Minutes of the Queensland Public Forum on Energex's and Ergon Energy's regulatory proposals (1 July 2010 to 30 June 2015)

Location:	**Christie Centre**
	Level 1 Caribbean, Room 320 Adelaide Street, Brisbane
Date:	**Monday, 3 August 2009 (9.00 am to 12.45 pm)**
Forum Chair:	**Steve Edwell, Australian Energy Regulator**
Attendees:	**See appendix 1.**

Summary of forum

A summary of the discussions from the forum is set out below.

1. Opening remarks by the Chair

Steve Edwell (Chair) opened the forum and made introductions. He outlined:

- the agenda, and noted that a record of the meeting will be made available following the forum
- key aspects of Energex and Ergon Energy regulatory proposals
- that the purpose of this forum is for the businesses to outline their proposals and that the AER would take questions regarding the AER's review process
- that the AER would not be providing an assessment of the proposals until the draft decisions are released in November 2009.

Comments and questions on Steve Edwell's opening remarks

Roman Domanski noted that the AER has a statutory obligation under the National Electricity Rules to conduct benchmarking in relation to capex and opex proposals. Mr Domanski asked to what extent the AER would use benchmarking as part of the Qld/SA distribution determinations?

Steve Edwell responded that the AER is undertaking research in this area but is not there yet. He noted that the AER only uses benchmarking to test its bottom up detailed conclusions and not to set allowances. He noted that the AER sees benchmarking as a longer term proposition.

Mr Domanski sought clarification on this point, noting that the regulatory proposals contained large increases in capex and opex. He considered that benchmarking should be a critical tool as part of the regulatory assessment.

Steve Edwell responded that the AER has been conducting in-house benchmarking research and noted the difficulties associated with collecting standardised input data. He stated that benchmarking is only one tool amongst many analytical techniques used to assist with making judgements about the scope for efficiency improvements across firms. He noted that the AER and its consultants conduct a detailed review of opex and capex involving the examination of historical and forecast demand trends, testing the reasonableness of unit costs, and the appropriateness and application of the businesses policies and procedures. Mr Edwell noted that benchmarking would form only one part of the assessment process.

Steve Edwell reminded attendees that the forum had been organised to provide distribution businesses the opportunity to present their proposals to interested parties. He noted that the AER would be pleased to address questions about the review process but that it was too early for the AER to make any assessments about the proposals. He noted that the AER would present its findings on the proposals when it releases its draft decision in November 2009.

The AER's presentation slides are available on the AER website at:
http://www.aer.gov.au/content/index.phtml?itemId=730109

2. Presentation by Energex

Steve Edwell invited **Terry Effeney** (Chief Executive Officer) and **Chris Arnold** (General Manager Network Performance) to present Energex's regulatory proposal to the forum.

Energex's presentation slides are available on the AER website at:
http://www.aer.gov.au/content/index.phtml?itemId=730109

3. Discussion on Energex's presentation

Roman Domanski commended Energex on its demand management proposal. He noted that Energex proposes to spend around $127 million over five years on demand management initiatives. He asked what the capex cost would have been in the absence of demand management and what the commercial and industrial components of the 144MW savings would be.

Chris Arnold noted that for peakier loads, demand management can be cheaper than a capex solution. Mr Arnold noted that Energex has a scheme operating at Tin Can Bay. He stated that it is a short term peak demand management trial that aims to address specific network constraints by reducing demand on the network at the location and time of the constraint. Energex has found that it in some circumstances it can be cheaper to encourage demand management initiatives that will deliver a reduction in peak demand than it is to continue servicing the network assets. He stated that specific costs could not be provided as they were dependent on local conditions.

Mr Arnold advised that in relation to the 144MW savings, the commercial and industrial component was significant. He noted that Energex has demand management programs designed to match commercial and industrial customers with appropriate technology solutions, including distributed generation and load control.

Bruce Mountain asked what benchmarking Energex had participated in as part of putting together its regulatory proposal?

Terry Effeney stated that Energex had undertaken two opex benchmarking studies. It had carried out is own benchmark analysis using the same methodology used by Wilson Cook for the AER's NSW/ACT distribution reviews. It also engaged SAHA to undertake a more detailed opex benchmark study. He noted that the results of both of these studies have been included with Energex's regulatory proposal. Mr Effeney also stated that benchmarking had not been undertaken in relation to its capex proposal as capex is inherently more difficult to benchmark.

John Dick noted that there was a trend towards smart grids and intelligent networks in the National Electricity Market and he considered that the only distribution business that has made a solid commitment towards this technology was EnergyAustralia. Mr Dick stated that it seemed that businesses have the option of trialling these technologies by integrating them into the costs that make up the revenue stream. He questioned what Energex has done in relation to smart grid technologies?

Chris Arnold stated that Energex is supportive of demand management programs and noted that kVA tariff trials had occurred and critical peak pricing was being looked at. He noted that in Queensland the smart meter business case did not 'stack up' and that they are doing further trials before they move forward on smart meters.

