QEUN Queensland Electricity Users Network

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31 January 2020

Mr Warwick Anderson
General Manager
Australian Energy Regulator

Via Email: EnergyQueensland2020@aer.gov.au

Dear Mr Anderson

RE: Submission – Ergon Network 2020-2025 Determination

The Queensland Electricity Users Network (QEUN) welcomes the opportunity to provide a submission to the Australian Energy Regulator on the Revised Regulatory Proposal submitted by Ergon Network for the 2020-25 Determination.

The QEUN is a consumer advocate representing small business and residential consumers with a particular emphasis on regional consumers. We advocate for affordable and reliable electricity from a resilient national electricity system where the pace of the transition to a renewable energy future is not at the expense of the economy, jobs or reasonable living standards.

Overview

The consumer consultation process conducted by Energy Queensland (Ergon Network and Energex Network) and the Australian Energy Regulator for the Ergon Network 2020-25 Determination is much improved on the previous 2015-20 Determination. In particular, the consultation made a greater effort to include consumers in regional Queensland recognising that regional Queensland is also represented by consumers and consumer advocates that are not based in the Energex Network area of Brisbane.

The improved consultation process clearly found that fundamental divisive issues continue to exist between Energy Queensland/Queensland Government, Council of Australian Governments (COAG) Energy Council and consumers.

Failure to resolve these fundamental divisive issues will result in long lasting and in many cases irreversible damage to the viability and financial health of a wide range of business and residential customers in regional Queensland. The reduction in customer numbers and customer consumption plus the high likelihood of multiple pass through events for natural disasters may place the long term viability of the Ergon network in question. What is now seen by the Queensland Government as a cash cow, could ultimately become a liability as the Ergon network increasingly becomes an electricity supplier of last resort to a wide range of business and residential customers in regional Queensland.

Of particular concern is the loss of large numbers of small business customers. The consequences of losing more small business and farming customers cannot be understated. Small business and agriculture is the engine room of the regional Queensland economy and is responsible for employing almost half the private workforce. The continued loss of small business and farming customers will have a real and measurable impact on the economy and jobs of regional Queensland. Instead of being an enabler, the cost of electricity supplied by Ergon Network and Ergon Retail is disabling and destroying the economy of regional Queensland. The pain is clearly evident in the growing number of customers being disconnected or entering a payment plan or hardship program to keep their electricity on.

Ergon Network will need to recover the reduced small business and farming revenue from other customers which will include residential customers. However, due to unsustainable and exorbitant power bills and the

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installation of rooftop solar systems, the average electricity use per household has fallen significantly. Consequently, the quantity of electricity supplied by Ergon Network to all customers has fallen by 16% in the past 10 years. The trend of falling electricity consumption from the network is expected to continue despite the population of Queensland growing.

Ergon Network cannot depend on electric vehicles to offset the falling demand from business and residential customers. Whilst it is generally accepted the number of electric vehicles will continue to grow, other forms of transport such as hydrogen fuel cell and natural gas vehicles already exist and their numbers will increase over time, particularly in regional areas such as regional Queensland.

Less business and less residential customers using less electricity (except at peak times on weekdays from 3pm to 9pm) will have a serious impact on who and how Ergon Network will recover the revenue to maintain and operate its $11.5 billion network.

In the current 2015-2020 regulatory period, the AER determined Ergon Network is allowed to earn a maximum revenue of $6,295 million; this 19.3 % (or $1,503 million) less than the $7,798 million Ergon Network wanted to earn in its revised regulatory proposal. This means Ergon Network can recover from its customers a maximum revenue of $6,295 million over the 5 year 2015-2020 regulatory period.

In this next 2020-2025 regulatory period, Ergon Network has submitted a revised regulatory proposal for a maximum revenue of $5,997 million. This is $518 million less than Ergon Network's proposal in January 2019 but it is still $209 million more than the draft decision by the Australian Energy Regulator in October 2019.

Most of the difference is in the capital expenditure, in particular the replacement expenditure (repex). The AER's draft decision for repex is $834 million compared to $1,289 million in Ergon Network's revised regulatory proposal. The repex proposed by Ergon Network gives the impression that the Ergon network is in a state of disrepair posing a serious threat to employee and community safety. This is certainly the message portrayed to consumers during the consultation process.

The question is; why are customers being asked to pay higher power bills to return the Ergon network to a state of safe operation when the owner of Ergon Network, the Queensland Government, has instructed Ergon Network to pay an annual dividend of 100% to the Queensland Government since 2014-15. The Ergon board agreed to pay a dividend of 100% on the proviso that its shareholders (the Queensland Government) provided the necessary funding for projects which had received board and shareholding Ministers' approval and were necessary for the maintenance of approved capital structure and for ensuring its operational viability.

There is also the question of a special dividend of $1,229 million extracted from Ergon Energy in 2014-15. The special dividend was used by the Queensland Government to reduce Queensland Government debt but in doing so it increased the debt of Ergon Network from 55% to 70%.

Dividends are paid after tax. A Queensland and Federal Government agreement states that no tax is paid to the Federal Government by state government owned entities. This means each year the Queensland Government pockets hundreds of millions of dollars in tax equivalent payments from Ergon Network and Energex Network, a windfall not available to private network companies.

The total revenue received by the Queensland Government from Ergon in 2014-15 was $2,220 million being a dividend of 100% ($696 million), a special dividend ($1,229 million) and tax equivalent payments ($295 million).

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To regional Queenslanders electricity is a hidden tax paid in every power bill. The benefit of public ownership should be lower power bills. The network assets have become a given in the Queensland Budget providing an annual revenue stream in excess of a billion dollars.

In addition to asking customers to pay higher power bills to return the network to a safe operating state during normal times, it is highly likely the Queensland Government will instruct Ergon Network to pass through the cost of repairing damage caused by natural disasters. Under the National Electricity Rules if damage caused by a natural disaster exceeds 1% of the network's annual revenue, the network can request the AER to approve a pass through event. This means the cost of the natural disaster will become a cost to consumers and passed through as higher power bills. In a report included in Ergon Network's revised regulatory proposal it states "*there is a greater risk of bushfires in Queensland than in Victoria, and that the consequence (i.e., scale) of bushfire damage in Queensland is significantly greater than in Victoria".* The QEUN has long advocated that all networks carry adequate insurance cover for natural disasters in the form of an insurance policy, or if self insured, a locked reserve for natural disasters. With rising government debt it is unlikely that the Queensland Government will absorb the cost of network damage caused by bushfires, cyclones and floods.

