



COTA QUEENSLAND
PO Box 15525
City East 4002
ABN 13 465 280 311

Level 1, 25 Mary St
Brisbane QLD 4000
www.cotaqld.org.au

P:(07) 3316 2999
P: 1300 738 348
F:(07) 3316 2900

30 January 2015

Mr Sebastian Roberts
General Manager
Australian Energy Regulator
QLDelectricity2015@aer.gov.au
submitted electronically

Dear Mr Roberts,

Ergon Energy Regulatory Proposal 2015-20

Thank you for the opportunity to provide comments on Ergon Energy's Regulatory Proposal for 2015-20.

COTA Queensland is a state based organisation committed to advancing the rights, needs and interests of people as they age in Queensland. We aim to help create a more just, equitable and caring community in which older people are actively involved and have access to appropriate support, services and care. COTA Queensland believes that everyone, regardless of age, health status, wealth or social status has a fundamental right to sustainable, ongoing, secure and affordable access to energy.

Significant increases in the cost of living, particularly in the overall level of electricity charges remain a major concern for older Queenslanders, especially for those with low or fixed incomes. We understand that network charges comprise approximately 50% of the typical residential electricity bill for regional Queensland residents. COTA Queensland also appreciates that under the Queensland Government's uniform tariff policy (UTP), Ergon Energy's customers pay the same tariffs as customers of Energex. We believe that reductions in Energex's electricity prices are both achievable and essential, and we have presented our views on Energex's 2015-2020 Regulatory Proposal to the AER. Nevertheless, it is also in the best interests of all Queenslanders that Ergon Energy operates as prudently and efficiently as possible to minimise the Queensland Government's UTP payments. Therefore, we also offer the following comments on Ergon Energy's 2015-2020 Regulatory Proposal.

1. Rate of Return

We note that Ergon has proposed a rate of return of 8.02%¹, as well as departures from the AER's Rate of Return Guideline². COTA Queensland believes that, based on the AER's recent draft decisions and application of its guideline for the NSW electricity distribution service providers³ which are similar

¹ Ergon Energy Regulatory Proposal 2015-20, p.121

² AER, Rate of return guideline, December 2013

³ www.aer.gov.au/networks-pipelines/determinations-and-access-arrangements

businesses to Ergon Energy, the allowed rate of return for Ergon Energy should not exceed 7.15%. Furthermore, we encourage the AER to apply the recommendations of the AER's Consumer Challenge Panel on Rate of Return⁴ to deliver a rate of return which is more aligned to consumers' long term interests and expectations.

COTA Queensland does not support Ergon Energy's rationale for any departures from the Rate of Return Guideline.

2. Capital Expenditure

We note that Ergon Energy is proposing capital expenditure of \$3,462.2m in 2015-20⁵, a reduction of 18% compared with the previous period. Given the substantial capital expenditure program in 2010-15, less onerous requirements for network security and reliability, and decrease in overall demand during the period we question whether this proposed level of expenditure is necessary for the next regulatory period.

COTA Queensland understands that Ergon Energy undertook a Customer Engagement Program during 2013 to inform development of its 2015-20 Regulatory Proposal. While the customer views on reliability resulting from this program may have provided general guidance to Ergon Energy in the preparation of its proposal, we believe that they are at too high a level to be used as justification or support for specific capital expenditure programs.

3. Operating Expenditure

3.1 Benchmarking

COTA Queensland commends the AER on the benchmarking work that it has carried out for electricity service network providers in the NEM. From this analysis, it is apparent that there is potential scope for Ergon Energy to make efficiency improvements to reduce the performance gap between it and its peers. It is our expectation that the AER will revise Ergon Energy's opex forecasts based on the benchmarking results in accordance with its obligation to estimate the efficient costs incurred by a prudent operator in light of realistic demand forecasts.⁶ Should the AER determine that a revision needs to be made to opex forecasts to close the efficiency gap, we consider that a transition over a 1 to 2 year timeframe is realistic. Also, in these circumstances, we do not consider it reasonable to allow the proposed efficiency benefit sharing scheme carryover amount of \$146.1m, as it appears that previous opex allowances were already over-generous.

