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From: [redacted] Gerard Bell [redacted]
Sent: Wednesday, 6 March 2013 11:04 PM
To: General Electricity Address
Subject: Regulated Retail Electricity Prices 2013-2014 - Submission in response to Draft Determination

06/03/2013

Dear Sir/Madam,

There are a few items of note in the Draft Determination that warrant a response.

There is a significant reason why the Tariff 12 is not taken up by Residential Users, and it has very little to do with lack of cost-reflective Tariff 11 rates. It has more to do with social issues and the unchangeable reasons for peak residential usage. The main reason why peak electricity usage for residential users occurs between 4pm and 8pm on weekdays is obvious. This is the time when most households return from school and/or work. Upon return from school and work, most households (particularly those with children) prepare meals for dinner, and also undertake household duties that otherwise cannot be performed when at work or school (e.g. washing clothes, cleaning, etc.). This is in addition to using lights, which for obvious reasons are not used during the day. Households cannot change this usage profile without significant social changes. So why would a typical household adopt Tariff 12 considering they would be paying more for their electricity. It cannot be expected of households to wait until after 8pm before preparing meals and performing other household duties. The only households who could currently benefit from Tariff 12 would be those unemployed or with shift-work which might enable the time of peak electricity usage to change, but this is a small percentage of the community.

It was noted that the fixed Network Charge for Tariff 12 is currently 17% higher than the ‘cost-reflective’ Tariff 11 fixed Network Charge. If the same infrastructure is used to supply electricity to the same household, why would the network charge be different? From reviewing the background of Energex’s determination of Tariffs, it has clearly been set higher to maintain a minimum revenue from each household irrespective of their usage profile. It is counterproductive to offer an alternative Tariff with lower variable costs if the fixed network costs are increased to maintain a minimum revenue. The fixed rates should be the same for both Tariff 11 and Tariff 12, and only the variable rates differing at times to cover the varying extra electricity costs due to at-time demand. This is the only realistic alternative which offers some incentive for the small percentage of household who may be able to adapt their usage profile and reduce their overall electricity costs.

There is a claim in the Draft Determination that the impact of the Solar Bonus Scheme (SBS) on the Energex Network Costs will be 9.2% for the 2013-2014 period. In the Draft Review of the Solar Feed In Tariff by the QCA, it was reported that the expected costs of the SBS to Energex for 2013-2014 will be $119.7m. This is comparable with the expected revenue that Energex would have been raised from the ‘cost-reflective’ Network Tariff rates of $1301m for 2013-2014. However it is further claimed in the Draft Determination that by 2015-2016, the SBS is expected to increase to 29.5% of the Energex Network Costs. The Draft Review of the Solar Feed In Tariff reported that the expected costs for the SBS to Energex for 2015-2016 will be $105.5m. This implies that Energex Network Costs are expected to <u>decrease</u> to only $358m in 2015-2016. It is not realistic to expect that Energex Network Costs will reduce by $943m in the next 3 yrs. If anything, Energex Network Costs would be expected to be the same if not increase in line with other electricity costs, in which case the impact of the SBS will reduce from 9.2% to less than 8.1% of the Energex Network Costs. The QCA needs to review and correctly report on the impact of the SBS on Network Costs.

There is a claim in the Draft Determination that one of the major Underlying Cost Drivers is that the Distributors (Energex and Ergon Energy) have incurred significant costs due to the Solar Bonus Scheme (SBS). However in the Draft Review of the Solar Feed In Tariff by QCA, it is reported that the costs incurred by the Distributors (both Energex and Ergon Energy together) due to the SBS in 2012-2013 was expected to be $177m, and projected to increase to $189m in 2013-2014. This is only a $12m increase above 2012-2013 costs. However when comparing the 'cost-reflective' Network Tariffs between 2012-2013 and 2013-2014, the revenue raised from the new Network Costs in the Energex Area alone is projected to increase by $376m. This increase of $376m is considering Tariff 11, Tariff 31 & Tariff 33 alone, and ignores the extra revenue from the remaining non-residential Tariffs that have also increased. From this analysis, it is clear that the increase in the SBS is contributing less than 3.5% to the increase in the Energex 'cost-reflective' Network Costs, and less than 3.4% to the increase to the new transitional Residential Tariff 11 for 2013-2014. This is would not be considered significant in any form of analysis of Underlying Cost Drivers. It is clear that the most significant Underlying Cost Drivers are the remaining causes listed in the Draft Determination, i.e. increased revenue permitted to Distributors by the AER, catch-up from the frozen 2012-2013 Tariff 11 to more cost-reflective Tariff 11 (91.9% of increase), and the adjustments to make up for lack of revenue due to lower than expected electricity consumption, which all up account for 96.6% of the increase to the transitional Tariff 11.

