



**Submission to the Queensland
Competition Authority on
Electricity Distribution - Review of
Excluded Distribution Services**

October 2007

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1. INTRODUCTION

1.1 Purpose

The purpose of this submission is to provide an Origin response to the Queensland Competition Authority (QCA) in relation to their draft decision *Electricity Distribution: Review of Excluded Distribution Services*.

1.2 Background

On 2 October 2007, the QCA released their draft decision in relation to proposed categories of excluded distribution electricity services. This is given the QCA's decision on 29 August 2007¹ to re-classify certain prescribed distribution services currently provided by Ergon Energy and ENERGEX as non-Distribution Use of System (DUOS) services. This results in the removal of regulated revenue from the network businesses revenue caps and individual prices being determined for each of the non-DUOS services. These non-DUOS services include de-energisations, re-energisations, new connections and supply abolishments.

This submission addresses the QCA's *Electricity Distribution: Review of Excluded Distribution Services* draft decision and is divided into three sections. This section makes a number of general comments about the proposed separation of non-DUOS services from prescribed distribution services while the remainder of the submission addresses the draft decision in further detail. Specifically, section 2 covers the proposed classification and type of non-DUOS services and section 3 covers the pricing of non-DUOS services.

1.3 General Comments

Origin welcomes this opportunity to submit comments to the QCA with regards to the review of excluded distribution services for both Ergon Energy and ENERGEX. Origin supports transparent prices being determined for each of the individual non-DUOS services on the basis that there is a clear exclusion of these services from the existing regulated revenue cap.

Although Origin supports the proposed approach in relation to the individual pricing of non-DUOS services, we provide the following general comments:

1.3.1 Allocation of Revenue to Non-DUOS Services

Origin notes that the draft decision states that less than 5 per cent of the total regulated revenue cap in the 2005 Revenue Determination for both Ergon Energy and ENERGEX was allocated to non-DUOS services². It is not clear whether:

- this 5 per cent of revenue is also the total cost of providing the non-DUOS services. That is, does the revenue cover all costs including systems, processes and labour costs; or
- a proportion of non-DUOS service costs were also being recovered through other means (ie allocated to retail arm of the network businesses).

It is noted that ENERGEX has made a decision, through its FRC Cost Pass Through Submission to the QCA, to treat non-DUOS services as follows:

¹ Queensland Competition Authority, *Final Decision - Amendment to Electricity Distribution: Determination of Prescribed Services*, August 2007.

² Queensland Competition Authority, *Electricity Distribution: Review of Excluded Distribution Services - September 2007*, Draft Decision, p3.

- *"In relation to systems costs...ENERGEX made a decision that the systems costs should remain within the pass-through costs because they are not "modular..."; and*
- *In relation to labour costs, ENERGEX has removed all delivery and labour components related to excluded services from its actual expenditures and from forecast stage 2 expenditure..."³*

Given the above, Origin seeks clarification as to the actual quantum of non-DUOS costs that will be removed from the regulated revenue cap. Origin also seeks clarity as to whether Ergon Energy's non-DUOS prices will also exclude any costs associated with systems.

1.3.2 Annual Reporting of Excluded Revenue and Prices

Origin supports the QCA's proposal of including information in relation to revenue generated and an assessment of the prices paid for each type of non-DUOS service in its annual Financial and Service Quality Performance reports. Origin questions however how the QCA proposes to deal with either the over or under recovery of costs. That is, if it only costs ENERGEX \$40M to carry out the non-DUOS services, but ENERGEX recovers \$60M in a financial year, then what will be the adjustment process?

Origin believes that it needs to be clear in the regulatory accounts of the distribution businesses the allocation of costs to each service versus the revenue received for each service. This will ensure that efficient prices are set for consumers.

1.3.3 Number of Non-DUOS Services

It is noted that the distributors expect to see a significant increase in the number of non-DUOS services provided to customers and retailers with the commencement of full retail competition (FRC)⁴. Origin would urge the QCA to treat this statement with caution as we are of the view that the large majority of non-DUOS services were being provided prior to competition and for most services, there should not be a significant increase because of the introduction of FRC. For example, customers can only transfer retailers on a next scheduled meter read and thus we would not expect to see an increase in special meter reads because of customer's transferring to different retailers.

In assessing whether there is likely to be an increase in the demand for non-DUOS services, there is also a need to look at the regulatory obligations that apply to each of the services. This is particularly relevant to de-energisations and re-energisation services. Retailers are unable to de-energise a premises unless specific notices are provided to customers, certain payment options are offered to customers and the debt exceeds \$200. From Origin's point of view, we would not expect to see a significant increase in re-energisation or de-energisation service requests for debt as the regulatory obligations associated with the non-DUOS service have significantly increased and it is likely that the costs of requesting the non-DUOS service outweighs the benefits.

1.3.4 Dispute Resolution

Origin notes that a number of the proposed non-DUOS services proposed by Ergon Energy and ENERGEX will not have definitive prices set against them. That is, the price for conducting a non-DUOS service, such as relocation of assets, will be provided to the customer on application to the network business.

³ ENERGEX, *Full Retail Competition - Supplementary Cost Pass-through Submission*, October 2007, p99.

⁴ Queensland Competition Authority, *Electricity Distribution: Review of Excluded Distribution Services - September 2007*, Draft Decision, p4.

Given that Ergon Energy and ENERGEX are monopoly service providers for the majority of the non-DUOS services, Origin questions whether there will be a dispute resolution process available to customers if they believe a price quoted for a service is excessive. Origin believes that this is imperative to ensure that customers are protected and that prices are cost reflective.