Queensland customers are familiar with the term 'gold plating of the networks'. Gold plating is the result of two considerations; improving the Queensland networks to ensure compliance with the national reliability standards and the need to increase the size of the Queensland networks to accommodate the optimistic demand forecasts of Ergon Network and Energex. Hindsight shows the demand forecast of Ergon Network was significantly overstated. Instead of growth the network is already supplying 10% less electricity now than it did at the end of the last regulatory period. The loss of around 4,000 businesses in regional Queensland in the 3 years from 2015-16 to 2018-19 is a major contributing factor to the reduction in demand. Ergon Network expects to supply less electricity over the next regulatory period. This has serious repercussions for the economy, jobs and the long term viability of the Ergon network.

As the AER accepted Ergon Network's demand forecast for the 2015-2020 regulatory period Ergon Network was allowed to expand the size of its network and consequently the value of their network (Regulated Asset Base or RAB) grew by $1.7 billion to $11.5 billion.

It must be strongly pointed out that the maximum revenue Ergon Network is allowed to earn is directly related to the valuation of the RAB. With the RAB potentially growing by up to $2 billion over the 2020-2025 regulatory period and customer numbers falling, the RAB per customer cost is set to rise.

To achieve its target of earning the maximum allowed revenue determined by the AER, Ergon Network will increasingly need to rely on higher fixed charges ($/day or $/kW) to offset the falling revenue from falling customer numbers and falling variable demand/consumption charges ($/kWh). Fixed charges are paid by both residential and business customers. Residential power bills in regional Queensland have endured an increase in fixed charges ($/day service fee) from 9 % to 30 % in just 5 years.

For some businesses consuming more than 100,000 kWh per year, the fixed charges have pushed them to the cliff edge. Many are major regional employers and their demise would result in mass unemployment in regional towns where there is very limited alternative employment.

Fixed charges are unavoidable and must be paid by all customers regardless of whether the customer consumed any electricity in a particular billing period. Many businesses have multiple points of connection to the Ergon network and consequently are required to pay the fixed charge multiple times. The loss of business customers significantly impacts on the revenue Ergon Network can earn from fixed charges.

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QEUN have no confidence in the Tariff Structure Statement (TSS) submitted by Ergon Network to the AER. Some of this lack of confidence cannot be blamed entirely on Ergon Network or the AER but the adoption of a 'cost reflective' tariff policy by the Council of Australian Governments (COAG) Energy Council. The Queensland Government is a member of the COAG Energy Council.

Cost reflective tariffs do not take into consideration a customer's ability to pay a cost reflective tariff. A wide range of businesses do not charge cost reflective charges to their customers; to do so would send their business and their customer's broke. For example, every airline passenger in economy class is unlikely to pay the same airfare. If passengers were forced to pay the same airfare, it's possible there would be too many empty seats and the route could become unviable. The same logic can be applied to networks and their customers.

Ergon Network has the opportunity to reduce its dependency on fixed charges and cost reflective tariffs by earning more revenue from variable consumption charges ($/kWh). This can be achieved by cheaper network charges that incentivise food, fibre and manufacturing businesses to consume surplus solar electricity produced by rooftop solar in the middle of the day and on weekends. Networks and generators both have a role in incentivising customers to turn surplus solar into consumption revenue for networks and jobs for regional Queenslanders; this requires real tariff reform.

The lack of innovation in the Tariff Structure Statement shows a disregard for consumer concerns and a disregard for the changes already taking place in the residential market eg the surge of embedded network developments and master planned communities. Many new embedded networks are using their lack of dependence on network supplied electricity as a positive in their sales campaigns.

Consumers have for some time strongly advocated for an increase in the small customer threshold from 100,000 kWh to 160,000 kWh, this would significantly improve the affordability of power bills to many businesses and councils. An increase in the small customer threshold would incentivise business customers to remain connected to the network and to use more network supplied electricity. More consumption would improve Ergon network's poor capacity utilisation level of 40%.

A 'network' tariff analysis was presented to consumers on 21 November 2019, less than 3 weeks before Ergon Network submitted its revised TSS to the AER. The usefulness of the tariff analysis in determining the customer impact is highly questionable. The problem is not the data analysis but the sample load data itself. No information was provided by Ergon Network as to the source of the data. This is relevant as all consumption data is owned by the customer and can only be used with the permission of a customer. Methodology is important as sampling can significantly skew the results. Without knowing who or how the sample data was collected it is not possible to draw conclusions on the customer impact or whether Ergon Network will be able to recover the maximum revenue determined by the AER. The sample data included 1,802 businesses in the Ergon network area; the only breakdown was geographic east and west. No information was provided on the number of businesses in each of the Australian Bureau of Statistics business classifications. Similarly, residential data was only divided into solar and no-solar, no data was provided on whether the sample households used off-peak tariffs.

Ergon Network, the AER and the Queensland Competition Authority all use different consumption figures when measuring the customer impact of tariffs. All ignore the fact that business customers generally have more than one point of connection to the Ergon network. The QEUN survey of over 700 businesses in regional Queensland found an average of 2.3 points of connection or 2.3 power bills per business. A tariff analysis of a business based on one point of connection would be meaningless. It is not unusual for farming businesses to have in excess of 4 points of connection and up to 38 points of connection.

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The 'network' tariff analysis completely ignored the impact of the 'retail' power bill on a customer's decision to remain connected to the Ergon network or to reduce their consumption from the Ergon network. Consumer advocates widely believe that other costs such as the Queensland Government's Solar Bonus Scheme and higher wholesale electricity costs will wipe out any proposed network savings in the 2020-2025 regulatory period. Since customer decisions are based on the whole 'retail' power bill, not just the network component, it is not possible to determine from a network tariff analysis whether Ergon network demand will fall even further and faster than forecast in the revised regulatory proposal.

Overall the opportunity for real network tariff reform has been squandered with the tariff analysis being inconclusive and too late in the consultation process to draw any conclusions or support from consumers, especially as it only relates to the network component of a power bill.

Ergon network's low overall capacity utilisation level of 40% is likely to continue. However, it's also likely that its forecast for a rise of about 1% in peak demand over the 2020-2025 regulatory period is understated. The peak demand period is generally Monday to Friday from 3pm to 9pm. Potentially hotter summers and prolonged heatwave conditions will contribute strongly to an increase in residential air-conditioning over the next regulatory period – residential air-conditioning is the main driver of increasing peak demand. Last summer Queensland set an all-time peak demand record of 10,044 MW, 246 MW higher than the previous peak demand record. Increasing peak demand can put Ergon Network at risk of failing to meet reliability standards. Ergon Network can use this risk to build a case for more network infrastructure. More network infrastructure means a higher Regulatory Asset Base which in turn can lead to higher network charges and higher power bills. QEUN strongly advocate that the AER scrutinise more closely the effectiveness of Ergon Network's expenditure on demand response programs. We also advocate that consumers have more input into what demand response initiatives are funded.

