



QUEENSLAND ELECTRICITY USERS NETWORK

"Advocating for affordable and reliable electricity in Queensland"

**Submission
to the
Queensland Competition Authority**

on the

Discussion Paper:

Reliability standards for Energex and Ergon Energy for 2020-2025

25 March 2019

Queensland Competition Authority – Reliability standards for Energex and Ergon Energy for 2020-2025

EXECUTIVE SUMMARY

Queensland business and residential consumers can continue to depend on the current network reliability standards *and* have cheaper power bills *if* the Queensland Government stops using publicly owned electricity assets (network, generation and retail assets) as cash cows.

Consumers do *not* want to trade lower network reliability standards for cheaper power bills, particularly as most of the proposed new *non-dispatchable* generation will be connected to the National Electricity Market via distribution networks. It is recognised that about 96% of outages occur in the branches of the tree ie distribution networks such as Ergon and Energex, not the trunk of the tree ie transmission networks such as Powerlink. Hence, lower reliability standards will result in longer and more frequent interruptions in the branches of the tree and the National Electricity Market will be less able to access *non-dispatchable* generation connected to the branches ie Ergon and Energex's distribution networks.

Lower reliability standards will exacerbate the current supply problems faced by the National Electricity Market that is suffering from insufficient dispatchable generation during the peak demand period of 4.00pm to 8.00pm Monday to Friday.

If the Queensland Government achieves its 50% Renewable Energy Target by 2030 through the construction of *non-dispatchable* generation connected to Ergon and Energex distribution networks, it's possible dispatchable coal and gas-fired generation could retire before 2030 placing more reliance on *non-dispatchable* generation connected to the Ergon and Energex distribution networks.

Queensland consumers could face the same unreliable electricity supply as is currently being experienced in South Australia and Victoria. South Australia and Victoria also have the highest wholesale prices in the National Electricity Market which flows through to their unaffordable power bills.

A reduction in reliability standards, combined with the current exorbitant electricity prices charged in Queensland, will cause more Queensland jobs to be lost and the Queensland economy to slow further.

An important point excluded from the Queensland Government's Ministerial Direction to the Queensland Competition Authority (QCA) is the impact of reduced electricity reliability standards on the reliability of the telecommunications system. Previous QCA reviews did not have to consider the nbn network as the nbn network did not exist. The nbn network does not operate during power outages unless the consumer has invested in a backup power system. Most businesses and households are now completely reliant on the nbn, particularly for payment transactions.

Reliable telecommunications is as important to consumers as reliable electricity.

The Queensland Government's Ministerial Direction stipulates the QCA must provide a final report by 30 June 2019. This timeframe is grossly inadequate to ensure sufficient consultation with both electricity and telecommunications stakeholders.

INTRODUCTION

Reliable and affordable electricity is essential for jobs growth and a strong economy.

Electricity in Queensland is not affordable and consumers are increasingly concerned about the reliability of their electricity supply, particularly as Queensland set a new record for peak demand last summer (2018-19) of over 10,000 MW.

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There are no “*consumer friendly*” government policies in place to effectively curb rising peak demand on the days when the national grid is under severe pressure and consumers are facing the prospect of rolling blackouts due to insufficient dispatchable generation. The Queensland Government’s solution is to impose and promote the adoption of high priced Time of Use tariffs to punish consumers for using electricity during the peak demand period of 4.00 pm to 8.00 pm Monday to Friday. For many business and residential consumers, the introduction of Time of Use tariffs has only added to the financial stress caused by their already unaffordable power bills.

Around 75% of electricity consumed from the distribution and transmission network is used by businesses consumers.

A survey on the impact of higher electricity prices on business consumers in regional Queensland is grim reading.

The survey of 741 businesses, of which almost all were customers of the Queensland Government’s wholly owned Ergon Energy Retail, found that higher electricity prices had caused:

- 15% of businesses to reduce staff hours or staff numbers
- 70% to become less profitable
- 25% to increase their debt and
- 22% to pass on the increased cost of electricity to their customers through higher prices for their products and services

The increased cost of goods and services places further pressure on stressed household budgets already struggling with low wages growth and rising under-employment.

Businesses can only afford increased wages and more staff/staff hours if their businesses are profitable. To be profitable businesses need reliable and affordable electricity.