2. CLASSIFICATION AND TYPE OF NON-DUOS SERVICES

In the QCA's draft decision, it is noted that the list of services set out in Appendix A are not new services provided by either ENERGEX or Ergon Energy. These services were provided to retailers prior to 1 July 2007.

Origin is of the view that ENERGEX has complicated the sub-categorisation of non-DUOS services. Origin found it difficult to match up the regulated services and fees set by the Minister for Mines and Energy⁵ and those categories proposed by ENERGEX. For example, re-energisation and de-energisation fees are regulated by the Minister for Mines and Energy. Non-market customers can only be charged one of these two fees yet ENERGEX has 22 subcategories of de-energisation and re-energisation non-DUOS services.

Origin has concerns with this practice as it leaves ENERGEX open to its own interpretation of the requirements and discretion to propose different fees for the same non-DUOS service. Origin thus questions whether the subcategories of ENERGEX's list that relate to Government regulated fees can be significantly reduced for current purposes. ENERGEX can increase the categories of fees in the future if the Minister for Mines and Energy removes the regulation of these fees. This will simplify processes, reduce system requirements and ambiguities over the charging of the different fees.

2.1 Type of Non-DUOS Services

In relation to the list of non-DUOS services set out in Appendix A of the draft determination, Origin provides the following comments:

- **GSL Product Code** - Origin does not support the inclusion of the 'GSL' product code in ENERGEX's list. GSLs are not a non-DUOS service. Under the Queensland Government approved Co-ordination Agreement it is a matter for the retailer and distributor to negotiate on who is required to pay a GSL and how it is to be completed.
- **Provision of old billing data** - Origin believes that the description of this service needs to be clarified in ENERGEX's schedule. Under the Queensland Electricity Industry Code, retailers are unable to charge a customer for billing data that is less than two years old. Thus, Origin suggests that the service be reworded to read as follows:

"Provision of old billing data to customers or retailers above the minimum regulatory requirements".

- **Install a meter** - Origin notes that both Ergon Energy and ENERGEX are proposing that the installation of a meter be a non-DUOS service. ENERGEX proposes to charge for the non-DUOS service⁶ while it appears that Ergon Energy does not propose to charge for the service⁷.

⁵ The Minister for Mines and Energy has set fees for re-energisation, de-energisation, special meter reads and testing of a meter. These fees are set out in Schedule 4 of the Electricity Industry Code.

⁶ ENERGEX, *"Miscellaneous Distribution Services Prices 2007-08"*

⁷ Ergon Energy, *"Distribution Services Price List, 2007-2008"*

Origin questions whether this should actually be classified as a non-DUOS service. It is understood that the installation, maintenance and reading of meters are regulated assets for non-market customers and thus we should not see a charge for these customers to install a meter.

If the *'install a meter'* is to remain as a non-DUOS service, Origin requests further information be provided as to when a non-market customer would be directly charged for the installation of a meter.

- **Meter Reads** - Origin questions the differences between the last three categories of non-DUOS services under the heading of re-energisation in the ENERGEX list. These non-DUOS services are:
 - Re-energisation for read required;
 - New reading required following retro move in request; and
 - Retrospective Move in Meter Read.

To Origin, these categorises of non-DUOS services are exactly the same and are related to the Government set fee relating to 'special meter reads'. If these categories of non-DUOS services are to remain as is, then there is a need to ensure that the prices set for these services are equal unless ENERGEX can demonstrate a difference in the services provided.

3 DETERMINATION OF NON-DUOS PRICES

Origin agrees with the proposed broad pricing principles that prices should be cost-reflective, subsidy free and economically efficient⁸. Origin also supports the proposed obligation to require the network businesses to fully itemise the costs associated with each of the non-DUOS services. Irrespective of the pricing techniques utilised, Origin believes that the price should be adequately documented and transparent.

Origin is particularly interested in how ENERGEX and Ergon Energy propose to allocate labour costs to each of the non-DUOS services. That is, whether labour costs are allocated with regards to forecast levels of requested non-DUOS services or whether full time employee (FTE) costs are split across both prescribed and non-DUOS services. As 2007/08 will be the first year for individual pricing of non-DUOS services and with FRC only recently introduced, the QCA should be mindful that over the distributor's estimation of FTE requirements is reasonable.

Origin is of the view that the prices set by Ergon Energy and ENERGEX **should be limited** to:

- Actual delivery and labour costs that would be incurred in carrying out the non-DUOS service. This should be based on a build up cost approach; and
- Should be reasonable, efficient and include identifiable costs only.

The prices **should not include**:

- any capex or opex costs that have already been recouped by Ergon Energy and ENERGEX in previous or current regulatory determinations for non-DUOS services. This includes system costs that ENERGEX is seeking to recoup through their FRC cost pass through application; and
- any margin to account for additional requirements that may be placed on the network for carrying out the non-DUOS services. If regulations or requirements change, then the network businesses should be required to reapply for an increase in prices.

⁸Queensland Competition Authority, *Electricity Distribution: Review of Excluded Distribution Services - September 2007*, p5.

Origin would urge the QCA to release the detailed pricing data submitted by Ergon Energy and ENERGEX to the QCA for consultation with market participants. Origin believes that a transparent price setting process should occur given the move from prescribed services to non-DUOS services. This is to provide assurance to relevant stakeholders that prices are fairly set, equitable and reflect the true cost of providing the service.