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Mr Warwick Anderson
General Manager
Australian Energy Regulator
GPO Box 520
Melbourne Vic 3001

Via email: EnergyQueensland2020@aer.gov.au

ENERGY QUEENSLAND (ENERGEX AND ERGON ENERGY)
REVISED REVENUE PROPOSALS 2020-25

Dear Mr Anderson,

Energy Consumers Australia is the national voice for residential and small business energy consumers. Established by the Council of Australia Governments (COAG) Energy Council in 2015, our objective is to promote the long-term interests of energy consumers with respect to price, quality, reliability, safety and security of supply.

We appreciate the opportunity to respond to the Australian Energy Regulator's (AER) consultation on its Draft Decision for Energex and Ergon Energy and Energy Queensland's revised revenue proposals for Energex and Ergon Energy for 2020-2025.

At this stage, the revised proposals for both Energex and Ergon Energy are considered by Energy Consumers Australia to be not capable of acceptance by the AER.

In forming our view, we note that Energy Queensland's revised proposals include very last-minute and significant changes in approach and redacted material being made available but with little time for consideration.

We see our role in network revenue determination processes as providing assurance to the community that the projects being proposed and the costs of these projects will meet consumer needs for affordable, reliable, safe and secure energy services.

Advice to us from Dynamic Analysis is that:

- For Energex, there is an evidence gap of $180 million of which $165 million relates to incentive rewards re-included in the revised proposal and $15 million relates to the revenue effect of the capital program.
- For Ergon, there is an evidence gap of $310 million of which $240 million relates to incentive rewards re-included in the revised proposal and $70 million relates to the revenue effect of the capital program.

In the circumstances, we are not able to assure the community at a level that meets our standards that the outcomes proposed are in their interests.

Our best and most constructive contribution to the final outcome is to provide our reflections to the AER for consideration in its role as decision-maker on the long-term interests of consumers in these proposals.

We appreciate the difficulty that Energy Queensland finds itself in. Energy Queensland has told us that it is managing its network in an environment where the state safety regulator is pursuing even the slightest deviation from standard across a network that has extraordinary geographic reach. We find ourselves still unable to reconcile the historic investment levels that added to the Regulatory Asset Base between 2010 and 2015 with the proposed further expenditure. The Queensland Government, as owner of the business and as controller of the safety regulator, may be able to clarify policy settings to enable Energy Queensland to meet regulatory obligations at costs that are reasonable for consumers. We make further comment on safety responsibilities and costs below.

What consumers are telling us

Energy Queensland's initial proposal shared that "Affordability is our customers' primary concern."[1] In our June 2019 Energy Consumer Sentiment Survey only 55 per cent of Queensland consumers were satisfied with the overall value for money of their electricity supply. We are concerned that there are further opportunities for improved affordability outcomes for Queensland electricity consumers that are yet to be seized.

Remaining evidence gaps

As you are aware, we engaged Dynamic Analysis to undertake a technical review of Energy Queensland's initial and revised proposals. This analysis informed our submissions on the draft plans (in October 2018) and the AER's Issues Paper (in June 2019). We have attached the technical reports on the revised proposals provided by Dynamic Analysis to help consideration of the revised proposal.

We see evidence gaps for the claims for both Energex and Ergon Energy in the same revenue categories:

- Replacement capital expenditure (repex)
  For Energex, this largely relates to the low voltage safety project. There appears to be a lack of evidence to support the need for the investment; a lack of options analysis that informed the approach in the revised proposal; and a lack of evidence to support the proposed budget.

  For Ergon Energy, there appears to be a lack of evidence that demonstrates Ergon Energy's assets do not meet safety requirements; that they are required to match Energex's pole failure rate; and that they are capable of delivering the proposed program. We cannot see evidence of a longer-term plan that, in a staged and steady way, minimises costs for consumers.

- Augmentation capital expenditure (augex)
  For the Bells Creek project (Energex), there appears to be a lack of detail on how it has accounted for uncertainty (that is, if the required number of connections does not eventuate), nor how demand management options have been explicitly considered.

  In the Ergon Energy network, there appears to be an evidence gap around the inter-relationships between the network communications program and the power quality programs.

- Property
  This information was provided on a confidential basis for both networks. Given our comments at the AER's draft determination public forum for the NSW electricity distribution networks – "if one party has information that would make the choice between two alternatives clear but won't provide the information, assume the information works against the alternative they are trying to have accepted" our initial position is that the proposals should be rejected. Ultimately, only the AER can see the details and make a clear determination.

