Response to Queensland Distribution Network Service Providers' Regulatory Proposals

Queensland Council of Social Service

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WORKING FOR A FAIR QUEENSLAND FOR 50 YEARS

Introduction

Queensland Council of Social Service (QCOSS) is the peak body for over 600 welfare and community sector organisations in Queensland. For over 50 years QCOSS has worked to promote social justice and exists to provide a voice for Queenslanders affected by poverty and inequality. We act as a State-wide Council that leads on issues of significance to the social, community and health sectors. We work for a Fair Queensland and develop and advocate socially, economically and environmentally responsible public policy and action by community, government and business.

QCOSS has been funded by the Department of Employment, Economic Development and Innovation for an energy consumer advocacy project in Queensland. The purpose of this project is to advocate on behalf of Queensland consumers and particularly vulnerable and low income households in relation to energy.

The AER distribution determination for the Queensland electricity distribution network service providers for the regulatory period from 1 July 2010 to 30 June 2015 is an important process that will set future distribution charges, impact service levels and provide a regulatory context for Energex and Ergon, the two Queensland Distribution Network Service Providers (DNSPs). This is the first time that Queensland distribution networks will be subject to economic regulation by the AER, with the distribution networks currently subject to regulation by the Queensland jurisdictional regulator.

As distribution prices account for some 40% of retail electricity prices and all energy users in Queensland will be subject to the increased charges that may result from this determination, the outcome of the AER's determination has significant implications for residential consumers, and low-income and vulnerable consumers in particular. We understand that both Energex and Ergon have proposed substantial increases in operating and maintenance and capital expenditure for the next regulatory period based on the ongoing population increase in Queensland, increasing customer numbers and higher demand resulting from continuing uptake of air conditioning. These large increases will have a dramatic impact on driving up total costs, revenue and prices.

Through a number of factors, Queensland consumers have already been subject to price increases of more than 32% in the past three years. The most recent data on disconnections in Queensland revealed that 21,784 small electricity customers (consuming less than 100MWh of electricity per annum) were disconnected due to non-payment of an electricity bill in the financial year ended June 30 2008].[1] Significant prices rises will place an additional burden on households, particularly low income and vulnerable households, already struggling to meet the increasing cost of living.

Accordingly it is essential that the determination process results in network charges and service levels that deliver optimal outcomes for all Queensland consumers, including ensuring that the supply of electricity on a reliable basis is available on terms and prices which allow it to be accessible to all sectors of the community.

[1] **Queensland Competition Authority, *Small Electricity Customer Disconnection and Complaints Data Year Ended 30 June 2008*. Note that the QCA have subsequently indicated that due to underreporting by Origin Energy, the disconnection figure may be closer to 30, 000.**

Perspective

In making this and subsequent submissions to the AER, QCOSS has based our perspective on two key tenets:

- That prices paid by domestic customers (and other customers) should incorporate reasonable network costs, within the context that
  - Network costs reflect the lowest sustainable cost of providing the service; and
  - Network costs are avoided or deferred through application of non-network alternatives and soundly applied demand management activity.
- That tariffs should be designed so as to reflect the cost of efficient and reliable provision, while ensuring that electricity supply remains affordable for domestic (particularly disadvantaged domestic) customers.

Approach

QCOSS has taken a cooperative approach to this price review process, notably

- Engaging with the businesses;

  QCOSS has already established contact with the regulatory management of Energex and Ergon to discuss our approach and to establish a cooperative relationship.

  QCOSS takes the view that more can be achieved in cooperation with the network business than in opposition. In particular, QCOSS seeks to achieve outcomes with the business which can then be jointly submitted to the regulator for endorsement. QCOSS sees this as a much preferable route than placing the regulator in the position of dispute arbiter. QCOSS has been pleased with the welcome reception this approach has enjoyed with the network businesses.

- Focusing on those areas in which QCOSS can add the most value in providing commentary;

  QCOSS has flagged with the businesses a wish to discuss the cost allocation methodologies for determining the “fair share” of costs that should be borne by domestic customers, and to work with the businesses to develop tariffs and payment programs (which can be adopted by retailers) to assist domestic customers (and particularly disadvantaged customers) to pay that fair share. QCOSS welcomes the warm reception it has received from the businesses to this approach.

  QCOSS recognises that there are aspects of the Regulatory Proposals on which QCOSS and its constituency cannot reasonably provide valuable commentary. For example, QCOSS is not able to credibly comment on aspects of network planning or other network engineering matters. Similarly, the technical aspects of the cost of capital debate are not clearly within QCOSS’ areas of expertise.

