

24 April 2020

Ms Michelle Groves
Chief Executive Officer
Australian Energy Regulator
GPO Box 520
MELBOURNE VIC 3001



Email: AERInquiry@aer.gov.au

Dear Ms Groves

DELAY OF 2020-25 FINAL DECISIONS FOR ENERGEX AND ERGON ENERGY

Energy Queensland Limited (Energy Queensland) appreciates the opportunity to comment on the proposal by the Australian Energy Regulator (AER) to delay the final 2020-25 distribution determinations for Energex Limited and Ergon Energy Corporation Limited, currently due by 30 April 2020, until late May 2020. The AER is proposing to delay the final decisions in order to account for the next short-term forecasts of inflation which are expected to be published by the Reserve Bank of Australia (RBA) on 8 May 2020. The AER considers that the RBA's May inflation forecasts will provide a more accurate reflection of economic circumstances going into the next regulatory period.

Energy Queensland welcomes the AER's proposal to delay its final decisions. The unprecedented nature of the global COVID-19 pandemic is expected to have profound ramifications on economic conditions over Energex's and Ergon Energy's 2020-25 regulatory period. Given that forecast inflation is an important input in the determination of network revenues, this justifies delaying the AER's final decisions and updating this important input.

However, while Energy Queensland supports the proposed delay, we consider that this does not adequately address the overarching limitations of the AER's approach to forecasting inflation. Forecasting inflation has been the subject of debate between network business and the AER in recent years. Recent history has shown the AER's RBA based approach, which naturally produces estimates close to 2.5 per cent, to produce unreliable estimates of inflation to the detriment of network businesses. Indeed, for this reason Energex's and Ergon Energy's revised regulatory proposals requested that the AER undertake a review of inflation.

We acknowledge that the AER recently announced that it would undertake a review of the approach to inflation, but note that the outcomes of that review will not apply to Energex's and Ergon Energy's 2020-25 regulatory control period. This means that the AER will approve final decisions that erroneously lead to detrimental outcomes for Energex and Ergon Energy. We query how this is consistent with the relevant provisions and intent of the National Electricity Law and National Electricity Rules, which are centred on providing network businesses with a reasonable opportunity to at least recover their efficient costs.

Should you wish to discuss any aspect of this matter further, please contact [REDACTED] General Manager, Legal, Regulation and Pricing on [REDACTED]

Yours sincerely

Rod Duke
CHIEF EXECUTIVE OFFICER