



Regional
Development
Australia

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Mr Sebastian Roberts
General Manager
Australian Energy Regulator
GPO Box 520
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Via email: QLDelectricity2015@aer.gov.au

Friday 30th January 2015

Dear Mr Roberts

RE: Qld electricity distribution regulatory proposals 2015/16 – 2019/20

Regional Development Australia Far North Queensland and Torres Strait (RDA FNQ&TS) welcomes the opportunity to provide brief comment on the Qld electricity distribution regulatory proposals 2015/16 – 2019/20 ('the distribution re-set'). RDA FNQ&TS has been active in the energy policy space for over two years¹ and has been engaging at every opportunity with the AER regarding this distribution re-set. An affordable and reliable regional energy supply is critical for securing regional economic growth and increasing liveability by addressing cost of living pressures.

The negative impacts on business and community from increasing electricity prices must be addressed as they present a key barrier to industry growth in the region and are increasingly impacting on vulnerable and low-income households.² Reform of energy policy and regulatory regimes is required to address complex

¹ Including the Energy White Paper, the RET Review, the development of the Queensland 30 Year Electricity Strategy - PowerQ, and the Queensland Competition Authority's review of regional retail pricing mechanisms (Uniform Tariff Policy reform) - All RDA FNQ&TS Submissions available here <http://www.rdafnqts.org.au/index.php/resources/rda-fnqats-submissions>

² The Federally funded Energy Efficiency Information Grant has enabled RDA FNQ&TS to deliver the Tropical Energy Saver Project. Consistent feedback from group information sessions identify high electricity costs as a key issue for consumers including industry (tourism, cattle producers) and representative bodies (various Chambers of Commerce). Reliability of supply was noted by Gulf Savannah Development as a fundamental issue for that region. There was also confusion regarding tariffs from multiple participants.



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challenges including regional transmission losses from centralised power generation and the convoluted cross-subsidy arrangements to deliver secure, reliable and affordable energy for the region – its industries and communities. RDA FNQ&TS recognises that the AER distribution re-set process is only a part of the energy regulatory regime, notably a significant component with network prices comprising the largest single contributor to electricity prices. This short submission provides context to the regional issues relating to high electricity prices followed by brief comment on specific aspects of Ergon Energy's regulatory proposal. Unfortunately despite commitment of considerable time to participating in AER and Ergon workshops, teleconferences and face to face meetings, as well as engaging with regional stakeholders and QCOSS, RDA FNQ&TS lacks the capacity to assess the regulatory proposal in a detailed way.

Regional Perspectives

Far North Queensland is effectively 'the end of the line' for electricity distribution. In our broad region, which includes Cape York, Torres Strait and part of the Gulf (Etheridge, Croydon and Kowanyama Shires), energy issues can be grouped around cost, quality of supply and security of supply. Initiatives to address these issues vary across three 'energy zones' encompassing the on-grid areas (coastal centres from Cardwell to Cooktown), fringe-of-grid areas (Tablelands, Gulf) and off-grid (Torres Strait and Cape York).

In partnership with key regional stakeholders, RDA FNQ&TS has proposed key initiatives to address these issues, including the development of a North Qld Energy Plan providing a strategic analysis of the 10 – 30 year demand and supply needs and pathways to secure competitively priced electricity, including options for distributed generation and energy efficiency; strengthening regional delivery and uptake of renewable energy options; and reviewing the current funding, investment and ownership model for energy generation and transmission.³

Due to the complex nature of the distribution re-set and the energy policy space more generally, RDA FNQ&TS has endeavoured to work in partnerships to share information, knowledge and understanding. To this end we support the submissions of the FNQ Electricity Users Network (of which we are a member)⁴, Queensland Council of Social Services (QCOSS) and Far North Queensland Regional Organisation of Councils (FNQ ROC). Personal thanks go to Jennifer Brownie (Cummings Economics) and Rose McGrath (QCOSS) for their advice and support throughout this process to ensure ongoing engagement of RDA FNQ&TS.