To prevent the death spiral for network supplied electricity from accelerating it is critical that COAG Energy Council, the Queensland Government and Ergon Network urgently address core divisive issues such as:

- tariff reform – initiatives to improve the utilisation level of the overall network capacity
- the effectiveness of demand response programs – initiatives that actually reduce peak demand
- cost reflective network tariffs – review how the policy contributes to a reduction in demand
- valuation of the Regulated Asset Base – the RAB needs to reflect its value to customers
- dividends – what is the appropriate level given falling demand for network supplied electricity
- debt – what is the appropriate level given falling demand for network supplied electricity
- government ownership – pass through tax equivalent payments as reduced network charges
- pass through events for natural disasters –networks need an insurance policy or a locked reserve
- less reliance on macro economic data – more consultation with informed consumer advocates
- network utilisation – review how it is measured by the AER and networks

At present the single largest stimulus to the economy of regional Queensland, and the broader Queensland and Australian economy, is lower power bills. The Queensland Government, through its public ownership of Ergon Network and Ergon Retail, can lower power bills by lowering network and regulated retail tariffs. Lower power bills can be achieved without jeopardising the safety of employees and the community or breaching the national reliability standards.

A viable network can only be achieved if Ergon Network understands its customers and their individual needs. This requires a strong collaborative approach to working with informed consumer advocates beyond the AER's final decision on the 2020-25 determination. We fear the collaborative approach of the last two years may already be waning.

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Falling customer numbers

Ergon Network supplies 97 % of the geographic area of Queensland and Energex the remaining 3 % of South East Queensland.

In the past Ergon Network and Energex have been considered natural monopolies. However, this monopolistic position is now being challenged with many customers no longer considering themselves captive to network supplied electricity. Customers are willingly, or unwillingly, embracing alternative energy supplies to escape power bills they cannot afford. This is eroding Ergon network's customer numbers.

On 31 January 2019 Ergon Network submitted its regulatory proposal to the AER for the period 1st July 2020 to 30 June 2025. Ergon Network forecast 60,000 net new customers over the 5 year period. Over the same time period Energex forecast 117,000 net new customers.

On 10 December 2019 Ergon Network in its revised regulatory proposal forecast 36,000 net new customers - a decrease of 40 % in less than 12 months. Over the same time period Energex forecast 105,000 net new customers – a decrease of 10% in less than 12 months.

The 36,000 net new customers for Ergon Network does not align with their revised regulatory proposal which states customer numbers will grow by 30,821 from 744,049 in 2020-21 to 774,870 in 2024-25. The figure of 30,821 represents a further reduction of net new customers for Ergon Network.

There is another confusing customer number that relates to the 2020-25 regulatory period. Customer numbers in 2018-19 are 765,924 yet in Ergon Network's revised regulatory proposal numbers fall to 744,049 in 2020-21 then rise to 774,870 in 2024-25 (see Table 1).

It is also difficult to understand Ergon Network's initial forecast of 60,000 net new customers as the two previous regulatory periods enjoyed greater economic prosperity and did not achieve 60,000 net new customers. Without a significant drop in power bills and/or improvement in economic conditions the forecast of either 30,821 or 36,000 net new customers for Ergon Network may be overstated.

No explanation has been provided by Ergon Network for the dramatic drop in net new customer numbers, nor have Ergon Network provided a breakdown of the composition of the net new customers.

It is important for consumer advocates to understand if the net new customers are residential or business customers. Business customers use more electricity, pay more fixed charges and are more likely to be captive to network supplied electricity. If the composition and the geographic location of the growth is provided it would enable consumer advocates to provide feedback on Ergon Network's forecasts.

The number of new residential customers for Ergon Network is being impacted by changes taking place in the residential market. Due to a rise in the number of embedded networks, Ergon Network's number of residential customers will decrease. For example, 15 new houses with 15 points of connection to the Ergon network would normally represent 15 new customers for Ergon Network. However, an embedded network with 15 new houses has one point of connection to the Ergon network and constitutes one new customer. It is therefore no longer prudent to predominantly rely on economic indicators such as population growth and number of new dwelling units to forecast the number of new residential customers for Ergon network.

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Table 1: Customer numbers for Ergon Network

Financial Year	Number of customers
2009	667,502
2010	680,095
2011	690,708
2012	700,989
2013	712,634
2014	724,264
2015	733,261
2016	740,881
2017	747,183
2018	759,185
2019	765,924
2020	current year
2021	744,049
2022	751,961
2023	759,601
2024	767,234
2025	774,870

Source: Compiled from Ergon Energy Annual Reports and the Energy Queensland 2020-25 Revised Regulatory Proposal

Since all businesses, including government owned network businesses, need customers to survive and thrive, some disturbing small business statistics need to be highlighted.

According to AER retail performance statistics, Queensland had 202,860 small business customers in 2015-16. Over the 3 year period from 2015-16 to 2018-19, electricity retailers operating in Queensland collectively reported a net loss of 9,399 small business customers with Ergon Retail losing 3,923 small business customers. As Ergon Retail commands a near monopoly in the retail electricity market in regional Queensland, it is likely regional Queensland had a net loss of about 4,000 small businesses over the 3 year period from 2015-16 to 2018-19.

It is difficult to discuss the Queensland trend for large business customer numbers as Ergon Retail is the second largest retailer to this sector but only began reporting large business customer numbers to the AER in Quarter 3 2018-19. Since reporting began their large business customer numbers have fallen by 105 from 5,010 in Quarter 3 2018-19 to 4,905 in Quarter 1 2019-20. Assuming Ergon Retail had at least 5,010 large business customers in 2015-16, the number of large business customers in Queensland grew by around 200 to 18,708 over the 3 year period to 2018-19 however fell by 244 in Quarter 1 2019-20 to 18,464. Clearly, the drop in small business customer numbers is unlikely to be offset by more large business customers.

It must be noted that the largest retailer to large business customers in Queensland is Origin Energy. In March 2019 Origin Energy bought OC Energy. OC Energy specialises in selling electricity to embedded networks. This means many of Origin Energy's large business customers (and other retailers as well) would be 'residential' customers in embedded networks. This blurs the AER's retail statistics. Most would assume a large business customer would be a commercial or industrial business, not a group of residential customers.

