



Commerce Queensland

QUEENSLAND'S CHAMBER OF COMMERCE AND INDUSTRY

Submission to the Independent Panel on electricity distribution and service delivery for the 21st century

30 April 2004

Contents

Executive summary 3
Introduction 4
The events of summer 2003/04..... 5
 Weather summary 5
 Impact on the Queensland load 6
Recent performance of Ergon and Energex..... 9
Comparison with other Eastern Australian distributors..... 12
 Price comparison 12
 Quality of supply comparisons..... 12
Regulatory issues 14
 General observations 14
 Quality of supply incentives..... 14
 Effects of QCA regulatory approach 15
Governance Issues 17
 Retail contestability and interval meters 17
Management issues 19
Feedback of Commerce Queensland membership..... 20
Summary of Finding and Recommendations 21

Executive summary

The submission outlines Commerce Queensland's views on the recent electricity outages in January, February and March in Queensland and suggests areas where improvements could be made.

While Commerce Queensland accepts that the distribution system was placed under pressure by the hot and stormy conditions encountered in the 2003/04 summer, it concludes that these events showed there are inherent weaknesses in the governance, regulation and management of the Queensland electricity distribution sector which exacerbated the problems encountered to the cost of Commerce Queensland members.

As owner of the distribution assets in Queensland the Government suffers from a serious conflict of interest. It seeks to maximise returns from its distribution assets while aspiring to provide reliable electricity to Queensland households and businesses at the lowest possible price. The Regulator being funded and appointed by the same government further compounds this conflict of interest. These conflicts are manifest in confused management objectives in the distributors and a lack of power and independence for the Regulator to allow effective regulation of these monopoly businesses.

Among the concerns expressed in the submission are:

- ENERGEX and Ergon are not forecasting demand growth successfully and are not investing to cover extreme events. We can therefore regularly expect outages because seasons have been in excess of their expectations.
- ENERGEX has underspent its O & M budget and it and Ergon appear to have a level of performance below other east coast distribution companies.
- The Regulator has not enforced a performance regime on ENERGEX or Ergon and its proposed system of measuring performance clearly excludes the group that are most affected by performance, the customers.
- The Regulator remains silent when "special dividends" are extracted from the distribution companies. If they are in excess of the return on capital allowed for they must reduce either capital or O & M expenditure, or else the companies' expenditure requirement was overstated.
- In the last determination of distribution tariffs, the Regulator was focused on limiting forecast growth and capping the revenues rather than gaining a comprehensive understanding of the risks of under resourcing the utilities
- Distributors appear to respond to Government needs much more than those of their customers and it is only when an issue becomes a political embarrassment to the government that the distribution companies address it. Government ownership is hindering an efficient industry.

Very little has been done in Queensland to develop competition for electricity customers. Other jurisdictions are already well advanced in introducing time of day meters for residential and small business consumers who might benefit from retailers competing for their business. Again, this seems to reflect the government's priorities of protecting their returns from their retail companies rather than maximizing the benefits of electricity reform for consumers.

Introduction

Commerce Queensland is pleased to provide a submission to the Independent Panel established by the Queensland Government to inquire into electricity distribution and service delivery of the distributors ENERGEX and Ergon Energy.

Commerce Queensland has 4,000 member organizations throughout Queensland, some of which are themselves industry associations. These members account for the representation of approximately 40,000 Queensland businesses, ranging from very small to very large electricity users, most of whom are Ergon Energy and ENERGEX customers. Commerce Queensland has extensively consulted these members on energy related issues over the last 8 months.

This submission outlines Commerce Queensland's views on the recent electricity outages in January, February and March in Queensland and discusses areas where improvements could be made to address the issues raised.

While Commerce Queensland accepts that the distribution system was placed under pressure by the hot and stormy conditions encountered in the 2004/05 summer, we believe that the consequences could have been substantially less if more appropriate arrangements had been in place. This submission concludes that these events showed there are inherent weaknesses in the governance, regulation and management of the Queensland electricity distribution sector. We believe these weaknesses exacerbated the problems encountered to the significant cost of Commerce Queensland members.

The submission compares the quality of supply and prices of a number of electricity distributors in eastern Australia and discusses different approaches to ownership, governance, regulation and management. We have also drawn conclusions on the effectiveness of the Queensland approach.

The regulatory arrangements currently in place in Queensland have been considered and observations and suggestions made regarding identified shortcomings. In particular, we believe that the regulation of the distributors is not as effective as it should be. The QCA's role is certainly less prominent than that adopted by regulators in other states and it often appears to defer to the Government, which is also the owner of the assets.

The approach adopted by the Queensland Government with regard to market and competition matters, such as retail contestability, ownership and control of electricity assets and the introduction of interval meters all have implications for the future reliability, cost and responsiveness of the electricity distributors. These in turn have the prospect of increasing prices to consumers and reducing the competitiveness of Queensland industry.

