

**Queensland Services Union
Submission to Queensland Competition Authority
Re- Draft Determination `Regulation of Electricity Distribution.**

16 February 2001

Queensland Competition Authority
GPO Box 2257
BRISBANE QLD 4001

Attention Mr Gary Henry

By Facsimile 3222 0599

By Email electricity@qca.org.au

Dear Sir,

Please find below our brief submission concerning the QCA's Draft Determination, Regulation of Electricity Distribution:

General.

While politicians and economists espouse the virtues of the `multiplier effect' when jobs are created, they are conveniently silent on the subject when, as has and is currently occurring with respect to Ergon Energy, hundreds of regional jobs are sacrificed on the altar of competition policy.

The social and economic `trickle down' effect these job losses have on regional and rural communities extends far beyond reduced services, and in our view, demands serious consideration by the Authority before any final determination is given.

Social and community prosperity cannot and should not, be determined on the basis of a simple economic cost benefit analysis, to do so is to totally ignore the intrinsic worth that regional and rural communities provide to the fabric of society generally.

Further that any society, allegedly concerned about the environment, should be consciously seeking to further reduce the costs, thereby increasing the demand, of a product which is the most significant contributor to green house emissions, is in itself perplexing.

However to allegedly seek to reduce the cost of electricity, (*which we would argue is already, in relation to any individual's cost benefit analysis and in comparison to any other basic or essential service demanded by society, the most essential and least expensive*), by reducing service and employment levels generally, particularly in rural and regional Australia, is a social travesty for which history will view with disdain.

Notwithstanding our fundamental view that the Country's embrace of National Competition Policy is socially irresponsible, we nevertheless seek your consideration of the following comments.

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Service Quality - Technical quality.

Whilst we are of the understanding that the Minister is to remain the technical regulator, we nevertheless concur with the Authority's observation that voltage levels and frequency control are issues which are of great concern to both business and domestic consumers and this is particularly so given the ever increasing reliability of voltage sensitive equipment.

Indeed, but for the artificial and dare we say, anti-competitive restrictions which insulate Generators and DNSPs from legal action concerning product liability, there would be little need for the Authority to consider Customer Service. A lawyer driven market of product liability suits would in our submission, soon level the playing field.

Customer service.

In our submission the DNSPs' claim that the introduction of a quality *monitoring regime is not immediately feasible*¹, is simply unsupportable. That the DNSPs can and have, in the case of Ergon, indicated their intention to monitor the time taken for call centre staff to answer calls, the duration of individual calls, the number of calls dispensed with per hour and indeed the duration an employee is away from the desk to answer calls of nature, how difficult could it be to monitor missed customer calls, or customer complaints.

Indeed the monitoring of complaints concerning missed appointments, connection problems, street lighting and general service, or rather the lack thereof, could be easily facilitated by introducing a customer service complaints hotline.

Nor do we support the DNSPs' view that the introduction of such a scheme should necessarily be dependent upon its cost and benefits. While one can arguably ascertain the cost of such a scheme objectively, the benefits will primarily be subjective. What customers perceive to be beneficial will not necessarily be aligned with the perceptions of the DNSPs.

A recent example which comes to mind was a DNSP's view that a \$15,000 donation to charity, was fair and just compensation to customers in regional Queensland who had been systematically over-charged for electricity usage due to the retention of faulty metering devices.

That the DNSP not only failed to take any action on the overcharging when it was discovered, taking action only when correspondence on the issue was `leaked' to the Minister many months later, lends considerable support to the contention that there are considerable disparities between what a DNSP may identify as being beneficial to customers and what a reasonable customer would expect.

The methodology and process utilised by the DNSP to arrive at the figure of \$15,000 as being just compensation, if investigated in full by the Authority, would also lend support to the contention that there often exists, in relation to customer service, a significant divergence in views.

We would therefore argue that a body other than the DNSPs be tasked with the responsibility of designing such a scheme in consultation with customers and DNSPs.

¹ Draft Determination, Regulation of Electricity Distribution, page 141.

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While we therefore clearly support the Authority's *view that a comprehensive service quality regime should be introduced in Queensland*², it is our submission that the DNSPs should be subject to a financial penalty, whether via the revenue cap or via some other mechanism, which will apply should such a scheme not be established and introduced within a reasonable period, which we concede may need to be a period of between 12 and 18 months.

Proposal for Smoothed AARR.

