Consumer
Challenge
Panel

Advice to the AER regarding the Energex and Ergon Energy (Energy Queensland) regulatory proposals 2025-30

Response to the Proposals and Issues Paper

AER Consumer Challenge Panel (CCP) Sub-Panel CCP30

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Acknowledgement of Country

We acknowledge the Traditional Custodians of the various lands on which the AER operates, and where Energy Queensland own and operate their networks and facilities. We honour the customs and traditions and special relationship of those Traditional Custodians with the land as well as those where this report is being prepared. We respect the elders of these nations, past, present and emerging.

Confidentiality

To the best of our knowledge this report does not present any confidential information.

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1. Introduction

As a utility that is wholly owned by the Queensland Government, Energy Queensland Limited (EQL) operates somewhat differently to most of the distribution utilities in Australia. Strategy is highly influenced by the Government shareholder's *Queensland Energy and Jobs Plan* (the *QEJP*).

In preparing for the 2025-30 Regulatory Reset for their two distributors Ergon Energy and Energex, Energy Queensland presented an extensive, enthusiastic, professional, well prepared and well-resourced engagement for the two regulatory proposals, using proven techniques of customer panels, including the Voice of the Customer (VoC) workshops with well-recognised facilitators. Their Regulatory Reset Group (RRG) was made up of highly skilled members with extensive experience in regulatory resets.

However, as an exercise in effective, meaningful and impactful engagement that clearly influenced the regulatory proposals, as expected through the AER's "Better Resets Handbook[1]", the engagement frequently missed the mark. There are a few reasons for this.

- *Firstly*, there did not seem to be a true commitment to present the underlying influences, options and analysis that underpinned much of the planned investment. Given EQL's history of high levels of expenditure and an even larger proposal for 2025-30, it is important that customers are provided with the 'real story' of what was happening, particularly around asset replacement and safety, and why the increasing investment is necessary and what the long-term impacts this investment brings for prices and consumer benefit.
- *Secondly*, with the well-publicised 'late start' to the engagement, the process was incredibly intense. Some customer workshops spanned a number of days, with presentations covering over of more than eighty pages of information in one day. Add in the challenges of a number of remote online meetings, it was difficult at times for customer representatives to meaningfully absorb, interpret and respond to much of the information in any detail or with significant consideration, despite the EQL engagement and regulatory teams' best intentions.
- *Thirdly*, the commitment to feed customer input back into much of the key aspects of the proposals was not strong, particularly around affordability. Customers were canvassed more on issue of timing than the need of the investment itself. Key information was framed as 'inform', with investments presented as being 'already locked in.' Detailed deep dives were held after the regulatory proposal proposed expenditure was largely finalised and signed off.

We respect that EQ, particularly Ergon Energy, has some significant investment challenges – population growth, high levels of customer energy resources and ageing assets. Despite the concerns we have of over-expenditure and rising levels of investment, we recognise that some of the elevated investment may well be justified and meet with AER approval, including in the ex-post review.

However, a nagging question permeated the engagement, particularly that for Ergon - "how did this high level of failing asset performance and safety, particularly in regional Queensland, come about? Is it a peculiarity of past asset maintenance and replacement strategies in the state over several regulatory periods, or some external influence?"

We are most aware that much of our advice places more demand on the AER to analyse the data across a wide range of issues. Primarily, we encourage the AER to address this question of "why?" in their analysis. We particularly ask the AER to consider whether customers have 'paid twice', particularly over multiple regulatory periods?

[1] Released 9th December 2021; Better resets handbook - Towards consumer-centric network proposals | Australian Energy Regulator (AER)

2. Executive Summary

The Engagement and Regulatory Teams in EQL ran a spectrum of contemporary processes involving customers. These programmes are well documented in several reports, including an *Engagement Insights Report* and *Engagement Summary Report* for each utility in January 2024.

The RRG was well-resourced and provided a strong and informed consumer view and note its regular access to the EQL Board. We saw their effectiveness in shaping the EQL engagement programme and recognise their advice to focus the early engagement on only a few issues that could be influenced by engagement, in recognition of what is generally referred to as a 'late start' by EQL. However, we believe that several issues raised by the RRG, such as deep dives on a number of major expenditure proposals, did not effectively impact the proposed expenditure, the costs of which were largely 'locked in' by that late stage.

We support the observations made by the EQL RRG in their *RRG Engagement Report*, available on the EQL *Talking Power* website. The work revealed themes of customer expectation around reliability, safety, and transparency.

From a customer viewpoint we note that that EQL continue to propose very high (and increasing) levels of investment, beyond that of the significant overspend compared to the AER allowance in the current regulatory period 2020-25.

This presents several issues.

1) ***High levels of investment impacting long-term affordability***:

   The Regulatory Asset Bases, particularly that of Ergon Energy, have increased as a consequence of high levels of investment over recent of regulatory periods and are planned to increase further. A significant aspect of revenue is the return to capital investment captured by Weighted Average Cost of Capital, WACC (RAB x rate of return) Customers have no control over the exogenously determined rate of return, so containing RAB is important in maintaining reasonable current and future returns to capital This places upward pressure on revenues and prices that are very dependent on wider economic conditions, at a time where affordability through the cost of living is a number-one priority for consumers.

   To address this impact, EQL's (and the shareholder's) affordability initiatives at present are largely based short-term measures such as on reducing individual retail bills through rebates and tariff advice, including the recently announced thousand-dollar 'cost of living rebate'.

   Whilst we welcome such measures to assist energy consumers, we remain concerned about the underlying long-term cost drivers that will fuel rising energy prices for many years to come.

2) ***Transparency of inputs and outputs to consumers:***

   There is little evidence of how EQL has considered consumer feedback about the proposal, particularly in their core expenditure proposals on the major issue of affordability. The overarching productivity dividend is welcome; however we believe Queensland energy consumers deserve a greater level of transparency regarding what is driving this investment, what are the costs and benefits over the longer term, and what alternatives and compromises were considered?

   We believe this lack of transparency influences the way consumers have responded to the engagement.

3) ***Engagement focussed on 'how to slice the pie, not on the size of the pie in the first place'***

In the proposals, EQL advise that they will: [2]

> *"Strengthen oversight of network investments to ensure we continue to spend only what is prudent and efficient to meet customer needs now and into the future".*

A similar theme of 'affordability is addressed in the most efficient way to deliver work' is evident in much of EQL's engagement. This may well be the case; however the community were not given the opportunity to challenge the investments themselves – were they necessary, can they be deferred or re-scoped, are there options for innovation and what was the ultimate impact on consumers?

The engagement offered timing alternatives, such as 'fast and furious', but little detail on the need, the drivers and the alternatives of the investments themselves.

4) ***Transparent returns on customer investment:*** The proposals are very much customer-friendly documents. However, our conversations with EQL staff outside the regulatory and engagement teams tended to be inward-looking. Risks and benefits tended to be expressed in technical terms and benefits to the business and avoided any real quantitative measures on how the investment benefited energy consumers. This approach was evident when customers and the RRG 'dug deeper' into understanding the proposed expenditure.

We encourage EQL staff who 'drive' the costs need to clearly identify consumer costs and impacts from being in the 'shoes of the customer'.

5) ***Narrow span of engagement***: EQL was clear that much of the revenue increase was due to external factors such as the impact of interest rates. Most of the engagement beyond 'inform' was on tariffs, CSIS and a number of minor aspects of the cost building blocks. There are many reasons for this, as discussed elsewhere in this advice. Ultimately, a number of key issues such as discussing EQL's current levels of service and the drivers for investment, were not examined in any real detail until very late in the process.

In light of these issues, we support a detailed and comprehensive review by the AER of the proposals, in particular:

- Capital investment plans, particularly asset replacement and further ICT.
- Operating efficiency,
- The impact of the present-period (over)expenditure on asset replacement on the need for further significant expenditure (particularly Ergon Energy)
- The impact that the recent significant investment in ICT by EQL has had on reducing unit costs and improving productivity that should be reflected in the current proposal.
- The capital contributions policy impact on 'who pays' for works directly related to power supply to the Olympic venues.

[2] *Energex Regulatory Proposal 2025-30*, p60. Also reflected in the *Ergon Energy Regulatory Proposal*.

3. This advice

Addressing two proposals

Energy Queensland Limited (EQL) lodged their two regulatory proposals for the 2025-30 period (*the Proposals*) in January 2024 – covering Energex Limited in South-east Queensland, and Ergon Energy for the distribution network in the remainder of the state. In response, the AER released an Issues Paper in March 2024, and held a public forum on 11th April 2024.

This advice presents comments on the Issues Paper from the AER's Consumer Challenge Panel #30 (CCP30), as well as broader comments regarding the proposals – in particular the consumer and community engagement associated with their preparation.

As EQL carried out their engagement across both Energex and Ergon Energy under the same engagement plan and format, this report generally considers the two utilities together, particularly in the comments regarding engagement. Where we wish to point out matters specifically for one utility, this is highlighted in the text.

The Consumer Challenge Panel (CCP30)

CCP30 provides advice to the Australian Energy Regulator (AER) on matters related to the 2025-30 electricity distribution revenue proposals for SA Power Networks and the Energy Queensland distribution businesses of Energex and Ergon Energy.

We note that CCP30 is also required to provide advice to the AER about the regulatory proposal for SA Power Networks (SAPN) 2025-30, they have the same regulatory timeline as EQL network businesses. The process for response to the AER for SAPN has differed from the response to EQL businesses, in large part because SAPN was accepted onto the Early Signal Pathway process, as described in the Better Resets handbook with different CCP reporting requirements.

The EQL Regulatory Reference Group

The Reset Reference Group (RRG) established by EQL reflects a similar process by other utilities to provide an independent consumer counsel to the company as it frames regulatory proposals.

The RRG comprised a highly capable, informed and experienced team that brought both national and local expertise in energy matters and resets in particular. There were regular and well-facilitated meetings of the RRG with EQL, to which the CCP frequently attended.

We frequently observed the RRG in its operational capacity and conclude that the RRG operated very transparently and independently.

The RRG had a very effective working relationship with the regulatory and engagement teams, with those teams being quite responsive to the RRG's requests. It appeared, however, that access and exposure to other parts of the organisation to question details of the proposal seemed more limited, at least until the deep dives that took place very late in the process.

The RRG at times attended the Energex Board regulatory committee meetings. EQL extended that very open approach to the CCP, which we appreciated and accepted.

Despite all the ingredients of a very effective RRG, we detected a level of frustration at times in the limited ability of the RRG to obtain the detail needed to understand the plans, objectives and impact of many investment proposals. We cannot identify many examples where the important matters of transparency and affordability raised by the RRG have been incorporated into the proposals.

4. Discussion

Customer and community engagement

EQL commenced the consumer engagement for their 2025-30 regulatory proposals later that than normally undertaken by other regulated utilities in Australia. One reason for this is that EQL relies on its business-as-usual engagement activities such as the Queensland Household Energy Survey (QHES) and regional forums such as the Agriculture Forum to establish key customer expectations and intentions. These business-as-usual approaches to engagement are useful at a corporate strategy level but are not specifically aimed at allowing examination of the components of the regulatory proposal building blocks, in particular capital investment plans and changes to the businesses 'operating environment.

Early in the engagement, EQL along with their Reset Reference Group (RRG) developed a targeted engagement focus on a small number of topics where customers expressed an interest and could have an influence. The selection of topics also had to recognise that the late start meant that the usual 'capacity building' phase of engagement difficult. This led to a reluctant agreement from the RRG that consultation would initially focus on network tariffs, customer service (CSIS), distributed energy resources (DER), property and fleet.

This approach to 'doing only a few things but doing them well' set the tone for the majority of the engagement. The intent was to explore other components of the proposal later, as time permitted.

In the past eighteen months, EQL's regulatory and consumer engagement teams developed a significant amount of material and organised numerous channels of engagement related to the development of the proposal, including their RRG, the Customer and Community Council, the 'Voice of the Customer' programme and other interactions targeted at specific customer demographics.