Commerce Queensland has recorded the communication from our members regarding the effects on the commercial and industrial sectors of unreliable electricity supply as experienced recently in Queensland. We are looking to engage a suitably qualified consultant to review the evidence provided by members and any comparable evidence before the inquiry, in order to advise Commerce Queensland on:

1. any legislative or regulatory requirements under the National Electricity Code or amendments to those requirements, to ensure reliable supply; and
2. the way the cost of any improvements to distribution infrastructure should be met in accordance with the code.

Commerce Queensland would then be able to use that advice in a supplementary submission if this is possible.

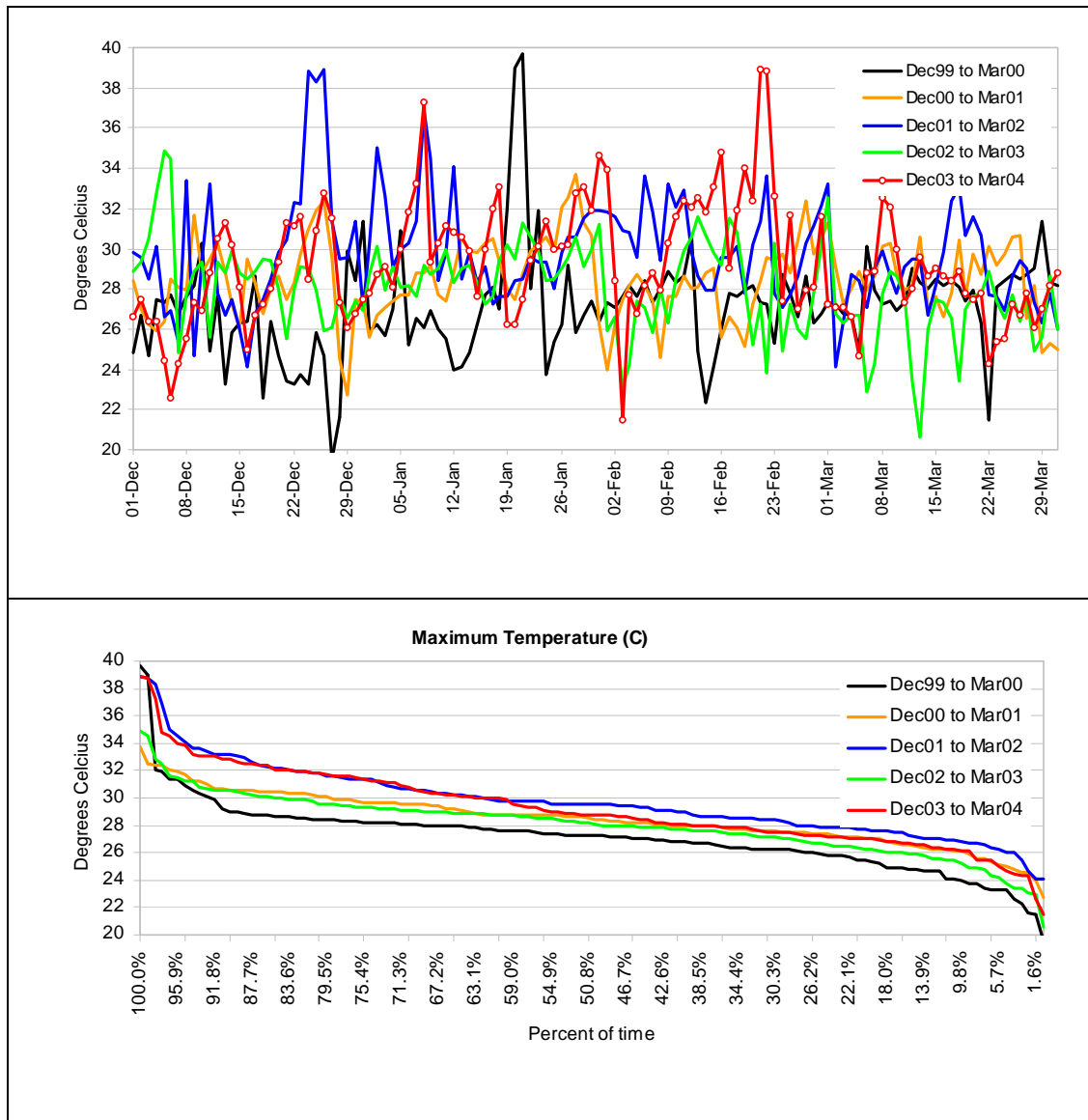
The events of summer 2003/04

Commerce Queensland accepts that the hot stormy conditions in the first three months of 2004 were unusual and led to repeated significant storm related damage to the distribution system. The number of outages on the distribution network was very high and ENERGEX's ability to both receive and respond to emergency calls diminished rapidly as the severe weather persisted. While circumstances were unusual, we believe they have identified a significant number of failures stemming from the way the distribution system is managed, regulated and governed.

Weather summary

Daily maximum temperatures over the past five summers based on the Bureau of Meteorology (BOM) three hourly recordings are shown in Figure 1.