The regional Queensland business survey found that if electricity prices fell:

- 86% of businesses would experience an improvement in their viability
- 24% would consider expanding and
- 33% would consider employing more staff and/or increasing staff hours

The same survey found that:

- 22% of businesses were extremely concerned (rating 10) about their ability to pay their electricity bills in full and on time and
- 52% of businesses were in strong to severe stress (rating 8 to 10)

Consequently, 64% of businesses were very dissatisfied with the electricity prices being charged to their business, with only 4% giving a score of over 5 (see Table 1).

On the other hand, only 15% gave a satisfaction rating of less than 5 for reliability, with an average rating for satisfaction of 6.9 (see Table 2).

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Table 1: Satisfaction of businesses in regional Queensland with electricity prices

Question 7:

On a scale of 1 to 10, how satisfied are you with the electricity prices being charged to your business with 1 being very dissatisfied and 10 being very satisfied?

Rating	No.	%
1 Very dissatisfied	472	64%
2	96	13%
3	66	9%
4	29	4%
5	40	5%
6	10	1%
7	5	1%
8	8	1%
9	2	0%
10 Very satisfied	5	1%
No response	8	1%
Total	741	100%

Source: Survey on the impact of higher electricity prices on businesses in regional Queensland, January 2018

Table 2: Satisfaction of businesses in regional Queensland with reliability of electricity supply

Question 8:

On a scale of 1 to 10, how satisfied are you with the reliability of the electricity supply to your business with 1 being very dissatisfied and 10 being very satisfied?

Rating	No.	%
1 Very dissatisfied	33	4%
2	21	3%
3	35	5%
4	20	3%
5	83	11%
6	53	7%
7	78	11%
8	201	27%
9	145	20%
10 Very satisfied	60	8%
No response	12	2%
Total	741	100%

Source: Survey on the impact of higher electricity prices on businesses in regional Queensland, January 2018

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The regional Queensland business survey was large at 741 businesses and covered all industry sectors.

Almost all respondents said the rises in electricity prices were adversely affecting their regional economies; some 34% recording effects as severe.

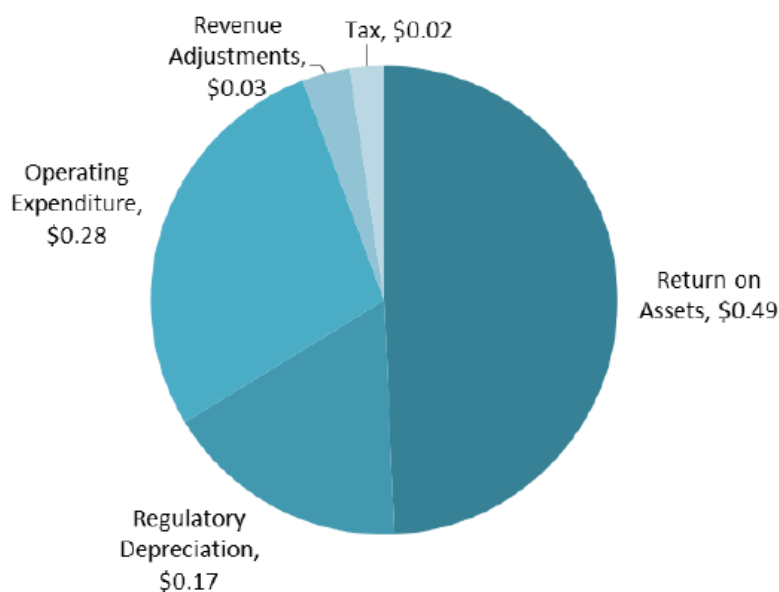
Clearly business consumers and regional economies need a significant reduction in the price of electricity. However, this does not need to come at the expense of reliability standards **IF** the Queensland Government stops using the publicly owned electricity assets (network, generator and retail assets) as cash cows.

For example, in the 2020-2025 Regulatory Proposal for Ergon Network and Energex it is estimated that 56% and 49% respectively of the revenue earned by the distribution networks is attributed to the Rate of Return on Assets (see Figure 1 and 2). If the Queensland Government accepted a lower Rate of Return for its network assets, power bills would fall for all business and residential customers in Queensland without the need to lower current reliability standards.

