure the proposed efficiencies and related efficiency payments are valid.

## **Tariff Structure Statement**

In its draft decision, the AER chose to not approve the Energex and Ergon Energy proposed tariff structure statements (TSS) on the basis that these did not comply with the distribution pricing principles. The AER provided a number of suggestions to EQ largely aimed at simplifying tariffs and encouraging a more measured approach to implementing cost reflectivity. EQ has indicated that it broadly accepts the AER's recommendations and has amended its Revised TSS accordingly. Origin supports the AER's TSS recommendations and is pleased that EQ has chosen to adopt the recommendations. We consider that this is in the long-term interest of consumers.

## **Alternative Control Services**

In response to EQ's initial regulatory proposal Origin expressed concerns regarding proposed increases in charges for a number of fee-based ancillary network services. In particular, significant increases were noted in relation to Connection Management Services (de-energisation/re-energisation) and Auxiliary Metering Services.

In its draft decision the AER rejected EQ's proposed charges for fee-based services. The AER indicated that EQ made significant changes to its fees through the AER's assessment process, as well as correcting modelling errors. It was therefore recommended that EQ undertake a review of its proposed fees and modelling and present a consolidated set of services as part of its revised proposal.

We note that Energy Queensland made significant amendments to charges for a number of fee-based services from its initial regulatory proposal. In a number of instances it appears that the revised fees are lower than those in the initial regulatory proposal. However, proposed fees for a number of services remain considerably higher than currently charged in the 2019-20 AER approved price schedule. For example, proposed prices for some de-energisation/re-energisation services are more than double the current charge.

A detailed assessment of EQ's proposed fee-based services is complicated by the presentation of the information. The inconsistency in presentation and identification of fee-based services between the most recent 2019-20 AER approved price schedule, the initial regulatory proposal and the revised regulatory proposal means that any meaningful assessment of the proposed price increases is extremely difficult. EQ noted that many services that were previously priced on a quotation basis have shifted to a fee basis, there have been changes to service categories/descriptions to align services between Energex and Ergon Energy, and there have been changes to EQ's cost allocation method. While we appreciate that circumstances have changed between regulatory periods, in the interest of stakeholder engagement we consider it incumbent on EQ to provide some type of reconciliation between services listed in the most recent 2019-20 AER approved price schedule and the revised fee-based services.

Given the changes to fee structures, difficulties associated with assessing the proposed fees and the apparent substantial fee increases from those currently applied, we strongly encourage the AER to conduct a thorough review of EQ's revised fee proposal to validate their appropriateness.

If you have any questions regarding this submission, please contact Gary Davies in the first instance at [REDACTED]

Yours sincerely

[REDACTED]

Sean Greenup  
Group Manager, Regulatory Policy

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