CCIQ SUBMISSION TO AUSTRALIAN ENERGY REGULATOR (AER)

2020- 2025 Energy Queensland Price Determination

CCIQ Powering business potential

Introduction

The Chamber of Commerce and Industry Queensland (CCIQ) is Queensland's peak industry representative organisation for small and medium businesses. We represent over 448,000 Queensland businesses on local, state, and federal issues that matter to them. Our guiding focus is to develop and advocate policies that are in the best interests of Queensland businesses, the Queensland economy, and the Queensland community.

We take this opportunity to outline our response to Energex and Ergon Energy (Energy Queensland) Price Determination (2020-2025.)

Background

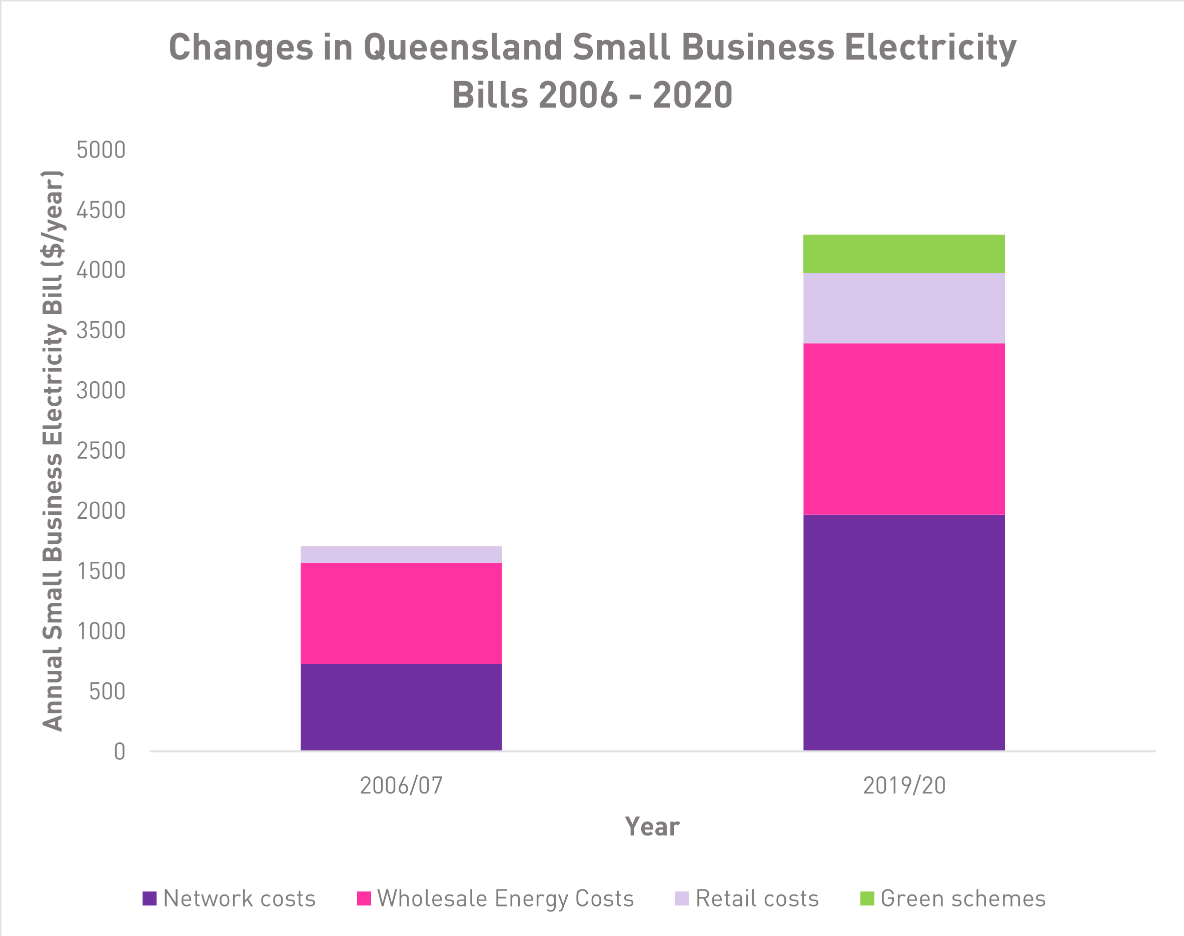
The cost of electricity is a major issue for business in Queensland. Many of Queensland's businesses are at or close to breaking point due to cost increases in power prices over the last 10-15 years. The wider effect of these increases is that the high price of electricity in Queensland is a handbrake on the economy and effectively a tax on both small businesses and consumers.

As electricity prices have increased, Queensland's businesses have had to absorb higher fixed costs which often cannot be passed on. When businesses are less profitable, they have less money to reinvest in the business and/or hire additional staff.