The Queensland Government could also choose to make less profit from its wholly owned retailer – Ergon Energy Retail – by permanently removing the 5% headroom/standing offer adjustment charge. This nonsensical charge is inflicted on every single Ergon Energy Retail customer for competition that does not exist as Ergon Energy Retail enjoys a near monopoly in regional Queensland. The 5% nonsensical charge assisted Ergon Energy Retail to more than double its profit to \$263 million in 2017-18 compared to \$120 million in 2016-17. Again, if the Queensland Government chose to accept less profit from its wholly owned retailer, Queensland power bills would fall without the need to lower current reliability standards.

The exorbitant profits received by the Queensland Government from its wholly owned generation assets has driven average wholesale spot prices to a high of \$93.12 per MWh in 2016-17 compared to only \$52.52 per MWh in 2014-15 (see Table 3). Again, if the Queensland Government chose to accept less profit from its wholly owned generators, Queensland power bills would fall without the need to lower current reliability standards.

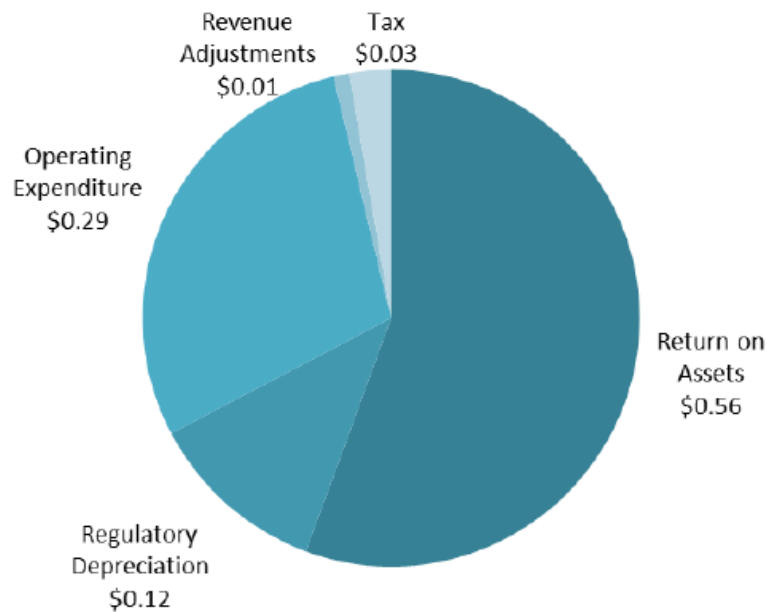
Figure 1: Ergon Network – what makes up our revenue requirement?



Source: Energy Queensland Presentation to RP-TSS Working Group Forum, 5 September 2018

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Figure 2: Energex – what makes up our revenue requirement?



Source: Energy Queensland Presentation to RP-TSS Working Group Forum, 5 September 2018

Table 3: Average wholesale spot prices by jurisdiction – 2014-15 to YTD 2018-19

YEAR	NSW	QLD	SA	SNOWY	TAS	VIC
2015	35.17	52.52	39.29	N/A	37.16	30.35
2016	51.60	59.99	61.67	N/A	102.70	46.14
2017	81.22	93.12	108.66	N/A	75.40	66.58
2018	82.27	72.87	98.10	N/A	86.98	92.33
2019	90.62	82.03	116.50	N/A	86.80	114.51

Note: 2019 is a Year to Date figure as of 25 March, 2019

Source: Data Dashboard, Australian Energy Market Operator, 25 March 2019

Consumers do not need to lower reliability standards to achieve lower power bills *if* the Queensland Government chooses to earn less profit from its publicly owned generation, network and retail electricity assets.

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CONSULTATION QUESTIONS

The Queensland Competition Authority released the Discussion Paper on 28 February with submissions closing on 22 March. This is insufficient time for electricity stakeholders to respond, particularly in light of the overload of submissions and consultations taking place with various state and national bodies prior to the Federal election in May 2019.

We cannot stress enough that this consultation should not be fast-tracked as the consequences to the Queensland economy, Queensland jobs and telecommunications could be devastating.

There is one thing worse than paying exorbitant power bills and that is paying exorbitant power bills for unreliable power.

Question 1

Are customers satisfied with the current level of reliability? Do customers consider the balance between reliability and the price of electricity is appropriate?

Customers are generally satisfied with the current level of reliability. However, business and residential customers across Queensland desperately need cheaper electricity prices. This can be achieved in multiple ways without sacrificing current reliability standards eg:

- The Queensland Government taking significantly less profit from its wholly owned generation, network and retail electricity assets
- The permanent removal of the Solar Bonus Scheme from all Queensland power bills
- The adoption of real tariff reform to increase the overall capacity utilisation levels of networks
- The adoption of the Traffic Light System to reduce rising peak demand

Question 2

Do the current MSS limits remain appropriate for the 2020-2025 period?