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[1] Energy Queensland, *Energex Regulatory Proposal 2020-25*, page 6. Accessed from https://www.aer.gov.au/system/files/Energex%20-%201.003%20Regulatory%20Proposal%202020-25%20-%20January%202019.pdf

- Incentives
  Neither Energex nor Ergon Energy has provided sufficient evidence that the capital underspend in 2015-20 was due to efficiency rather than delivery issues. Energy Queensland originally stated that it would not claim incentive benefits. Energy Consumers Australia remains a strong supporter of the incentive regime and in general prefers that network investors get a share of the benefit of the efficiency sharing arrangements. However, networks must be able to demonstrate that savings were from true efficiency measures rather than a reward for simply not doing a project.

Price path

Where we have focused largely on the revenue proposal, Queensland advocates have largely been focusing on the tariff structure statement, which is essentially the translation of how decisions made in the revenue proposal are passed onto consumers via their retailers. We are disappointed that Energy Queensland has missed an opportunity to develop new and innovative tariff structures and price paths. We are pleased that Energy Queensland is taking the AER's advice for the next period. Consumer advocates are more ambitious in terms of pricing than we see coming through the proposals.

Australian Competition and Consumer Commission (ACCC) concerns are not addressed

Network Costs

The ACCC's *Retail Electricity Pricing Inquiry – Final Report* found that there has been significant over-investment in the Queensland electricity distribution networks, which means that consumers have paid billions of dollars more than necessary.[2] This leaves consumers feeling that they have paid for work that was done but not needed.

Government Policy Costs

At a time when affordability concerns remain high creating a trust deficit, we believe that the AER's final determination should transparently outline the cost impacts of government policy on the revenue awarded to the Queensland networks. This would include policies such as the Solar Bonus Scheme (where the ACCC was praising Queensland's approach to taking this cost on budget, rather than having consumers fund the scheme through their network costs), tax, dividends, and safety costs.

Safety concerns are driving expenditure

We appreciate that safety is paramount and safety-related expenditure is complex. From an evidence-perspective, one of the elements we look for is what is driving the expenditure. Energy Queensland tells us that they have provided more information on safety-driven projects as requested by stakeholders in submission to its original proposals.[3] However, Dynamic Analysis advise that in their opinion there are still evidence gaps, including around options analysis and quantification of risks. Given the lack of transparency around the drivers and metrics of safety-related expenditure, we must rely on the AER being satisfied on the evidence, that the projects are needed, and that there are no

[2] ACCC, *Retail Pricing Inquiry – Final Report*, page ix. Accessed from https://www.accc.gov.au/system/files/Retail%20Electricity%20Pricing%20Inquiry%E2%80%94Final%20Report%20June%202018_0.pdf

[3] Ergon Energy, *Ergon Energy Revised Regulatory Proposal 2020-25*, Table 10, page 22. Accessed from https://www.accc.gov.au/system/files/Retail%20Electricity%20Pricing%20Inquiry%E2%80%94Final%20Report%20June%202018_0.pdf

other more efficient options for addressing the concern than the projects proposed in the revised proposals.

If the driver of further capital investment is to meet the requirements of the Queensland safety regulator, there is an opportunity for the Queensland government to consider how it might mitigate these costs by underwriting the businesses' risk rather than pass these costs onto consumers.

Incentives

The reintroduction of claims under the Capital Expenditure Sharing Scheme and the Efficiency Benefit Sharing Scheme incentives came late in the process and was not well socialised with advocates. Energy Queensland indicated in the initial proposals that its approach to forego the incentives relied on the AER accepting its proposals in full. This is one of the significant changes referred to above.

For consumers to have confidence in incentives, there needs to be absolute clarity that what is being rewarded is genuine efficiency improvement. Due to the incentives not being considered in detail in the initial engagement with Energy Queensland we rely upon the AER assessing the appropriateness of the incentive payments claimed.

Consumer engagement

The level of consumer engagement has been mixed, but largely unsatisfactory. For example, while it was a positive step that Energy Queensland revised its business cases and then shared the revisions with us prior to lodgment, there was no real opportunity to test assumptions and options. Rather the revisions were clearer explanations of projects that had been decided. We would contrast this with our experience in the Ausgrid determination process where a significant adjustment was made to project prioritisation and cost governance processes. This is an area for further attention by Energy Queensland in the future.

Concluding comments

The best position that consumers can take is to consider the 2020-2025 period as a reset for Energy Queensland, with all of the issues now known and out in the open. We encourage Energy Queensland to continue to engage with consumers so that trust can be re-built and strong network-consumer partnerships developed to deliver the energy services that Queensland consumers want at an affordable price.

Yours sincerely,

Rosemary Sinclair AM
Chief Executive Officer

Att: Dynamic Analysis report *Technical advice to Energy Consumers Australia. Review of Energex's revised regulatory proposal*

Dynamic Analysis report *Technical advice to Energy Consumers Australia. Review of Ergon's revised regulatory proposal*