Consumer
Challenge
Panel

Advice to the AER regarding the Draft Decision and Revised Regulatory Proposal 2025-30

Energex

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. 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.

Authors' note – Commonality between the Energex and Ergon Energy advice to the AER

Energy Queensland, the parent company of Energex and Ergon Energy, carried out much of the consumer engagement for the two distributors under a single programme and framework. In addition, there are many common elements across each of the two Revised Proposals.

CCP30 has chosen to present our advice to the AER in two documents – one covering Energex and the other Ergon Energy - reflecting the fact that they are two separate regulatory entities.

There will be many common elements between the two reports to the AER, especially in the area of consumer engagement and the discussion on the Tariff Structure Statement.

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About CCP30

The Australian Energy Regulator (AER) engages informed customer advocates to their Consumer Challenge Panel (CCP).

CCP members are in turn appointed to sub-panels which will provide advice to the AER on specific network proposals, particularly to provide advice as to whether the proposals are in the long-term interests of consumers.

CCP30 is the subpanel assigned to the regulatory determination for Energy Queensland (Energex and Ergon Energy) and South Australian Power Networks (SAPN) distribution businesses for 2025-30, to comment on the effectiveness of network businesses' engagement activities with their customers and how this is reflected in the development of the proposals.

The role of the CCP supports the delivery of the AER's objectives and include:

1. monitoring, assessing and where appropriate, informing how Distribution Network Service Providers are conducting their consumer engagement activities ('observe and inform').
2. assessing the network regulatory proposals and provide assurance on the effectiveness of engagement and whether consumer views have been appropriately reflected ('assurance').
3. providing advice on consumer perspectives on issues related to network determinations and also to challenge the AER to ensure that consumer views have been fully accounted for in their decisions ('challenge').

Glossary

ACCC	Australian Competition and Consumer Commission
ACS	Alternative Control Services - activities by the utility that are 'fee for service'
AER	Australian Energy Regulator
AMI	Advanced metering infrastructure
Better Resets Handbook	A guide issued by the AER that outlines expectations for engagement
CAB	Consumer Advisory Board (SAPN)
CAPEX	Capital expenditure
CCP	Consumer Challenge Panel
CESS	Capital Efficiency Sharing Scheme
CSIS	Customer Service Incentive Scheme
Demand	Instantaneous power use
DNSPs	Distribution Network Service Providers (electricity distributors)
Draft Decision	The AER's response to the Regulatory Proposal in September 2024
EBSS	Efficiency Benefit Sharing Scheme
Energex	The electricity distributor in South-east Queensland
EQL	Energy Queensland Limited, the holding company of Energex and Ergon Energy.
Ergon Energy	The electricity distributor for the areas of Queensland outside the SE corner
ESP	Early Signals Pathway (See Handbook)
Final Decision	The AER's final decision on the allowable revenue and tariff structure
GSL	Guaranteed Service Level scheme
HV	High voltage
IAP2	International Association for Public Participation
ICT	Information and Communication Technology
LV	Low voltage, typically in reference to local distribution power lines
MTFP	Multilateral Total Factor Productivity
NEO	National Electricity Objective
OPEX	Operating expenditure
Proposal	The Regulatory Proposal submitted to the AER in January 2024
PTRM	Post Tax Revenue Model, which brings together the revenue building blocks
QEJP	Queensland Energy and Jobs Plan
Revised Proposal	The revised regulatory proposal submitted to the AER by Energex in November 2024
RRG	Reset Reference Group - panel of consumer energy reset experts appointed by EQL

SAIDI	System Average Interruption Duration Index
SAPN	South Australia Power Networks, the electricity distributor in South Australia.
SCS	Standard Control Service (i.e. included in the allowable revenue cap)
STPIS	Service Target Incentive Scheme
ToU	Time-of-use (tariffs)

1. Introduction – The process so far

The Energex Regulatory Proposal

In its Regulatory Proposal for 2025-30 (“*the Proposal*”) submitted to the AER in January 2024, Energex, as was the case in many other recent proposals by other utilities, included substantial increases to forecast expenditure, citing the need to adapt to an evolving energy system as well as meeting the increasing energy demand requirements of a fast-growing customer base in South-east Queensland.

The proposal comprised thousands of pages of documents, including modelling, business cases and findings from numerous consumer engagement exercises.

The engagement was intensive and professional, mainly considering the broad relationship with the community, with deeper focus on tariff structures and the Customer Service Incentive Scheme (CSIS).

The proposal noted a significant 22% increase in capital requirements over the estimated spend for the current regulatory period and 40% over the AER’s allowance for that same period. Operating costs overall remained line with longer term actuals and estimates, but with a rising trend in annual expenditure over the past three years, overspending the AER allowance. [1] Residential network charges were estimated to rise by 5%, or $35, p.a.

Efficiency penalties were applied due to an overspend on both ICT capital and operating allowances in the ex-post review period 2018-19 to 2022-23. The shareholder (the Queensland Government) chose to fund the capital overspend of the ICT project.

The AER Draft decision

The AER provided its Draft Decision in response to the Energex proposal in September 2024.

In that Draft Decision, the AER noted the significant proposed increase in expenditure, along with a comment that investment

“… needs to be managed carefully, in line with the long-term interests of consumers”

as well as

“Energex’s proposal comes at a time when asset utilisation is low by historical standards and network reliability is near the highest it has (ever) been.” [2]

Despite the slight reduction in allowable revenue from that in the initial proposal, the Draft Decision overall provided a significant increase in Energex’s allowed revenue – being $8,704 M, up $2,585 M from the 2020-25 determination in nominal terms – that results in a 9.6% increase in consumer bills by the end of the regulatory period. Just over half of the increase is due to the unavoidable impact of rising interest rates and hence allowable return on the asset base. The balance of the increase is due to higher expenditure and ‘controllable factors.’

The capital investment proposal was revised down by 16% to $2,810 M, largely on the basis that Energex was perceived to be conservative (over cautious, passing the cost of risk to consumers) in its assessment of network reliability requirements and network repair methodology. The AER left the door open on the decision should further information be made available and some parts of the proposal clarified, particularly the distribution licence ‘safety net’ provisions for network reliability.

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[1] AER presentation, 2025-30 Distribution Revenue Forum, 11 April 2024, slide 12

[2] AER Draft decision – Energex distribution determination 2025-30, Executive Summary page (v)

The Draft Decision included a revenue adjustment deduction of $390.9M due to the impact of capital and operating efficiency schemes and the cost overruns in the 2020-25 period.

In its Draft Decision, the AER reduced the allowable revenue by 2.2%, as shown in Figure 1 below.

Category	Draft Decision	Change from proposal
Revenue (nominal, smoothed)	$8,704M	$194M (2.2%) reduction
Operating expenditure	$2,285M	Accepted
Nominal bill increase (residential)		
Capital forecast	$2,801	$540M (16.2%) reduction
Asset Replacement	$920M	0.8% reduction
Augmentation	$595M	45.6% reduction
ICT	$266M	26.5% reduction

Table 1: AER Draft Decision- change from proposal (summary) - Energex (source: AER)

The Tariff Structure Statement was not accepted, noting this is a topic that Energex engaged heavily with its RRG and consumers. Discussions on aspects of the proposed tariff structures continue, in particular default tariff assignments and the application of demand tariffs for 'peaky' loads.

Post Draft Decision Predetermination conference, October 2024

In the online predetermination conference of 10 October 2024, the AER noted the improving network performance and a low level of network utilisation since 2015, and that the Draft Decision would result in a relatively stable ratio of the value of the Energex asset base to energy transported (RAB / kWh).

The AER also presented the 'wall of capex' from distributors, as shown in Figure 1 below, and its impact on energy bills for consumers.

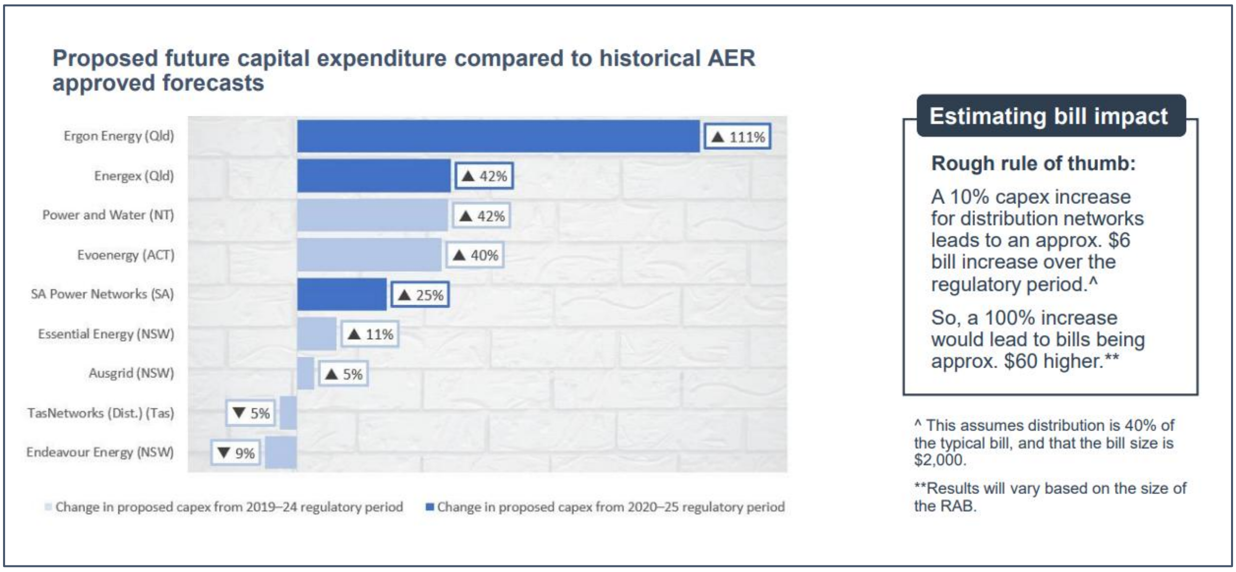

Figure 1 – 'the AER Wall of Capex' (source: AER presentation, 10/10/24)

The RRG presented their initial impression of the draft proposal, again raising the importance of affordability considerations and the inability to see how engagement has meaningfully influenced the substance of the proposal beyond the areas of tariff structure and the CSIS.