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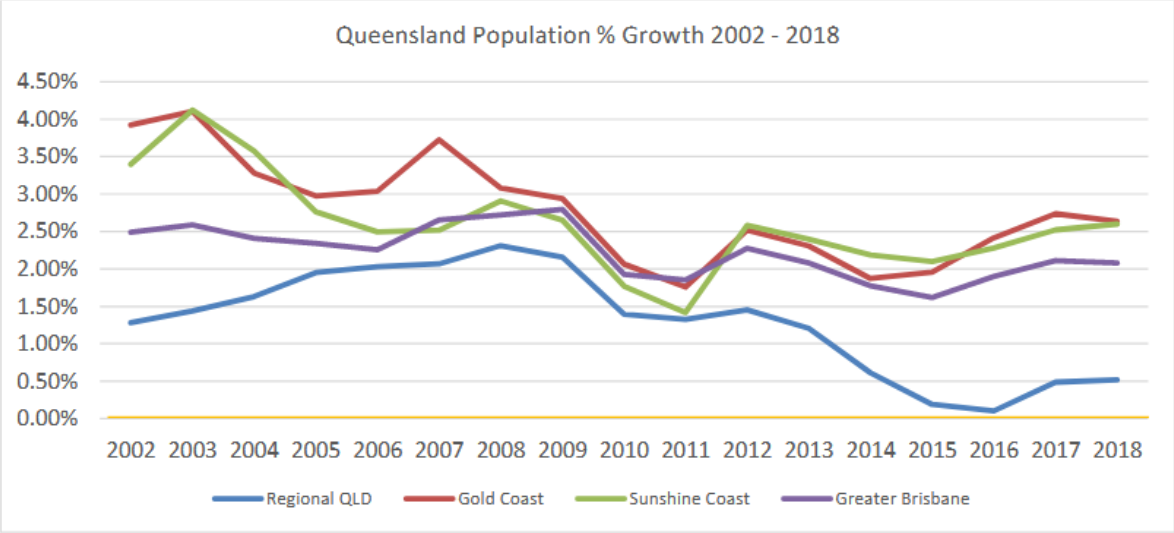
In comparison to the Queensland situation, over the same 3 year period to 2018-19 the number of small business customers in the National Electricity Market, excluding small business customers in Victoria, grew marginally from 656,021 to 656,784. Excluding Victoria, the number of *large* business customers in the National Electricity Market grew by about 6,500 to 64,739 in 2018-19 but fell marginally to 63,816 in Quarter 1 2019-20. The engine room of the economy in other states was not struggling like Queensland.

The loss of over 9,000 small business customers occurred when Queensland had an annual population growth rate of over 1.4 % ie more than 70,000 new Queenslanders each year.

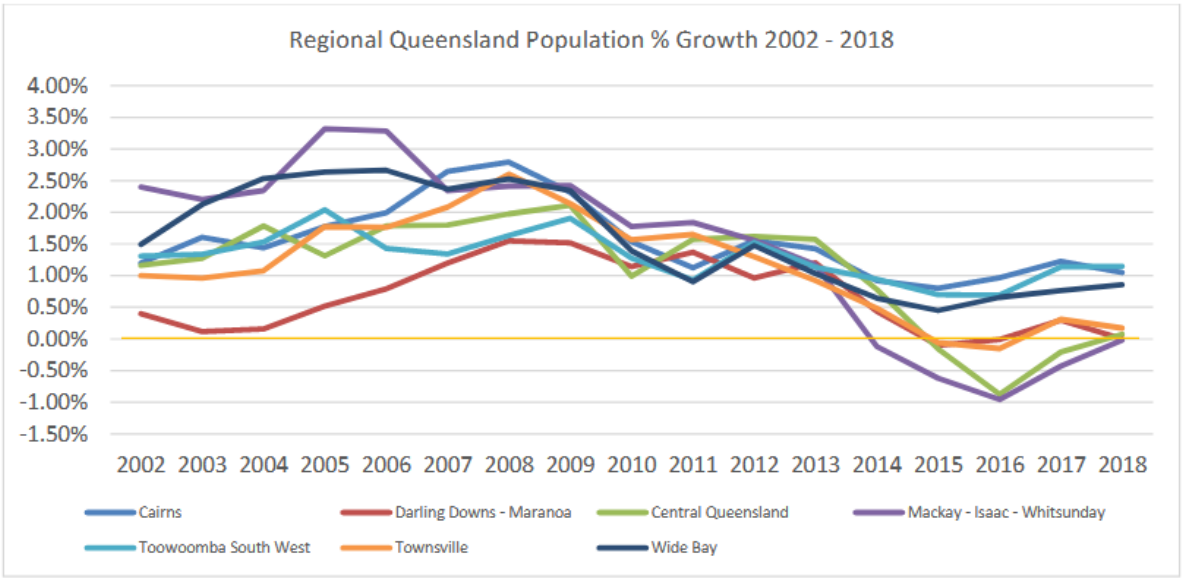
Whilst the growth rate in South East Queensland exceeded 1.4%, statistics show the growth rate in regional Queensland was well below 1.4% (see Figure 1). A number of major regional centres such as Townsville, Mackay and Central Queensland, regional centres responsible for much of Queensland's outside earnings/export income, have suffered a negative rate of growth (see Figure 2).

Figure 1: Queensland population % growth 2002 to 2018



Source: Australian Bureau Statistics Cat. No. 3218.0 – Regional Population Growth, Australia

Figure 2: Regional Queensland population % growth 2002 to 2018



Source: Australian Bureau Statistics Cat. No. 3218.0 – Regional Population Growth, Australia

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Falling customer demand

Small business is the engine room of the economy and employs nearly half the private workforce. The AER retail statistics show a declining number of small businesses in Queensland; this demonstrates the engine room of the Queensland economy is struggling. Since nearly every business, small or large, consumes electricity a slowing economy and less business customers does not auger well for a turnaround in the declining demand for electricity supplied by the Ergon network.

The consumption of electricity supplied by Ergon Network over the 2020-25 regulatory period is forecast to fall marginally from 13,453 kWh to 13,329 kWh. However, over the past 10 years consumption from the Ergon network has fallen by 16% from a high of 15,722 kWh (see Table 2).

Table 2: Electricity supplied by Ergon Network

Financial Year	Electricity Supplied (GWh)
2008	
2009	15,722
2010	15,678
2011	14,544
2012	15,212
2013	15,097
2014	15,247
2015	15,140
2016	14,997
2017	13,330
2018	13,243
2019	13,504
2020	
2021	13,453
2022	13,434
2023	13,389
2024	13,406
2025	13,329

Source: Compiled from Ergon Energy Annual Reports and Energy Queensland 2020-25 Revised Regulatory Proposal

Statistics provide a window into what has happened. What Ergon Network does not understand, and is almost oblivious to, is what is going to happen to their demand from business customers going forward.