Steve Edwell questioned Energex on the impact of its proposed expenditures on service levels.

Chris Arnold indicated that Energex was spending around $300 million on initiatives to improve its reliability performance. He noted that there were both capex and opex elements to this. Mr Arnold also noted that Energex planned to undertake significant investment in rural areas of South East Queensland, given some poor performance in this area. He also noted that CBD performance is much better and that the trend down for urban service targets was not that onerous.

Steve Edwell asked if Energex could outline what consultation it undertook on its regulatory proposal with customers.

Kevin Kehl was asked to respond on this question. He advised that Energex consults broadly with customers on its annual network asset management plan. He stated that this is a document which is published every 12 months and has a five year horizon. He also indicated that Energex has been talking about proposed network developments with its major customers where they are impacted. Mr Kehl also noted that consultation occurs under the integrated planning arrangements that Energex is required to undertake in relation to augmentation projects.

Mr Kehl also noted that Energex intends to publish its Summer Preparedness Plan (SPP) in September this year which provides details of preparations Energex will undertake for the upcoming summer. He indicated that Energex had spoken to a number of stakeholders about its SPP. He also noted that Energex had recently met with the EUAA regarding its regulatory proposal.

Roman Domanski noted that the regulatory determinations for revenue and prices are released at different times. He asked Energex to clarify what the proposed price impacts from the regulatory proposal would be.

Chris Arnold clarified that the price impact of Energex's proposal was 10% in the first year follow by 4% per annum for the remainder of the regulatory period. He also noted that the revenue impact was 25% in the first year and 8% per annum for the remainder of the regulatory period.

Roman Domanski noted that users have difficulty in budgeting for these sorts of price increases and asked what could be done to provide users with forewarning about possible price increases if the AER accepts the proposals put forward by the businesses.

Chris Arnold undertook to have discussions with users after the AER's draft decision had been made.

Roman Domanski also sought clarification in relation to Energex's capex program and its philosophy in relation to the 'N-1' security of supply criteria. In particular, he questioned Energex on how far it would progress in achieving the 'N-1' requirements in the next regulatory period and what cost/benefit had been undertaken in relation to their proposed approach?

Chris Arnold outlined Energex's approach to the application of the 'N-1' security requirements. He indicated that Energex does not duplicate assets the whole way through its network but instead looks at the nature of the loads being supplied (that is, whether they are critical or not). In terms of how far Energex thought it would get in achieving the 'N-1' criteria he stated that it would depend on the growth that occurs during the next regulatory period. However, he indicated that Energex considered that by 2017-18 Energex expected to have to the appropriate level of security in place.

4. Presentation by Ergon Energy

Steve Edwell invited **Ian McLeod** (Chief Executive Officer) and **Tony Pfeiffer** (General Manager Regulatory Affairs) to present Ergon Energy's regulatory proposal to the forum.

Ergon Energy's presentation slides are available on the AER website at: http://www.aer.gov.au/content/index.phtml?itemId=730109

5. Discussion on Ergon Energy's presentation

Ariel Liebman congratulated Ergon on their demand management proposal but noted that the proposal did not indicate how much Ergon expected to obtain in demand savings from the expenditures.

Ian McLeod said that Ergon has ongoing demand management pilots and trials. He stated that Ergon is still at the stage of proof of concept on these projects and therefore the demand savings could not be quantified. Mr McLeod said that Ergon has made a long term commitment towards demand management initiatives (for example, James Cook University project and the solar cities project on Magnetic Island). Mr McLeod stated that a network business needs solid evidence that the demand management solution will deliver real reductions when it is required and this is why Ergon is aiming to get verifiable results.

Roman Domanski asked if Ergon had conducted benchmarking of its proposed capital and operating expenditures and what the broad outcomes of this benchmarking were.

Ian McLeod stated that Ergon had endeavoured to engage in benchmarking studies with other businesses but that no other participants would commit to the study. For example, he noted that Ergon attempted to take part in an industry operating cost benchmark exercise in 2007. Nevertheless, Mr McLeod stated that Ergon's opex and IT costs had been benchmarked against industry peers and that this information had been made available as part of Ergon's proposal. Mr McLeod noted that while some benchmarking of opex had been undertaken, no capex benchmarking had been undertaken. He stated that a high percentage of Ergon's capex is competitively tendered effectively determining market efficiency.

Roman Domanski asked Ergon whether these benchmarking studies were confined to Australia or involved service providers from overseas?

Tony Pfeiffer stated that these benchmarking studies were driven by others and that he suspected that they pulled out of the study as they were concerned about the implications of resourcing the study at the same time as preparing their regulatory proposals. Mr Pfeiffer was not aware if the studies included any international service providers.

Steve Edwell noted that there had been a reduction in economic activity and the cost of resources but questioned Ergon on whether its program of works was deliverable in the timeframes and given historical expenditure levels.