The RRG also voiced support for the customer position of no CSIS to apply, on the basis that the customer feedback was that Energex should not be rewarded by customers for 'good performance.'

The Energex Revised Proposal

In response, Energex lodged its Revised Proposal ("*the Revised Proposal*") in November 2024, which included additional information to support the required revenue, particularly capex.

Despite the AER in the Draft Decision largely accepting Energex's opex proposal, Energex has chosen to increase its proposed operating expenditure to $2,510 M, an increase of 9.9% on the proposal, on the basis that the previously forecast performance in the 2023-24 base year was replaced with higher actual costs. The intention to use the actual base year costs once they became available was clearly flagged in the proposal.

This leads to an increase in the revenue requirements, largely reversing the reduction applied by the AER in the Draft Decision.

Regarding capital expenditure, Energex submitted an updated capex model to the AER in late June 2024. Energex has revised its capital plan to a total of $3,135 , accepting the bulk of the AER Draft Decision, reducing fleet and overheads, but increasing it augmentation proposal significantly above that of the Draft Decision (but still 10% under the original proposal).

The AER's did not accept Energex's Tariff Structure Statement, maintaining their opposition to Energex's proposal to assign residential and small business customers with smart meters to a demand basis. Energex has largely (reluctantly?) accepted the AER's Draft Decision in their proposal. We acknowledge the continuing work with RRG and the AER regarding the merits of the AER's decision.

Category	Draft Decision	Revised Proposal
Revenue (nominal, smoothed)	$8,704M	$8,894M[3]
Operating expenditure	$2,285M	$2,510 (up 9.8%)
Nominal bill increase (residential)		4.6% ($33) annually
Capital forecast	$2,801	$3,135 (up 12% on DD)
Asset Replacement	$913M	Accepted
Augmentation	$324M	$539 (up 66% on DD) 9.7% less than proposal
ICT	$195M	Accepted
Capitalised overheads	$615.7 M	$720.3M

Table 2: Energex Revised Proposal – change from AER Draft Decision (source: Energex Revised proposal)

[3] From SCS PTRM model Nov 2024 spreadsheet v5, Revenue Summary Q21

2. Key Observations

Customer and Community Engagement focussed on tariffs, CSIS and the AER's capex decision.

Energex, along with Ergon Energy, have faithfully delivered the remaining stage ('Phase 5') of their consumer engagement plan, presenting the Draft Decision and plans for the Revised Proposal to consumer forums and their RRG prior to lodgement of the Revised Proposal in November. Throughout the revenue reset process, both Energex and Ergon remained very active in their engagement with consumers across a number of forums, including their RRG.

The RRG met with Energex a number of times in the period leading up to the Revised Proposal. We commend the RRG feedback to the AER as being credible and well-researched.

Our observation is that this final phase of engagement continued the previous theme of focussing on the tariff structure and application plans, and to some extent continue to outwork the Customer Service Incentive Scheme. Otherwise, the engagement remained very much as 'inform'. The wider community-based engagement remained at a high level; such as considering the need for understandable tariffs and the future of renewables. We acknowledge that Energy Queensland is very good at this type of 'big picture' energy-in-the-community engagement, particularly in regional Queensland - but it is of limited value in informing the details of the price reset.

The engagement is discussed in detail in Chapter 3 - Customer Engagement.

The AER Draft Decision could have addressed the affordability imperative more aggressively.

We provide qualified support overall for the Draft Decision; to the point that it would be 'capable of acceptance'. However, we wish to highlight the fact that we believe the AER could place greater weight on the issue of electricity prices and affordability in the Draft Decision.

CCP30 supports the areas where the AER agrees with Energex analysis, however for other categories such as capex, the door was left open for Energex to respond with further information; providing a significant opportunity – almost an inherent expectation - to reinstate the proposal's significant cost increases.

With the imperative of affordability not clearly threaded through the Energex proposal, there is an opportunity (obligation?) for the AER to encourage Energex to review its network risk settings and the efficient delivery of services through setting challenging regulatory targets.

There are significant changes presented in the Revised Proposal that were not consulted on.

The Revised Proposal contains a number of significant departures from the Draft Decision. These changes in the proposal – the magnitude of actual expenditure in 2023-24 and the increasing opex trend, the rejection of the efficiency incentive scheme and its impact on the opex proposal, and the reinstatement of augmentation capital - have not been adequately and transparently discussed to the point where it can be said that there is consumer support for these positions.

We acknowledge the substitution of level of capital in the Draft Decision was not favoured by consumers, however we believe that VoC discussion was heavily slanted to support Energex's position.

Granted, time was limited, but the impact of these decisions, if not the detailed economic process, should have been made clear in the community forums. The issues were not presented to the RRG until the final briefing of for the Revised Proposal in early November, at which time these decisions were more or less 'locked in.' We ask that the AER consider these changes very closely through the lens of past performance in overspending and the risks in delivering the efficiency dividend, culminating in rising costs to consumers.

Issues for consideration in the final decision

We wish to highlight five key issues in this report, as follows:

1. *A need for a clear affordability priority in the AER's Draft Decision and the Revised Proposal*

We remain a little disappointed in the AER's Draft Decision. Despite noting the critical nature of energy affordability against a background of low network utilisation and strong network performance, the Draft Decision does not continue this theme in allowing an increase in Energex's average distribution charges to customers by 17.5% in real terms by 2029-30.

Whilst the use of 'stretch targets' is not part of the regulatory vernacular, a demonstrated commitment to the AER's observation of good network reliability and low asset utilisation could be more clearly integrated into the decision-making process.

We acknowledge that just over half of the allowed increase is due to the impact of inflation and allowable returns; but that still means that a significant proportion of the increase is 'open for discussion.' Also, we agree that the changing energy landscape presents new challenges that must be funded, including increasing climate change risks, environmental obligations and shifting customer energy needs.

The Queensland Household Energy Survey 2024 reported 62% of customers have a high concern about their ongoing ability to meet food and grocery bills, with 56% concerned about the ability to pay the electricity bill.

We believe that Energex has not effectively received clear consumer support for the increased investment nor higher operating costs, and that despite affordability being highlighted in much of the early feedback, it was not effectively dealt with by Energex nor the AER outside broad promises of efficiency gains and the impact of penalties and projects not being allowed into the asset base.

The AER's capital investment decision left the door open for more information; an opportunity taken by Energex to largely interpret as tacit approval, so long as more data is provided. We had hoped that the capital Draft Decision would have placed more pressure on Energex to critically review its network risk position (including safety net), network utilisation and network efficiency.

CCP30 is strongly of the opinion that the AER must place greater weight on the issue of affordability and cost control within utilities, including Energex. We see the final proposal to increase expenditure and long-term capital, along with excluding the efficiency schemes, must be critically considered against community affordability pressures and the opportunity to encourage greater utilisation of network assets.

At the very least , the AER must clearly explain how the long-term interests of energy consumers are considered in the final decision in the light of significantly rising prices.

2. *Perceived bias in Energex presentations*

Other than for these two predominant themes of tariff structures and the CSIS , the intensive engagement following the Draft Decision remained broad. Presentations by Energex were very supportive of the Energex position, without any detailed fair and reasonable discussion about the alternatives or clarity of the reasons behind the AER decisions.

For example, the Customer Panel Workshop in October, following the Draft Decision, spanned a wide spectrum of topics of interest to consumers. An intent of the workshop was to present the AER's Draft Decision. At that time, we were concerned that the Energex (and Ergon Energy) presentations were tilted significantly in the direction of supporting the Energex position, with an undercurrent that any reductions in funding by the AER would most likely result in reduced service quality to customers.

Important and useful context such as the capital and operating over expenditure and penalties, the decision to step back from the efficiency schemes, were not presented nor discussed.

Understandably, the feedback from the Customer Panel and Focus Group workshops heavily favoured the Energex position.

Consequently, we advise that the AER be wary of statements by Energex of strong support of any issue by consumers, other that the tariff and CSIS discussions.

We discuss this possible bias later in this advice in Chapter 4 - Capital Investment.