A 2017 QEUN survey of over 700 businesses in regional Queensland found that rising electricity costs had caused over 70% of businesses to lose profitability and 25% to increase their debt levels. The survey covered all business sectors with 7 sectors stating that over 50% of their businesses were very concerned (8 to 10 rating) about their ability to pay their power bills in full and on time. The highly impacted business sectors included the retail trade (53%), agriculture (67%), mining (50%), manufacturing (56%) and accommodation and food (52%).

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Going forward it is widely expected that retail trading conditions will be slower. However, a News Corp article on 16 January 2020 shows consumer confidence and trading conditions may be deteriorating faster and stronger than initially forecast. The article stated:

> *"the brutal 2020 retail bloodbath has well and truly begun, with 161 popular Australian bricks-and-mortar stores already earmarked for closure just one fortnight into the new year..... 2020s first dismal fortnight follows a horror 2019 that brought the collapse of a slew of Aussie businesses, with some international players also folding in recent months... According to Queensland University of Technology retail expert Dr Gary Mortimer, it has been a shocking start to the new decade – and the crisis is far from over..... Dr Mortimer said while it wasn't "the End of Days" for the retail industry as a whole, we were now well and truly in the grip of a "market correction" which he likened to Australia's economic downturn in the 1990s, which was famously described as "the recession we had to have"".*

A downturn in retail trade will significantly increase unemployment in Queensland as the retail sector employs about 10 % of the workforce and is the second largest employer in Queensland. A walk around most cities and towns in regional Queensland will show an uncomfortable number of empty shops, a trend that shows little sign of abating. Smaller regional towns are facing even greater pressure. Critical businesses such as supermarkets, bakeries and pubs, the economic and social backbone of towns in regional Queensland, are struggling to stay open. Most of these critical businesses consume more than 100,000 kWh per year. The loss of critical shops and services has a domino effect on remaining businesses as residents and tourists take their custom to larger regional towns. Unsustainable and exorbitant power bills are changing the social and economic structure of towns and communities in regional Queensland.

As of 1st December 2019, a total of 67.4 % of Queensland was drought declared. For some regional areas it is their 6th year of drought.

Agriculture is one of the most important industries in regional Queensland. For some towns the demise or contraction of a particular agricultural industry would significantly increase the number of people reliant on Centrelink. According to AER retail statistics, Ergon Retail who commands a near monopoly in the retail market of regional Queensland, has the highest number of residential customers using CentrePay. The national average is 2.19% and for Ergon Retail (regional Queensland) it is 5.06%.

Farmers have been the angriest ants when it comes to complaints about the cost of electricity. Agricultural businesses are largely price takers with the 2017 QEUN survey finding that only 8% of agricultural businesses were able to pass on some of the increased cost of electricity. The high cost of electricity significantly reduces irrigation, reducing crop and animal production and stifling farming and export income. This directly impacts on jobs and the economy of regional Queensland.

To thrive the Queensland economy needs to grow its export income/outside earnings. Most of Queensland's export income of $80 billion plus is derived from mining, agriculture and manufacturing businesses located in regional Queensland. All three business sectors are suffering from high power bill stress (8 to 10 rating out of 10).

In the 2019 Queensland Budget around 46% of the revenue received by the Queensland Government was sourced from Federal Government grants and around 25% from state taxes (see Figure 3 and Table 3). Healthy viable businesses, due to lower power bills, will be in a better position to pay more state taxes such as payroll tax, transfer (stamp) duty and mining royalties (see Figure 4). This will reduce the Queensland Government's high dependence on Federal Government grants.

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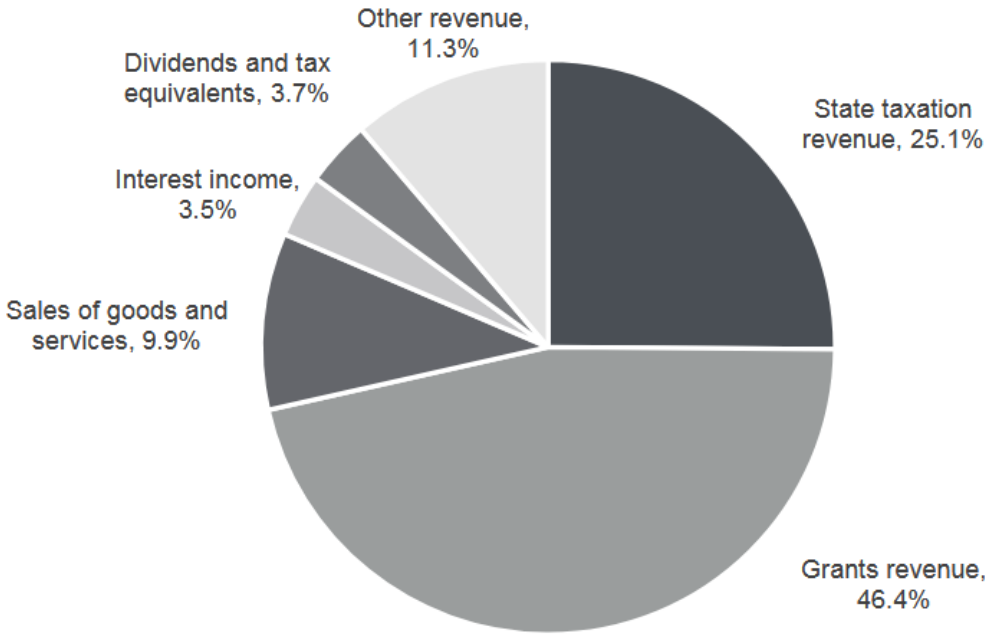
Figure 3: Revenue by operating statement category, 2019-2020



Source: Budget Strategy and Outlook Paper, Queensland 2019 Budget

Table 3: General Government Sector Revenue

	2017-18 Actual $ million	2018-19 Budget $ million	2018-19 Est. Act. $ million	2019-20 Budget $ million	2020-21 Projection $ million	2021-22 Projection $ million	2022-23 Projection $ million
Taxation revenue	13,244	14,155	14,005	15,164	15,777	16,601	17,525
Sales of goods and services	5,884	5,731	5,869	6,004	6,190	6,307	6,389
Interest income	2,389	2,201	2,247	2,141	2,006	1,953	1,958
Grants revenue							
GST Revenue	15,129	14,794	14,441	14,214	14,204	14,907	15,357
Other current grants	10,968	11,207	12,356	11,789	12,873	13,219	13,790
Capital grants	1,870	1,700	1,913	2,000	2,769	2,545	2,256
Dividend and income tax equivalent income							
Dividends	1,909	1,552	1,749	1,473	1,054	1,080	1,205
Income tax equivalent income	1,010	666	912	764	600	600	642
Other revenue							
Royalties and land rents	4,457	4,615	5,364	5,621	4,770	4,799	4,918
Other	1,228	1,118	1,211	1,217	1,487	1,572	1,500
Total revenue	**58,087**	**57,738**	**60,068**	**60,387**	**61,729**	**63,583**	**65,540**

Notes:

1. Numbers may not add due to rounding.
2. Queensland Treasury estimates. Differs from Chapter 7 due to the inclusion of direct Australian Government payments to Queensland agencies for Commonwealth own purpose expenditure.