Consumer engagement and support

We acknowledge and are thankful for the efforts of the AER to engage consumers in the process, particularly in improving regional consumer engagement. RDA FNQ&TS further appreciates the role of the AER's Consumer Challenge Panel who provided very accessible and useful analysis of key components of the proposals. The level of complexity and sheer volume of the technical information in Ergon Energy's regulatory proposal presents a nearly impenetrable barrier for 'ordinary' business, industry or residential consumers to understand, unpack and provide comment to the AER. Further investment in resources and other support to facilitate informed and effective participation and engagement by consumers in relevant energy policy regulatory processes is crucial.

³ http://www.rdafnqts.org.au/images/SPP/SPP_14.07.24_RDA_Energy_Water_Transformations_v_4.0.pdf

⁴ supported through the Consumer Advocacy Panel, delivered by Cummings Economics



The Consumer Advocacy Panel has provided critical support⁵ to improve participation capacity and RDA FNQ&TS is hopeful that full delivery of the reform agenda under the COAG Energy Council and other relevant measures, will provide the very much needed coordinated, streamlined and funded support mechanisms for business and residential consumers alike to participate in any and all relevant energy regulatory processes.

RDA FNQ&TS would also like to acknowledge the efforts of Ergon Energy to engage with regional consumers including holding workshops in Cairns on the regulatory proposal, and several one on one meetings with relevant staff to improve understanding and responses. The effectiveness of consumer participation in the process should be informed by assessment of how issues raised have been addressed or incorporated into the regulatory proposal.

Ergon Energy Regulatory Proposal

RDA FNQ&TS refers the AER to the submissions from QCOSS, the FNQ EUN and FNQROC where detailed analysis and comment is provided. RDA FNQ&TS seeks to highlight the following:

- 1) The Regulatory Asset Base – The RAB has significantly increased over the previous regulatory period and is set to further expand under this regulatory period. To avoid any claims of 'gold plating' the network, Ergon's proposal for expansion needs to be carefully scrutinised.
- 2) Weighted Average Capital of Cost – Whilst Ergon is proposing a reduced WACC of 8.02%, there appears to be compelling evidence⁶ to support consideration of a further reduction of the WACC for this regulatory period. A reduction of the WACC will lower revenue requirements and deliver reduced prices for customers.
- 3) Utilisation – A greater focus on improving utilisation rates would have an impact on easing capex. Better utilisation of existing assets needs to be prioritised over investment in expansion of assets.
- 4) Demand Management – Effective demand management can result in increased utilisation rates and potentially provide for savings in augmentation investment.
- 5) Forecasting – It is hoped that improvements in the methodology for forecasting demand will improve the accuracy of forecasting for this regulatory period. RDA FNQ&TS has been interested in ensuring fine grain sub regional and local residential data, individual project proposals and industry growth plans and aspirations, and population growth projections are fed into forecasting efforts to improve accuracy.
- 6) No comment is made regarding whether the capex or opex proposals are prudent and efficient as required by the National Electricity Rules. We look forward to the AER's assessment of this aspect of the regulatory proposal and refer the AER to recommendations made by QCOSS, FNQROC and FNQ EUN.

⁵ including to QCOSS and FNQ EUN

⁶ refer to QCOSS submission and material prepared by Mr Hugh Grant, AER Consumer Challenge Panel member - http://www.aer.gov.au/about-us/consumer-challenge-panel#Panel_members



Recommendations

RDA FNQ&TS request the AER:

1. consider the brief matters raised as well as recommendations from FNQROC, FNQ EUN and QCOSS;
2. provide details of the AER assessment of the Ergon Energy Regulatory Proposal;
3. consider how to refine and improve the effectiveness of the AER's consumer engagement strategy;
4. play a leadership role across the sector to promote a more coordinated and streamlined energy regulatory environment; and
5. advocate for ongoing resources for consumer engagement across all energy related regulatory processes.

RDA FNQ&TS remains committed to progress initiatives to deliver affordable and reliable electricity to the region as an economic enabler for growth and to alleviate cost of living expenses for the community. RDA FNQ&TS looks forward to continued engagement with the AER and other relevant agencies to achieve this objective. Please do not hesitate to contact me with any queries (0458 388 080), thank you.

Yours sincerely



Jann Crase
Acting CEO
RDA FNQ&TS Inc

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