3. No consumer involvement on key decisions on the Revised Proposal

Energex has presented a number of significant matters in the Revised Proposal that deserve scrutiny by consumers, as they have not only commercial impacts but also reflect the thinking behind the operation of what is essentially a publicly owned utility. These are:

a. Increasing capital expenditure beyond that of the Draft Decision

b. Significantly revising upward the operating cost requirements, despite earlier acceptance by the AER in the Draft Decision.

c. Reverse the initial proposal to participate in the efficiency incentive scheme (EBSS).

d. How Energex will address the competing pressures to deliver the 1% productivity to operating costs and capitalised overheads across the need for shareholder dividends and labour cost rises through the industry EBA and still delivering savings to consumers.

Key issues in the Revised Proposal such as the acceptance or otherwise of changing capital plans or the stepping back from the capital and operating efficiency schemes did not progress past 'inform' in any substantial way, and to a large extent, were not put on the table until late in the period between the Draft Decision and the finalisation of the Revised Proposal. This continues the theme of previous engagement that suggested a reluctance to put the details behind key decisions to consumers for feedback, let alone incorporating this feedback clearly into the proposals.

4. The need for balance in tariff reform

In the Customer Forum of 5 November, the RRG and the Energex Network Pricing Group – customer representatives, the operation of which we observe to be highly informed and effective - highlighted that they do not support key elements of the AER's Draft Decision on the Tariff Structure Statement.

We respect the position of the RRG and its role with Energex, and acknowledge the position taken regarding the reduction of cross subsidies and true cost-reflective pricing. However, from a consumer point of view we continued to have serious reservations about the effectiveness of demand-based tariffs to meaningfully influence customer energy use and put customers at the centre of the energy market.

CCP30 tends to agree with the sentiment that:

"Every tariff design is the product of subjective judgements about the preferred distribution, or redistribution, of risks, costs and benefits." [4]

In its early engagement, Energex highlighted, quite validly, that consumers want simpler bills, where it is easier to interpret the cost components and drivers, and, importantly, respond to those drivers in order to deliver lower energy costs.

Whilst demand pricing is promoted by networks as a much more appropriate reflection of the assets and investment needed to provide the service, it remains a mystery to all consumers other than a number of informed large users of energy. We have concerns that demand pricing will remain invisible to consumers, especially should retailers choose to modify the pricing signal and build in demand risk. The risk of higher prices exists, especially to those least empowered to influence their energy demand.

As the ACCC reported recently:

"We also see increasing numbers of customers on offers with multiple layers of complex pricing, for example, time of use offers where tariff components vary by season or time of use offers that also have a demand charge. We observe that many customers struggle with the increasing complexity in their tariffs, including moving to time of use or demand tariff structures." [5]

We ask that the AER in their final decision to support a progression to cost reflective pricing, but to balance this with consideration of the needs of everyday consumers for pricing that is understandable, measurable and empowers customers to take reasonable actions to manage their energy costs.

In addition, we note the AER's requirement for tariffs, in particular the 'EV charging tariff' reflecting an interpretation of the sustainability consideration of the NEO. We note the need to balance the objective to reduce obvious cross-subsidies in an economic sense with the practicalities and preferred outcomes from tariff reform.

We support the action by the AER in establishing a tariff that is likely encourage good sustainability outcomes and look forward to further action by the AER in this direction.

However, we believe that this then 'opens the door' for further decisions that may not be made on complete information, such as a carbon price, in the AER's determinations.

5. The impact of the proposed exit from the Efficiency Benefit Sharing Scheme

We are sure that the AER will in their consideration of the Energex Revised Proposal address the significant changes proposed by Energex since the Draft Decision, in particular the transition away from the Efficiency Benefit Sharing Scheme.

CCP30 recognises this is not an easy issue to assess, with the somewhat unique features of a state-owned utility clouding the intent and effectiveness of the efficiency scheme. On the other hand, from a customer point of view, we see strong arguments that Energex (and, sadly, Queensland ultimately taxpayers) 'suck it up' and remain committed to a scheme that is fundamental to our regulatory framework. Energex should have had one eye on the regulatory implications at the time the expenditure was being approved.

Whilst we appreciate Energex's case of being 'penalised twice', the fact that the decision to opt out of the efficiency scheme at the last moment, only after the impact of the revealed costs for 2023-24 were included, does not pass 'the pub test.'

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[4] Dr Ron Ben-David, *'What if the consumer energy market were based on reality rather than assumptions?'*, 2024
[5] ACCC, *Inquiry into the National Electricity Market*, December 2024

In addition, the needs to be consequences for the significant over-allowance expenditure , particularly in the latter part of the current regulatory period, rather than passing them onto customers.

Consequently, whilst recognising the significant commercial impact on Energex, on the balance of information available to us, we tend to favour maintaining the current EBSS scheme in the 2025-30 period.

Our observation of the tendency for Energex to regularly overspend its allowance and place further upward pressures on costs mean that all opportunities to drive efficiencies to the benefit of consumers must be applied.

This matter is discussed in detail in Chapter 6 - Incentive Schemes.

Finally …

Overall, we are supportive of the AER's Draft Decision but continue to have some reservations regarding Energex's Revised Proposal.

However, there is also much of the Proposal that is reasonable and clearly meets the needs of the South-east Queensland community.

High level indicators such as the value of assets per kilowatt transported or operating cost per customer from the proposal are consistent with other recent decisions by the AER.

Despite our concerns with the limited impact customer engagement has made on Energex's Revised Proposal, we acknowledge the right to review the opex base year and provide additional information to help justify the intended capex expenditure.

We view many parts of the Energex Final Proposal as 'capable of acceptance'. Energex has a long history of being technically adept, innovative and very customer focussed.

Should the operating efficiency scheme be abandoned, inefficient expenditure over the regulatory allowance in the next period will be carried by the shareholder. In Queensland's case, that means the state government and, by proxy, the taxpayers of Queensland. Consumers will pay, either way.

We trust that the consideration of the Revised Proposal from Energex by the AER reflects a commitment by the AER to place more pressure on utilities to innovate, focus on efficiency and manage increasing risks skilfully without passing those risks onto consumers through increased prices.

Knowing the capability and commitment of highly capable, well-resourced and well-respected utilities such as Energex, this is not an unrealistic ask.

3. Customer Engagement

Energex and Ergon Energy continued their engagement with their customer focus group and their RRG into 'Phase 5' or their Customer and Stakeholder Engagement Plan. This stage was intended to assist in the development of the Energex and Ergon Energy revised regulatory proposals.

Our reservations about the effectiveness of the engagement are not related to the process undertaken by Energex; rather:

a) the limited scope of discussion beyond 'inform' in many key areas, and

b) the lack of balance in the information provided by Energex in their consumer forums.

The Energex Regulatory Reference Group (RRG)

The EQL RRG and the Pricing Working Group remained very active, well informed and continued to engage extensively with both Energy Queensland and the AER. Energex and the RRG initiated a number of meetings to clarify or explore issues related to the Revised Proposal. Whilst the value of the responses may have been limited, Energex welcomed approaches by the RRG.

The RRG continues to display a high level of understanding of regulatory reset processes and issues; and continues to meaningfully represent the sentiments of consumers.

We believe that the AER can place weight on any submission by the RRG, particularly regarding matters of tariff structure and service incentives.

Observations of the 'Phase 5' engagement

Our observations of the Phase 5 engagement are:

1. As with all the engagement, both Energex and Ergon Energy proposals were considered in parallel; and consistent with past engagement issues related to Ergon Energy tended to draw most of the discussion.
2. Energy Queensland continued to welcome the CCP and the RRG (and the AER) to all engagement sessions, including the occasional briefing to the EQL Board Regulatory committee meetings. In fact, the Energex engagement was perhaps the most open and welcoming engagement that the CCP has seen for some time. Engagement sessions were professionally run by the regulatory and customer advocacy teams, often with the assistance of recognised consultants, with extensive supporting documents.
3. The engagement focussed heavily on the issue of tariff structures and the discrepancy between the Draft Decision (which rejected the Energex TSS) and the position reached by Energex. This work approached the 'collaborate' level with the RRG and the Network Pricing Working Group. Otherwise, rest of the engagement was largely at the 'inform' level.
4. At no time did Energex willingly withhold information or provide misleading data to consumers, but at times we felt that the audience was being 'steered' towards favouring the Energex case, particularly when discussing the AER Draft Decision. Context setting and counterfactuals, such as the AER 'capital wall' diagram, were not included in presentations, yet they would have been of great benefit to assist consumers evaluate the broader implications of the Revised Proposal and make a more balanced assessment.

   It was almost as if the AER needed airtime in front of these community workshops to 'state their side of the case'.

We maintain our position from earlier advice that when it comes to the building blocks of the required revenue, Energex (nor Ergon Energy, in that case) was not willing to engage in detail of operating costs or revenue adjustments, or the risks or otherwise inherent in their capital investment plans. It is difficult to find examples where informed consumer feedback has clearly 'moved the needle' on the expenditure categories, with Energex preferring to focus on justifying their current position and relying on broad (and somewhat guided) discussions on service / cost balance.