We are also concerned that the public will not, under the Authority's proposal, be permitted to realise the real effects that the competition policy will have on the price of electricity.

With respect we believe that it is fundamentally hypocritical for the Authority to sing the praises of a competitive market when it suits, while simultaneously adopting a smoothed Aggregate Annual Revenue Requirement to *minimise the price shocks necessary in the first year of the regulatory control period and likely in the first year of the subsequent regulatory period.*³

That the DNSPs should suffer a NVP shortfall to accommodate such hypocrisy is in our view, contrary to the Authority's responsibility to ensure that the prices charged to customers reflects the costs of providing those services.⁴

While Governments have accepted a lower return from these businesses to minimise prices in the past, this cannot, in our submission, be assumed to continue or relied upon by the authority as justification for this determination. This is particularly so given the vagaries of political decisions concerning their expected returns and the provision of CSOs.

The right of the public to bring political pressure to bare in order to control electricity price rises has all but been acquiesced under the competition regime, and by artificially smoothing AARR and or restricting the DNSP's ability to recover the true costs of providing the service, the authority is in effect attempting to mask reality by denying the public its opportunity to realise the true effects of competition policy.

Revenue Caps.

While we make no detailed comment on the preferred methodology for setting revenue caps, it has not, in our opinion, taken into sufficient consideration the DNSPs' Community Service Obligations (CSOs). Indeed nowhere within the determination can we find any detailed mention of the CSOs or the costs associated with providing them.

As DNSPs will be restricted in their ability to earn revenue as a result of the Cap, and as they have no control on the returns that the Government will require in any particular regulatory period, or the CSOs that will be determined by Government, it would seem that unless the costs of CSOs are specifically addressed within the formula or specifically addressed in some other way, one or more of the following consequences are likely to occur.

- (a) CSOs will not be performed as they are intended.

² Draft Determination, Regulation of Electricity Distribution, page 142.

³ Draft Determination, Regulation of Electricity Distribution, page 122.

⁴ Draft Determination, Regulation of Electricity Distribution, page 3.

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- (b) The DNSPs will be encouraged to seek the elimination of certain CSOs, such as, but not limited to, the public's entitlement to free electrical inspections on their residences.
- (c) The loss associated with providing CSOs will be cross subsidised by sacrificing maintenance and or infrastructure investment.
- (d) The DNSPs will reduce service levels elsewhere to recoup the loss.
- (e) The DNSPs will reduce labour costs, i.e. jobs, to recoup losses.

We would submit that none of the above possibilities are in the public interest.

While we do not profess to have the relevant expertise to set out a detailed submission on the subject, by way of simple example, a CPI – X form⁵ could perhaps be amended to $(CPI - X) + n$ where n equals the estimated costs to provide the CSO's.

Given the vagaries of political decision making with respect to CSOs, perhaps the Government of the Day, in consultation with the DNSPs and the Authority, should be required to submit a `CSO Principle' by the beginning of each regulatory period so as to provide a mechanism by which the value of n could be established.

Cost Inflation

We agree that CPI is a recognised measure of inflation and is used widely for general indexation of public and private sector contracts⁶, however we question the relevance of the ABS figures for the eight capital cities weighted average all groups, for use in regulatory regime centered solely within Queensland.

We would argue that the ABS all groups figure published for Brisbane is the most appropriate for Energex and perhaps the most appropriate for both Energex and Ergon.

In the alternative and given the vast regional area covered by Ergon, the most appropriate CPI index may well be the weighted average of Queensland regions other than Brisbane or the ABS all groups figure published for Brisbane, which ever is the higher.

Use of the Brisbane figures and or, the weighted average of regional Queensland figures would, in our submission, be more reflective of the cost imposts experienced by the Queensland DNSPs over a given time.

Individual Distribution Tariffs.

We note the Authority's concern that *`the immediate and complete removal of the existing 2.5% side constraints on prices may result in significant price shocks due to the possibility that current prices are not fully cost reflective.'*⁷

It is once again our submission that the electricity consumers of Queensland should not be deceived. As the Authority is fully aware, very few if any domestic consumers will have either the

⁵ Draft Determination, Regulation of Electricity Distribution, page 27.

⁶ Draft Determination, Regulation of Electricity Distribution, page 31.

⁷ Draft Determination, Regulation of Electricity Distribution, page 124.

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time or the resources to access the Authority's determination, let alone the ability to necessarily understand the implications.