As electricity prices have increased, the costs of other key utilities have increased too, as councils and water providers pass on their higher costs to businesses and households. As household bills have gone up, there is less disposable income in the economy, which again impacts business.

CCIQ runs the Suncorp Pulse Survey of Business Conditions (Pulse Survey), which is the largest private sector survey of business sentiment in Queensland. The survey has consistently found high electricity prices to be a major pain point for Queensland businesses. Businesses have specifically cited high electricity prices, as well as high administered costs (utilities, levies, taxes) which include electricity, as major problems for their businesses.

Graph 1 highlights the dramatic rise in Queensland's electricity prices between 2006 and 2020. The graph also clearly shows that network costs are the biggest driver of high electricity prices in Queensland.



Source: CCIQ calculations from AER data (businesses consuming 15 kwh/year)

Summary of Recommendations

<table>
<tr><th>AER</th><th>AER/Queensland Government</th></tr>
<tr><td colspan="2">CCIQ's submission seeks reliable, affordable power for Queensland's small businesses and consumers. The recommendations below help to address the biggest driver of Queensland's power prices, the network prices charged by Queensland's power networks.</td></tr>
<tr><td>Queensland's consumers bear too much commercial risk for Energy Queensland's operations and this should change

Ergon Energy should not pass on the cost of its recently-disclosed safety issue to electricity consumers
Energy Queensland should not reverse its previous offer to forgo its Capital Expenditure Sharing Scheme (CESS) and Efficiency Benefit Sharing Scheme (EBSS)
Energy Queensland should not be allowed to continuously overestimate electricity demand and then raise prices when demand comes in lower

Tariffs for Small and Medium Enterprises (SMEs) should remain simple and transparent

All businesses changing to demand-based tariffs should be incentivised to do so, and on a strictly voluntary basis
</td>
<td>Energy Queensland, the AER and the Queensland Government should work together to tackle the root causes of high network power prices before the April 2020 price determination

Write down the Regulatory Asset Base (RAB) for Ergon and Energex (as well as Powerlink)
Remove the competitive neutrality charge from Queensland's electricity networks because they operate as natural monopolies

Remove the mark-ups on financing costs
Remove mark-ups on tax

</td></tr>
</table>

Our Position

Electricity prices in Queensland, while lower than in other states, are still too high. The Australian Competition and Consumer Commission (ACCC), the Grattan Institute and the Queensland Productivity Commission state that the networks, particularly Energy Queensland, are the biggest contributors to high power prices in the state. Energy Queensland's January 2019 regulatory proposal states that the networks (specifically distribution) contribute about 33% to a typical customer's power bill[1]. CCIQ's calculations show that transmission and distribution (networks) as a whole are responsible for up to 47.82% of a typical small business's power bill. CCIQ, in its presentation at the

[1] "An Overview: Our Regulatory Proposals 2020-25" – Energy Queensland

AER's public consultation (24 October 2019) expressed disappointment[2] at the AER's draft decision proposing an effective savings of $82/year ($6.80/month) for Queensland's small business customers in comparison to Energy Queensland's January 2019 proposal. We are, therefore, opposed to Energy Queensland's proposed December 2019 partial reversal[3] of these modest savings.

AER Mandate

CCIQ acknowledges that the AER has a defined mandate in terms of the current price determination process. CCIQ would like to make the following input regarding the areas that are strictly within the AER's current mandate:

Commercial risk-sharing

1. CCIQ submits that Queensland's consumers already bear a disproportionate amount of the risk associated with Energy Queensland (and Powerlink's) normal business operations while receiving minimal benefit from any upside. We will highlight the three instances below and oppose any attempt to pass on the cost described below to the end-user.

    a. Ergon Energy's disclosure of additional safety issues on its network is a business risk that should already be priced into their business model and not be passed onto electricity consumers
    b. We strongly oppose Energy Queensland's proposal to retain its Capital Expenditure Sharing Scheme (CESS) and Efficiency Benefit Sharing Scheme (EBSS) worth a total of $405 million[4]. Energy Queensland had previously elected to forgo these incentives and CCIQ questions the rationale behind the reversal of this decision.
    c. Energex and Ergon Energy consistently overestimated electricity demand during previous regulatory periods and subsequently raised prices to meet the Maximum Allowable Revenue (MAR) when the expected demand (predictably) failed to eventuate. CCIQ submits that Energy Queensland's electricity demand forecasts should be closely interrogated by the AER, considering Queensland's long-term trend of declining electricity demand.