Yes, in most cases the current MSS limits remain appropriate. However, increased connection of small and large scale non-dispatchable intermittent renewable energy could significantly impact on the ability of the networks to achieve MSS limits in the future. This could be problematic for feeders servicing businesses with potential animal health issues (eg dairies) and households with members with health issues.

There is an urgent need to investigate the impact on telecommunications of current and lower MSS limits.

Question 3

Do stakeholders agree with the findings and themes emerging from recent customer surveys conducted by Energy Queensland?

It is recognised that there is a high level of distrust between consumers and retailers. This is a continuous finding of Energy Consumers Australia's Energy Consumer Sentiment Survey which is carried out on a six monthly basis. The latest Energy Consumers Sentiment Survey found that only 21% of consumers believe the market is acting in their long term interests (see Figure 3).

Since regional Queensland consumers are largely captive to the Queensland Government's wholly owned Ergon Energy Retail and entirely captive to Ergon Energy Network this would imply that consumers do not trust Ergon Energy or its parent company Energy Queensland. This distrust would make it very difficult for Energy Queensland to gauge the pulse of consumers.

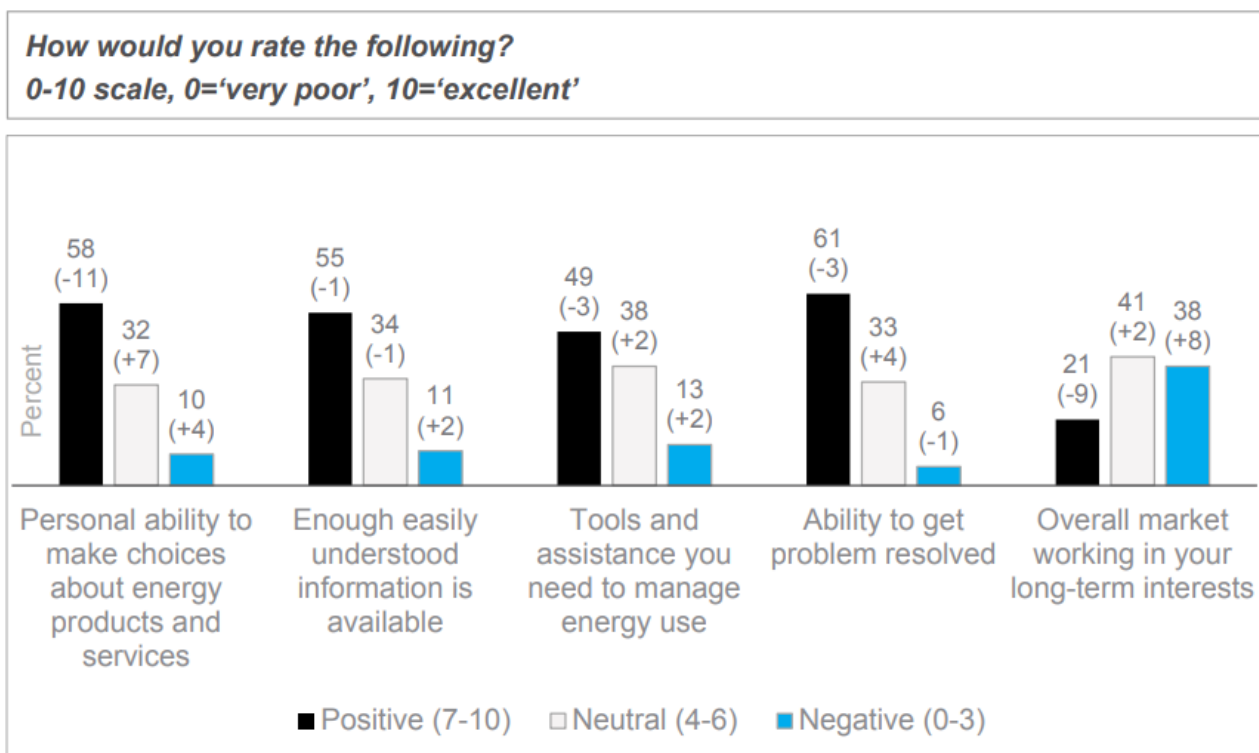
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We strongly maintain that entities owned by Energy Queensland do not know their customers, particularly small and medium size business customers. Unless Energy Queensland adopts changes promoted by all consumer advocates (eg tariff reform), the death spiral of consumers leaving the network, or using the network as a supplier of last resort, will continue to accelerate as technology improves and becomes cheaper.