CCP30 has been welcomed by EQL to all this engagement. We found those sessions well organised, well facilitated and generally, despite the challenges of such a large EQL footprint, well attended.

Our overall impression is that the effectiveness of entire engagement programme was constrained by:

a) An overarching narrative that did not include clear and quantitative descriptions of the challenges being faced by the businesses, and how those challenges impacted customers and communities,

b) how the businesses translated these challenges to expenditure plans, including the counterfactuals and trade-offs that may have been available (especially in light of the strong affordability position expressed by energy customers),

c) how success would be measured, especially in customer terms, and

d) how consumer feedback was reflected in revised thinking by the utilities (i.e. what the utilities heard and how they may change their plans).

The narrow scope of the material on which EQL has been willing to engage with consumers, and the strong 'inform' approach to the later deep-dives, limited the ability for consumer feedback to be reflected meaningfully in their proposal and investment plans beyond some elements tariff design.

The engagement process reflected this approach, rarely extending past 'inform' for most aspects, extending to 'consult' for issues such as tariffs, public lighting and the service delivery incentive scheme (CSIS).

On the key aspects of capital investment and operating costs, we frequently asked ourselves, "are customers being listened to?"

Affordability measures

The SEC Newgate "Mood of the Nation' study of April 2024[3] noted the highest priority for Australians is:

"Reducing cost increases for household bills and other essential expenses."

In the Forward to the 2025-30 regulatory proposals, EQL note that: [4]

"While keeping affordability front of mind, our customers have also been clear that we should not compromise our distribution electricity supply or our customer service standards."

Similarly, the regulatory proposal(s) reflect customer key messages that include:

"Overall, customers have told us that they value the services we provide and how we go about keeping the lights on. However, they have also told us that affordability of electricity is their primary concern, both from a cost-of-living and cost-of-business perspective."

There is a subtle approach in the EQL headlines. The investment priorities nominated by Energex focus heavily on service delivery, with the affordability imperative embedded in the intention to" deliver services in the most efficient and affordable way".

This suggests that EQL have already made a commitment to the investment programme, with the intent to deliver that programme at lowest cost. This is slightly different to many other utilities where it is the programme itself that is presented to consumers to determine its need and impact, technically, commercially and to the community.

This is also reflected in the *Affordability* aspect of the Key Engagement Themes that framed the entire engagement: [5]

"We're committed to providing cost-effective and efficient services, recognising the cost of electricity is a key concern for customers during these challenging times."

The subtlety of this position is that the Energy Queensland Regulatory Proposal prioritises a strong commitment to a safe and reliable, future-focussed energy system, but in doing so, seems to place lesser priority to the long-term cost impacts to consumers. Beyond the desire to deliver these services efficiently, any compromise on the scope or efficiency of these initiatives has not been for negotiation with consumers, who will be paying for the investments either directly through tariffs or indirectly through government shareholder funding for a long time to come.

Our observation is that EQL demonstrate a commitment to *'how'* they do things, but there is little transparency or engagement on '*what'*.

That is certainly not to say that EQL or their government shareholder has turned its back on the affordability issue. In Queensland, a number of strong short-term measures such as retail rebates and shareholder project funding are more prevalent in the state-owned Queensland industry than in other states. Electricity bills in Queensland and regional Queensland in particular are somewhat isolated from the impact of ongoing high levels of investment, with the real impact being counteracted by

[3] SEC Newgate *Mood of the Nation, April 2024 (Wave 15)*

[4] *Energex Regulatory Proposal 2025-30*, p7. Also reflected in the *Ergon Energy Regulatory Proposal*, p7.

[5] *Energex Regulatory Proposal 2025-30*, p46. Also reflected in the *Ergon Energy Regulatory Proposal*, p46

measures such as the Customer Service Obligation (CSO) for regional customers and the recent level of cost-of-living rebates provided to consumers by the government shareholder.

We acknowledge that EQL and its shareholder is delivering many affordability activities for their customers and does take the issue of customer vulnerability seriously. However, when we examine these measures, they are almost all focussed on short to medium mitigation on the cost of energy to consumers, such as:

a) Rebates and concessions to vulnerable consumers, mainly in the energy retail sector, or
b) Information and measures to assist consumers manage their energy bills, including through tariffs.

Whilst we recognise the work being done by EQL, and Ergon Retail in particular, regarding high energy bills, our observations are:

a) Where customers are able to use less energy or adopt more appropriate tariffs in managing their bills, in a revenue-capped regime this means any savings are then recovered across other consumers, and
b) Other than implicit demand response measures (which are not transparent in their influence on network augmentation or CER connection investment plans), there are no affordability measures that focus on reducing 'input costs', in particular the long-term impact of asset base growth or operational efficiency.

It is this long-term impact of capital investment that is of concern; as rebates and customer information, whilst effective, are relatively short-term and potentially unsustainable in as longer-term affordability measures.

We fully support the AER's analysis of capital expenditure to provide a high level of transparency in the input components of the required revenue, particularly for its impact on the Regulated Asset Base (RAB), which will drive revenue requirements for many years to come.

Ongoing high levels of investment

Ergon's proposal would allow it to recover $8.5 billion from its customers over the 2025–30 period, 43.1% higher than that approved by the AER for the 2020–25 period. Similarly, Energex's proposal would allow it to recover $8.9 billion, 47% more than the AER's 2020–25 period.

We acknowledge the strong case for investment in some areas, including the rate of customer growth in the state.

Ergon Energy in particular has ongoing challenges in asset performance and public safety driven by past investment decisions. Similarly, both Energex and Ergon Energy are experiencing strong demand in the light of rapid population growth throughout Queensland growth, coinciding with the end of the 'grace period' post the 'Sommerville era' where significant investment into network capacity was made in light of stringent network security standards. However, the 43.1% and 47% proposed increases are substantial and represent a substantial consumer impact.

A longer-term view

Despite the very limited impact of a significant amount of engagement, we acknowledge that there remain strong cases for investment in some areas, such as asset replacement in Ergon. Key questions are "how did Ergon Energy get to this position of poor asset quality ?" and "Is the significant increase in expenditure a "corrective course change" over two regulatory periods, or "is this 'the new normal?" Ergon Energy is yet to provide a clear answer to this.

Challenges to the engagement process

The EQL team delivers both the Energex and Ergon Energy Regulatory proposals. We acknowledge the amount of work require to deliver these two proposals by the one combined team.

We note that the Manager of the Regulatory team was elevated to the Executive Committee at Energy Queensland. This provided regular exposure to key management, providing important access to key decisions for the development of the proposal, but at the same time it burdened this role with additional workload that comes with sitting on the Executive. We also note the personnel changes in this position.

In 2023, both the Energex and Ergon networks suffered storm, cyclone and flooding damage. We respect that these major events materially reduced available resources further and slowed progress on the proposal.

The latter stages of the influence of COVID on business operations also impacted the engagement, with Initial plans for much of the face-to-face engagement being abandoned and replaced by online engagements. Also, the 'Perspectives' engagement stream with many customer cohorts were combined in two joint sessions. This was less than ideal as it didn't allow for the richness of conversation and exploration of issues that can occur when these groups are consulted separately.

Despite these challenges, EQL provided good options for remote access through Webex and other facilities. There were the inevitable technical hitches, but to their credit overall EQL addressed most of these challenges effectively.

5. Discussion on the ex-post review

CCP30 recognises that an "ex-post review" is underway to consider actual expenditure compared to allowance for the 2020-25 regulatory period. CCP30 has chosen to make the following observations about this review because it impacts the 2025-30 regulatory proposals significantly, both in determining what a reasonable base expenditure is and what are efficient continuing rates of expenditure. The questions relate particularly to capital expenditure and specifically repex, but also impact other areas of business expenditure.

The issue is discussed in more detail in the comments on capital expenditure below, however we wish to provide some initial discussion on this important matter from a consumer point of view.

There is no doubt that the ex-post review of the over-expenditure deserves close consideration, in order to not only to validate the prudency and efficiency of the expenditure, but also consider the rate at which it needs to be spent. In addition, the root cause of the pole failures needs to be examined to give confidence that the matter is being responded to appropriately and that the AER modelling can be amended if necessary.

Customer engagement

The ex-post issue was presented to consumers as part of the engagement but given the sheer volume of issues and information presented to the consumer forums at the time, we have reservations about whether the customer responses reflect a truly informed and considered position.

Evidence we have seen anecdotally in discussion with EQL and in the proposal reinforce the fact that there is a real issue of poor asset condition and safety risk that must be addressed. Through discussions with EQL staff, pole failure rates are still high and must continue to be addressed.

However, clear information about the effectiveness of the expenditure in addressing the clearance to ground / structure issues highlighted in the 2020-25 proposal does not exist in the public arena. However, consumers, who ultimately pay for the replacements and are exposed to the risks, are entitled to ask a number of questions about the over-expenditure in the current period and the continued high levels of investment in the proposal.

Pole inspections over time

From a technical point of view, the two issues of pole in-service failures and clearance to ground and structure concerns that formed the cornerstone of the 2020-25 repex proposal have a common heritage. Whilst the issue of ageing timber poles is a major consideration facing all distributors, the role of asset inspection and testing remain a key determinant in identifying potential failures. Similarly, the urgent attention to conductor clearance risks that was highlighted in the 2020-25 proposal also has a strong bearing to the past frequency and quality of asset inspection and maintenance. Both of these aspects are within the control of the utility and, in our view, reflect on the pressures that have been placed on the cost of asset inspection and asset replacement over many years. This raises the question as to the true efficiency of any expenditure savings in the area of asset inspection and replacement in past years.

Questions to be asked

The key issues that we ask the AER to consider through the ex-post review, especially for asset replacement, are:

1. Is the expenditure to date making an impact as expected ? It may be a little early to tell as the figures take some time to turn around, but EQL should be transparent in revealing that the amount of money already spent is consistent with their expectation of reducing the risks.

   What indicators are EQL using to demonstrate the requirement of the expenditure and the impact of their actions? How are they tracking?
2. Is the expenditure efficient? We are aware that EQL have a practice of opportunistic work; that is, replacing adjacent and related assets such as conductors, service wires and transformers at the same time as replacing a pole. In a perfect world, that may be efficient provided the assets that are replaced 'early' are effectively. However, in a capital-sensitive situation where affordability is a key consideration, limiting costs may be the primary consideration.
3. Must it all be done now? We recognise the imperative to address safety risks quickly; but again, in a capital constrained situation, risk management, prioritisation and a more measured approach may be necessary.
4. Are customers paying twice? It is clear that both Energex and Ergon were underspent in their capital allowances some years ago. Granted, there are many reasons for this, but if there is any hint that assets such as switchgear and poles were not being replaced in a prudent fashion and the utilities were able to claim an efficiency benefit (EBSS – Efficiency Benefit Sharing Scheme) for the under expenditure, then the customer must not 'pay twice' over different regulatory periods
5. Has there been a meaningful cause analysis as to how this situation arose? A critical question for customers is 'is this an additional cost to get back on track, or is this the new normal?' Root cause analysis is critical to guide the longer-term investment imperatives.

Repex modelling

Another consideration is 'was the AER's forecast wrong?' CCP 30 has great confidence in the ever improving repex model used by the AER to consider reasonable ranges of asset replacement expenditure. One hypothesis is that the model is very useful as a steady-state investment measure; that is, when asset replacement has been carried out at a reasonable and sustainable level for some time. However, there are many influences that result in a network not being a steady state entity, as we have seen.

In this case, the root cause analysis would assist in better understanding the cause of not replacing assets as required over a longer period and allow reasonable and informed adjustments to the model output.

The need for transparency and accountability

Ultimately, the unusual situation of high expenditure of customers' money brings an obligation for transparency and accountability. As we have asked questions regarding the effectiveness and efficiency of the expenditure, we believe that the AER should, as part of the ex-post review, encourage EQL to put in place some form of transparent and ongoing reporting on the progress and implementation of the safety challenges.