Ian McLeod stated that Ergon was first asked this question in 2005 as part of the Queensland Competition Authority (QCA) 2005 distribution determination process. He stated that the QCA's consultant had recommended a reduction in capital based on deliverability. Ergon's proposal has proven to be correct and the capex was delivered. He noted that there was around a $1 billion capex overspend during the current regulatory period and that during this period, due to customer demand, there has been a 20 to 24 per cent capex increase in the first two years. Mr McLeod noted that during the first two years of the current regulatory period Ergon had set up strategic contractor panels, had increased its internal resources and had entered into a partnership with Energex concerning the procurement of materials and equipment. He indicated that these initiatives had helped Ergon deliver its capex proposals. Overall, Mr McLeod stated that Ergon sees its investment program as conservative and deliverable.

Steve Edwell asked whether Ergon Energy had engaged with consumers on their regulatory proposal.

Ian McLeod stated that Ergon had undertaken surveys and had metrics in place to measure affordability and reliability on a quarterly basis. He indicated that Ergon gained customer feedback through regional electricity councils and through Ergon's account managers. He indicated that Ergon was meeting with EUAA, QCOSS and other customer and stakeholder representatives (including councils and chambers of commerce) to discuss Ergon's submission, pricing and other impacts of their proposal.

Ariel Liebman enquired about Ergon's demand management proposal, stating that Ergon did not seem to be doing much in the larger customer segment.

Ian McLeod stated that Ergon's demand management proposal was targeting all areas, including the industrial segment. He stated that Ergon considered that industrial is where Ergon believes that it will get the best value for money from demand management activities. He further noted that Ergon is aiming to collect audited data and energy management plans from its industrial customers so that it can be mapped against Ergon's Network Management Plan to see where identified network solutions may be able to be deferred through demand management activities.

Mr McLeod considered that the current regulatory framework does not encourage effective utilisation of demand management. He stated that all investments undertaken by the businesses on demand management get rolled out at end of the regulatory period and therefore businesses are not able to retain the benefits of their investment. Mr McLeod considered that the benefits need to roll over to the next regulatory period. He also considered that demand management initiatives had not been incentivised to the same degree as other schemes within the regulatory regime.

Roman Domanski asked how Ergon Energy intends to inform its customers on the possible price increases resulting from its regulatory proposal.

Tony Pfeiffer stated that the regulator had informed Ergon Energy of this issue and that Ergon would take this issue on notice and get back to user groups on a proposed approach.

6. Concluding comments

Steve Edwell advised that written submissions on Energex and Ergon's regulatory proposals close on 28 August 2009. He noted that submissions received by this date would be considered by the AER, in conjunction with technical advice from the AER's engineering consultants. He advised that the AER's draft determination for Energex and Ergon Energy was expected to be released in November 2009.

Steve Edwell indicated that a record of issues discussed at the forum would be developed and placed on the AER's website. He expressed his appreciation to the presenters and attendees for their participation and closed the meeting at approximately 12.45 pm.

Appendix 1: List of attendees

Organisation	Attendees
Ergon Energy	Jenny Doyle, Tony Pfeiffer, Allison White, Ian McLeod, Greg Evans , Troy McKay-Lowndes, Carmel Price, Anna Cox, Leon Hawley, Loren Blauensteiner
Energex	Terry Effeney, Graham Metcalf, Damian Platts, Kevin Kehl, Maria Ceresa Alati, Paul Rainbird, Sue Lee, Ronald Barbagallo, Neil Anderon, Louise Dwyer, Jane-Ellen Corkeron, Chris Arnold, Chris Arnold, Darren Buisine
Aurora	Phil Bowe, Nicole Irvine
AGL	Meng Goh, Kong Min Yep
ETSA	James Bennett
Lifeline Community Care QLD	Fiona Hawthorne
Carbon Market Economics	Bruce Mountain
Queensland Treasury Corporation	Jacqueline Ryan, Peter Rawlings, Mark Brice, Rosemary O'Hagan
Rio Tinto Alcan	Glenn Otway
Origin Energy	Patrick Whish-Wilson
Queensland Council of Social Services	Linda Parmenter
Energy Users Association of Australia	Roman Domanski, Ariel Liebman.
Energy Action Group	John Dick
SPA Consulting	Simon Perkins
HillMichael	Colin Watson, Soruby Bharathy
Network Advisory services	Matthew Rennie, Malcolm Tadgell
Powerlink	Gordon Jardine, Stewart Bell
Country Energy	Jason Cook
Department of Employment, Economic Development and Innovation	Michelle Norris, Judith Allen
Not indicated	Tony Cook

Australian Energy Regulator (AER)	Steve Edwell (Chair), Mike Buckley, Chris Pattas, Scott Haig, Moston Neck, Adam Peterson, Robyn Le, Sarah Curby