



queensland council of social service inc
WORKING FOR A FAIR QUEENSLAND

15 August 2008

Mr Moston Neck
Queensland Competition Authority
GPO Box 2257
Brisbane QLD 4001

Dear Mr Neck,

RE: *Submission on the Cost Pass-through Application Ergon Energy – Tropical Cyclone Larry*

Thank you for the opportunity to respond to the draft decision on the Cost Pass-through Application for Ergon Energy (Ergon) in light of Tropical Cyclone Larry.

We understand that Ergon incurred significant damage to their distribution network and that customers experienced severe disruptions to electricity supply during, and in the wake of Tropical Cyclone Larry. We also understand that the Queensland Competition Authority (QCA) in its 2005 Final Determination provides for pass through of costs where major exogenous and unforeseen events outside the control of a distribution network service provider. However, we believe that the QCA's draft decision determining the total revenue impact of the cost pass through of \$5 million in 2008-09 and \$5.8 million in 2009-10 will present an unnecessary price increase in energy provision for regional and rural Queenslanders. Ergon's initial application did not clearly establish, inter alia, the costs it was seeking to pass through to customers were incremental cost rather than gross costs and. Subsequent investigations into Ergon's application were needed and still did not provide any further substantial clarification of costs. In addition, we would argue that the particular circumstances of the Ergon application are ones in which cost should not be passed on to consumers.

We appreciate the efforts of Evans and Peak and their technical assessment of Ergon's financial records. However, in a number of instances Evans and Peck were inclined to give the benefit of the doubt to Ergon Energy when assessing cost components. Given that this pass through application will more than likely set precedence for other applications, we are very concerned with the ability to pass on costs on a 'benefit of the doubt' basis. Ergon provided very poor accounting records and in the essence of good business practices, consumers should not be required to bear pass-through costs that are not substantially justifiable.

According to Ergon's 2005/06 annual report, they achieved a net profit after tax (NPAT) of \$144.2 million, a 46% increase from the previous year – whilst increasing its asset base to \$6.7 billion, and achieving a 7.8% revenue growth from 2004/05. In 2006/07 Ergon delivered a very strong financial performance in 2006/07 with consolidated Earnings Before Tax (EBT) of \$1.3 billion and a NPAT of \$1.2 billion, (noting that \$1 billion was due to the sale of the retail business) and managed to grow their total asset base by 16% to \$7.7 billion. These strong financial figures indicate that although Ergon incurred increased expenses as a result of cyclone Larry, the overall financial performance of the corporation was not substantially affected.

Electricity prices for residential customers increased by 11.37% in 2006/07-2007/08 and then again by 5.38% in 2008/09 as a result of Benchmark Retail Cost Index (BRCI) increases. While Ergon was increasing its profits, residential customers were being forced to pay higher prices for an essential service.

For the period 1 July 2007 to 30 June 2008, the Office of Energy Ombudsman Queensland (EOQ), received a total of 345 cases of consumers experiencing difficulty in making payment of their energy account, and 170 cases of consumers having energy supply disconnected and are seeking assistance to be reconnected.¹ This is likely to represent only a small proportion of the customers actually experiencing difficulties.

With this in mind, we would strongly recommend that Ergon's pass-through application be given serious consideration and that no pass-through arrangements are made based on very poor accounting records that do not provide substantially justifiable data or that are based on 'benefit of the doubt'.

We look forward to any further consultation process for the Ergon Energy's cost pass-through application. If you would like any further information or to clarify any aspect of this submission, please feel free to contact me on 3004 6900.

Yours sincerely

Jill Lang
Director

Cc. Hon. Geoff Wilson, MP. Minister for Mines and Energy

¹ <http://www.eoq.com.au/statistics.cfm>