- Restricting its commentary to those areas identified in the Rules on which the Regulator has relevant discretions to consider QCOSS’ comments;

  QCOSS is aware that the regulator is operating within a legislative framework for this price reset, and will direct its commentary to those areas clearly actionable by the regulator within the legislative framework. Rather, QCOSS would strive to comment on those aspects of the cost allocation methodology or tariff design process that result in the inflated tariff. These comments would be discussed in advance with the network business, and ideally agreed with the business in its submission to the regulator.

However, QCOSS also recognises the Queensland and Australian Governments as an audience for submissions to this price determination process. QCOSS will strive to address its comments to the party most capable of acting upon them. In this case, QCOSS may use its submissions to draw contextual matters to the attention of the Government (in its role as Government, not in its role as the owner of a distribution network) on areas where its support may be required to achieve positive outcomes related to the price review process, or to areas where the legislative requirements are unduly restrictive and do not allow consideration of important consumer considerations.

- Providing comments in the correct stage of the price review process.

  QCOSS recognises the regulatory determination process as established in the Rules. In particular, QCOSS will work with the business to develop tariff and other approaches that can be jointly proposed in the Price Proposal stage of the process.

Preliminary comments

QCOSS has undertaken a high level review of the Energex and Ergon Regulatory Proposals and has found:

- That the Proposals appear to be rigorously presented in response to the requirements of the Rules;
- The Proposals are well structured and laid out for ease of understanding of appropriately informed commentators;
- The preliminary review suggests that the capex and opex forecasts are linked to key drivers:
  - in both cases, the requirements to meet the requirements of the Electricity Distribution for Service Delivery in the 21st Century Review (the EDSD Review);
  - in Energex' case in particular, the requirements to meet the demands of a significant influx of population to SE Queensland;
  - in Energex' case in particular, the increasing "peakiness" of load caused by the high penetration of air conditioning;
  - In Ergon's case in particular, the need for new customer-driven connection and subdivision development costs (and related network augmentation) associated with the "tree change" movement. It is noteworthy that Ergon characterises increased air conditioning penetration as a subsidiary driver of investment (see, for example, s4.18.2 and s21.2).

As discussed above, QCOSS does not have expertise to comment credibly on the capital expenditure forecasts in greater detail.

Demand management

QCOSS is concerned to ensure that Energex' and Ergon's Demand Management (DM) activity (particularly Direct Load Control) is spatially focused on deferral of network investment in capacity-constrained areas of the network. This is not completely clear in the regulatory proposals.

For example, Energex proposes to spend

- $97.0 million to conduct education programs and design tariffs, and to "continue to expand the existing broad-based residential targeted programs, including direct load control of air conditioners, pool pumps, hot water systems combined with energy efficiency measures where appropriate" (Appendix 5.1, Table 3) and

- a further $41.1 million on "the rollout of air conditioning direct load control across South East Queensland initially on a voluntary basis" (Appendix 5.1, Table 5).

Ergon identifies a spatial element to its activity by noting that it will expand its Townsville and Magnetic Island Residential Air Conditioning DLC programs. But it also comments (page 318) that it is building capacity for the mass adoption of DLC devices. It is not clear that the proposed $17.3 million rollout of DLC devices is targeted at constrained areas of the network. Further, Ergon does not address the spatial constraint issue in its proposal to spend an additional $3.5 million on pool filtration DLC devices.

QCOSS is concerned that such a non-targeted, broad brush rollout of this equipment will not serve to avoid or defer network augmentation investment.

QCOSS is concerned that the costs of peak-shaving DM activity, notably Direct Load Control (DLC) programs, are likely to be assigned largely to domestic customers. These programs are generally applicable to domestic air conditioning and pool filtration appliances, and are therefore likely to be deployed in areas of the network which are dominated by domestic load.

However, it is possible that the lion's share of the benefits could well accrue to retailers through reduced exposure to spikes in electricity market pool prices. While QCOSS acknowledges that this reduced exposure should, over time, be reflected in reduced retail margins, QCOSS is conscious that the test in this proceeding is on the value of deferred network investment.

QCOSS is concerned to ensure that the expenditures proposed by Energex and Ergon for the proposed peak shaving programs is less than the value of the associated deferral of network augmentation investment.

Future activity

QCOSS has engaged with the distribution businesses and proposes to work with them:

- To gain comfort on the allocation of distribution network costs among classes of network customers;
- To develop network tariffs and other assistance programs that can be adopted by retailers to make it easier for disadvantaged domestic customers to pay their fair share.

The outcomes of this activity will be documented in further submissions to this proceeding.