Figure 1: Daily maximum summer temperatures over past five years



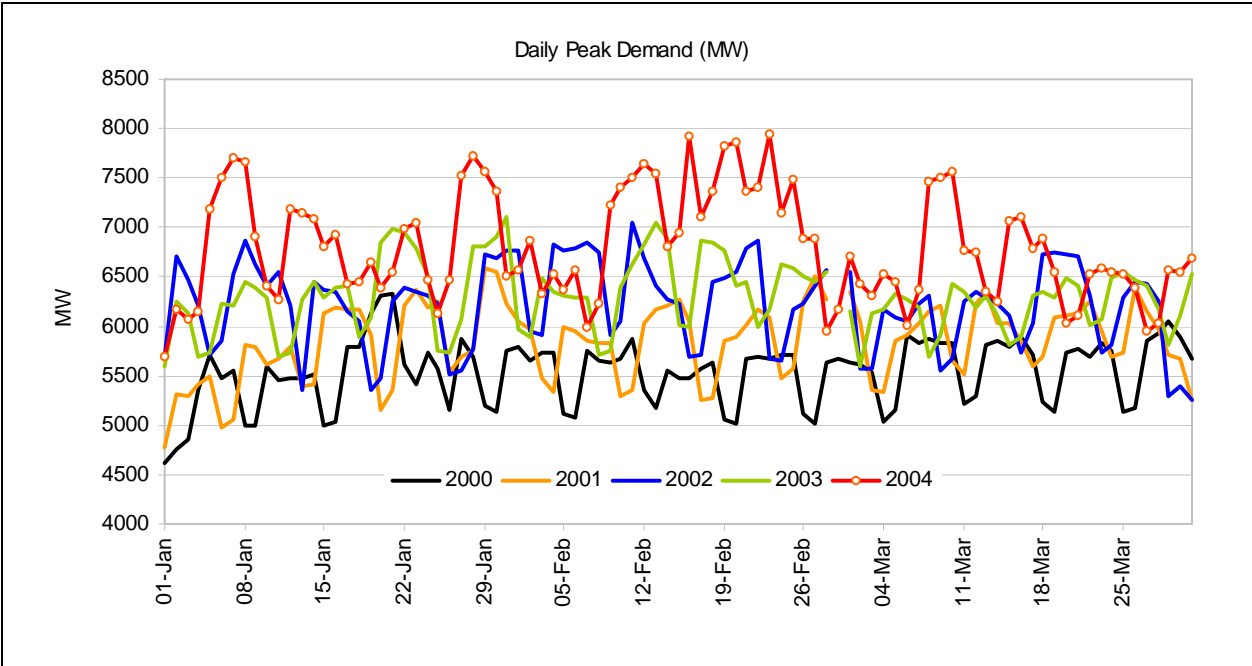
The 2003/04 summer, while hot, was not exceptional as seen in the temperature duration curves, which show that the 2001/02 summer had at least as many hot days as 2003/04. Out of the past 5 years, 3 summers (2000, 2002 and 2004) have had sustained periods of several days when temperatures have exceeded 38 degrees centigrade. While not occurring every year, such temperatures are experienced every 3 to 4 years. One of the more exceptional weather effects of the 2004 summer appeared to be the frequency and severity of summer storms, which in some cases happened on successive days through a week.

Impact on the Queensland load

The high temperatures caused a surge in domestic air conditioning demand, which in turn caused stress on certain parts of the distribution system.

The strong peak demand and daily energy consumption in 2004 is shown in Figure 2. The peaks at the beginning and end of January, for the last three weeks of February and in the first week in March are especially evident in Figure 2. The fact that there is little or no reduction in load over the weekends during the high demand period in February strongly suggests that domestic load, in this case air conditioning, was major contributor to the surge in consumption.

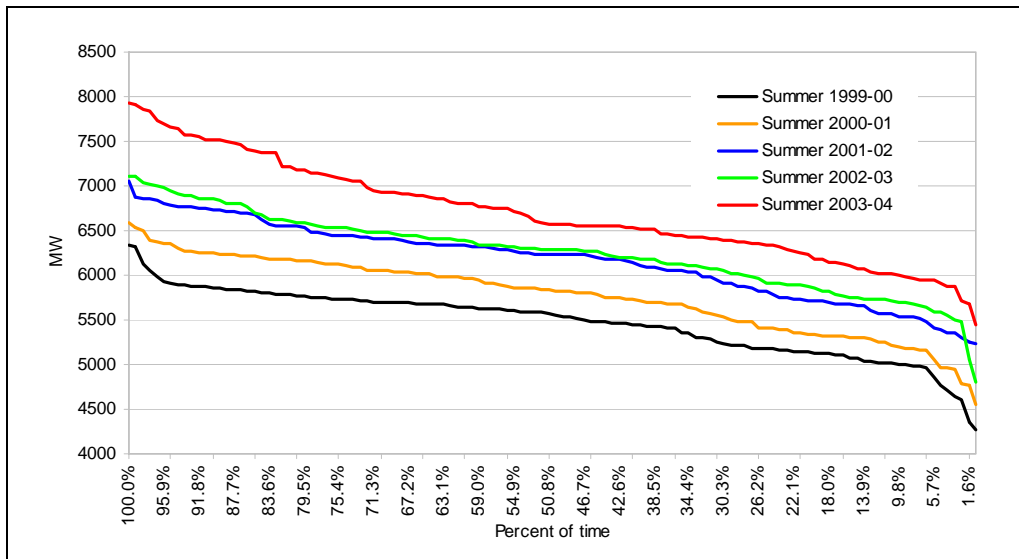
Figure 2: Daily peak demand in Queensland



Source: Extracted from data published by NEMMCO

The summer load duration curves show more clearly the trend in summer peak demands over the past five years. The 2003/04 summer season represents a return to growth after the very subdued growth in the mild 2002/03 summer following a hot 2001/02 summer.