In other resets, CCPs have encouraged utilities to put in place effective and engaged consumer consultative committees that, in part, take the role of 'keeping the utilities honest' in delivering their promised outcomes.

This may be an option for EQL who, as a proud Queensland entity, could demonstrate their respect for their customers in regularly reporting the effectiveness of this significant expenditure.

6. Addressing the questions in the issues paper

Consumer Engagement

1. Do Ergon and Energex's proposals adequately reflect consumers' affordability concerns?

No. The matter of affordability arose often in the engagement. EQL acknowledged this imperative, however we are not satisfied that the responses by EQL to these concerns are genuine long-term, effective and deliverable initiatives.

EQL place a high reliance on shorter-term external bill relief measures, such as rebates and tariff structures. We are looking for more embedded commitments to affordability over the long term, such as a focus on the rising value of the regulated asset base.

The term affordability features prominently in the proposals. EQL note:

> *"Notwithstanding that affordability has always been an overarching focus for us, we acknowledge that it requires greater prominence in our Regulatory Proposal. Therefore, we have made affordability our leading investment priority for 2025-30."*[6]

Similarly, EQL, in their engagement, notes quite clearly that:

> *"Our customers have told us that affordability is their primary concern."* [7]

The key is how EQL have interpreted the nature of affordability.

Our view on affordability is 'bi-focal': covering both the immediate cost impact from the proposal as well as the long-term impact of high levels of investment impact on revenue requirements (eg through the RAB) for years to come.

However, the affordability imperative tended to get buried in subsequent engagement, being wrapped in the concepts of 'delivery our work at the lowest cost' and 'productivity'. The sharp message about 'keeping bills low in the short and long term' disappeared through the engagement.

In the Customer Forum of September 2024, customers noted:

> *"Affordability was not reflected in the narrative, despite being the number one priority for customers."* [8]

Similarly, in the customer conversations on network tariffs for small-to-medium businesses, EQL noted that:

> *"Given feedback from our stakeholders and customer representatives who represent those customers that affordability of electricity was the key issue for this customer cohort, we centred our conversations with them on network tariffs and pricing."* [9]

This approach highlights our concern that we see throughout the engagement on affordability – that the focus on affordability was on how 'the pie' is 'sliced' (distributed), not on 'how big the pie is' in the first place.

[6] Proposals, section 3.2
[7] Ibid, p7
[8] Ibid, p40
[9] Ibid, P43

We applaud EQL's commitment to a 1% productivity quotient. However, we saw little detail as to how that productivity would be delivered, in order to transparently demonstrate how EQL would address affordability concerns in the decisions that lead to the proposed programme of work, the alternatives considered, the impact of the significant ICT investment or commitment to operational efficiency.

We see the response to Ergon Energy's draft plan as an example of EQL's approach to affordability. Despite the level of concern expressed through many channels about costs and the impact of the expenditure, in their proposal, Ergon notes:

> *"… with the feedback on our investment priorities for our Draft Plan being positive, we have not changed our approach to repex in our Regulatory Proposal. We have updated some project and program timing and expenditure phasing, but there have been no changes to our major investment streams in repex."*

EQL also place a high reliance on shorter-term external bill relief measures. EQL and their government shareholder have a number of powerful affordability tools at their disposal to reduce customer's bills in the short term, such as rebates and tariff structures.

2. Have Ergon and Energex chosen the right topics to engage with consumers on?

EQL, along with their customers and the RRG, undertook a co-design process that set a focus on initially 'engaging on a few issues well', due largely to the limited time before the proposals were due. This programme was delivered through a very intensive and detailed process, yet we continue to consider that the engagement was not effective in influencing the proposal cost in any material way. The topics that were the focus of engagement were not the topics where consumer input could have the most meaningful impact.

Whilst we agree that tariffs and incentive schemes are important to engage on, we concur with the EQL RRG that states in their engagement reports that: [10]

> *"… there was virtually no detailed engagement on the capex program. In addition, a number of engagement channels suffered as there was a lack of, or limited pricing information provided by Energex to customers, limiting the ability of participants to make informed value judgements."*

Along with their business-as-usual activities, EQL established a very ambitious engagement plan, making use of a Customer and Community Council, an Agriculture Forum, the Queensland Household Energy Survey, their Voice of the Customer framework, and a Reset Reference Group (RRG) and various forums across a number of customer demographics. We have no reservations about the sincerity and commitment of the engagement from the point of view of the very capable and dedicated Regulatory and Customer Advocacy teams.

In such an intensive process, we note two outcomes that generally arise:

1. There will be some common themes that require time to fully distil and consider, and
2. There are many verbatim comments, a utility can always find something that supports their proposed position. It becomes an issue of careful interpretation and analysis of the feedback.

The Engagement Summary Reports[11] in support of the Ergon and Energex regulatory proposals record the many channels of engagement and the key sentiments that were expressed, with many items of feedback being very positive and supportive. However, we tend to agree with Deloitte, who early in

[10] Reset Reference Group (RRG) Engagement Report for the 2025-2030 Energex Regulatory Proposal, p4
[11] *Engagement Summary Reports* – Energex and Ergon Energy Network – January 2024

the process noted both a lack of clarity and unambiguous collective vision regarding many engagement activities – both BAU and those for the reset:

> *"It is important to note however that additional collaborative activities are likely to be required to establish a line of sight from the input received from these forums and the development of plans and forecasts."* [12]

Limited scope of engagement

At the outset, the scope for initial engagement early in the process was limited to predominantly tariffs and the Customer Service Incentive Scheme. This was a compromise reached between EQL and the RRG, mainly from the sentiment that:

a) Engagement time was limited, and
b) EQL was still forming its investment plans and was not in a position to engage on them.

As it turned out, CSIS was 'put to bed' early, and the intensity of the engagement meant there was plenty of time to engage on other matters. The good level of engagement on public lighting is an example of this opportunity. However, as noted elsewhere in this advice, there was little advance on 'inform' for most of the rest of the subject material.

Blurring of the issues between the two utilities

The engagement was, in most cases, for both utilities. At times, the lines between what were Energex issues and that for Ergon Energy were not that clear. Given the challenges of asset performance in the Ergon area, it got most of the airtime.

Lack of a narrative to set expectations.

EQL did produce a comprehensive narrative, including any areas of variation between Ergon Energy and Energex where appropriate. Whilst the narrative clarified EQL's preferred position and strategic approach to key issues it was 'light on' in the understanding of elements that are be subject to customer engagement and any associated 'optionality' and trade-offs.

3. To what extent do you consider consumers were able to influence the topics Ergon and Energex engaged on?

As explained at some length in this advice in previous section, we do not believe that EQL have addressed the key issue of affordability in the proposal. Table 10 of the proposals summarises EQL's response to the key concern for customer of affordability and is summarised in Table 1 below.

[12] Deloitte - *AER 2024 Regulatory Determination Review*, February 2023

Affordability	a) Applying a 1% revenue factor to operating costs and capitalised overheads. b) Tariff reform, including a 'solar soak' time-varying tariff and reducing peak times for business customers.
Metering	Introduce time-varying tariffs and sharing the cost of legacy metering across all customers.
Network risks	a) Increase expenditure on fire, flood and storm resilience programmes. b) Mature cyber-security capability.
DER	a) Increase investment to integrate DER into the network. b) Network tariff reform. c) Develop dynamic connection capability.
Customer Service excellence	a) Remove customer service incentives, in lieu of publishing customer service performance indicators. b) Upgrade customer online contact capability.
Sustainability	a) EQL will not pursue investment into a fleet of electric vehicles as proposed.
Public lighting	Transition to 100% LED lighting by 2030

Table 1. Customer influence on the proposals (Source: EQL and Ergon Energy Proposals, Table 10)

We agree that EQL has in fact acted in these commitments in their proposals. However, we maintain our overall comments on the responses that other than the 1% productivity factor to opex and overheads and the approach to electric vehicles, none have any impact other than to increase the level of revenue required.

Following the release of the Energex Draft Plan, property expenditure increased by 6.2% due to more accurate estimates being available, and fleet expenditure was reduced.

4. Are there topics that you would have preferred to consider in greater detail? Please give examples.

There are a number of topics for which CCP30 would have preferred to see greater detail, these are outlined below.

Scenario modelling

It would be useful to better understand the impact of the considerable investment on longer term costs under different scenario modelling to support iterations of forecasts and revenue and the process of customer engagement.

Taking a longer-term view on asset management

Similarly, the impact of the current period overspend was not presented. We acknowledge that the ex-post review is not part of the regulatory proposal per-se, but it does meaningfully inform both the longer-term expenditure and asset management planning across regulatory periods and provided an avenue to present the 'results so far' in addressing the asset management challenges.

Customer expectations and requirements have shifted over time to include the need for businesses to provide post investment reviews (PIRs) and ex post capex reviews in circumstances of material expenditure, or material capex over and above allowance.

Previous investment and its impact on the proposal – ex-post review

Deeper analysis of previous and current programs will provide insight into status, impact and future requirements of ongoing investment. This would assist in customers' appreciating the need and options of planned investment, particularly in the areas of repex, property and fleet.

Some projects and programs should be subject to provide guidance to the consumers on scope, approach and requirements to meet customer and AER expectations.

It would also be very useful to identify the impact of the significant repex expenditure to date in particular, to identify the progress in addressing the needs stated in the investment proposal. That is, "is all that extra money invested making a difference?"

ICT benefits

Given the significant investment and upgrade in EQL's ICT capability, including during the current regulatory period, there is a need to identify the benefits of the investment, in particular the interdependencies between the capability delivered by the ICT investment and other opex and capital investments (e.g. further ICT, DER, productivity, customer service improvements).

EQL should be able to clearly identify whether the ICT business cases have been delivered as planned, as have the promised benefits been clearly incorporated into the proposal. In summary, consultation where consumers could influence the outcome, was undertaken on a total of ~$20-25m or <1% of proposed capex. The overall Draft Plan capex trends were presented generally in an 'inform' context - what was proposed by component and total and why it was increasing. There was no sense that consumers had any ability to influence that expenditure.

There was more extensive engagement with the RRG subsequent to the submission of Ergon's proposal in January 2024. This covered asset management strategy, cost benefit framework, risk quantification, case studies on pole replacement, ICT governance, innovation, CER/DER and the history of boom and bust' investment cycle that Ergon is seeking to move away from. Again this was at the 'inform' level with the RRG having no influence on the level of expenditure.

Questions on forecast capital expenditure

General comments

We consider the high levels of expenditure in the current and 2025-30 regulatory period to be of significant concern in their impact on customer, primarily from the long-term impact of growth of the Regulatory Asset Base and its impact on future revenue requirements.

Energex is proposing a capital investment of $3.4B in 2025-30, an increase of 22% from the forecast expenditure in the current period which is, in turn, 15% above the AER allowance. Ergon has a number of 'up and down' adjustments in capital since their draft plan.

Investment priorities

Throughout their engagement, EQL have been clear on their investment priorities – efficient service delivery, network capability for a clean energy future, facilitate the connection of new customer technologies and meeting the needs of the Brisbane Olympic Games.

5. Do you consider the AER's proposed approach to the ex-post review of Ergon's capex overspend is appropriate?

We fully support the AER's approach to the ex-post review, as it is a significant amount of money targeted at addressing a safety concern

Discussion

We note that the primary areas of over-expenditure are in asset replacement and non-network ICT, and total a material $1,308M or 42.8% above the AER allowance.

The AER is proposing a Stage 2 study under the Capital Expenditure Incentive Guideline. We fully support this step, noting it is probably the first time the AER has extended its consideration into a deeper bottom-up review of the drivers, practices and project governance related to the expenditure.