Engagement sessions

The engagement process under Phase 5 remained active with a number of sessions including :

a) October 13 - A Voice of Customer Panel to present the findings of the AER Draft Decision and outline the likely implications of the decision.

b) November 5 - An Energy Queensland Customer and Community Council forum largely to explore the ongoing EQL customer engagement strategy. The session did spend some time informing the council about the revised regulatory proposals.

c) Network Pricing Working Group meetings -October 14 and 3 December.

d) A number of RRG meetings, in particular on 28 October with an open discussion with the EQL executive. Again, this session was valuable in answering questions, but there was no impression that the executive took on feedback that in any way influenced the Revised Proposal.

Case Study: The Customer Panel and Recall Day – 13 October 2024

The Customer Panel and Recall Day, designed to allow a broader segment of 25 energy customers understand and discuss the implications of the Draft Decision, was held on 13 October 2024.

The workshop was professionally managed (Mosaic Labs) and well-supported by Energex. The scope of the day was to review how the AER's draft determination aligned with issues raised previously by the Voice of Customer panel and customer focus groups, with the areas of focus being tariffs and tariff structures and a high-level view of capital expenditure (managing growth). Discussion on the Customer Service Incentive Scheme rounded out the day.

Included in the day was responses to broader questions from customers, such as would the costs allowed for the Olympics be realistic, undergrounding of lines and Energex's approach to renewable energy. As with many customer forums, a strong theme of customers wanting more information about how the industry works, and how to benefit from changes in electricity tariffs prevailed.

Our impression of the presentation material was that it tended to paint the AER and the Draft Decision as the 'bad guys' and tended to indicate that the Draft Decision would lead to impaired network performance, an inability to meet the growth in customer numbers, greater risk of restricting rooftop solar connections, and the likelihood of reduced levels of service.

Consequently, the attendee response to the question "How comfortable are you with the AER's response to this topic?", all the responses were either "loathe it" or "can't agree".

This session concluded with an update to the RRG on the Revised Proposal. This was the first time that the RRG and the CCP were informed in any detail of the Revised Proposal.

There are many examples where information was presented that subtly suggested the AER decision would yield a poor outcome for customers. The information is not wrong, nor is there any suggestion whatsoever that there is any hidden agenda by Energex other than a powerful and endemic commitment to their proposal as calculated and written.

Our impression is that there is a powerful belief that to compromise on these plans would be detrimental to the quality of service to their customers and the community, as well as limiting the ability to meet the shareholder requirements under the QEJP.

Whilst we can understand this position, it reflects a reluctance to compromise, accept greater risks, seek alternative solutions or to aggressively and transparently drive productivity to deliver lower distribution prices as a matter of priority.

Some examples of the subtle steering in the presentation to consumers on the day include:

"You told us that you wanted more information as we go through the energy transition, (but) the AER says that no funding for information on DER (will be) approved"

"The AER accepts customer decisions (around tariffs) but wants changes to the way prices will be calculated. Will this give customers enough time to adjust?

"The AER disagreed with our proposed (capital) investment .... Over time, the network would be built to a lower standard of reliability. As demand for electricity grows, reliability will worsen …"

"Our capex requirements for the network are 40% lower than what we spent in the 2010-15 period" [6]

Our assessment of this day and its findings is that not a lot of weight can be placed on the customer response.

Exploring Affordability in the Revised Proposal

The issue of affordability was generally wrapped into the discussion on tariffs and tariff structures, and there was no discussion on how an increased capital investment or a revision to the base year would impact costs to customers, nor what other options existed.

This concern comes at a time when affordability, the cost of living and the cost of doing business remain a priority. Throughout the engagement, customers continued to say:

"…they have also told us that affordability of electricity is their primary concern, both from a cost-of-living and cost-of-business perspective." [7]

It would have been useful for Energex to present to their consumer forums more detail and the thinking behind the key changes between the proposal, the Draft Decision and the Revised Proposal, in order to garner greater support and confidently say that their consumers has been provided with all the information needed to give balanced and informed support for the actions.

However, this is not the case, with reliance on broad statements such as:

"In response to customer feedback, we have sought to strike the right balance between investing in the network to provide clean, reliable, and smart electricity into the future and efficiently delivering electricity services in an affordable way that provides value to our customers and communities across South-east Queensland "[8]

[6] These are all excerpts of the presentation to the Voice of Consumers Workshop, October 2024
[7] Energex Revised Regulatory Proposal, p25
[8] Ibid.

This is no doubt the case, but engagement and trust would have benefitted greatly from Energex showing consumers how just that balance was struck, how options were considered and how the Draft Decision may be prudently and efficiently applied without asking for increased revenue.

We reflect these sentiments to the AER and ask that the final decision clearly indicate how the issue of affordability has been incorporated.

Exploring Productivity

At the RRG / Energex executive discussion on 28 October, the RRG put forward a number of questions related to Energex's productivity and how the 1% productivity dividend may be delivered. This reflects a valid concern as to how the productivity imperative will be reflected across the competing pressures of dividend (noting the past relationship between Energex dividend and the Queensland Government uniform tariff policy), increased labour costs and the pressure to keep prices low.

CCP30 notes the 2024 Energy Queensland Union Collective Agreement includes guaranteed compounding annual salary increases of 4.5%, 4.5%, 3.5% and 3% from 2024, and confirmation that forced redundancies are 'off the table.'

Our observation was that the RRG did not receive a clear answer on the productivity measures that are incorporated into the EBA that offsets the pay rises over the last three years and next four years. Energex outlined that better management of assets, crew planning and work packaging would form the backbone of the productivity initiatives; and gave no commitment to provide more detail in the Revised Proposal.

Attachment 6.05 – Productivity insights – of the Revised Proposal refers to embedding digital systems, improving business processes and harmonising workforce planning. Unfortunately, any further detail is redacted and not publicly available.

We remain unconvinced that these productivity initiatives will be effective. Given the upward pressures on costs, including internal labour, we assume that the productivity will be delivered by 'doing more with the same resources.'

RRG questions on productivity progressed to issues such as the delivery of the efficiencies through the establishment of Energy Queensland and the delivery of benefits through the significant ICT refresh programme; again with little detail forthcoming from Energy Queensland.

The lack of detailed strategy and plans on the productivity offsets as a result of the last 3 years and recently started 4-year EBAs, we join the RRG in asking "what confidence should consumers have in EQ's ability to meet its promises of 1% productivity in opex and capex overheads?"

4. Capital Investment

A key message of Energex's capital investment programme is:

> *"To meet customer expectations we are focused on driving down the controllable aspects of our capex program without compromising the safety or reliability of the network."* [9]

The introduction also notes:

> *"Customer views around maintaining our current levels of reliability and safety of the network have informed the development of our capital investments."*[10]

In its Draft Decision, the AER noted:

> *"While we have accepted the majority of the required revenue, there are areas, particularly in the proposed capex, that we have adjusted as we were not provided with sufficient evidence to support the prudency and efficiency of the forecast."*

The AER provided a substitute forecast of $2,801.0 million for Energex capex (including asset disposals and modelling adjustments), accepting the Energex capex forecasts for asset replacement (repex), connections, distributed energy resources, cyber security, and other non-network categories.

Substitute forecasts were made for network augmentation, resilience, non-network ICT, property, fleet and capitalised overheads.

Overall, we support the Draft Decision and agree that there is some scope to increase the amount for network augmentation should better information be provided.

Energex accepted much of the Draft Decision, other than the intention to reinstate much of the network augmentation capital on (we believe) the assessment that the AER was agreeable that action should more appropriate detail be provided.

Engagement

As noted throughout this advice, Energex chose not to engage with customers in any detail of the capital proposal, rather presenting it broadly as: [11]

> *"(we will) 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."*

> *"Customer views around maintaining our current levels of reliability and safety of the network have informed the development of our capital investments."*

and

> *"To address customers' affordability concerns, all capex investments were subjected to rigorous analysis and scrutiny to ensure that our proposal reflects the best value for customers."*

We accept the information showing the rapid population growth in South-east Queensland; and note the significant amount of information provided to the AER in support of the capital proposal.

[9] Energex Regulatory Proposal, Chapter 5 (introduction), p 79
[10] ibid
[11] ibid

Engagement bias

Energex took the revised capital proposal to their customer forums, in particular the Voice of the Customer Panel on 13 October 2024. That presentation highlighted the 'growth hot spots', and presented Energex's position that: [12]

> *"We must plan build new network or upgrading the capacity of the existing network to cater for growth in electricity network demand"*

Energex then went on to outline six key projects to meet new demand. However, the Draft Decision was portrayed as shown below.