Figure 3: Queensland load duration for last five summers



Source: Extracted from data published by NEMMCO

The peak demands and energy consumption for Queensland for the summer period December to February for the past five years are shown in Table 1

Annual growth in Queensland summer peak demand over the past five has averaged 5.8%, which is the same as the average annual growth over the past two years. This suggests that the outcome for the summer of 2003/04 is consistent with the growth over the past five years when the demand in 2002/03 is adjusted for the mild weather conditions in that year. The 11.7% catch-up growth in 2003/04 should not have been completely unexpected.

Table 1: Summer peak demand and energy consumption for Queensland over the past 5 years

December to February	Peak summer demand (MW)	Growth in summer peak demand	Total summer energy (GWh)	Growth in summer energy
1999-2000	6340		10363	
2000-2001	6584	3.8%	10811	4.3%
2001-2002	7045	7.0%	11706	8.3%
2002-2003	7105	0.9%	11855	1.3%
2003-2004	7934	11.7%	12759	7.6%
Average growth		5.8%		5.3%

Source: Extracted from data published by NEMMCO

In addition, the 2003/04 summer peak demand is within the planning bounds used by both Powerlink and NEMMCO as shown in Table 2. It can be seen that the peak demand of 7934MW recorded by NEMMCO is below the 10% probability of exceedence of the median load forecast of 7968MW.

We do not believe demand was so high as to be unexpected, especially given the distribution companies' knowledge of consumption patterns and the growing penetration of air conditioners.

Table 2: Powerlink/NEMMCO median summer peak forecast for 2003/04

	90% chance of exceedence	50% chance of exceedence	10% chance of exceedence
Demand (MW)	7490	7663	7968
% growth	5.8%	8.2%	12.5%

Source: Extracted from Powerlink Annual Planning Statement

Recent performance of Ergon and Energex

For the past two financial years QCA has published a detailed assessment of the financial performance of the two Queensland distributors. This assessment looks at the outcomes compared with the regulated settings and is summarised in Table 3

ENERGEX has exceeded the energy forecast growth of 4.2%pa by a small margin but Ergon energy is noticeably above its 3%pa forecast. However the actual revenue collected is very close to forecast.

One major and notable departure from the forecast is the ENERGEX operating and maintenance (O&M) expenditure, which in 2002/03 was \$47.9 million (28.4%) below forecast although capital expenditure was \$23.7 million above. ENERGEX has explained the lower O&M expenditure as being mainly due to savings in superannuation and \$24.9 million in efficiency improvements.

This extraordinary outcome may also help to explain why ENERGEX struggled during the summer outages.

Ergon Energy, on the other hand, exceeded its 2002/03 capital expenditure forecast by \$78.8 million (33.7%), which suggests that this utility was becoming aware of the potential problems in the distribution system. The additional capital was partly to cater for unforeseen load growth (peak demand increased by 8.5% in 2002/03) and partly as a result of a change in an equipment replacement policy introduced in 2000/01. This suggests that Ergon Energy had correctly anticipated the changed load growth conditions.

Table 3: ENERGEX and Ergon Energy performance in 2001/02 and 2002/03

	Forecast (\$Million)		Actual (\$ million)		Variance from forecast	
	2001/02	2002/03	2001/02	2002/03	2001/02	2002/03
ENERGEX						
Energy delivered (GWh)	17100	17818	17,207	17,833	0.6%	0.1%
Allowable revenue	467.3	497	468.4	505.1	0.2%	1.6%
Capital contributions	23.3	24	23.9	24.8	2.6%	3.3%
Total revenue	490.6	521	492.3	529.9	0.3%	1.7%
Operating and maintenance expenditure	161.7	168.9	130.2	121	-19.5%	-28.4%
Capital expenditure	254.3	257.9	270.6	281.7	6.4%	9.2%
Total Costs	416	426.8	400.8	402.7	-3.7%	-5.6%
Ergon Energy						
Energy delivered	11,800	12154	12,331	12,461	4.5%	2.5%
Allowable revenue	447.5	476.1	443.9	475.5	-0.8%	-0.1%
Capital contributions	16.8	17.1	16.9	19.9	0.6%	16.4%
Total revenue	464.3	493.15	460.8	495.4	-0.8%	0.5%
Operating and maintenance expenditure	150.9	154.6	135	159	-10.5%	2.8%
Capital expenditure	255	234	235	312.8	-7.8%	33.7%
Total Costs	405.9	388.6	370	471.8	-8.8%	21.4%

Source: Extracted from 2002/03 Review by QCA

In addition to financial performance QCA also monitors the quality of supply on a quarterly basis and the results of this monitoring are shown in Table 4. Data is only available up to the September quarter 2003 so on this basis information on the outages in the summer of 2004 will not be publicly available until the latter half of 2004.