$m, real 2024-25	AER Forecast 2018-19 to 2022-23	Actual Capex 2018-19 to 2022-23	Variance from Forecast[1]
Augmentation	400.2	269.2	32.7%
Connections (net)	270.7	314.9	-16.3%
Asset replacement	989.6	2,180.6	-120.4%
Non-network			
ICT	132.7	246.3	-85.5%
Property	99.8	151.5	-51.8%
Fleet	185.6	129.1	30.4%
Other non-network	33.6	34.7	-3.2%
Capitalised overheads	942.1	1,036.5	-10.0%
Total Net Capex[2]	**3,054.2**	**4,362.7**	**-42.8%**

Notes:
1.Positive value indicates we spent less than the forecast. Negative value indicates an overspend against forecast.
2. Net capex in this table does not account for asset disposals. Totals may not add due to rounding.

Table 2: Ex-post review capex (source: Ergon Energy proposal, p148)

Property

Regarding property, EQL proceeded with a number of depot upgrades that were highlighted in their 2020-25 proposal, which included site visits by AER and CCP staff. The primary comment at the time was the opportunity to perhaps defer some major repairs and upgrades. In that case, favourable consideration of the expenditure as a matter of timing across regulatory periods may be appropriate, similar to the ex-post review findings for Endeavour Energy ICT investment in 2017-22.

ICT

EQL's approach to absorbing a component of the ICT over-expenditure is commended. The planned expenditure, however, continues to increase, with Energex forecasting to invest $397M in the current period, more than double the AER allowance of $197M.

We echo the AER's words of the Draft Decision to the 2020-25 regulatory proposal for Ergon Energy, where, with a substitute estimate 24% less than the proposal, it was noted: [13]

> *…we do not consider that Ergon Energy will be able to deliver the program as proposed, and a prudent and efficient ICT program would not include all of the ICT projects proposed for the 2020–25 regulatory control period. The proposed program is large scale, complex and an interdependent program of works that impacts broadly across core IT systems and business processes.*
>
> *The risks of successful delivery of the program in the timeframe proposed, in terms of resourcing, implementation, business process change and the realisation of benefits appear high."*

It is understood that EQL has received an ICT post-implementation review from Deloitte which we expect will shed light on the nature of the over-expenditure. As the report remains confidential at the time of preparing this advice, CCP30 is not aware of its recommendations.

We have no evidence that the ICT expenditure is 'prudent and efficient'. In a number of meetings with the ICT team, both the RRG and CCP30 sought information on the benefits delivery of the investment. We encourage the AER to consider how the investment benefits customers in terms of service delivery, network performance and EQL's efficiency.

Forecast expenditure for 2025-30 at $288m is a 28% reduction on forecast in 2020-25, yet it still represents a 46% increase on the 2020-25 allowance. We ask, "do customers have faith in Energy Queensland to continue to manage large ICT projects?" We recommend that the Deloitte ICT governance report to be made public as part of the proposal.

Also of concern is the clarity of benefit delivery as a result of the significant ICT programme. Ergon notes in its proposal:

> *"…we invested heavily in a major non-network ICT portfolio of works that involved transforming and consolidating core systems and business processes which has allowed us to work more efficiently and with a higher level of cyber security."*

Given the amount of expenditure, we believe customers deserve a far more detailed and concrete explanation and demonstration of 'work more efficiently.' We highlight this matter through the lens of the recent EBA, where we are concerned that the matter of work efficiency may be 'double-counted' in justifying returns through the enterprise bargaining process and as benefits to consumers.

In addition to the considerations in the guideline, as ask the AER to consider:

a) Looking at the longer term, is the high capex spend pattern a 'new normal' or a 'non-recurrent advancement?'

[13] See AER Draft Decision, Ergon Energy 2020-25, s 5.53

b) Has there been demonstrable benefits from the significant, recent ICT investment in terms of better outcomes for energy customers, in line with the expectations of the original business case and case for the over-expenditure?

Asset replacement

We believe it is appropriate for the AER to take a longer-term view of the asset replacement needs of Ergon Energy in particular. Ergon proposed a forecast repex of almost $1.3B ($2020) in the 2020-25 period, which in turn was 43% higher than the actual repex of $899M ($2020) for the 2015-20 period.

In the 2020-25 period, the network capital investment is expected to exceed the AER allowance by $1,728M, as shown in Figure 1 below.

	Current Period					
$m, real 2024-25	**2020-21**	**2021-22**	**2022-23**	**2023-24**	**2024-25**	**Total[1]**
AER forecast	501.7	505.2	511.8	503.0	506.3	**2,527.9**
Actual / estimated network capex	747.5	823.8	909.0	877.7	897.8	**4,255.7**
Variance from forecast[2]	-245.9	-318.6	-397.2	-374.7	-391.5	**-1,727.8**

Notes:
1. Totals may not add due to rounding.
2. Positive value indicates we spent less than the forecast. Negative value indicates an overspend against forecast.

Figure 1 Ergon Energy network capital expenditure, 2020-25

In the last reset, EQL highlighted the need to address pole safety as a key aspect of the replacement capital investment. Ergon noted the expenditure in the current period as being driven by:

a) Safety related obligations (clearance from ground and structures).
b) Exhausting the 'spare network capacity' following the period of high investment in network capacity of a decade ago.
c) A high number of defective poles requiring replacement, and the consequential need to replace crossarms, transformers and other overhead assets.
d) Increased number of connections from population migration (can you blame the Victorians?)

The AER approved an amount of capital that was 31% less than Ergon Energy's revised capital proposal, noting:

- Whilst recognising the importance of safety and the findings of Ergon's LIDAR asset inspection programme, the risks may be overstated and investment not well-justified,
- An increase in unit costs beyond utility averages,
- No strong evidence of asset failures nor reduced network performance.

We believe that the AER should re-examine these parameters in their consideration of the ex-post review, and seek clear evidence that the expenditure has addressed, or is well progressed in addressing, the issue of pole failures and non-compliance conductor clearances.

In addition to the considerations in the guideline, as ask the AER to consider:

a) Has the additional expenditure clearly and effectively addressed the concerns regarding the clearance to ground / clearance to structure risks raised by Ergon Energy in their 2020-2025 proposal?
b) Has the impact of the additional expenditure influenced the required expenditure in the next regulatory period?

6. Do you consider Ergon and Energex's forecast capex for the 2025–30 period reasonably reflects the efficient costs of a prudent operator?

The decision regarding whether an investment proposal is prudent or otherwise rests with the expertise of the AER.

From a consumer point of view, however, we ask:

- Why is the level of network investment ramping up so significantly ?
- Is reliability of supply falling ?
- Is the network becoming 'more unsafe' than reasonably acceptable (noting this is a very subjective consideration)
- Looking at the longer term, is the high capex spend pattern a 'new normal' or a 'temporary corrective action?'

It is important that the AER take both a long-term and detailed look at the EQL capital proposal, particularly in the areas of asset replacement and augmentation. Recent surveys and engagement work by EQL reveal that customers consider the balance of investment and reliability as being 'about right', although very little information was provided, and engagement undertaken to establish a more informed opinion on cost efficiency and investment impacts.

a. Energex Capital investment

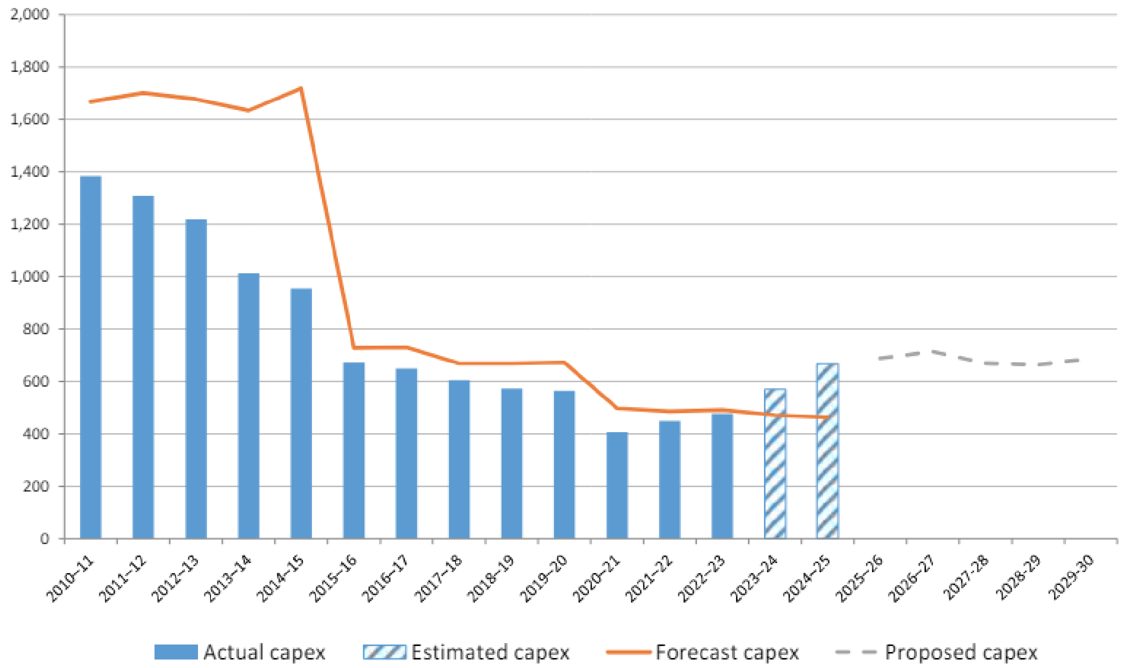
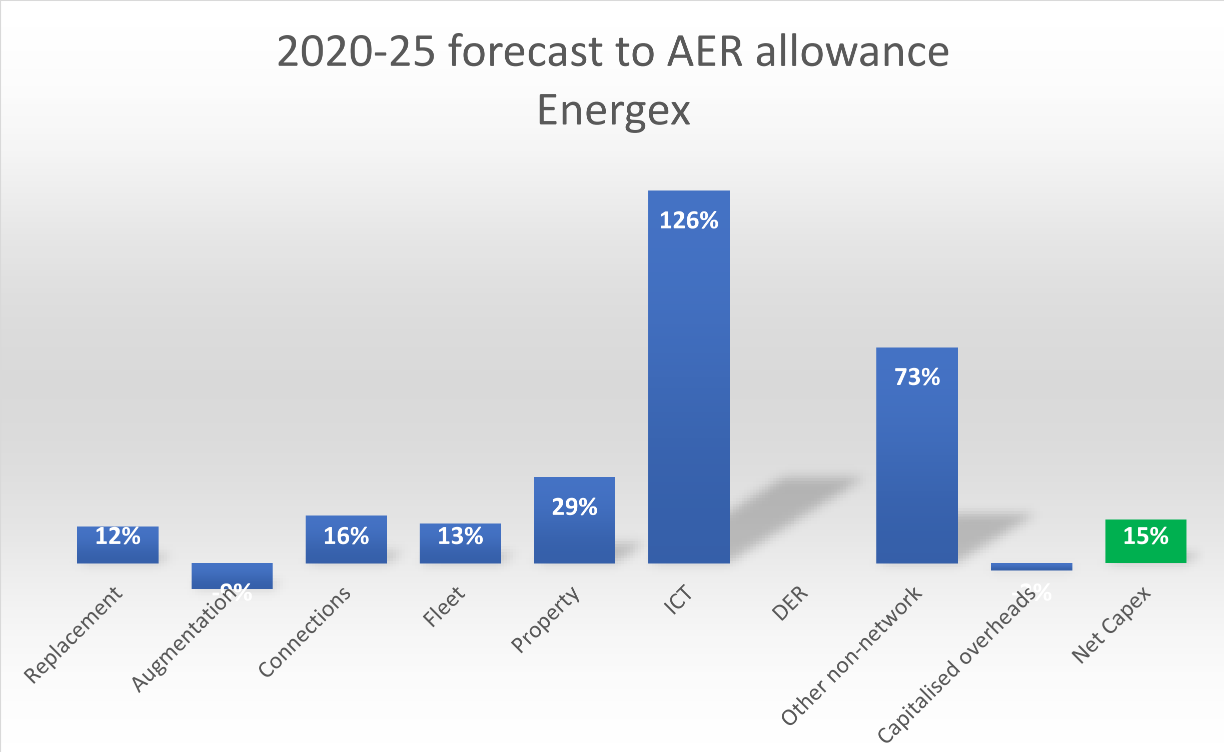


Figure 2: Energex past and forecast net capital expenditure ($M 2025) (Source: AER issues paper, Figure 9)

A pattern of under expenditure followed by proposed increases in spend is always a cause for deeper investigation. Was the earlier under-expenditure:

a) Generous forecasting or modelling on the AER's part,
b) true efficiency and better decision making by the utility,
c) intentionally increasing the risk margin and pushing costs to later, or
d) external factors 'distracting' the progress, again pushing costs to later?



