queensland council of social service inc
WORKING FOR A FAIR QUEENSLAND

QCOSS submission to the Powerlink revenue proposal 2012/13 – 2016/17

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This is a short submission from the Queensland Council of Social Service (QCOSS) on Powerlink's initial revenue proposal. We note that the Australian Energy Regulator (AER) will eventually make a determination on the maximum revenue that Powerlink can collect from providing prescribed transmission services in Queensland, which effectively sets the transmission prices charged to customers.

We understand that our submission will be publicly available on the AER website, and that public submissions were due by 12 August 2011.

About QCOSS Inc

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.

We would like to make three points to the AER in our submission.

- We will rely on the AER's experience and technical knowledge

The AER sets the prices charged by over 30 Australian electricity and gas network businesses. The price regulation for electricity network businesses occurs under the National Electricity Rules ('the Rules').

We note that the AER has completed revenue or price determinations under the current Rules for all of the relevant transmission businesses (including Powerlink), and for all but one of the relevant distribution businesses. This is also the second time under the current Rules that the AER will determine the maximum allowable revenue for Powerlink.

The AER has therefore built up extensive experience and technical knowledge in revenue determinations. Given this, we strongly doubt that QCOSS could provide any countervailing technical input that would make a material difference to what the AER will do in response to Powerlink's revenue proposal. We have therefore decided not to provide any technical input, and will instead rely on the AER to make a sound determination on Powerlink's revenue proposal.

- QCOSS agrees that Rule changes may be required

We note that one of the strategic priorities for the AER in 2011/12 is "ensuring network regulation arrangements meet the long term needs of energy consumers". We also note that the AER has "identified changes to the Rules" that the AER considers "would better protect consumers from paying more than they should for the safe and reliable supply of electricity". We support the AER's efforts to change the current Rules, especially since customers might be paying more than they should for electricity networks.

- Balancing Powerlink's social responsibility with its corporate responsibility

We note that the revenue determination by the AER requires estimating the range of costs that an electricity network business would face in delivering network services. Under the Rules it is not the actual costs faced by Powerlink that are relevant but the costs that would be incurred by a prudent and efficient business operating in similar circumstances. There is one cost where this has a large impact – the cost of debt. In short, Powerlink is able to borrow money at a lower cost (from the Queensland Treasury Corporation) than allowed for under the Rules.

All else being equal, this should mean that Powerlink will be able to earn higher profits than a similar regulated monopoly that pays more to borrow money. We accept that Powerlink has a corporate responsibility to its shareholders to maximise profits and that Powerlink should try to extract the best possible outcome from the AER under the current Rules. We also accept that this means that Powerlink should argue strongly for the AER to allow higher costs as part of the revenue determination.

However, we believe there is a point where Powerlink's responsibility to shareholders needs to be balanced against a broader social responsibility to the Queensland public. This point would be where Powerlink is able to take advantage of any inefficiency in the Rules to deliver a profit higher than would be reasonable for a regulated monopoly business. This additional revenue would have to come from Queensland customers paying higher prices than they should be.

In the interests of social responsibility, we would therefore like to see Powerlink choose to accept more of the AER's decisions rather than make every attempt to increase revenue. This issue is clearly outside the regulatory control of the AER, but we think it is an important point. We intend to raise this issue directly with Powerlink.

Thank you for providing the opportunity for public comment. If you have any questions about our submission, please contact Dr Roger Church on (07) 3004 6915 or by email on rogerc@qcoss.org.au