The overall the number and duration of outages caused by the ENERGEX distribution system have not improved or reduced to any noticeable extent between June 2002 and September 2003, although the 2002/03 summer was comparatively mild.

However, there are signs that the Ergon Energy quality of supply has deteriorated in the 15 months to September 2003.

A comparison with other distributors in Eastern Australia is provided later in the submission.

Table 4 Average number and duration of distribution interruptions per customer

Description	Sept Q 2002	Dec Q 2002	March Q 2003	June Q 2003	Sept Q 2003
ENERGEX					
Average number of interruptions per customer (SAIFI)	1.92	2.01	2.07	2.09	1.94
Average duration of each interruption per customer (CAIDI) minutes	88.5	93.3	91	90	88.564
Duration of all interruptions per customer (SAIDI) minutes	169.9	187.1	188.4	188.3	171.772
Ergon Energy					
Average number of interruptions per customer (SAIFI)	4.34	4.67	4.4	4.5	4.46
Average duration of each interruption per customer (CAIDI) minutes	104	107	109	109.8	111.48
Duration of all interruptions per customer (SAIDI) minutes	451	499.9	484	494.8	496.82

Source: Extracted from 2002/03 Review by QCA

Effectiveness of the call-in centres and waiting times are used as further measures of service quality and these are summarised in Table 5.

Ergon Energy has not experienced any increase in the number of complaints and has reduced call waiting times but there has been a rise in the percentage of connections not done by the agreed date.

Table 5: Summary of installation and call centre performance

Description	Sept Q	Dec Q	March Q	June Q	Sept Q
	ENERGEX				
Total number of supply complaints	768	672	696	596	1347
Average waiting time to speak to an operator	183	105	98	59	59
Percentage of calls abandoned by customers	17	14.3	11	7.3	8.5
Average time taken for new connections (days)	4.1	4.2	4.1	4.1	4.1
Percentage of new connections not made by the agreed date	3.7	7	5	3.7	5.2
	Ergon Energy				
Total number of supply complaints	585	761	759	589	557
Average waiting time to speak to an operator	27	53	48	88	29
Percentage of calls abandoned by customers	2.7	5.7	4.8	7.1	3.8
Average time taken for new connections (days)	11.8	4.5	4.2	3.7	6.3
Percentage of new connections not made by the agreed date	5.4	6.1	7	4.5	6.3

Comparison with other Eastern Australian distributors

Price comparison

The average nominal prices for distribution vary from around \$40.00/MWh for distributors with low customer density, such as Ergon Energy and Country Energy in NSW and TXU, Powercor and United Energy in Victoria, to a low of slightly over \$20.00/MWh for energy Australia, with a very high customer density in Sydney. The current average charge for ENERGEX of around \$30.00/MWh is similar to Integral Energy in NSW and AGL and CitiPower in Victoria, all of which have urban and rural components.

The average price in nominal \$/MWh supplied from the distribution system is shown in Table 6.

Table 6: Average distribution prices for eastern Australian Distributors (nominal \$/MWh)

Distributor	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
Queensland (actuals)						
ENERGEX		\$28.51	\$29.22			
Ergon Energy		\$37.37	\$39.76			
NSW (Draft Determination to apply from 1 July 2004)						
Energy Australia				\$21.90	\$23.76	\$24.57
Integral Energy				\$29.86	\$30.78	\$31.73
Country Energy				\$40.62	\$44.07	\$46.05
Australian Inland Energy				\$25.26	\$27.40	\$28.64
Victoria (Calendar year actuals)						
AGL	\$29.40	\$29.82				
CitiPower	\$32.18	\$32.36				
Powercor	\$37.68	\$36.99				
TXU	\$39.50	\$42.03				
United Energy	\$37.95	\$37.23				

Source: Extracted from documents prepared by QCA, IPART and ESC Vic

Quality of supply comparisons

The reliability of the system as measured by the average total minutes of distribution outages per customer per annum (known as SAIDI) is shown in Table 7. SAIDI has been used because it captures both other major measures of service quality, namely the frequency of interruptions per customer (SAIFI) and the average duration of those interruptions per customer (CAIDI). The data in Table 7 covers all outages (planned and unplanned except for the NSW targets, which cover only unplanned) caused by the distribution system failures and every attempt has been made to keep the data consistent across distributors.

The limited data available for the two Queensland distributors suggests that, apart from distribution in the Brisbane CBD, the quality of supply is generally behind their eastern Australian counterparts.

Average minutes of outages per customer on ENERGEX's urban and short rural feeders are at the high end.

Ergon Energy is noticeably worse than all interstate comparisons in all categories of feeder. Overall it has by far the poorest record of all distributors.