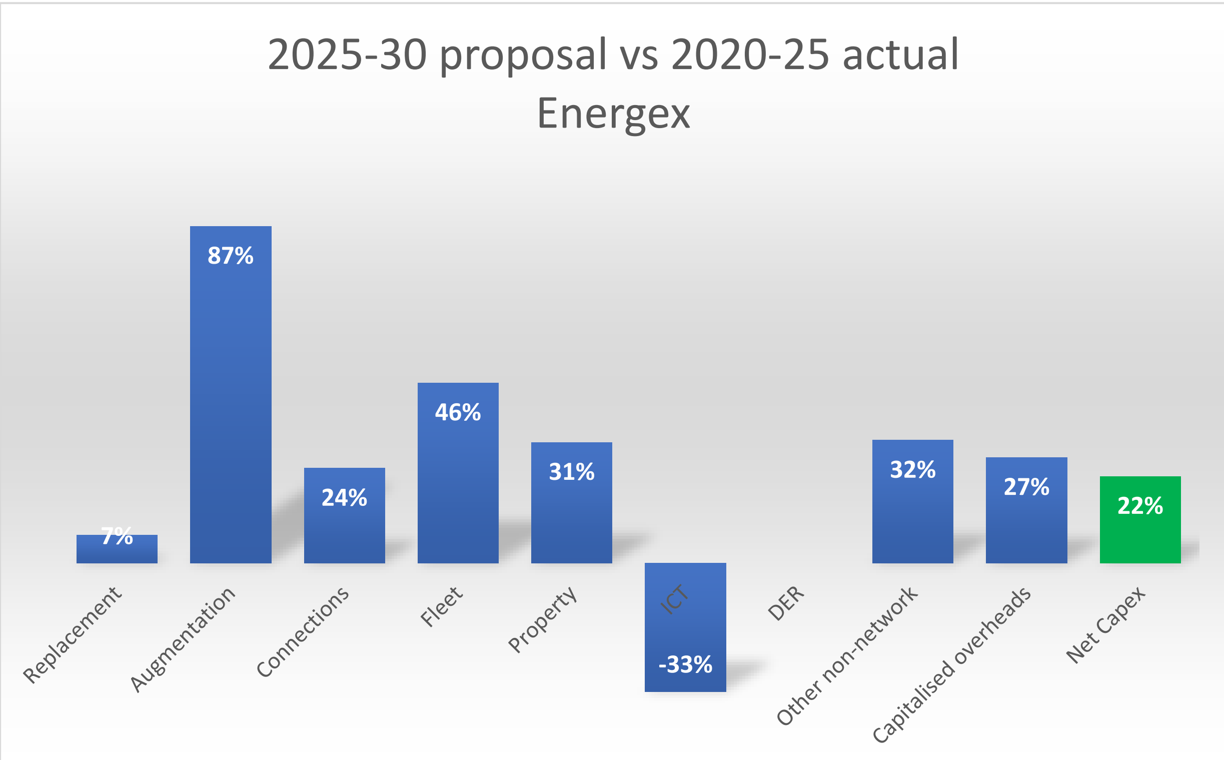


Figure 3: Percentage change in capital expenditure(Source: CCP analysis of AER issues paper Table 3)

The patterns in Figure 2 and Figure 3 are consistent with Energex's engagement narrative, and the note of returning to 'normal' . The standout is network augmentation, which suggests that the AER analysis should focus on demand forecasting, as well as fleet and property costs.

Asset replacement

EQL generally presented a practice where a number of assets are replaced concurrently with a pole replacement, such as a transformer, service wires and overhead conductors. This may very well be an efficient use of field resources, however evidence that replacing additional equipment early has not been clearly demonstrated in any of the engagement.

Augmentation

It is clear that Energex in particular has benefited from the capacity installed during the 2000 – 2004 period when security standards were increased; and that 'spare capacity' has been absorbed by organic load growth over time. Therefore, we generally accept the need to return augmentation expenditure to a more sustainable level, provided there is a commensurate focus on increasing network utilisation through effective and practical demand response.

The narrative regarding population growth is clear, and we ask the AER to consider the unit cost and efficiency side of connections. We have no comment on the Energex capital contribution policy.

Capital investment methodology

In their 2020-25 draft decision, the AER was critical of EQL's capital evaluation methodology, including its reliance on safety benefits within their evaluation methodology. We acknowledge that EQL has put effort in improving the capital investment governance, with the introduction of tools such as Copperleaf – a capability that we have seen well used in other utilities. We understand that EQL will have a functional implementation of Copperleaf in the latter part of this year.

We are largely in agreement with many of the components of the capital proposal, including non-network investment and the increase in customer connections, noting the need for the AER to consider the efficiency of the connections process as volumes increase.

b. Ergon Energy Capital investment

The graphs below show the change in capital investment levels across the current and next regulatory periods.

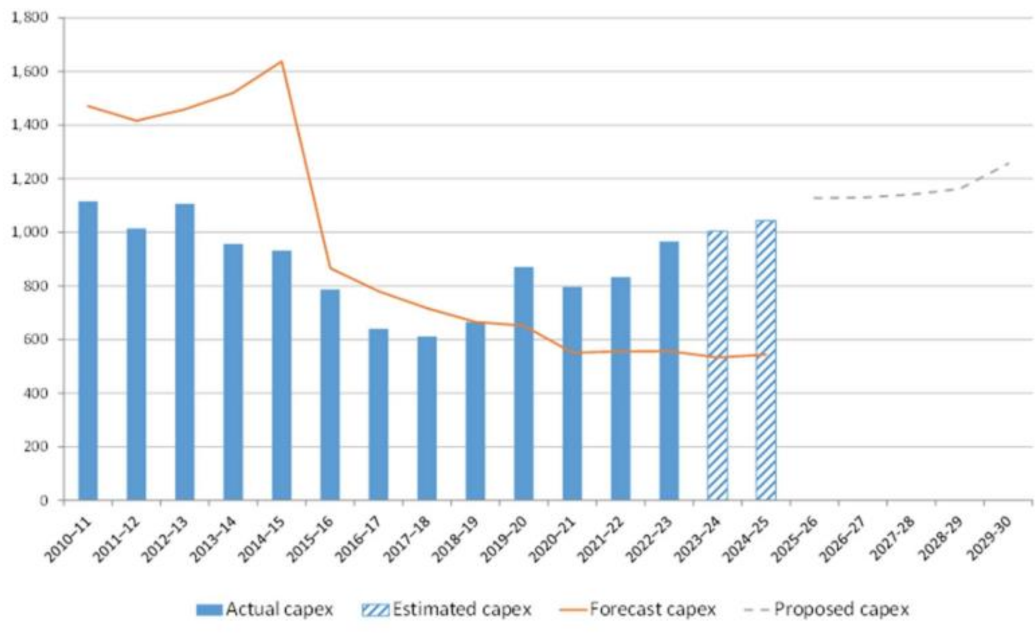
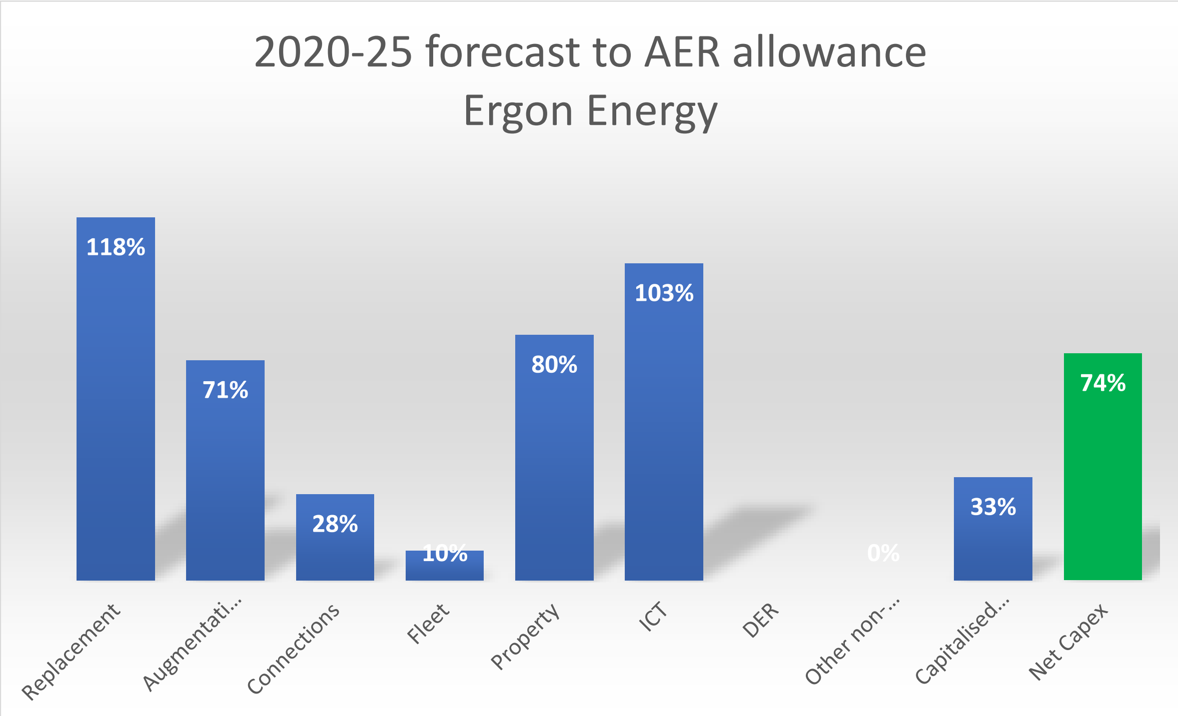


Figure 4: Ergon Energy's past and future capital investment ($M 2025)(Source: AER issues paper Figure 7)

Figure 4 reinforces our concerns of significant under expenditure in previous regulatory periods, and whether that underinvestment was not true efficiency, pushing costs to later periods.