Source: Budget Strategy and Outlook Paper, Queensland 2019 Budget

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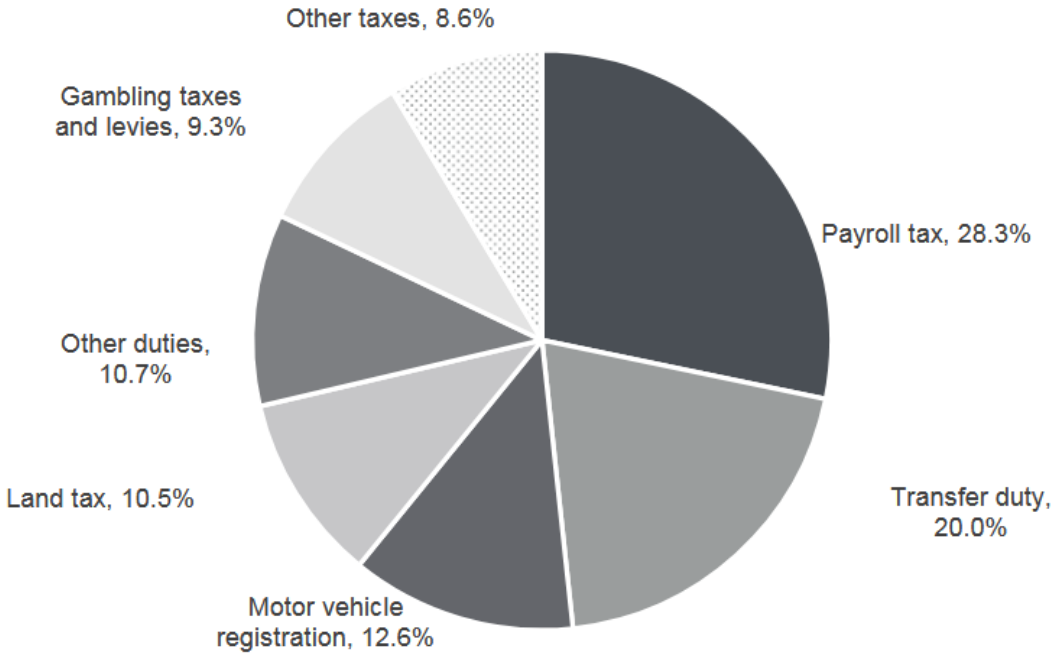
Figure 4: State taxation by tax category, 2019-20



Source: Budget Strategy and Outlook Paper, Queensland 2019 Budget

Table 6: Taxation and royalty revenue

	2018-19 Actual $ million	2019-20 Budget $ million	2019-20 MYFER $ million	2020-21 Projection $ million	2021-22 Projection $ million	2022-23 Projection $ million
Payroll tax	4,160	4,284	4,321	4,475	4,770	5,150
Transfer duty	3,195	3,038	3,053	3,205	3,383	3,578
Other duties	1,549	1,624	1,617	1,696	1,779	1,866
Gambling taxes and levies	1,333	1,410	1,414	1,467	1,523	1,582
Land tax	1,334	1,589	1,519	1,598	1,670	1,732
Motor vehicle registration	1,850	1,908	1,910	1,973	2,044	2,116
Other taxes	744	1,310	1,312	1,321	1,386	1,450
Total taxation revenue	**14,163**	**15,164**	**15,145**	**15,735**	**16,555**	**17,474**
Royalties						
Coal	4,372	4,339	3,696	3,304	3,439	3,511
Petroleum[2]	454	577	549	591	596	610
Other royalties[3]	393	538	531	483	484	495
Land rents	159	168	168	169	172	174
Total royalties and land rents	**5,378**	**5,621**	**4,944**	**4,548**	**4,691**	**4,789**

Notes:
1. Numbers may not add due to rounding.
2. Includes impact of liquefied natural gas (LNG).
3. Includes base and precious metal and other mineral royalties.

Source: 2019-2020 Mid-Year Fiscal and Economic Review, December 2019

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More state taxes received from healthy and viable businesses will enable the Queensland Government to provide schools, roads and hospitals without increasing Queensland's debt or taking $5 billion from government employee superannuation funds (the proposed Queensland Future Fund). The debt (total liabilities) of the Queensland Government has ballooned from $81.3 billion to $84.5 billion in 6 months (see Table 5). The increased debt is partly attributed to a $677 million fall in mining royalties with the majority of the fall ($643 million) being attributed to a drop in coal royalties to $3,696 million (see Table 6).

A growing Queensland Government debt will not encourage the Queensland Government to lower the billion dollar plus revenue it receives from its wholly owned network assets each year (see Table 7). Only consumer pressure and changes to the national electricity rules (eg tax equivalent payments, dividends and debt levels) can reduce network revenues and consequently reduce power bills in regional Queensland.

Table 7: Revenue to the Queensland Government from publicly owned network assets

2016-17	Budget ($ millions)	Estimated Actual ($millions)	Actual ($millions)
Dividends	1,000	1,068	1,083
Tax Equivalent Payments	463	541	556
Competitive Neutrality Fee	94	48	48
TOTAL NETWORK REVENUE TO QUEENSLAND GOVERNMENT	1,557	1,657	1,687
2017-18			
Dividends	716	948	976
Tax Equivalent Payments	324	417	442
Competitive Neutrality Fee	59	69	67
TOTAL NETWORK REVENUE TO QUEENSLAND GOVERNMENT	1,099	1,434	1,485
2018-19			
Dividends	618	695	
Tax Equivalent Payments	290	331	
Competitive Neutrality Fee	67	89	
TOTAL NETWORK REVENUE TO QUEENSLAND GOVERNMENT	975	1,115	
2019-20			
Dividends	596		
Tax Equivalent Payments	371		
Competitive Neutrality Fee	106		
TOTAL NETWORK REVENUE TO QUEENSLAND GOVERNMENT	1,073		

Source: Compiled from Queensland Budget Papers

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Table 5: General Government Sector Balance Sheet [1]