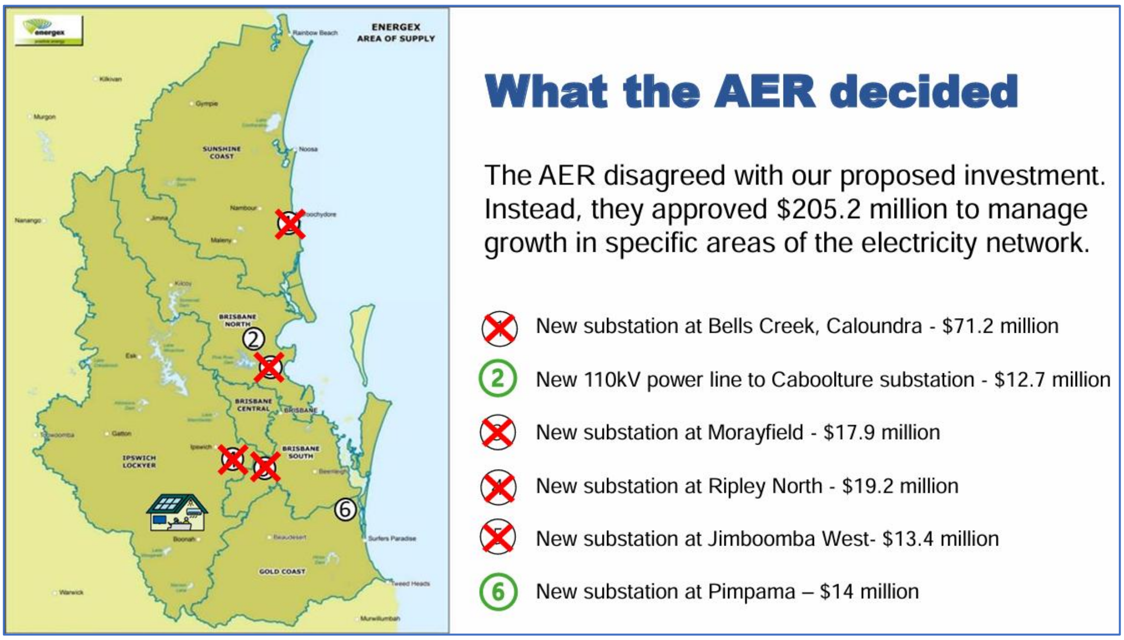

Figure 2: Energex advice to the Voice of Panel Day 13 Oct 2024 (source: Energex, slide 50)

This was followed by the statement: [13]

> *"Over time, the network would be built to a lower standard of reliability. As demand for electricity grows, reliability of electricity supply will worsen, especially for those areas currently experiencing strong growth in population and demand."*

Our observation is that there was little discussion about why the AER rejected the proposals in the Draft Decision, long term revenue impacts or the options available to Energex.

This led to comments from the forum such as:[14]

> *"(I) Find it difficult to understand how AER is undermining reliability by rejecting project investment and setting lower standards for restoration of power in the face of rapidly expanding population in SEQ"*

A similar approach was taken in presenting the Safety Net targets that apply in Queensland.

Consequently, we advise the AER to place little weight on customer engagement outcome regarding the capital investment for network augmentation, reliability and PV integration.

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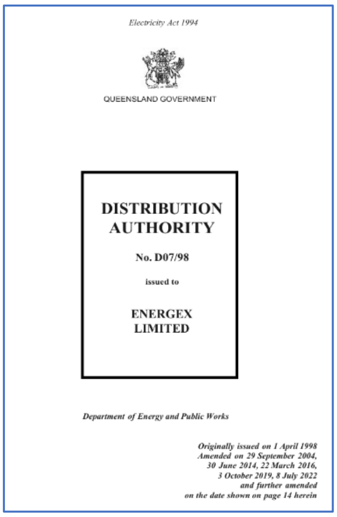
[12] *presentation to the VoC workshop*, Energex, 13 October 2024 – slide 48
[13] Ibid, slide 50
[14] *Energex recall day – What Was Said Report*, MosaicLab, October 2024 -p7

The Distribution Licence 'Safety Net'


Electricity Act 1994

QUEENSLAND GOVERNMENT

DISTRIBUTION AUTHORITY

No. D07/98

issued to

ENERGEX LIMITED

Department of Energy and Public Works

Originally issued on 1 April 1998 Amended on 29 September 2004, 30 June 2014, 22 March 2016, 3 October 2019, 8 July 2022 and further amended on the date shown on page 14 herein

Section 10 of the Energex Distribution Authority, originally issued by the state Department of Energy and Public Works in 1998, includes obligations for Energex in the area of distribution network planning.

The purpose of the service safety net, applicable from 1 July 2014 onwards, is to seek to effectively mitigate the risk of low probability - high consequence network outages to avoid unexpected customer hardship and/or significant community or economic disruption.

These obligations are:

a) define minimum service standards (clause 9),

b) reliability safety net provisions (clause 10) and

c) set responsibility to address poor performing areas ('worst performing feeders') in the network (clause 11).

These reliability and security measures have a large bearing on the capital investment by Energex.

We are aware of the conversations between Energex and the AER that underpin the interpretation of the Safety Net and the capital projects that follow on from its requirements.

CCP30 view

From a consumer point of view, we agree with the Energex interpretation of the Safety Net requirements, supported by the letter from the Queensland Regulator.

However, we believe that Energex is taking too literal an interpretation of the requirements as a 'hard limit'; based on three considerations.

1. Key in the wording of the safety net target is: [15]

> *"The distribution entity will design, plan and operate its supply network to ensure**, to the extent reasonably practicable**, that it achieves its safety net targets as specified."*

The term ' reasonably practical' brings a level of interpretation and value assessment into the obligation beyond the factors noted by Energex in section 5.4.3 of the Final Proposal; and can include considerations of the cost to customers to comply and the risks associated with the planning.

2. Other than the probability assigned to the P_{50} demand forecast, Energex does not consider other probabilities, such as the fault occurring outside the time of peak demand, or the fact that the load curve suggests that the period of peak demand could be shorter than the restoration time limit.

3. It is unclear how Energex applies option analysis to meet the safety net requirements and the need for new capacity, given that they are interrelated.

In the Revised Proposal, Energex notes:

> *"Were these (safety net) projects not to proceed, Energex would be required to provide a sub-optimal solution to supply these new customers from the closest adjacent substations that would provide a lower level of reliability."*

[15] *Distribution Authority, Energex Limited* – Queensland Government s10.2(a)

It is unclear what constitutes a 'sub-optimal solution' in this statement.

Case Study: New Jimboomba West Zone Substation (JBB)

This business case, dated January 2024, recommends expenditure of $22.2M to establish a new zone substation at Jimboomba West. This area is part of the is a fast-expending residential corridor between Browns Plains and Beaudesert.

The proposed substation introduces over 25MVA of new firm transformation capacity to the area in a 2 * 25MVA standard substation design.

The entirety of the justification of the investment centres on single statement of non-compliance of the Safety Net on the loss of one transformer at SSNMC North Maclean; with the P_{50} forecast load marginally exceeding the 'Security Standard Constraint', of 44.7MVA in 2028.

The business case contains little detail or analysis. The forecast demand is not stated in the report, other than a small graph. There is no economic analysis of the Load at Risk, nor is there probabilistic analysis of the load curtailed. Staged development of new capacity is not considered.

The case for investment is entirely deterministic, which is not aligned with modern planning criteria.

Deeper analysis of the information in the 2024 DAPR suggests there may be a case for the establishment of a new supply point in 2028 or soon after. The existence of a 33kV rated line to an available site indicates that the construction of the substation at JBW is part of a strategic network development plan.

At the very least, the plan to develop the substation should reference the strategic plan, the options considered for deferral, and the economic case of load at risk and likely unserved energy. Staged development should be considered as an option.

The shorthand business case for a $22M long-term asset investment does not respect Energex's claim that:

> *"To address customers' affordability concerns, all capex investments were subjected to rigorous analysis and scrutiny to ensure that our proposal reflects the best value for customers."*

Reference: Energex Proposal attachment 5.5.04 - Business Case New Jimboomba Substation

Quote in the case study: *Energex Regulatory Proposal*, Chapter 5 (introduction), p 79

Observations

Energex has a reasonable argument that the level of investment in network capacity will trend upward as the 'spare capacity' installed in the years of very conservative network security standards of 15 years ago 'runs out.' That does not absolve Energex however from developing detailed, well considered and cost-aware investment proposals.

We support Energex's interpretation of the Safety Net requirements and note that the augmentation expenditure forecast in the Revised Proposal maintains their interpretation of the Safety Net Targets as set out in the Distribution Authority.

However, with the imperative to respond to their customers' strong message regarding long term affordability, we believe that Energex's application of the Safety Net requirements is too deterministic and simplistic. It does not consider cost, probability, load at risk, cost-benefits and options – all of which can reasonably fall into the consideration of '*to the extent reasonably practical*'.

We contend that the term 'practical' refers to not just a physical practicality, it is also a commercial consideration for consumers.

In addition, our observation is that some Energex investment cases are shorthand, and do not provide the level of confidence in the governance and scrutiny - as well as the focus on keeping long term costs down - required by customers.

Therefore, CCP30 supports the approach taken by the AER in challenging the associated capital proposals, and trust that much of the increased capital claim in the Revised Proposal is not passed through.

We see significant value for customers in the AER challenging the quality and content of the Energex investment proposals. Our preference is that the AER does not approve the full amount of capital in the Revised Proposal, on the basis that Energex does not seem to be providing robust, well considered investment cases that align with customers' expectations of considering all options in the name of long-term affordability and value.