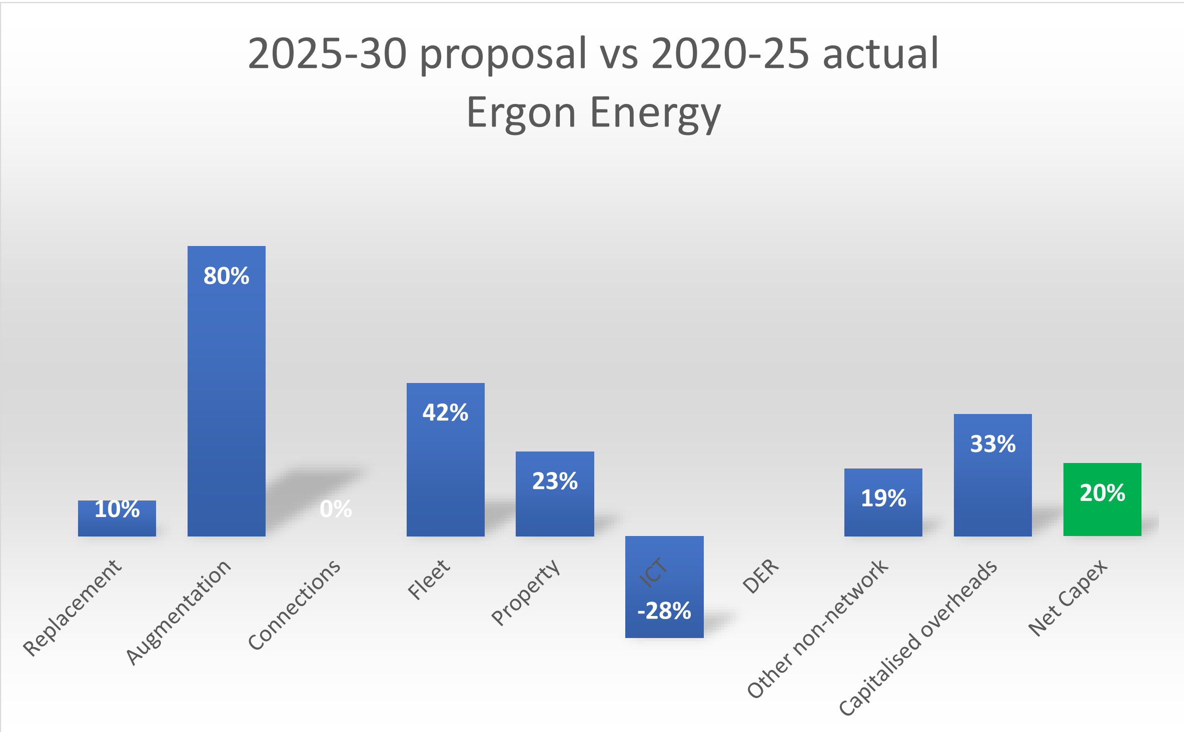


Figure 5: Percentage change in capital expenditure (Source: CCP analysis of AER issues paper Table 2)

It is useful to note that all utilities are facing, to varying extent, the challenge of ageing assets, without the need to significantly increase the asset replacement investment. In particular, SAPN has been able to usefully employ its ICT investment in Works and Asset Management to alleviate some pressure on repex investment through better asset management data and practices. We ask, can EQL do the same?

7. A number of shared assumptions (e.g. customer growth, employee numbers) have yet to be settled and may impact development of forecasts and business cases. Are there particular areas of Ergon and Energex's capex proposals that you would expect further engagement on?

We do note that there are a number of pressures on EQL since the proposal was submitted, including costs of resources and potential changes to the electricity requirements for the Brisbane Olympics. We believe that, as a minimum, EQL will come back to customers and clearly state how these changes may influence the revenue requirements and hence customer costs and experiences.

In addition, Energy Queensland is clearly subject to large cost pressures for labour and materials. Whilst not specifically exposed to the BPIC initiative in Queensland, the labour market operates in a similar environment and competes with similar resources. This influence is expected to continue over 2025-30 regulatory period, and therefore further engagement on labour cost pressures and their impact on unit costs will be critical. .

Hopefully, EQL will carry out further engagement in their revised (final) proposal. Recently, EQL issued placeholder diary entries to their customer committees into the remainder of 2024, indicating and expectation to continue consumer engagement. We commend this action.

8. Are there particular areas of Ergon and Energex's capex proposals that you would expect we place greater focus on in our review?

We have suggested a more longitudinal consideration of the drivers of the rapid and significant increase in asset replacement.

On resilience, it is expected that the AER will review Ergon's resilience proposals having regard to the AER's guidance note on network resilience and the recent decisions for the NSW distributors.

Questions on forecast operational expenditure

9. Do you consider Ergon and Energex's opex forecasts for the 2025–30 regulatory control period reasonably reflects the efficient costs of a prudent operator?

We present no significant concerns regarding the approach taken by either distributor regarding their base, step and trend calculations. We look forward to the AER's consideration of the base year efficiency of both distributors, this is the main driver of opex cost proposals.

Our discussions with the RRG highlight a number of perceived opportunities in the calculation of operational efficiency and the application of the efficiency scheme. We support further discussion on this matter outside the consideration of Ergon Energy's and Energex's base year efficiency.

Achievability

Throughout their proposal and in some of the engagement, EQL referred to the upward pressures on operating costs. Storms, asset age, customer expectation and safety compliance were highlighted.

It is useful to note previous performance on opex expenditure for the two utilities shown in Figure 7 and Figure 7. It is clear that, even when timing of expenditure is considered, there is a general trend of over expenditure of the AER allowance. It is useful to consider whether a similar trend will continue.

EQL has proposed that the Efficiency Incentive Scheme will apply for the next regulatory period. Particularly for Ergon Energy, there is a clear risk that the trend of over expenditure will impact consumers.

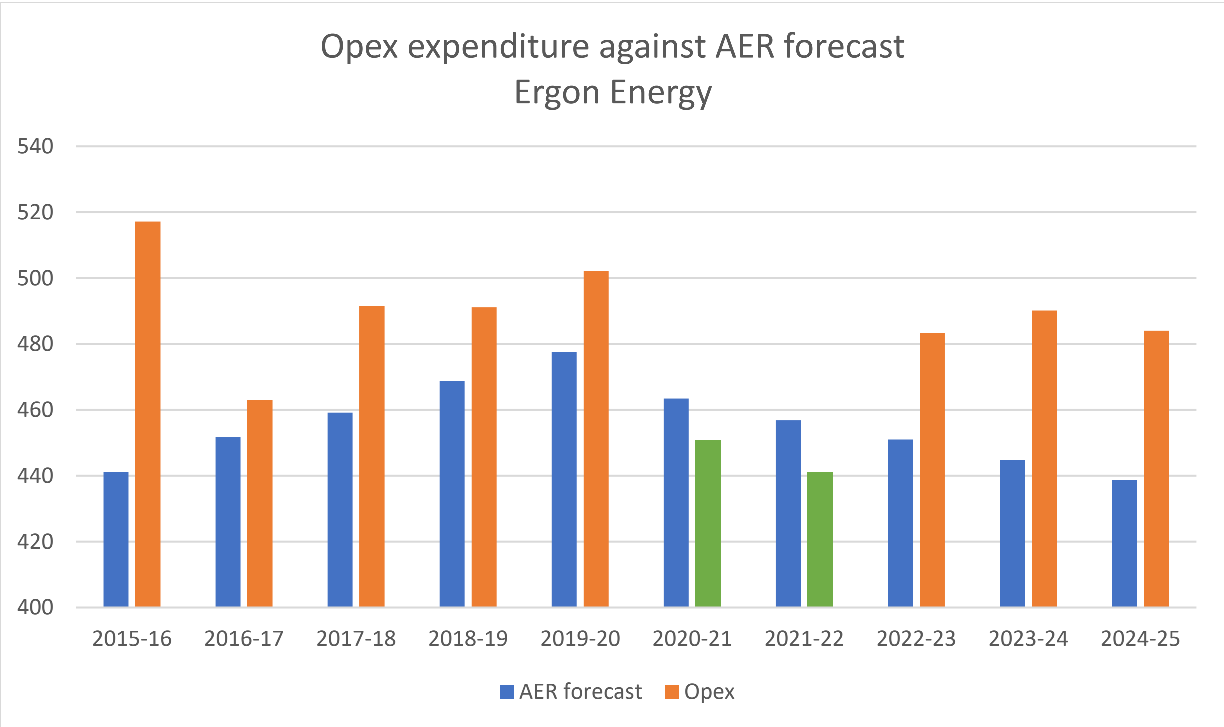


Figure 6: Opex performance against AR allowance, 2015 – 2025 (Source: CCP analysis of EQL's proposals, Tables 52, 53)

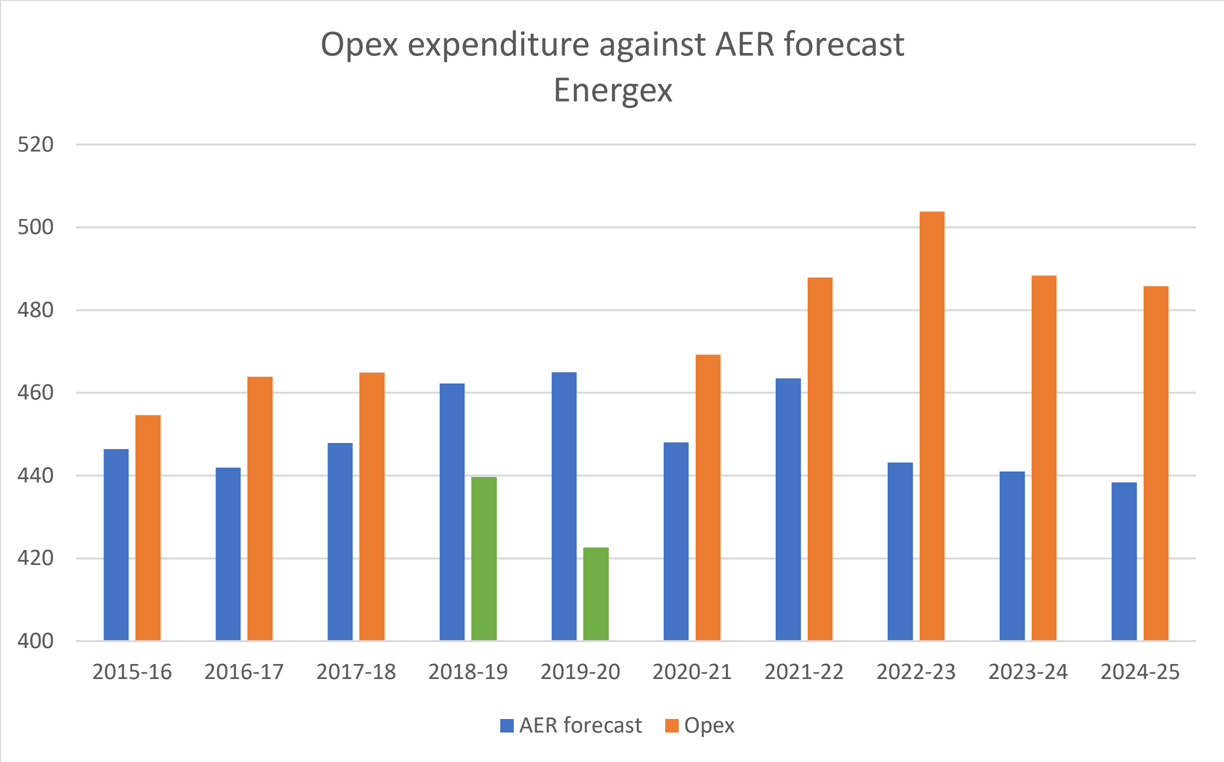


Figure 7: Opex performance against AR allowance, 2015 – 2025 (Source: CCP analysis of EQL's proposals, Tables 52, 53)

It is worth noting that effort has been made to limit the number of 'step changes,' for example Energex absorbing cyber security and insurance premium increases.

10. Do you consider Ergon and Energex's proposed responses to affordability concerns expressed by stakeholders are appropriate and achievable?

No. Please see our earlier comments regarding affordability. Our concerns centre on the long-term impacts of the rising network investments and the deliverability of the proposed productivity dividends.

However, we commend EQL's action to propose a 1% productivity dividend to customers. However, the impact of this dividend as proposed will have a very small impact on the total required revenue outcome. Our assessment is that this component is minor compared to Ergon Energy's 3.9% increase in forecast expenditure over the AER allowance in the current period, noting this increase is 'carried through' into the 2025-30 proposal.

Step changes

We are pleased to note that Energex will absorb planned step changes on cyber security ($5.0m) and increase insurance premiums ($5.5m) in respect to the materiality of these changes. Energex regards them as immaterial and is absorbing those costs in the normal opex allowance to improve affordability.

Impact of ICT investments

It is a reasonable expectation that the significant investment in ICT capability would have a significant impact in reducing operational costs across both companies, in areas including:

- Customer service activities – contact centre, connections
- Targeted asset inspection and works management

- Meeting growth in customer numbers
- Overheads and background costs such as administrative functions

EQL has not provided much clarity in their engagement as to how such increased capability will deliver operational cost benefits, other than the sweeping productivity dividend.