Table 7: Duration of distribution interruptions per customer (SAIDI) minutes for eastern Australian distributors

Description	ACTUALS			Benchmark for distribution SAIDI	Average target for (unplanned) distribution
	2000/01 or 2001	2001/02 or 2002	2002/03		
CBD					
ENERGEX			3.0		
Energy Australia					26.0
CitiPower	34.6	11.3		20.0	
Urban					
ENERGEX			157.8		
Ergon Energy			223.2		
EnergyAustralia					91.0
Integral Energy					54.0
Country Energy					123.0
Australian Inland					150.3
AGL Electricity	92.2	76.7		96.0	
CitiPower	52.4	43.5		62.0	
Powercor	121.2	108.5		128.0	
TXU	116.7	157.1		150.0	
United Energy	57.7	78.9		153.0	
Short rural					
ENERGEX			233.9		
Ergon Energy			576.5		
EnergyAustralia					306.0
Integral Energy					129.0
Country Energy					354.0
Australian Inland					67.6
AGL Electricity	156.6	92.8		208.0	
Powercor	183.6	158.2		274.0	
TXU	249	233.4		229.0	
United Energy	150.2	133.4		252.0	
Long rural					
Ergon Energy			997.0		
EnergyAustralia					
Integral Energy					110.0
Country Energy					723.0
Australian Inland					188.1
Powercor	335	352.1		383.0	
TXU	425.2	409.8		456.0	
Overall					
ENERGEX			183.4		
Ergon Energy			482.4		
EnergyAustralia			102		102.0
Integral Energy			155		103.0
Country Energy			287		345.0
Australian Inland					153.2

Source: Extracted from documents prepared by QCA, IPART and ESC Vic

Regulatory issues

General observations

Even though its legislative foundation seems sound, it is difficult for us in Commerce Queensland to envisage how the QCA can function as an effective independent regulator for electricity distribution given the Government's ownership of the distributors and the strong links between the distributors and the Government.

Commerce Queensland believes this as a serious shortcoming of the Queensland regulatory arrangements. QCA lacks the support needed from the Government to allow it to carry out its difficult regulatory task effectively. The Government response to the community discontent over the recent supply problems was to establish an independent panel, rather than turning to the QCA as the Regulator of these bodies and ask whether performance has been reasonable in the circumstances or not. In the public debate following the outages the Government defended the distributors but there was no evidence that the views of the QCA were ever sought before the panel was established.

We believe that the Government's ownership of the distributors causes it to be defensive of them and interventionist when they might be best left alone to do their job. We believe it also weakens the role of the Regulator, which in other states becomes an advocate and a watchdog for consumers.

In its report to CoAG on 11th December 2003 the Ministerial Council on Energy agreed that following agreement on a national framework, the Australian Energy Regulator (AER), should be established on 1st July 2004, assuming responsibility by 2006 for national regulation of distribution and retailing (other than retail pricing). Commerce Queensland supports a national approach in particular for the establishment and oversight of reliability standards for distributors. This view is based on the belief that national standards will reflect the higher standards of states other than Queensland.

Quality of supply incentives

For the initial 4-year regulatory period ending on 30 June 2005, QCA decided not to include incentives or penalties for meeting quality of supply standards. This followed the approach taken by IPART in NSW where again government owned distributors are being regulated.

In Victoria, however, where the distributors are privately owned, the regulator introduced a system of incentives and penalties to encourage improvements in service quality. These involved *inter alia* payment of \$80 to consumers who are off their supply for over 12 hours or have between 9 urban and 15 rural outages. In addition the pricing formula includes an "S factor", which allows the revenue cap to be increased if quality targets are exceeded. The Victorian quality targets are based on a reducing SAIDI as shown in Table 8.

Table 8: Target for total minutes off supply in Victoria

	2000	2001	2002	2003	2004	2005	Change
AGL	98	95	90	87	85	83	15%
CitiPower	60.5	60.5	55.8	51.2	46.5	41.8	31%
Powercor	255	262	250	237	225	212	17%
TXU	255	255	246	237	227	218	15%
United Energy	126	112	102	94	87	79	37%

IPART is also introducing quality incentives in the new regulatory period via an S factor. The Tribunal's draft decision is that an S-factor be introduced from July 2004 based on service reliability data only, running in 'paper trial' form for the first two years of the period, and with monetary incentives from July 2006 for aggregate reliability data only.

QCA has decided to adopt a different approach for the new regulatory period in 2005 as stated in the final decision.

"The Authority's Final Decision is to develop a service quality incentive scheme based on a regulatory contract with each distributor, which will be incorporated into the regulatory arrangements commencing on 1 July 2005.

The details of the service quality incentive scheme will be presented in the 2005 Draft Determination, which will be released around November 2004. Stakeholders will have an opportunity to comment further on the service quality incentive scheme in the context of responding to the 2005 Draft Determination."

It is the view of Commerce Queensland that the QCA approach lacks transparency and, while it may result in a comfortable relationship between the QCA and the distributors, it is unlikely to deliver the improvements in service quality which are essential for Commerce Queensland's members to operate their businesses effectively and compete with those interstate and overseas.