They are nevertheless entitled to have the effects of competition policy brought immediately to their attention, and if this can only be achieved by being subject to *significant price shocks* so be it.

That the Authority seems to concede that *`current prices are not fully cost reflective'* would tend to support the contention that under the current regime customers are receiving a subsidised service and that this is, under the new regime, about to disappear.

The electricity customers are entitled to be specifically advised of this situation in 2001 and not, as the Authority would have it, in three to four years time and when the catch cry will surely be, *`it is too late to revisit your endorsement of competition policy in 2001'*, or that *`it was the right decision at the time and cannot now be revisited'*.

Side Constraints – Contestable Customers.

The Authority admits that *`large customers (current contestable customers) do not require the protection of the regulator.'*⁸

We also note that the Authority did not take issue with Ergon's observation that side constraints have historically locked in tariff structures which over time, become further and further removed from price signals *`which need to be sent out to support the efficient operation of the network business'*.⁹

In our submission, the Authority's decision to essentially ignore the above facts and to instead adopt *`a real terms side constraint for existing contestable customers and 2% for residential customers'*,¹⁰ once again demonstrates the Authority's failure to *ensure that the prices charged to customers reflects the costs of providing those services.*¹¹

If the effects of competition policy are as socially beneficial, as is espoused by Government and bodies such as the Authority, the chips should be left where they fall. If contestable customers do not require the protection of the Authority, the Authority should not grant them privileges beyond those available as a result of market forces.

There is no sound reason to maintain side constraints for contestable customers if it has the potential to deleteriously affect the revenue raising ability of the DNSPs or the revenue available to the shareholders.

Operating Expenditure -Proposed One-Off Operating Costs.

The Queensland Services Union does not believe that the Authority should include an allowance for the once-off costs allegedly associated with Ergon Energy's restructuring.

⁸ Draft Determination, Regulation of Electricity Distribution, page 124.

⁹ Draft Determination, Regulation of Electricity Distribution, page 124.

¹⁰ Draft Determination, Regulation of Electricity Distribution, page 124.

¹¹ Draft Determination, Regulation of Electricity Distribution, page 3.

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As the Authority correctly notes, decisions regarding corporate restructuring are presumably made on the inherent benefits such changes are expected to produce.¹² The financial benefits Ergon will reap as a result of the employment positions being declared redundant as a result of the process, are ongoing and will, assuming the redundancies are bona fide, produce cumulative reductions in operational expenditure. The inclusion of any allowance for these once-off costs would essentially allow Ergon to double dip, in the sense that they would be compensated for the initial costs and also be permitted to retain the ongoing efficiencies.

All other things being equal, Ergon's reduced workforce must by definition, reduce Ergon's unit operating and maintenance costs, which in turn should assist in the overall requirement for the corporation to lower unit operating and maintenance costs by 15% to achieve a similar level of efficiency to that of Energex.¹³

Accordingly we would submit that an allowance for Ergon's restructuring costs would also act to artificially reduce the current efficiency disparities which the Authority has determined exist between Ergon and Energex.

We are also concerned that if Ergon was to receive an allowance for the costs associated with the restructure, it may act as a incentive for the corporation to capriciously shed a greater number of jobs than would be the case if they were required to bare the full costs of the redundancies.

In the alternative, we would however support the provisions of allowances for restructuring expenditure that has been expended to provide or enhance the provision of community service obligations.

Cross Subsidies.

The possibility of cross subsidy between prescribed and excluded services, while recognised by the Authority,¹⁴ has not in our view, been adequately addressed to ensure compliance by the DNSPs. We would suggest that a mechanism be introduced by which the Authority was obliged to investigate specific allegations concerning alleged breaches.

Penalties for non-compliance.

Whilst we agree that it is preferable to actively monitor compliance in ways which facilitate preventative action by all concerned,¹⁵ we trust that examples of wilful or repeated non-compliance will not be tolerated. We thank the Authority for this opportunity to comment and look forward to viewing the results of your consideration on the issues addressed.

Yours sincerely

MIKE SPENCER
SECRETARY

¹² Draft Determination, Regulation of Electricity Distribution, page 114.

¹³ Draft Determination, Regulation of Electricity Distribution, page 114.

¹⁴ Draft Determination, Regulation of Electricity Distribution, page 113.

¹⁵ Draft Determination, Regulation of Electricity Distribution, page 143.