Network Visibility

We expect that the recent changes to the rules regarding accessing smart meter data will be reflected in the draft decision. It is important to highlight the issue of network visibility. Some years ago, Energex undertook a significant roll-out of smart meters on distribution transformers in lieu of maximum demand meters. This innovative action provides Energex with significantly better and more granular data on the loading of thousands of distribution transformers, more than any other utility in Australia. We look forward to this progressive action 'paying dividends' as the need for better network visibility continues to rise in importance.

11. Do you consider Ergon and Energex's proposals were sufficiently considered as a part of the stakeholder engagement processes, and adequately address the themes and issues raised by stakeholders?

No. Please see our earlier comments regarding engagement. We believe that engagement on the components and efficiency deliverables related to operating costs was limited information, indeed.

Incentive schemes

Energex and Ergon propose to apply STPIS, EBSS, CESS, DMIA and DMIAM in the 2025-30 regulatory control period, consistent with the schemes that apply in the current regulatory period [14].

Notably, and unlike most other utilities, Energex and Ergon are not proposing to introduce the new CSIS scheme. The scheme was considered early in the consumer engagement process, including their Voice of Customer (VoC) engagement framework.

The way EQL handled the engagement regarding the Service Incentive Scheme was interesting. The matter was canvased with consumers in their VoC engagement in July 2023. Our observation is that the matter was presented evenly and fairly to consumers by EQL, however the attendees latched on to the concept of 'being rewarded for good service'. This quickly set the tone for the rest of the consultation on CSIS, with the outcome being customer support for:[15]

> *"No incentive scheme at all. Customer will ultimately pay penalties through delayed infrastructure or extra cost. No reward and no penalty (Community/Government will hold them accountable). This is an internal system to do with Ergon and their staff."*

and

> *"If customer KPIs exceed the target ok, yes they should receive a pat on the back. Customers are already paying for great service. This is an internal system to do with Ergon and their staff."*

Energex and Ergon received strong feedback from customers that while good customer service is important for customers, it should not be incentivised for their businesses, Customers are not willing to pay for improved customer service that should occur.

Based on this feedback, Energex and Ergon are not only proposing not to apply the CSIS, but they are also proposing to remove application of the STPIS customer service component (telephone answering), and the related 0.2% revenue at risk which is part of the current STPIS framework[16].

12. Do stakeholders agree with Ergon and Energex's proposal to not apply the CSIS?

Yes.

EQL notes in their proposals:

> *" Based on customer feedback that we should not be incentivised to provide good customer service, we propose that the CSIS should not apply"*

We agree that the proposal accurately reflects the clear engagement outcome of not supporting the introduction of a CSIS. However, we believe that the way it was presented by EQL as being a 'reward for good service' set a tone that led to the inevitable rejection of the proposal by customers.

Such a position is out of line with other network businesses that have supported a CSIS and STPIS scheme as an efficient way to incentivise improved customer service and spent considerable time

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[14] See p.145, https://www.aer.gov.au/system/files/2024-02/Ergon%20-%202025-30%20Regulatory%20Proposal%20-%20January%202024%20-%20public_0.pdf

[15] Ergon Network VoC Panel report., August 2023, recommendation B1

[16] See p.150, https://www.aer.gov.au/system/files/2024-02/Ergon%20-%202025-30%20Regulatory%20Proposal%20-%20January%202024%20-%20public_0.pdf

considering what the metrics should be. We believe that EQL may have 'closed the door' on CSIS too quickly, but the sentiment from consumers is unequivocal.

13. If the telephone answering parameter does not apply to Ergon and Energex, is it appropriate to reduce the revenue at risk cap to 1.8% of total revenue?

Yes, on the basis that the STPIS target for telephone answering will be removed.

14. If Ergon and Energex do not apply a customer service scheme, what metrics should the AER track, if any, to ensure transparency?

In the customer presentations, EQL did a good job highlighting the customer service performance monitoring framework that exists. That information is shown in Figure 9 below. EQL did not mention the network reliability minimum service level requirements nor the service level compliance requirements under the National Energy Rules.

How we are currently incentivised to provide customer service

As a monopoly business, regulators impose certain obligations on us and provide incentives to encourage good customer service. These include:

Regulator	Regulation	Mechanism	Measures
Queensland Competition Authority	**Guaranteed Service Levels**	Compliance	Ergon Energy Network is required to meet targets relating to: • wrongful disconnections • timeliness of connections, reconnections and appointments • frequency and duration of customer outages • provision of notices of planned interruptions to supply
Australian Energy Regulator	**National Energy Customer Framework**	Compliance	Ergon Energy Network is required to report breaches for: • Failure to provide four days' written notification to a life support customer for a planned interruption • Wrongful disconnection of a life support customer • Premises was de-energised prior to requested date • Incorrect premises de-energised • Failure to provide at least 4 business days' notification of a planned interruption to supply
	Service Target Performance Incentive Scheme	Financial incentive	Ergon Energy Network is rewarded or penalised for performance against targets set for: • Telephone: calls to fault line not answered within 30 seconds

Figure 8: Customer service measures, Energy Queensland (Source: Voice of Customer Panel sessions, 15 July 2023)

Customer service measures – Internal and Regulated

Measure	Regulated	Target	Current Result
STPIS Telephony – Fault calls answered in 30 seconds	Y	79.91%	84.92%
Customer Satisfaction (CSAT)	N	69	72.2
Net Trust Score	N	63	64.6
Voice of Customer (VoC)	N	69	71.9
Stakeholder Engagement Satisfaction	N	60	74.3
Complaint resolved in 10 days	N	90%	97.8%
New Connection	Y	95%	99.5%
Re-energisation	Y	95%	98.4%
Special Read	Y	95%	98.0%
All other Service Orders	Y	95%	98.3%

Figure 9: Customer service measures, Energy Queensland (Source: Voice of Customer Panel sessions, 15 July 2023)

EQL have a wealth of information from customers received through their many broader engagement processes.

EQL is encouraged to adopt a very transparent and accessible scheme for reporting customer service performance, using many of the metrics already available. We would encourage EQL to address this issue in more detail in their revised proposal. We also encourage the AER to pursue that EQL publish these performance measures in public, such as on their website, for transparency and accountability, as an alternative to the CSIS and STPIS schemes.

15. Do you have any views on the proposed application of any of the above incentive mechanisms?

EQL have demonstrated an approach that does not respond strongly to the incentive schemes. This is highlighted by the regular over expenditure in capital and operating costs and related to a shareholder with "deep pockets" and a clear vision of energy supply requirements.

We note that the penalties flowing from the incentive schemes in the current period for part of 'lower costs for consumers.' Whilst this issue was presented in the engagement, it was part of a large and detailed presentation on many issues, and we believe consumers did not have a reasonable opportunity to absorb, understand and respond to the impact of the penalty as part of the revenue stack.

Tariff structure statements

EQL undertook a significant amount of engagement regarding tariffs and tariff reform. When offered three options of slow, medium and fast pace of reform, consumers leant towards 'medium – build up pace.' We believe that this highlights a balance between a wariness by consumers of tariff reform, driven by concerns that bills will go up,

Tariff matters for energy consumers

The importance of developing tariffs to address cross subsidies and cost reflective pricing is well understood within the energy industry. For energy consumers however, the concepts of 'fairness' and 'empowerment' are key. It is important when assessing proposed tariff structures that the consumer aspects of tariffs are considered. These include:

a) Will the consumer view the tariff as being 'fair and reasonable', including any aspect of cross subsidy between, say, customers who have the means to invest in rooftop solar, batteries and electric vehicles, and those who cannot?
b) If the tariff is intended to provide 'signals' to encourage changed energy use behaviour, will this signal be passed on by retailers and be strong enough to encourage change without being punitive?
c) Can the customer be reasonably be expected to be able to see (in advance, preferably), and meaningfully respond to, these signals?
d) Will any cost to adopt an advantageous tariff outweigh the benefits (e.g. cost of rewiring)

And finally, but perhaps most importantly,

e) Who would take the role of informing the customer of any tariff change (especially a network or retailer-driven reassignment), so that there is at least an understanding as to the rationale behind why the change is being made, reducing the risk of strong social media-fuelled negative sentiment, and similarly,
f) is it reasonable that the customer will be made aware of any advantageous tariff. Who in the energy chain would be expected to offer any better option to the customer?

We recognise that these matters are more or less outside the scope of a formal response to a tariff structure statement. However, they are central to the success of the introduction of any new tariffs. In the EQL engagement, many of these aspects were raised by consumers.

Engagement

EQL undertook a significant amount to engagement on tariff matters. The issue of tariffs was identified early in the co-design process as being a priority. The Energex and Ergon Energy *Engagement Summary Reports* provide a lot of information regarding customer responses to tariff matters, although much of the detail is embedded in reports of broader and multi-faceted discussions.

We acknowledge the level of effort and detail that went into the engagement regarding tariffs and pricing. Energy Queensland has a lot to consider in that area – regional tariff design, addressing the impacts of very high levels of embedded generation, legacy tariffs, meeting the needs of vulnerable customers – on top of the more general emerging challenges such as the ever-growing diversity in 'the average customer' and the expectation of tariffs as a key tool in signalling the need for change in customer energy use.

EQL continues to use a wide range of customer and community engagement channels regarding tariffs:

a) Their Customer and Community Council
b) Agriculture forums
c) Their survey mechanisms such as the Queensland Household Energy Survey
d) Voice of the Customer forums
e) The Reset Reference Group
f) The Network Pricing Reference Group

Other than the last two channels that make use of members that are highly skilled and experienced in tariff and pricing issues, the engagement is quite wide and general. As with all of the engagement subjects, CCP30 and the AER were welcome to attend the sessions.

Our observations of the engagement are:

a) The conversations were coming off a low base of understanding. Energy literacy is low. Most customers noted that they were not aware of their tariff arrangements other than the solar feed-in tariff, and some were aware of controlled load for a hot water system or pool pump.
b) The sessions, especially in the early stages, were heavily focussed on information sharing and education for consumers.
c) The community forums tend to focus on retail pricing, particular in the Ergon Energy area where there is little awareness of network pricing processes, and Ergon retail's retail prices are 'the tariffs that matter'. The conversations often refer to 'Tariff 11' and 'Tariff 33' – the retail gazetted tariff descriptors.

> *"Customers struggled to distinguish between their distributor and retailers' role on setting energy prices, particularly for Ergon customers due to the shared retailer and distributor branding."* [17]

d) There is not a strong awareness of the role of the Queensland Competition Authority and the role it plays in setting regional tariffs, including the interrelationship between Energex tariffs and those in regional Queensland.
e) The forums do have a good position on 'fairness' and the need for EQL to adapt pricing to the new energy landscape. Customers agree that 'do nothing' is not an option. There is clear interest on any arrangements that can empower customers and have the potential to lead to lower bills.
f) There is strong desire to know more. As the forums progressed, customers began to appreciate the challenges and need for change. Frequently, customers noted that the needed more information to take an informed position on tariffs, across the residential and small business customers particularly.

We note the commonality of the Tariff Structure Statements of both Energex and Ergon Energy, including advice from the shareholder to defer the withdrawal of several legacy tariffs.

Ergon energy customers and the transition to time-varying tariffs

We have one area that we ask the AER to closely consider as to tariffs and their role of 'signalling' customer energy use behaviour. In the Ergon Energy area, the vast majority of residential and small business customers are Ergon retail customers. This means that any tariff changes or requirements that are intended to influence the energy use behaviour of customers in regional Queensland will be highly dependent on how Ergon retail chooses to pass through the network tariff signals.