The ECA Energy Consumers Sentiment found that 40% of Queensland consumers believe the energy market will provide better outcomes in 5 years time through technological advances to manage supply and cost (see Figure 4).

The ECA survey also found that only 45% of Queensland customers believe reliability would improve in the next 5 years (see Figure 4). As more than 50% did not provide a positive rating for reliability this may account for 28% of respondents indicating they are considering a battery storage system.

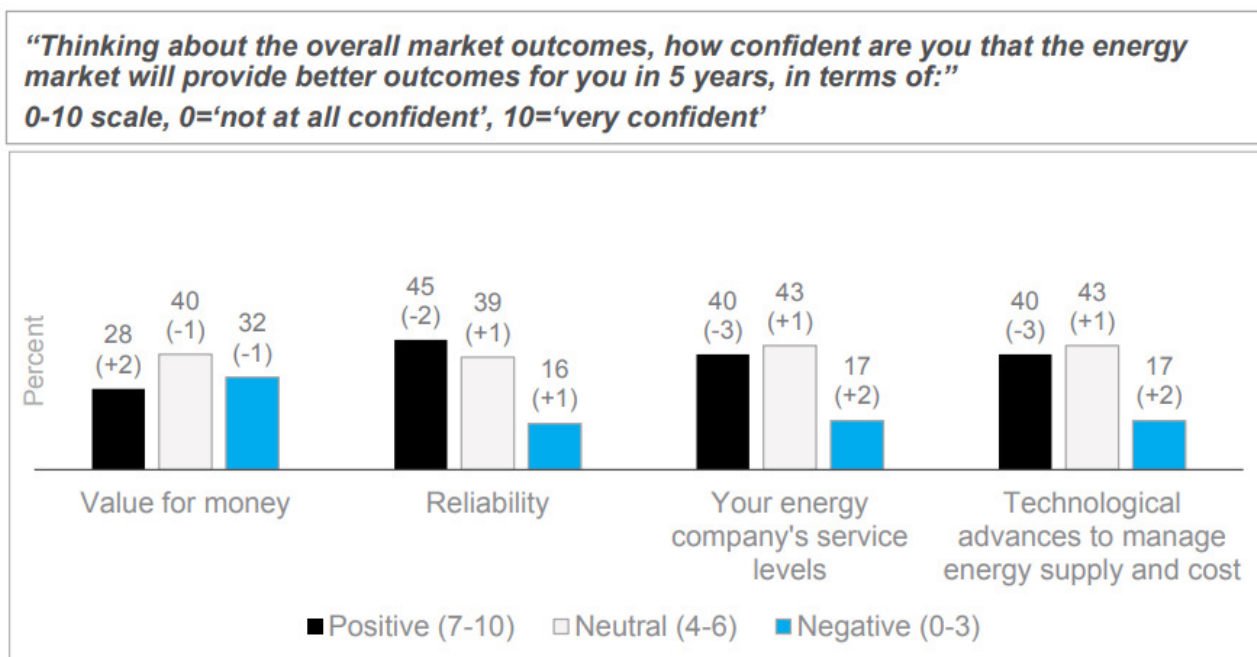
Figure 3: Overall market working in the long term interests of Queensland consumers



Source: Energy Consumer Sentiment Survey, Energy Consumers Australia, June 2018

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Figure 4: Queensland consumer confidence in long term outcomes – reliability and technological advances



Source: Energy Consumer Sentiment Survey, Energy Consumers Australia, June 2018

Question 4

If changes to existing MSS limits are warranted, what changes should be made and by what means should these be determined?

This needs further discussion as the Ergon Energy Network is not aware of what is behind a meter. Without knowing what is behind a meter, how would you know the impact of changing MSS limits?

Question 6

Should the definitions of SAIDI and SAIFI be amended to exclude planned interruptions?

No, because emergency repairs on the network system often require follow up work and hence further interruptions, these further interruptions should not be considered routine planned maintenance, thus excluding planned interruptions would be misleading and confusing.

PLEASE NOTE

No further questions were answered due to the short time allowed to respond to the Discussion Paper.