A lower capital allowance will encourage prudent and efficient investment, innovative solutions and reduce the transfer of planning risk onto the customer.

5. Operating costs

In the Draft Decision, the AER accepted Energex's forecast opex of $2,284.9M for the 2025-30 regulatory period. This amount is 6.6% lower than Energex's estimated opex for the current regulatory period, and slightly higher than that for the previous period.

The proposed opex included an efficient adjustment of -$139M, and a base year (benchmark efficiency) adjustment of 5.9% (-$102M).

The Draft Decision included the standard 0.5% productivity growth factor, whilst Energex will maintain their offered 1%.

So far, all good, and a reasonable outcome.

Energex indicated that its actual opex for 2023–24 is likely to significantly exceed the estimate it provided in its initial proposal. The AER's final decision will consider the actual opex for 2023–24 and will undertake further benchmarking analysis to test the efficiency of its updated base year opex.

That's also quite reasonable. Then ….

In the Revised Proposal, Energex replaced the placeholder forecast opex for the 2023-24 base year of $494.8M with an actual result of 525.3M, against a base year allowance of $448.3M. [16]

As a result, Energex has increased its forecast opex needed to meet their customers' expectations for the 2025-30 regulatory control period to $2,510.2 million, a 9.9 per cent increase on the Regulatory Proposal and the AER's Draft Decision. Goodness, that's a lot!

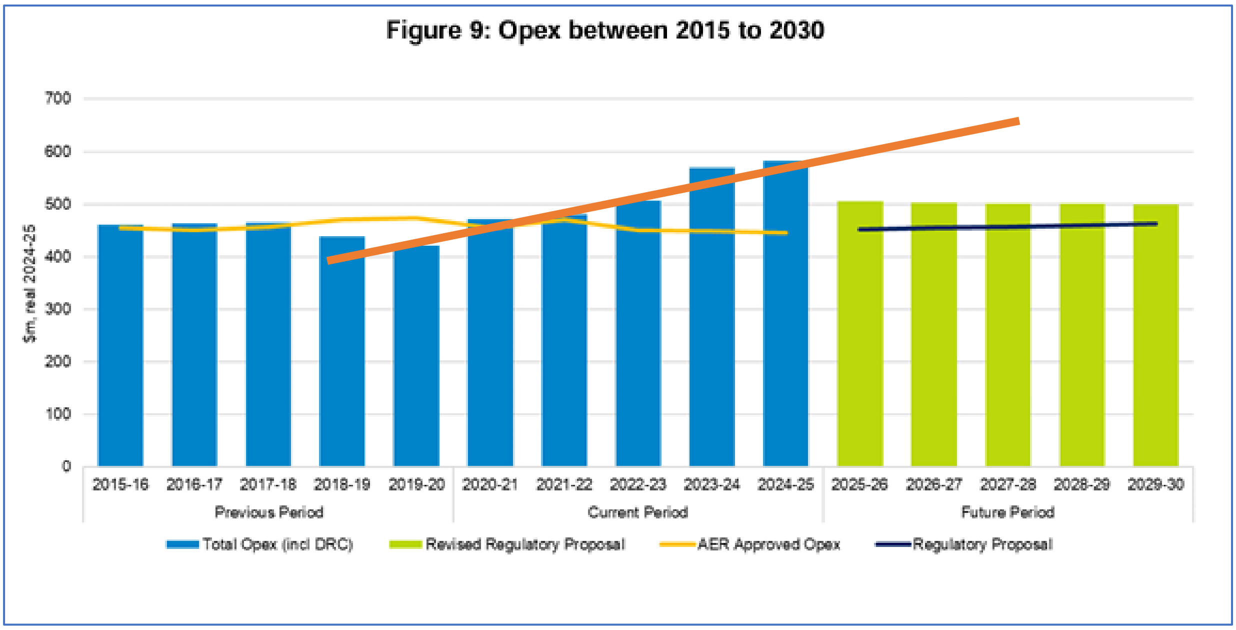


Figure 3: Opex trend. Energex (Source: Energex Revised Proposal, figure 9) (trend line: CCP30)

Observations

In the past 5 years, Energex's operating costs have been on a steep upward trend, consistently overspending the AER allowance. This is concerning, and the engagement did not indicate to customers that this happening, or why.

The AER notes in the Draft Decision regarding a 'heads up' from Energex on the higher base year opex:

[16] Energex Proposal and Revised Proposal – Calculated opex June 2025, SCS Opex Models Jan 2024 & Nov 2024

"Energex noted that the higher actual opex is due to ongoing cost increases it faces from a variety of internal and external drivers, including rising labour, materials and overhead costs, and significant weather events.

Energex stated that it expects some of these drivers (i.e. increasing labour and overhead costs) to be recurrent, increasing its opex over the next regulatory control period, while some of the drivers (i.e. above average emergency response costs related to severe storms) are one–off costs in 2023–24."[17]

Also unclear is how Energex will reverse this trend quickly to meet the opex in the Revised Proposal, let alone the amount in the Draft Determination.

Base year opex and efficiency

We discuss this in detail in Chapter 6 - Incentive Schemes.

Transition Costs

The Proposal was silent regarding costs to transition to an efficient utility. In the Draft Decision, however, the AER allowed $50.1M for this, and Energex has subsequently incorporated transition costs into the Revised Proposal. From a consumer point of view, we do not believe transition costs are warranted unless Energex has a clear and well-articulated plan to transition to an efficient utility in the next regulatory period.

From our observation of the current opex trend of over-expenditure and increasing costs of labour, we have significant doubts that this will be the case.

We also note Energex's position regarding the efficiency adjustment framework:

"Energex did not include 'transition costs' in its initial proposal to allow it to move its operations to its proposed more efficient level of opex over the 2025–30 regulatory control period. Energex also stated that it did not consider that its proposed efficiency adjustment was required in light of material concerns it has with our benchmarking model." [18]

What has changed that Energex now wish to include $42M in transition costs?

Price Growth

Energex has proposed annual price growth for labour of the order of 1% per annum (Table 22). However, we note that the recent EBA allows for annual wage rises between 3 and 4 percent per annum, before the impact of superannuation, allowances and penalties.

We see this as further eroding confidence that Energex will be able to rein in operating costs to meet allowance.

Productivity Growth

This is discussed in Chapter 3 - Customer Engagement.

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[17] AER Draft Decision – Attachment 6 – Operating Expenditure Section 6.4.1, p13
[18] ibid, p12

6. Incentive Schemes

Efficiency Benefit Sharing Scheme (EBSS)

The EBSS is a fundamental aspect of the Australian (and, in many cases, international) regulatory framework. Reviewed in April 2023[19], it aims to provide a continuous incentive for electricity distributors to pursue efficiency improvements in opex and to share efficiency gains with their customers. In that review, the AER noted concerns with the scheme but determined in aggregate that the scheme provided favourable outcomes for consumers.

The Draft Decision

The ENERGEX Regulatory Proposal supported the application of the EBSS and suggested a penalty of $121.1M, based on an estimated opex expenditure for the 2023-24 base year. Subsequently, the AER Draft Decision is to include EBSS carryover of $119.7M. Energex was clear, as was the AER, that this assessment was a placeholder, and that higher actual costs for the base year, once available, would be substituted into the EBSS calculation in the Revised Proposal.

> *"During consultations with us, Energex indicated that its actual opex for 2023–24 is likely to significantly exceed the estimate it provided in its initial proposal. This is likely to result in an increase in the size of the EBSS penalty applied in our final decision."* [20]

The Revised Proposal

In the Revised Proposal, Energex reviewed their analysis using the actual opex result for 2023-24 (the base year) has changed their support of the EBSS scheme, now asking:

a) the penalties from the application of the EBSS in the current 2020-25 regulatory control period should not be applied in the 2025-30 regulatory control period, and

b) the EBSS should be suspended for the 2025-30 regulatory control period.

Energex stated:

> *"We consider that the magnitude of the efficiency adjustment means we are no longer relying on our revealed costs to forecast our opex. Instead, we are primarily relying on benchmarking.[21]"*

Note that this proposal has not been presented to the consumer forums in any way, particularly through any analysis of the pros or cons of the intention to opt out of the scheme. We are aware that the RRG has, as has the AER, spent significant time considering its position on this proposal.

Our comparison of the EBSS models in the Draft Decision and the Revised Proposal in below suggests why Energex has changed their position on the application of the EBSS. The over expenditure will also trigger a significant benchmark efficiency adjustment for the base year being materially inefficient.

Should the EBSS remain, Energex could see a downward carryover amount of over $400M. See Table 3 below.

Energex has noted that the downward adjustment may be of the order of 8.4%.

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[19] *Review of incentive schemes for networks, Final Decision*, AER, April 2023
[20] AER Draft Decision, Energex – attachment 8 – EBSS, s8.1
[21] Energex Revised Proposal, s7.4, p80

2023-24 base year opex ($M, real, June 2025)	Opex allowance (EBSS target)	Actual opex for EBSS purposes	EBSS carryover to the PTRM
Assumed opex in the Draft Decision model	$440.6	$487.4	($119.7)
Revealed cost in the Revised Proposal model	$440.6	$558.1	($402.5)

Table 3: EBSS calculations - Draft Decision and Final Proposal. Energex (Source: EBSS models, AER website)

Clearly, Energex has gone "Oh my goodness. We need to do something about this."