	2018-19 Actual $ million	2019-20 Budget $ million	2019-20 MYFER $ million	2020-21 Projection $ million	2021-22 Projection $ million	2022-23 Projection $ million
Assets						
Financial Assets						
Cash and deposits	1,868	407	532	438	445	454
Advances paid	667	620	611	620	644	666
Investments, loans and placements	32,557	31,318	31,504	30,523	30,373	30,180
Receivables	4,503	4,019	3,887	3,390	3,695	4,533
Equity						
Investments in other public sector entities	23,049	24,435	23,741	24,495	25,108	25,687
Investments - other	150	147	146	146	146	146
Total Financial Assets	**62,793**	**60,945**	**60,421**	**59,612**	**60,411**	**61,666**
Non-financial Assets						
Land and other fixed assets	211,257	212,382	219,005	225,565	231,992	236,368
Other non-financial assets	6,700	6,874	6,916	7,133	7,156	7,236
Total Non-financial Assets	**217,957**	**219,256**	**225,921**	**232,698**	**239,149**	**243,605**
Total Assets	**280,750**	**280,202**	**286,342**	**292,311**	**299,559**	**305,271**
Liabilities						
Payables	5,142	4,148	4,938	5,009	5,069	5,122
Superannuation liability	26,986	25,567	27,686	25,820	23,982	21,710
Other employee benefits	7,428	7,177	7,670	7,753	7,899	7,994
Deposits held	..	2	..	..	..	..
Advances received	2,692	1,616	1,710	1,455	1,485	1,584
Borrowing with QTC	29,468	32,781	31,774	34,772	40,092	43,111
Leases and other similar arrangements	2,612	5,824	6,071	7,845	7,715	7,738
Securities and derivatives	121	122	121	121	121	121
Other liabilities	4,796	4,068	4,566	4,382	4,211	4,096
Total Liabilities	**79,246**	**81,306**	**84,537**	**87,157**	**90,573**	**91,476**
Net Worth	**201,505**	**198,896**	**201,805**	**205,154**	**208,986**	**213,795**
Net Financial Worth	(16,452)	(20,361)	(24,116)	(27,545)	(30,162)	(29,810)
Net Financial Liabilities	39,501	44,796	47,858	52,039	55,270	55,497
Net Debt	(198)	8,001	7,030	12,611	17,951	21,254

Notes:
1. Numbers may not add due to rounding and bracketed numbers represent negative amounts.

Source: Queensland Government 2019-2020 Mid-Year Fiscal and Economic Review, December 2019

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Rising peak demand

The Achilles Heel for consumers is rising peak demand. Rising peak demand provides a network with an opportunity to build more network infrastructure to comply with the national reliability standards. More network infrastructure means a higher valuation for the Regulated Asset Base (RAB). The higher the RAB, the higher the maximum revenue the network can earn and the higher the network charge on a power bill. Network charges are the largest component of a power bill.

Peak demand is usually Monday to Friday from 3pm to 9pm. Summer is the highest chance of experiencing a reliability issue; this is primarily due to the high demand from residential air-conditioners. Consumers cannot change their demand as they have no idea when the network is in stress and in danger of load shedding ie rolling blackouts.

The QEUN has long advocated for the Traffic Light System; a consumer driven demand response initiative.

The Traffic Light System is a colour coded warning system that notifies consumers via their mobile phone when the network is likely to be in stress. The notification allows consumers to consider taking voluntary steps to reduce their consumption such as increase the temperature of their air-conditioners to 24 ^{o} Celsius. The reduction in consumer demand on just a few days a year can prevent blackouts and assist to lower network charges on power bills.

Demand response initiatives are incentive schemes allowed by the AER and included in the maximum revenue a network can recover from its customers. Despite millions of dollars being spent each year on demand response initiatives Ergon Network's peak demand has risen over the past 10 years and is forecast to fall marginally over the 2020-2025 regulatory period. The AER needs to more closely scrutinise expenditure on demand response initiatives as it is not in a network's best interest to curb rising peak demand. Working collaboratively with consumer advocates would improve the success of demand response initiatives.

Table 8: Peak demand on the Ergon network

Financial Year	Maximum Peak Demand
2008	
2009	2,406
2010	2,542
2011	2,349
2012	2,417
2013	2,380
2014	2,441
2015	2,382
2016	2,418
2017	2,637
2018	2,601
2019	2,612
2020	
2021	2,544
2022	2,536
2023	2,532
2024	2,549
2025	2,564

Source: Compiled from Ergon Energy Annual Reports and the Energy Queensland 2020-25 Revised Regulatory Proposal

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High likelihood of multiple pass through events for natural disasters

Queensland is the state in the National Electricity Market most prone to natural disasters.

In the past the Queensland Government has absorbed some of the cost of repairing network damage following a natural disaster.

However, under the national electricity rules if the cost of repairing the network after a natural disaster is more than 1% of a network's annual revenue, the network can request the AER for a pass through event.

A pass through event for Ergon Network includes fires, cyclones, floods and earthquakes.

Over 10 years from 2005-06 to 2014-15 cyclones in the Ergon network area have cost $175 million. Ergon sought and received a pass through of $43 million for Cyclone Larry in 2006 but self-insured for Cyclone Yasi ($100 million in 2011) and Cyclone Marcia ($32 million in 2015).

Last year the Ergon network was damaged by fires. In a report included in Ergon Network's revised regulatory proposal it states "*there is a greater risk of bushfires in Queensland than in Victoria, and that the consequence (i.e., scale) of bushfire damage in Queensland is significantly greater than in Victoria".*

The QEUN has long advocated that all networks carry adequate insurance cover for natural disasters in the form of an insurance policy, or if self insured, a locked reserve for natural disasters. With rising Queensland Government debt it is unlikely that the Queensland Government will in the future absorb the cost of network damage caused by fires, cyclones, floods or earthquakes.

In light of recent events, the national electricity rules need to urgently change to ensure that all networks have an adequate insurance policy or a locked reserve for natural disasters. Failure to do so will result in slow community recovery as the national electricity rules are silent on the time required to restore electricity supply.

Network tariff reform in need of a complete overhaul

The opportunity for network tariff reform has been largely squandered. Despite it being a top priority for consumers, the results of 'taking on board consumer concerns' was presented in a confusing tariff analysis only 3 weeks before Ergon Network's revised regulatory proposal was submitted to the AER in December.