Commerce Queensland is firmly of the view that the impediments to the effective regulation of distribution by QCA will be best addressed by moving to a national system of regulation as recommended by the CoAG Ministerial Council on Energy.

Effects of QCA regulatory approach

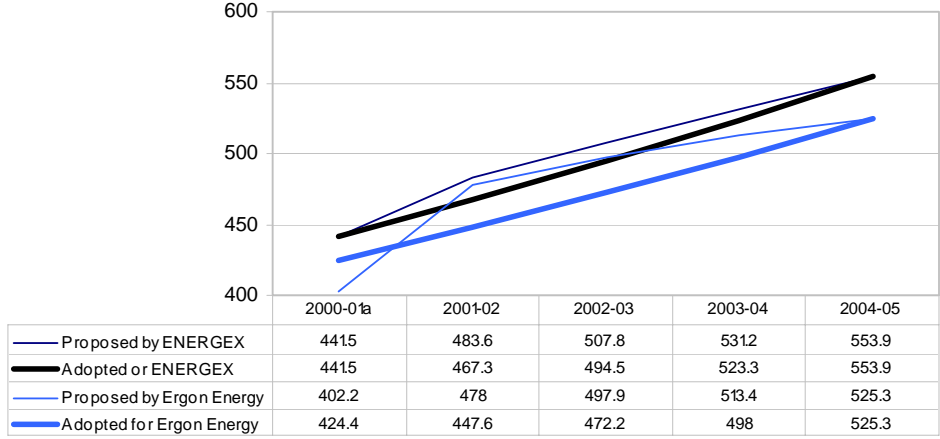
For the initial QCA regulatory period from 1 July 2002 to 30 June 2005 the QCA used the normal building block approach to determine the smoothed annual aggregate revenue requirement (AARR) for ENERGEX and Ergon Energy, which represents a cap on earnings and provides the basis for setting the distribution tariffs. There was a tendency evident during the regulatory process, as there is with regulators generally, for QCA to attempt to minimise the revenue requirement wherever possible.

This approach is fairly common among regulators. In NSW IPART set the tariff cap for the distributors in the first regulatory period well below the costs of providing the distribution services and as a result a significant increase in tariffs will be required at the commencement of the second regulative period from 1 July 2004.

A good example of the QCA's approach is shown in the smoothing of the annual revenue requirement, which QCA claims is necessary to provide price stability. This is illustrated in Figure 4. In 2001/02 the smoothed revenue for ENERGEX was \$16.3 million lower than that proposed and for Ergon Energy some \$30.4 million lower than that proposed by the utilities. While the QCA feels understandably that it needs to keep tariffs down, the allowance of these additional expenditures would have had a minor effect on the distribution tariff (and an even smaller effect on the end-user tariff) but may have helped to keep the networks in better condition.

The QCA's focus on such amounts also raises the question of where the Government's special dividends come from within the distributors accounts. If they come from within the allowance for the cost of capital then perhaps the cost of capital being allowed is too high. Very few privately owned distributors would be allowed such a high cost of capital. If they come from other expenditures they may well be reducing the amounts that can be spent on O & M or replacement of equipment.

Figure 4: Annual revenue requirements proposed by the distributors compared to those adopted by QCA - \$ million



Source: Extracted from QCA final decision on 2001 to 2005 regulatory settings

Governance Issues

As owner of the distribution assets in Queensland the Government suffers from a serious conflict of interest. It has the usual commercial objective of maximising returns from its distribution assets while aspiring to provide electricity to Queensland households and businesses at the lowest possible price. The regulator being funded and appointed by the same Government further compounds the conflict. We believe these conflicts are manifest in confused management objectives in the distributors and a lack of effectiveness and independence for the regulator.

Commerce Queensland strongly believes that that there are two viable routes to address these intractable conflicts of interest.

- The first option would be for the Government to divest its ownership of the Queensland distributors;
- The second less dramatic and yet possibly as effective an option, would be to accept the regulation of the distribution sector by a national independent energy regulator as proposed by the CoAG Ministerial Council on Energy.

We believe that either approach would go a long way to resolving the Government's conflicts of interest and provide a sound platform for significant improvements in service quality and place continued but realistic downward pressure on distribution prices.

The reaction of the Government to last summer's difficulties has been to launch a study, forgo the special dividends and insist on increased capital expenditure, which has of course been agreed to by the distributors. Such a knee-jerk reaction is of serious concern to Commerce Queensland, particularly as there is no guarantee that they will be effective if the system is once again confronted in the 2004/05 summer. There is also concern that this additional capital expenditure is outside the revenue cap set by the QCA and will result in higher distribution charges, which would put Queensland distributors out of step with those in other states.

Retail contestability and interval meters

A very positive outcome from the crisis has been the announcement by ENERGEX that it is considering the introduction of interval meters as a way of reducing consumption over the peak periods. Commerce Queensland supports ENERGEX in this approach.