A customer perspective

This proposal raises many questions and does not lend itself to simple analysis.

Our first impression is that Energex has significantly overspent its allowance, especially in the base year, and they should bear the full penalties of the regulatory process designed to encourage efficient delivery of distribution services. Energex would have been well aware of the efficiency penalty framework at the time the expenditure was approved.

This position is exacerbated by the fact that Energex has not gone to any length to explain to its customers why this additional expenditure was justified, efficient and resulted in better outcomes for those who are expected to pay for them (noting our position that 'everybody always pays' in a state-owned utility).

In the earlier discussions regarding the CSIS, customers were very clear of their expectation that Energex should strive to be a very efficient organisation, and that they should not be rewarded for that. We would surmise that the reverse is also true – that customers should not be expected to pay for inefficiencies.

At the very least, Energex should have had this important conversation about efficiency and value of the over-expenditure with their customers. Granted, there was little time, which again asks the question "what made Energex change their mind in this late stage of the process, only when the actual costs, being much more than forecast, were revealed?"

Put plainly (and intentionally provocatively), customers could be excused for thinking:

> *"Energex spent well over what the regulator considered efficient for their operation in the past five years. They have not told us why, nor what we got for that money. Now Energex wish to pass that additional expenditure to us through our electricity bills.*
>
> *We were promised lower bills by the state government when Energy Queensland was formed, yet our electricity bills are only going one way.*
>
> *Also, Energex now want to step out of line with their peers and opt out of the predominant scheme that is intended to encourage them to be an efficient electricity distributor. The benchmarking process only encourages them to be in the top 25%, not the best they can be.*
>
> *Can you please explain why this is a good outcome for customers, and how can we have confidence that Energex will spend our money wisely in the future?"*

The case for opt-out of the EBSS

We acknowledge that Energex, and Energy Queensland generally, with its state government ownership is not a 'normal' utility in the context of the national market. It is required to meet the requirements of a political shareholder that has a wide view of the role of its energy companies in terms of meeting community responsibilities. Many of these are evident in the *Queensland Energy and Jobs Plan*, a major input into EQL strategy.

Having a shareholder with significant financial resources also tends to suggest that it is not as reliant on the regulatory determination in considering its investment and operating priorities. This is clear in Energex's history of over-expenditure of regulatory allowances.

In addition, with state ownership comes the issue that regardless of the cost overruns, irrespective of whether they are efficient or otherwise, customers will pay - it just depends through which mechanism.

This questions a statement by the AER at the introduction of the EBSS in 2013:

> *"If a utility has operated under an effective incentive framework, **and sought to maximise its profits**, the actual opex incurred in a base year should be a good indicator of the efficient opex required."* [22]

It could be argued that Energex operates under a shareholder regime that does not view the maximising of profits in a way similar to that of a privately-owned utility.

Therefore, we agree that the AER is justified in considering Energex's proposal to exit the EBSS.

The case for maintaining the EBSS

Exiting the EBSS means that benchmarking is the remaining regulatory mechanism to encourage efficiency. The AER's benchmarking of efficiency is certainly maturing, and the proposed 'dashboard' will assist in transparency to stakeholders. However, questions exist about whether the adjustment of the base year calculated from the position on the benchmarking scale alone is a powerful and effective incentive for a utility to be as efficient as possible.

We wish to raise a number of observations that would need to be considered and explained by the AER as part of the decision.

a) We view the EBSS and CESS as interrelated; as the ability to shift costs, particularly overheads, exists within the organisation. This provides the opportunity to distort the true cost of an efficient utility.

b) The EBSS provides a consistent incentive to reduce opex across a regulatory control period. We believe that Energex has been unable to respond to this incentive, and that without such incentives there may be even less pressure to improve productivity to the detriment of customers.

c) Benchmarking, and the adjustment of the base year expenditure to the 75% percent efficiency horizon, is not a powerful efficiency incentive. It also includes normalisations that are themselves a source of debate and can detract from clarity of any efficiency discussion.

d) Energex has in the past raised concerns about the validity of the benchmarking, questioning their commitment to the mechanism.[23]

[22] *Better Regulation – Explanatory Statement – EBSS,* AER, November 2013

[23] Refer Energex Regulatory Proposal, s 6.5

"While we consider that an efficiency adjustment is not required in light of the material concerns that we have with the AER's benchmarking model, we have incorporated the efficiency adjustment to further address affordability concerns"

e) Benchmarking does not provide an incentive for a utility to outperform the 75% threshold.

f) The EBSS is requires distributors to be transparent and reveal their true opex costs, much more so than benchmarking. Tracking expenditure – allowed versus actual – is a powerful information source to consumers and consumer representatives to consider the operation efficiency of a utility.

g) Finally, we have concerns about the cost to consumers in the following regulatory period. It is certainly possible that Energex may revert to the EBSS again. I this case, a glide-path (transition) cost would most likely apply back to efficient levels, at further cost to consumers.

We question:

"Is there sufficient evidence that Energex could revert to an efficient utility in the following regulatory period, and also can consumers have confidence that efficiency would be reached? Who pays for the costs inherent with the gradual transition to efficiency ?"

We look forward to the AER's deliberations on this issue. Our leaning is to support the continuation of the EBSS – an outcome that best drives a longer-term culture of operating efficiency and transparency of costs.

Capital Expenditure Sharing Scheme

The Draft Decision estimated total CESS penalties of $78.2M. Energex's CESS proposal included exclusions for its ICT overspend of $131.5 million during the first three years of the 2020–25 regulatory control period.

In their Revised Proposal, Energex has recalculated the CESS penalty $72.8M to $113.4M, based on actual spending information up to 2023-24, and estimated expenditure for 2024-25.

2020-25 CESS model ($M NPV)	**Capex allowance (EBSS target)**	**Actual capex for CESS purposes**	**CESS penalty, including true-up for 2020-21**
Assumed capex in the Draft Decision model September 2024	2249	2450.5	72.8
Revealed cost in the Revised Proposal model November 2024	2249	2575.9	113.4

Table 4: CESS - Draft Decision and Final Proposal, Energex (Source: AER DD table 9.1, Energex RP table 26)

Again, the actual costs have significantly exceeded the placeholder estimates, and reinforce the impression that Energex is a 'big spending utility' (or likelihood of such, should this information have been presented transparently to customers.)

We note that Energex has accepted the AER CESS methodology, and we fully support the application of the CESS mechanism in the final decision.

The Service Target and Customer Service Incentive Schemes

Energex proposed to depart from current arrangements and not apply the customer service component of the STPIS (telephone answering) for the 2025–30 period, including a proposal to reduce the revenue at risk from 2% to 1.8%. Energex explained that the proposed removal of the customer service component is an outcome of customer engagement in developing its regulatory proposal. Further, because of the same customer engagement process, Energex proposed to not apply the CSIS.

At the time, CCP30 noted that the overarching sentiment from customers was that the utility should not be rewarded for improved customer service – and that continuous improvement was a ‘given’ in the expectation of customers.

In the Draft Decision, the AER has elected to maintain the Service Target Incentive Scheme (STPIS) at ±2% of revenue at risk anchored against network performance targets – a position supported by CCP30. The Telephone Answering measures remains in place, mainly due the absence of a CSIS.

Energex, in its Revised Proposal, has accepted the AER’s draft position. CCP30 was able to observe the engagement with the Voice of Customer Panel and can confirm the reserved acceptance by customers of the decision.

The AER noted in the Draft Decision: [24]

> *“CCP30 and the RRG emphasised that in the absence of a CSIS or customer service component of the STPIS, a robust, transparent and accessible customer service reporting scheme should be developed and implemented.*
>
> *The RRG considered that this framework should be included in the Revised Proposal to give the AER confidence that Energy Queensland will maintain a strong focus on good customer service.”*

Energex and Ergon Energy reflected on the intent and components of a replacement performance reporting mechanism in a number of customer forums, most recently with their Voice of Customer panel. CCP30 and the RRG (we understand) remain supportive of Energex’s self-reporting initiative.

However, to date we cannot find any minutes, notes or attachment to the Revised Proposal that provides any detail as to a proposed monitoring and transparent service performance reporting framework.

Consequently, we support the continued application of the STPIS as noted in the Draft Decision and encourage Energex to continue their work as promised to develop an effective and transparent set of service performance measures.

[24] *Draft Decision – Energex- attachment 10 – Service Target Incentive Scheme*, AER, section 10.4.3

7. Tariffs and pricing (Energex and Ergon Energy)

Engagement

Electricity tariffs and pricing is certainly a hot topic in the community, fuelled by mistrust and misinformation. Developing and promulgating new energy tariffs is a challenge.

Energy Queensland, for the common tariff Structure Statement for Energex and Ergon Energy, carried out a remarkable amount of engagement with their customer forums regarding tariff structures and their proposal to redesign and restructure many common tariffs. This included a number of review sessions with customer forums after the Draft Decision. We commend Energy Queensland on their intent to streamline tariffs, provide choice to customers, and encourage efficient use of the network.