Tariffs for Small and Medium Enterprises (SMEs)

Many Queensland's SMEs do not have the option of shifting electricity demand in response to pricing signals. Examples include cafes, shops and other businesses that need to respond to immediate customer demand for their goods and services. Other examples include abattoirs and other food processors that need to store perishable products at a certain temperature and, therefore, need electricity on a constant basis. Furthermore, many small businesses struggle to engage with complex electricity pricing structures and may easily find themselves experiencing "bill shock" if a compulsory change to the Business Basic Inclining Block Tariff (IBT) is implemented.

2. Our overall position is that any businesses changing to demand-based tariffs should be incentivised to do so on a purely voluntary basis

[2] See CCIQ's presentation at the AER's Brisbane public forum
[3] "An Overview: Our Regulatory Proposals 2020-25" – Energy Queensland
[4] $165 million for Energex and $240 million for Ergon Energy

a. We oppose the proposal to automatically assign customers with basic metering consumption above 20 MWh/year to the new Wide Inclining Fixed tariff
b. We oppose limiting retention of the current flat tariff to small business customers with small basic meters if their consumption is below 20 MWh/year. The tariff should be unconditional for all businesses except those that deliberately opt out.

Other Major Cost Drivers

CCIQ acknowledges the AER's claim that several key determinants of electricity prices lie outside the current price determination process. These determinants, however, must be addressed in order to bring Queensland's electricity prices down to more sustainable levels. It is critical to highlight these issues in this submission, even if the AER and the Consumer Challenge Panel (CCP) state that they have already been decided on[5] or lie outside the current price determination process[6]. CCIQ submits that these issues require cooperation between Energy Queensland; its shareholder, the Queensland Government; and the AER before the April 2020 final determination. CCIQ will make a separate submission to the Queensland Government outlining our position on these issues.

1. Write down the Regulatory Asset Base (RAB) for Ergon and Energex

It is widely accepted[7] that the assets of Ergon and Energex (and Powerlink, which is on a different price determination schedule) are significantly overvalued. These overvalued assets have a direct upward influence on electricity prices. We submit that the values of Queensland's networks should be written down as follows:

1. Up to $3.9 billion off the Regulatory Asset Base (RAB) of the Energex distribution business;
2. Up to $2.4 billion off the RAB of the Ergon Energy distribution business; and
3. Up to $890 million off the RAB of the Powerlink transmission business.

Writing down the values of Queensland's networks would result in savings of just over $300/year for Ergon Energy customers and over $220/year for Energex customers[8]. In addition to immediate savings for Queensland businesses and households, asset write downs will provide a much lower base for future price determinations and drive down prices in the long term without any change in the actual infrastructure delivering electricity.

2. Remove the application of competitive neutrality

Competitive neutrality is designed to level the playing field between government and private companies with the aim of fostering competition in the market. Although CCIQ supports competitive neutrality in principle, it should not apply to state-owned natural monopolies such as Energy Queensland. This is particularly important since the outcome of applying competitive neutrality charges to a natural monopoly such as Energy Queensland is higher electricity prices that are detrimental to Queensland's small businesses and individual consumers.

---

[5] Examples include rate of return, opex productivity, taxation allowance and regulatory depreciation
[6] Consumer Challenge Panel presentation and verbal acknowledgement by AER panel at Brisbane Public Hearing (24 October 2019)
[7] Restoring electricity affordability and Australia's Competitive Advantage (ACCC, June 2018)
[8] In line with recommendations and calculations from: "Down to the wire: A sustainable electricity network for Australia" Grattan Institute 2018

1. Mark-ups on financing costs

The AER should consider the actual cost of finance for the networks, which has a major impact on the networks' Maximum Allowable Revenues. The AER is required to apply a framework which is well above the actual financing costs incurred for all networks – particularly government owned networks like Energy Queensland, resulting in inefficient allocation of costs to Queensland consumers.

2. Mark-ups on tax

The AER currently regulates all electricity networks as if they were owned by private companies, even though many them are still owned by state governments. This means all network companies are given an allowance in their regulated revenues for payment of corporate tax, even though state owned enterprises do not pay corporate tax to the Federal Government. For the government owned networks in Queensland the corporate tax allowance is paid by electricity consumers and retained by the network companies, then returned to their shareholders as dividends. CCIQ acknowledges recent, significant reductions in Energy Queensland's corporate tax allowance[9] but we submit that these should be scrapped entirely, rather than moderated.

The cost of applying this charge greatly outweighs the benefit and the Queensland Government should use the discretion granted to it under the Competition Principles Agreement to scrap it for state-owned natural monopolies such as Energy Queensland.

CCIQ thanks the AER for the opportunity to engage with this regulatory process through the public hearings in Brisbane (October 2019) and via this submission. Please contact Gus Mandigora [redacted] if you have any questions or queries.

[9] $45 million for Energex and $85 million for Ergon Energy