Now let's look at the last cause – 'adjustments to make up for lack of revenue due to lower than expected electricity consumption'. This last cause is not sensible and does not reflect a competitive electricity marketplace. Households and Businesses are constantly encouraged by Governments to reduce electricity consumption. Queensland residents in the Energex area have on average reduced household consumption from 5110 kWh in 2011-2012 to 4818 kWh in 2012-2013, a 5.7% reduction. Similarly in the Ergon Energy area, Queensland residents have on average reduced household consumption from 7978 kwh in 2008-2009 to 7166 kwh in 2011-2012, a 10.1% reduction. How are Queensland residents rewarded? Increased electricity charges due to reduced electricity consumption! In what competitive industry does a reduction in demand for a product lead to increased prices to maintain a constant revenue base, as well as a further increase in prices to further increase revenue? If this was a privately run company, and the demand for the product was reducing, prices would fall to provide an incentive for more demand, or produce less of the product to reduce unsold product (i.e. reduce wastage). It is no wonder electricity prices are now out of control. What is most ironic is that the Distributors in Queensland (Energex and Ergon Energy) are Government Owned Corporations (GOC). This is a case of Governments increasing their own revenue by allowing their own GOC to increase electricity prices. With the Queensland Government as the only shareholders of Energex and Ergon Energy, a total of $481.8m revenue had been raised from the 2011-2012 dividends alone. There is also the GST that all residents pay on each bill that also flows directly to Governments, so as Electricity prices increase, so does the Government revenue from the associated GST. In Queensland, this is the same Government that is claiming to the public that they are exhausting all possible ways of reducing the cost of living on the community - Give us a break!

Whilst the AER might have allowed an increase in regulated revenue for the Distributers, have the GOC demonstrated to the QCA that there is a <u>need</u> to increase their revenue? Over the last 5 years, Energex has reported increasing net profits each year with an accumulated net profit after expenditures of $971.6m. Despite having a capital expenditure of $4601.6m over this same period, Energex debt:asset ratio has increased by less than 4.3% and is only 49.6%. Over the same period, Ergon Energy has reported increasing net profits each year with an accumulated net profit after expenditures of $1100.1m. Despite having a capital expenditure of $4192.1m over this same period, Ergon debt:asset ratio has increased by less than 4.5% and is only 68.9%. If these GOC were operating at a nett loss, an increase in revenue would be reasonable, but with increasing nett profit each year, there does not appear to be any grounds to allow an increase in revenue. Why are the GOC allowed to increase network prices just because QLD Residents are using less electricity? The Decision to freeze Tariff 11 for 2012-2013 was a political decision made by the LNP Party for political gain, and the GOC were provided $40m to subsidise them for the expected loss of revenue. If the $40m was not enough, then why doesn't the LNP Government pay the GOC the true cost of the lost revenue due to the frozen Tariff from the revenue raised as shareholders? Does the QCA really believe these are valid arguments for increases in electricity prices? I thought that the QCA was meant to be an Independent Authority that is not swayed by Industry nor Government, (and in this particular case) delegated to ensure Regulated Retail Electricity Tariffs are reasonable and justified, not just accepting what Industry, Government or Political Parties tells them what they want them to be?

The road to Electricity Reform and Privatisation of Electricity in QLD was intended to ensure that the costs for Electricity infrastructure (generation and distribution) remained affordable by using efficient 'private' companies. It was also expected that a competitive retail market would be created that would keep electricity prices affordable for the QLD community. It was intended that by delegating an Independent Authority (i.e. QCA) to review and determine pricing, the regulated Electricity Prices would be monitored to ensure a competitive market (i.e. not set by a select few Energy Companies). Since July 2007, the only portion of the Electricity Market in QLD that is currently privatised is the Retail Component, the remainder (i.e. generation, distribution) is still run by 'semi-independent' GOC. In comparison, revenue raised from Electricity Prices (from Residential users only) in Energex Area alone have increased from $1064m in 2007-2008 to a projected $2106m for 2013-2014, which is a 97.9% increase in only 6yrs (or 82.5% accounting for inflation over the same period). In 2012-2013, the independence of the QCA was overridden by the LNP Government and Electricity Prices for Tariff 11 set for purely political purposes, with no basis for 'true costs'. What has the reform really done for QLD?

There is one undeniable fact: Electricity is an essential product required by modern QLD. Whether the Electricity is generated by renewable or non–renewable sources, QLD without electricity would not function and society as we know it would collapse. Unless another scientific or social breakthrough is achieved, QLD's reliance on Electricity is not optional, it is necessary. There is no doubt that supply of such a critical product needs to be undertaken with utmost efficiency, and that costs for supplying it to all the community needs to be minimised. It is clear however that current path of Electricity Reform and Privatisation has failed its primary intentions. If Queensland wants true Electricity Reform, the community (not Government) needs to first determine if Electricity is to be a business run by companies for profit (whether GOC or private Energy Companies), or classed as an essential non-profitable utility that is not just enabled, but provided and guaranteed by the QLD Government for the community 'at cost' which is determined by a truly Independent Authority. Given the critical nature of Electricity to the QLD community, my own personal opinion is for the later, however I'm just one voice of millions. There is no case that Private Energy Companies will be able to supply QLD with Electricity any more efficiently or at lower cost than the current GOC. After all, the GOC have technical personnel who are very experienced in what they do, and both of the GOC have generally achieved their target performances in 2011-2012. The Target Performances are approved by the shareholders (i.e. QLD Government), so what more can we expect from Private Energy Companies? In any case, until this question is resolved, Electricity Prices will be at the whim of the GOC and Governments, with no oversight by a truly independent regulating authority, and the QLD community will never understand the true cost of Electricity usage? If the current pathway is maintained, prices will never be set to control the cost of living on the QLD community. Electricity Prices will be either a method for the QLD Governments to increase their revenue without raising/introducing taxes, a method for political parties to influence public opinion for political gain, or if privatisation continues, it will mean increased profits for shareholders in Private Energy Companies, none of which address the initial undeniable fact to the benefit of the QLD community.

Regards,
Gerard Bell
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