A lot of the engagement highlighted customers' concerns and wariness about changing from the well understood flat tariffs. Customers appreciated the story being told by Energex about the logic behind tariff changes and they understood the possibility of lower bills exist should a new tariff be adopted. Discussions about the relationship with the rollout of smart meters and the intent to reduce cross-subsidies within the tariffs frequently arose, along with many questions regarding the role of the energy retailer.

There were times when we felt that the presentations to the customers were heavily to the benefits of adopting time varying or demand tariff structures, with little explanation of the alternatives or risks. In addition, there is always the underlying issue that "in a revenue capped environment, for every winner, there is a loser."

Despite our concerns about some of the engagement, there is no doubt that it was comprehensive, well-explained, well researched and did highlight the advantages for those who could change to adopt the benefits of changed energy usage patterns.

Therefore, customer feedback regarding tariff structures should be considered by the AER as being based on clear and informed engagement. We also note that engagement continues between Energex, their RRG and the AER on tariff structure issues.

We expect that the AEMC current consultation "*The pricing review: Electricity pricing for a consumer-driven future"* will also have impact on the tariff decisions.

Draft Decision

Many elements of the TSS were accepted by the AER in the Draft Decision. We note the main exceptions and requirements for changes in the TSS, being to:

a) make default assignment for residential and small business customers with smart meters from the proposed time-of-use demand tariffs to the proposed time-of-use tariffs.

b) include an explicit export tariff transition strategy, convert proposed export charges and basic export levels from kW to kWh and include network bill impact analysis for small businesses and large customers proposed to face two-way pricing.

c) provide further detail on proposed grid-scale storage tariffs, including more detail on the proposed critical peak pricing mechanism.

d) offer time-of-use tariffs for LV large customers with demand greater than 120 kVA and with consumption less than 160 MWh per annum .

e) include further description of control arrangements that are contained in the Queensland Electricity Connections Manual, including the relationship between the Manual and tariff structure statements, and the extent to which control arrangements influence tariff options, including the proposed new flexible load control tariff.

Balancing cost reflectivity with bill simplicity and customer response capability

In its early engagement, Energex highlighted, quite validly, that consumers want simpler bills, where it is easier to interpret the cost components and drivers, and, importantly, respond to those drivers in order to deliver lower energy costs.

Whilst demand pricing is promoted by networks as a much more appropriate reflection of the assets and investment needed to provide the service, it remains a mystery to all consumers other than a number of informed large users of energy. We have concerns that demand pricing will remain invisible to consumers, especially should retailers choose to modify the pricing signal and build in demand risk. The risk of higher prices exists, especially to those least empowered to influence their energy demand.

As the ACCC reported recently:

> *"We also see increasing numbers of customers on offers with multiple layers of complex pricing, for example, time of use offers where tariff components vary by season or time of use offers that also have a demand charge. We observe that many customers struggle with the increasing complexity in their tariffs, including moving to time of use or demand tariff structures."* [25]

We appreciate the AER's comments in requiring Energex to set a default tariff assignment as time-of-use is a reasonable compromise, noting:

> *"Customers not involved in Ergon Energy and Energex's stakeholder engagement do not have the understanding or have had the capacity building to understand and respond to default demand-based tariffs, and as a result could experience stress and higher bills when faced with a cost reflective demand tariff.*
>
> *RACE for 2030 … also commented that demand tariffs add further complexity, and make it harder for customers to understand their bills"* [26]

We ask that the AER in their final decision to continue to support a progression to cost reflective pricing, but to balance this with consideration of the needs of everyday consumers for pricing that is understandable, measurable and empowers customers to take reasonable actions to manage their energy costs.

Analysis

1. **Default assignment to time of use, not demand**

Whilst demand pricing is promoted by networks as a much more appropriate reflection of the assets and investment needed to provide the service, it remains it well outside the reasonable understanding of customers to measure and take reasonable actions to respond to the pricing.

We have concerns that demand pricing will remain invisible to consumers, especially should retailers choose to modify the pricing signal and build in demand risk. The risk of higher prices exists, especially to those least empowered to influence their energy demand.

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[25] *Inquiry into the National Electricity Market*, ACCC, December 2024
[26] *AER Draft Decision, Attachment 19 – Tariff Structure Statement* – AER, section 19.4.2.2

CCP30 supports this requirement to make the default assignment as time-of-use of energy, and notes that Energex has accepted that recommendation of the Draft Decision.

Ironically, Ergon Energy, the retailer to almost all residential and other small customers in regional Queensland, has chosen to absorb the default assignment of customers with smart meters to demand pricing, and customers by default remain on the flat 'Tariff 11'.

2. **Deferral of two-way tariffs**

Despite the reasons for two-way tariffs being made clear in the consumer workshops, support was varied. We understand EQL's decision to defer consideration of two-way tariffs until after the 2025-30 regulatory period. Customers were of the view that the transition to two-way pricing should not occur until other reforms have been embedded first and is supported by increased education for customers.

Our assessment of the situation is, put colloquially, that Energex has "kicked the can down the road."

Given the inconsistent support for two-way pricing from customers, and a strong likelihood that the new shareholder will not be keen to introduce a 'sun tax', Energex's action is understandable.

3. **Flexible load control tariffs**

Energy Queensland remains active in the area of controlled (scheduled) tariffs. We support this direction and also are highly supportive of a revision of the QECM to be far clearer on the application of flexible load tariffs.

4. **Time of use tariffs for LV large customers with small (< 160 MWh) energy use**

The Draft Decisions requires Energex to implement a cost-reflective time-of-use tariff for large customers consuming less that 160MWh of energy but with a demand of over 120 kVA. We note the keen interest by the Electric Vehicle Council and how such a tariff would support the EV charging industry.

CCP30 has seen a number of initiatives by distributors to better integrate with the needs of the community, including EV charging. Changing access arrangements to infrastructure, chargers on poles and attractive connection arrangements have been observed. Distributors are now keen to install pole-mounted EV charging themselves (that's another long conversation.)

However, the AER's application of the emissions reduction requirement of the NEO being reflected in tariff structure statement decisions is an interesting one that deserves discussion. In their consideration, the AER notes: [27]

> *"If EV charge point operators were to face a similar network tariff structure NEM-wide, we consider it could increase the confidence of charge point operators (and potential investors) to extend their charging networks.*
>
> *Similar network tariff structures would also assist charge point operators to roll out more consistent charging structures for their customers.*
>
> *We anticipate this would increase the confidence of consumers in the charges they would face to charge their EVs and would further support uptake and utilisation of EVs."*

From a customer point of view, we are not uncomfortable with this foray into sustainability and carbon policy by the AER under the banner of the revised NEO. We agree that standardisation across states and alignment of determinations is consistent with a broader view of "long term interest of

[27] *AER Draft Decision, Attachment 19 – Tariff Structure Statement* – AER, section 19.4.4.3

consumers … with respect to reducing Australia’s greenhouse gas emissions” is valuable and meaningful to the wider community.

However, there will be valid challenges regarding cross subsidies, especially regarding supporting the EV market which is often seen as supporting those with the means to purchase new cars. The AER will need to be very clear just how the objective to reduce economic cross subsidies and at the same time provide lower prices for sectors of the community is achieved, especially without clear guidelines on the economic cost of carbon.

More broadly, we ask “where could this approach extend?” Could capital investment targeted at carbon reduction be favoured, even though pricing of carbon is not clear enough to be included definitively in cost-benefit investment decisions?

More to come, no doubt.

8. Other issues

Metering

We note that Energex has accepted the AER's Draft Decision, including the treatment of legacy metering services, including the shift from Alternative to Standard Control Services.

CCP30 supports this position, and it is consistent with Energex's consumer engagement outcomes following transparent and clear discussion.

Alternative Control Services - Supply abolishment as an SCS

Energex continues to challenge the AER's Draft Decision regarding the reclassification of supply abolishment services.

It happens that the author of this report has witnessed exactly the behaviour Energex is concerned about – that is, the customer behaviour to 'walk away' from a vacant premises, and the high risk of electrical accidents in the demolition phase, with power still connected.

Energex is not completely out of the picture here, as one of the prime complaints from contractors was the high price and, at times, long delays until a supply abolishment could be done. As a consequence, developers sometimes proceeded with the work regardless, often with the service wire still connected or an illegal removal of the service fuse at the pole.

Overall, the proposal is supported, and agree with Energex's position that:

> *"… this activity is consistent with other activities concerned with providing a safe and reliable electricity supply to customers and that the benefits of mitigating public safety risks outweighs a "user-pays" approach."* [28]

The decision is consistent with the application as an SCS in other states, as Energex notes.

Public Lighting

Energex undertook extensive and useful engagement with councils regarding its intentions for public lighting. We note that Energex is very active in the area to upgrade lighting to new technologies, and ion general is highly regarded by its customers (mainly local councils).

The Revised Proposal notes changes to labour rate escalators and updates actual costs for 2022-23.

In their consideration of the proposed changes, we wish to highlight that Energex tends to have good support from its customers, however we did not have the opportunity to observe any engagement that addressed these matters included in the Revised Proposal.

[28] Energex Revised proposal, ch 12, p113