[17] Energex and Ergon *Engagement Summary report*, January 2024, Page 43

The Ergon Energy TSS notes:

> *"Customers in regional Queensland supplied by Ergon Energy Retail are assigned to a default regulated retail tariff that **does not necessarily reflect the underlying network tariff structure** we apply to the retailer. However, customers with smart meters have the option to move to different regulated retail structures that are more closely aligned to our network tariff structures."* [18]

We see this as a critical issue for Ergon customers and the successful introduction of progressive tariffs. Whilst the tariff redesign will provide the right cost allocation to the retailer and for customers in the future, unless there is some form of commitment to inform customers of the options, advantages and risks, the take-up of time-varying tariffs will be minimal indeed, and the objectives of the tariffs to encourage change in customer energy use is highly unlikely to be delivered, in the short to medium term at least.

The average customer?

There is no such thing as an average customer, especially in a network with a high penetration of rooftop solar. We have observed members of these differing demographics having quite disparate views on matters such as two-way tariffs and time-varying consumption tariffs. This was particularly clear in the EQL engagement.

EQL have commendably use a 'personas' approach, which is becoming more common in tariff impact analysis. We suggest that this approach could in time be expanded to highlight the different views on tariff development across a range of customer types, providing more clarity on the issues to consider in tariff design.

The Network Pricing Working Group

EQL has relied on the operation of a highly skilled network pricing working group (NPWG) to assist in the development of the tariffs. CCP30 has observed this operation of this group at times and are highly supportive of their function and findings to date. In particular, we acknowledge:

a) The need for a balance between precision and simplicity of the tariffs
b) Supporting a focus not only on prices but also the services customers receive. (We would expand that finding to include the expectations placed on customers to change energy use behaviour to realise tariff benefits.)
c) Explanation why the ToU for residential customers advice not to apply on weekends was not observed in the proposal.

CCP30 is aware that the NPWG will be providing a formal response to the AER, and we look forward to that advice.

Overall, the two Tariff Structure Statements accurately reflect the feedback arising from the various channels of consumer engagement. Consumers appreciated the reasoning behind the wider use of time-varying tariffs and the need to strengthen the peak price signal.

[18] Ergon Energy *Tariff Structure Statement 2025 - 30 Regulatory Determination Proposal*, pg 10

Communication planning

Critical though is the need to establish a clear and effective communication and engagement plan with retailers and customers to hopefully clear the way for an effective introduction and adoption of these tariffs. We implore the AER and EQL to articulate a communication strategy for the tariff changes.

Recent events in the community regarding energy tariffs highlights that successful tariff reform is predicated on customers being able to understand their tariffs so that they can optimise their benefits or at least minimise negative impacts. The necessary preconditions for this are broad-based customer education and sufficient penetration of demand response technology. These pre-conditions must be provided to help deliver the benefits of cost reflective pricing.

The implementation of these tariffs MUST be accompanied by effective consumer information strategies broadly across the industry, otherwise the good intents are doomed to fail.

Transition to new tariffs

The introduction of the lower daytime off-peak step was well received, although some customers with solar considered this, along with the to-way tariff proposal, as reducing the amenity of having solar PV. There is no doubt that these initiatives will continue to attract attention from pro-solar PV groups and highlights the difficulty in growing appreciation of the need for self-consumption of generated energy.

We do not suggest that areas of the TSS require adjustment per se – rather that a deeper and more reasoned explanation of the calculations and assumptions behind the impact assessments would be helpful. For instance, the price impacts across the personas, reproduced in Figure 10 below, suggest bill reductions from shifting demand from the evening. A common criticism of this type of analysis is that load-shifting is not always possible or undertaken. It would be useful if EQL could highlight the assumptions made in arriving at these calculations.

CUSTOMERS		FY26 Network distribution bill per annum	Move from flat/ anytime tariff	Shift import from evening peak to daytime	Opt-in to two-way tariff	Shift export timing & increase self-consumption	Potential bill reduction
John	Family of four Majority of energy usage outside school hours and weekends 5,200kWh/year With solar	$635	-*	-$46 ▼	$5 ▲	-$3 ▼	-$48 ▼
Zahara	Family of three Majority of energy usage in the evening when electricity demand is high 3,800kWh/year With solar and electric vehicle	$625	-*	-$45 ▼	$16 ▲	-$10 ▼	-$39 ▼
Arush	Retired couple Majority of energy usage through the day to make use of solar 2,300kWh/year With solar	$369	-*	-$19 ▼	$14 ▲	-$2 ▼	-$7 ▼
Azami	Single parent, family of five Works from home. Energy usage spread over the day >8000kWh/year Without solar	$784	-$52 ▼	-$61 ▼	-	-	-$113 ▼

*customer is already assigned to the default smart meter tariff

Figure 10 Personal analysis for bill impacts (source: Proposals, p51)

"Winners and Losers"

Whilst tariff reform is encouraged, we ask that EQL (as well as the AER and other utilities) place a greater focus on those who are not empowered to make use of new tariffs. Our simple position is, in a revenue-capped regulatory environment, for every customer that can save money, someone else must pay.

16. Do you consider there are any aspects of Ergon or Energex's proposed TSSs that require adjustment?

The TSS as presented by Energex and Ergon Energy reflect the consumer consultation and are supported. The EQL Network Pricing Working Group continues to provide a useful and effective advisory framework for EQL as the tariff work continues.

There is always a level of concern with the tariff work with EQL's larger customers, including the Individually Connected Customers (ICC), who have a higher visibility and sensitivity to tariff changes. We continue to recommend frequent engagement on C&I tariffs with impacted customers.

We would like to see a consumer and retailer engagement strategy as part of a TSS, given the difficulties in establishing support for tariff changes in the community. In the Draft Decision, it would be useful for the AER to explore engagement plans as a part of a TSS. This is especially important with the introduction of the two-way export tariffs.

Regarding the new tariffs, it would be helpful to understand how EQL will continue to monitor the uptake and impact of the tariffs to examine whether they are appropriately targeted, validating the input assumptions and calculations, and determine if they are achieving the desired impact.

17. Do time-of-use (TOU) - demand and energy tariffs as the default tariff structure for residential and small business customers balance the pace of reform with customer views/impacts?

EQL correctly highlight the need to balance tariff precision with the practicality of customers being able to reasonably respond to the pricing signals.

A few issues will need to be considered, as noted in the table below.

Tariff consideration	Discussion
Demand tariffs	EQL has promoted the idea of demand tariffs for residential and small business consumers for some time. The matter was presented in the tariff engagement for this proposal but received little support due to its complexity and difficulty for consumers to determine and respond. EQL's decision not to proceed with the wider application of demand tariffs for small customers is supported.
Transitioning to a stronger price signal	After quite a lot of explaining, customers appreciated and generally supported this initiative. It is important to note that for many customers, particularly in reginal areas, the transition to retail ToU pricing as a widespread tariff for small customers has some distance to run.

Two-way network tariffs	This remains a contentious issue with sentiment and support differing across customers who do and do not have access to rooftop solar. Issues such as the practicality and entry cost to be able to export energy to the network after 4pm was challenging. Overall, the rationale was cautiously accepted. Questions arose as to why the timing of a residential two-way tariff differed from the proposal for a similar tariff for non-residential areas. Whilst it is recognised that a two-way tariff is being adopted by a number of utilities, the issue still remains "how does the consumer meaningfully react to such a signal?" When thinking through the practicalities of managing such a cost, customers asked: • How do I know that I am about to go over the export limit, in time to do something about it? • The average PV installation for a residential customer is 5 kilowatts, so it will be almost certain that I will go over the 1.5-kilowatt export limit at some time of the day, as I do not use appliances continuously. So this is basically a reduction a new charge that most solar owners will have to pay? • What is the analysis that shows how many customers will be affected? There is no data in the TSS. "I need much more information before I can agree."
Storage network tariffs	There is clearly an ongoing issue here, as highlighted by concerns raised in the question period of the Issues Paper public forum. EQL have done a lot work in this area, and it will be important to consider the feedback to the issues paper and proposal from the groups specifically interested in this matter.
Load control	EQL, as have all distributors with a large amount of controlled load and growing solar PV generation, has a real issue with the future of controlled load. To quote a senior expert in the area within EQL: " the load control system is broken." It is clear that EQL have thought a lot about this issue, as the amount of load under control shrinks and the importance of demand response increases. EQL have proposed changes to their load control strategy through a more open connection requirement to a wider range of equipment and signalling an intent to replace the more traditional controlled load tariffs with a more flexible tariff arrangement. It is useful that EQL are considering a more effective role for controlled load, in conjunction with their high-profile development of dynamic demand response capability (Dynamic Operating Envelopes).
Large Customers and high-voltage tariffs	We are aware that there is a generally strong programme of continuous engagement with large customers across Queensland. Overall, the support was for minimal change.

Embedded networks	We note that EQL have not done much work at all on the issue of embedded network tariffs, mainly due to the very small numbers in regional Queensland and the low response from consumers for this matter to be a priority in the limited time available for consultation.

Export Tariffs

There is a high risk that a significant proportion of customers are likely to exceed the basic export limit and thus incur additional costs.

Customers will need further information on the thinking behind the introduction of export tariffs, including the calculations of assumed average solar system size, volume of exports and assumed customer utilisation of export rewards. The application of export charges is almost certainly to encounter some resistance, especially from existing solar customers who may be unable to adjust their behaviour to respond to the new charges.

We strongly support Origin Energy's position in their response to the issues paper:[19]

> *"Accordingly, it is essential that the introduction of export charges be accompanied by a comprehensive customer education campaign that clearly explains the rationale and benefits of applying export charges. We consider that both state governments and network businesses should have a central role in providing information to customers. We request that the AER clarify how and by whom any education campaign should be delivered."*

[19] Origin Energy Limited, *Submission to the Energex and Ergon regulatory proposals, Letter to the AER*, 15 May 24

Questions on metering

18. Do you have any comments on the proposed cost recovery approach for legacy metering services?

We support the position of cost recovery through a standard control service as per the recent NSW decisions. EQL canvassed this issue with consumers and received support.

19. Do you have any feedback about regulating the Mount Isa-Cloncurry network the same way as Ergon's grid-connected?

There was little engagement with consumers nor the RRG on this matter. Overall, though, we support the proposed treatment on the basis that commonality of approach should lead to efficiencies, and that applying the AEMC reforms to the specific network is in the long-term interest of consumers.

Questions on ancillary network services

20. Do you consider the rationalisation of the fee-based services appropriate?

There has been little if any consumer engagement on the changes to fee-based ancillary services, although we acknowledge that EQL is active in this area in dealing directly with contractors, suppliers and retailers.

21. Do you consider that sufficient justification has been provided in the provision of new services?

As above

22. Do you consider the proposed labour rates and fee-based prices to be reasonable?

As above

Questions on public lighting

The CCP were not deeply involved in the discussions between EQL and its public lighting customers.

This is consistent with past experience with EQL who, despite the lack of representative collectives such as Regional Organisations of Councils (ROCs) that we see in other states, work effectively with councils and developers. EQL have in the past been well respected as being innovative and customer-focussed in the area of public lighting.

23. Do you consider Ergon and Energex's public lighting proposal generally incorporates stakeholder inputs from this pre-lodgement engagement? If not, did Ergon and Energex communicate these potential departure points to stakeholders and provide adequate explanation during pre-lodgement engagement?

Our broad observation is that Ergon and Energex engaged effectively with the interested parties, and considered feedback and that is reflected in the Regulatory Proposal.

We also note the RRG's comments that highlighted this bespoke program as an exemplary example of effective customer engagement.

24. Do you support Ergon and Energex's proposed suite of public lighting services and prices?

Due to our limited involvement, we do not have any specific comment on prices.

25. Do you have any other comments on Ergon and Energex's public lighting proposal and their pre-lodgement engagement?

We understand that a number of issues remain on the table, including:

1. The pricing impacts of the carry-over of residual values of lighting, and
2. AEMO consideration of 'type 9' metering
3. Further development of 'smart lighting' and the role of the DNSP in such.