Consumers have long advocated for network tariff reform in particular:

- an increase in the small customer threshold from 100,000 kWh to 160,000 kWh to lower power bills for a wide range of businesses and councils thereby encouraging larger businesses and councils to stay connected to and using network supplied electricity, this would improve the poor (and possibly future falling) capacity utilisation levels of the Ergon network
- the introduction of a dedicated Food, Fibre and Manufacturing tariff which would assist in using the solar sponge ie excess solar generation in the middle of the day and on weekends
- an embedded network tariff to ensure residential customers in embedded networks receive the benefits of a single point of connection to the network

All three tariff reform initiatives proposed by consumers were not addressed.

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For any business that is not regulated, the number one priority is to establish what various customers are willing to pay for a product or service. It is not about working out the cost of a product adding a margin for profit and tax and mandating customers pay that price. Customers will simply go elsewhere. Unlike past AER determinations, customers do have options and they are increasingly exercising those options by choosing to go elsewhere for all or some of their energy supply. The monopoly status of networks is reducing.

We understand the process of determining network revenue and network tariffs/prices for customers of a regulated business follows a different methodology to an unregulated business. However, if the regulated business is at risk of becoming unviable (and with it its customers) then the methodology used by the AER to determine maximum revenue and the allocation of revenue to customer classes needs to innovate and adapt to the changing market place ie the monopoly status of networks is under threat.

When Ergon Network does try to innovate the complexity of their proposed new tariffs is beyond the comprehension of the average consumer eg the proposed lifestyle tariff for residential consumers.

Whilst most would expect business customers to be more familiar with the tariffs on their power bill, a 2017 QEUN survey of over 700 businesses in regional Queensland found that 57% did not respond to a question on what tariff they were on. This indicated they may not have known. The business sector with the highest number of businesses able to list the tariffs on their power bill was agriculture (72%). Many of the tariffs used by agricultural businesses in regional Queensland are transitional tariffs and these tariffs will cease to exist on 30 June 2021. Many farmers are actively pricing alternatives such as diesel and solar generation which will result in less demand for network supplied electricity from agricultural businesses. This is the reason why consumers have long advocated for a specific Food, Fibre and Manufacturing Tariff.

Changing the small customer threshold from 100,000 kWh to 160,000 kWh represents a major overhaul of the Tariff Structure Statement. Ergon Network's annual pricing proposals are based on tariff classes consuming under or over 100,000 kWh per year. Therefore increasing the threshold to 160,000 kWh per year would require customers to be re-allocated into different tariff classes. This would be a massive but worthwhile task as it would ensure more customers remained with network supplied electricity.

Consumers often refer to tariff classes as the buckets of money that collectively add up to the maximum revenue a network can earn (see Table 9). Unless there is a significant reduction in power bills, assisted by a significant reduction in network tariffs, the buckets of money will no longer collectively add up to the maximum revenue Ergon network can earn.

Queensland is in a unique position. The Queensland Government is the owner of Ergon Network and is the entity that has the legislative power to increase the small customer threshold to 160,000 kWh per year. The Queensland Government must change the threshold to enable the TSS is to be overhauled and encourage more business customers to use network supplied electricity.

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Table 9: Weighted average revenue for Standard Control Services

Tariff class	2017-18	2018-19	Change in weighted in average revenue
ICC – East	$41,667,142	$35,078,213	-15.8%
ICC – West	$14,472,611	$13,820,567	-4.5%
ICC – Mount Isa	$0	$0	0.0%
CAC – East	$72,195,786	$69,403,211	-3.9%
CAC – West	$9,125,752	$7,337,078	-19.6%
CAC – Mount Isa	$0	$0	0.0%
EG – East	$2,665,267	$2,509,582	-5.8%
EG – West	$1,039,832	$1,019,194	-2.0%
EG – Mount Isa	$0	$0	0.0%
SAC Large (>100 MWh p.a.) – East	$299,964,398	$281,358,286	-6.2%
SAC Large (>100 MWh p.a.) – West	$77,661,270	$73,966,238	-4.8%
SAC Large (>100 MWh p.a.) – Mount Isa	$4,452,592	$4,173,947	-6.3%
SAC Small (<100 MWh p.a.) – East	$624,222,245	$594,494,322	-4.8%
SAC Small (<100 MWh p.a.) – West	$186,421,693	$176,215,389	-5.5%
SAC Small (<100 MWh p.a.) – Mount Isa	$9,542,828	$9,133,360	-4.3%
SAC Unmetered – East	$13,756,444	$13,144,358	-4.4%
SAC Unmetered – West	$2,332,533	$2,206,818	-5.4%
SAC Unmetered – Mount Isa	$269,624	$253,115	-6.1%

Note: all amounts are GST exclusive

Source: Ergon Energy 2018-19 Pricing Proposal

Consumption per tariff class:

- **ICC**– Individually Calculated Customer – typical consumption greater than 40,000,000 kWh per annum
- **CAC** – Connection Asset Customer – typical consumption greater than 4,000,000 kWh per annum
- **EG** – Embedded Generator – network user who export energy into the network except microgeneration
- **SAC Large** – typical consumption between 100,000 kWh per annum and 4,000,000 kWh per annum
- **SAC Small** – typical consumption is less than 100,000 kWh per year
- **SAC Unmetered** - a customer that takes supply where no meter is installed at the connection point

To estimate the impact of tariff changes on customers it is critical to compare apples with apples in relation to annual consumption.

For a 'network' tariff analysis for residential customers the AER use 4,600 kWh per year.

In 2019-20 the Queensland Competition Authority when estimating the impact of 'retail' tariffs on residential customers used an annual consumption of 3,738 kWh per year. This was the median consumption provided by Ergon Retail of a residential customer on the main residential tariff - Tariff 11.

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Conclusion

The Ergon network has falling customer numbers, falling consumption, rising peak demand, a growing regulatory asset base, is at risk of damage from multiple natural disasters and according to the revised regulatory proposal, requires an additional $500 million to return it to a safe operating state. Ergon network is no longer an essential service without competitors. Unless the charge for using the network contributes to a much lower power bill the death spiral for network supplied electricity will accelerate. This will have serious ramifications for jobs and the economy of regional Queensland. For the Queensland Government their lucrative cash cow could become a liability only supplying captive customers.

The key to a maintaining a viable network is for a network to know its customers and for national energy policy to act in the long term interest of consumers. At present energy policy has become highly focused on generation. A higher renewable energy target still requires a viable poles and wires network to deliver to consumers electricity produced by large and small scale renewable generation.

Viable networks are possible if the Queensland Government, COAG Energy Council, network owners and regulators all work collaboratively with consumers, particularly business consumer advocates, on energy policy and changes to the national electricity rules. Collaboration with consumers and consumer advocates needs to occur now, the next regulatory determination in 5 years time is too late.

Yours faithfully

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