Interval meters now have widespread support. In March 2004 the Essential Services Commission in Victoria released a draft decision to mandate the roll out of interval meters in that state. The CoAG Energy Market Review also recommended that smart meters be introduced as a means of providing price signals to consumers to allow them to make rational choices regarding their electricity usage. This in turn will reduce peak demands and relieve demand pressures across the industry in generation, transmission and distribution. It is now widely accepted that the significant savings in these areas will more than offset the cost of installing the meters to the ultimate benefit of electricity consumers through reduced prices, enhanced quality of supply and greater choice.

However the effectiveness of interval meters will be severely constrained in Queensland because of the refusal of the Government to support the introduction of full retail contestability. This has unfortunate long-term implications for Queensland's electricity

consumers who are likely to face higher prices, lower reliability and less choice than those in the other states.

Not only would full retail contestability provide the above benefits but would allow for greater competition between retailers thereby maximizing the benefits of electricity reform for consumers.

Management issues

Managers of the two distribution corporations are receiving confusing messages from the government. On one hand significant special dividends have been paid to the Government owner while they are also expected to operate within a tight revenue cap imposed by QCA.

As a good example, the management of ENERGEX has clearly been strongly focussed on reducing operating and maintenance expenditure as evidenced by their dramatically below forecast performance discussed earlier in the submission. These benefits appear to have been returned to the Government in a special dividend rather than applied to the reduction of distribution prices or an improvement in the reliability of the network.

It appears that the management and boards of the distribution corporations are focussed on providing higher and higher dividends to their owners while electricity customers are totally dependent on the effective regulation by the QCA to maintain service quality.

Given the monopolistic nature of the businesses, we believe a fiercely independent and effective regulator is essential to protect the interests of electricity consumers.

Feedback of Commerce Queensland membership

Upon learning of the Independent Panel's review, Commerce Queensland has received considerable feedback from its membership. This feedback has provided insights into the significant impact of an unreliable electricity supply.

Time has not permitted us to undertake a comprehensive survey of our membership. We are looking to engage a suitably qualified consultant to review the evidence provided by members and any comparable evidence before the inquiry, in order to advise Commerce Queensland on:

1. any legislative or regulatory requirements under the National Electricity Code or amendments to those requirements, to ensure reliable supply; and
2. the way the cost of any improvements to distribution infrastructure should be met in accordance with the Code.

Commerce Queensland would then be able to use that advice in an appropriate further submission to the inquiry.

The general thrust of the feedback could be summarised as:

- inconvenience with gates not opening and alarm systems triggering;
- loss of production which cannot be made up at a later time;
- destruction of equipment, especially electronic components such as computers and monitors;
- black outs and voltage dips and surges which create serious problems; and
- the need to install expensive back up systems.

Summary of Finding and Recommendations

The weather events of the summer of 2004 were at the higher end of those experienced in recent years but were by no means unusual. ENERGEX and Ergon are not forecasting demand growth successfully and are not investing to cover extreme (even 1 in 6) events. Forecasts of demand on the distribution networks should have envisaged the demand levels that occurred. Storm activity was also greater than in recent years and seems to have been the major cause of high number of outages and their length. Again, we believe that this level of activity should be within the capability of ENERGEX and Ergon to cope with reasonably.

Recommendation

We believe that the distributors should be planning for events with at least a 10% probability of exceedence. The distributors should be allowed to undertake capital expenditure and O & M expenditure on this basis.

Queensland distributors' security of supply performance is below interstate counterparts. ENERGEX has significantly under spent its operating and maintenance budget and communications with consumers are poor. It is still very difficult to gain a clear understanding of reasons for outages during January, February and March and the poor ENERGEX performance in addressing the problems.

Recommendation

Both distributors need to improve their customer focus and provide better communication and transparency in the performance of their work.

QCA's status and role as a consumer advocate appears to be reduced by Government responses to outages. The government usually ignores QCA as they exercise control. There have been no quality of supply incentives or penalties in the Queensland regulatory regime (unlike Victoria and SA) and there is some doubt as to the effectiveness of QCA's final decision on quality of supply incentives for next regulatory period.

The Regulator also remains silent when "special dividends" are extracted from the distribution companies. If they are in excess of the return on capital allowed for they must reduce either capital or O & M expenditure, or else the companies' expenditure requirement was overstated.

Recommendation

The QCA approach for the coming regulatory period should be transparent with respect to incentives and penalties for performance. There is an urgent need for distributors to be incentivised to achieve improved reliability. The Regulator should also be explicit on where the Government's special dividends fit under the agreed revenue cap.

Distributors appear to respond to Government needs much than those of their customers and it is only when an issue becomes a political embarrassment to the Government that the distribution companies address it. Government ownership is hindering an efficient industry.

Very little has been done in Queensland to develop competition for electricity customers. Other jurisdictions are already well advanced in introducing time of day meters for residential and small business consumers who might benefit from retailers competing for their business. Again, this seems to reflect the government's priorities of protecting their retail companies and their revenues rather than maximizing the benefits of electricity reform for consumers.

Recommendation

The Government should separate its role as policy maker and asset owner much more clearly. Regulation for electricity distribution should be passed to the national regulator at the time decided by the Ministerial Council on Energy.