⁴ <http://www.aer.gov.au/sites/default/files/CCP%20report%20prepared%20for%20AER%20Board%20-%20Rate%20of%20Return.pdf>

⁵ AER Issues paper, Qld electricity distribution regulatory proposals 2015-16 to 2019-20, p. 13

⁶ AER, Issues paper, Qld electricity distribution regulatory proposals 2015-16 to 2019-20, p.21

3.2 Solar Bonus Scheme

COTA Queensland acknowledges that the Solar Bonus Scheme payment arrangements are subject to change by the Queensland Government. Current feed-in-tariff (FiT) costs will impose large overheads on customers' bills if the current arrangements continue. If FiT payments continue to be recovered through network charges, COTA Queensland supports the approach proposed by Ergon Energy to retain the current two year payment delay into the future, thus avoiding 'double payments' occurring in the 2015-20 period.

3.3 Step Changes

It is noted that a step change of \$51m is proposed for non-network ICT in 2015-20⁷. As this represents a significant increase in ICT operational expenditure over the period, we suggest that there is a need for the AER to:

- (a) verify that the benefits from the capital expenditure on ICT systems in the previous period are reflected in productivity forecasts; and
- (b) ensure the reasonableness of the proposed charges by the ICT service provider, based on competitive market rates.

4. Metering

COTA Queensland understands that reclassification of metering services for residential consumers from standard control to alternative control is an enabler for a range of metering service contestability reforms initiated by the COAG Energy Council. At present, this is a confusing scenario for consumers as the impacts for different groups of consumers remain unclear. The intended benefits of these reforms are likely to be undermined however, unless each step in the reform process is clearly explained to consumers, and is perceived by consumers to be fair and equitable. In this regard, COTA Queensland has some concerns with Ergon's approach to proposed exit fees.

We understand that Ergon Energy proposes an exit fee of up to \$136 (in 2015-16), rising to \$166 (in 2017-18) for consumers wishing to replace an existing metering installation with an advanced meter⁸. This would certainly present an impediment to the transfer to advanced meters for typical residential consumers, and a large barrier for vulnerable consumers. Whilst we accept that a small administrative charge may be applicable in this situation, we do not believe it is fair and equitable to seek to recover an 'average written down value' for the stranded asset. Our preference would be to simply write off the asset if it cannot be redeployed, or alternatively to include a forecast of these costs in the total metering service charge allocated to all consumers.

⁷ Ergon Energy , Regulatory proposal, 06.01.04 Step Changes for Operating Costs, p 2

⁸ Ergon Energy, Regulatory proposal, p.51

5. Consumer Engagement

COTA Queensland valued and appreciated the time and considerable effort Ergon Energy invested in providing a series of information sessions during 2014 to explain the contents of its 2015-2020 Regulatory Proposal to consumer group representatives. As part of this process, we had an opportunity to hear from, and pose questions to senior managers in the business.

We are aware that the AER has developed a Consumer Engagement Guideline for network service providers⁹. The guideline makes reference to the IAP2 Public Participation Spectrum to describe a range of engagement activities and their resulting public impact.¹⁰ Our entire engagement experience with Ergon Energy on the Regulatory Proposal was conducted at the 'Inform' level of the Public Participation Spectrum. The information sessions which we attended were not designed to foster engagement at the 'Consult' level or beyond. We look forward to engaging with Ergon Energy at the 'Consult' and more challenging levels of the spectrum in future activities.

If you require additional information about COTA Queensland or its energy policy position, please contact me on telephone (07) 3316 2999 or by email to mte@cotaqld.org.au.

Yours sincerely



Mark Tucker-Evans
Chief Executive

⁹ AER, Consumer engagement guideline for network service providers, November 2013

¹⁰ IAP2 at <http://www.iap2.org.au/resources/iap2s-public-participation-spectrum>