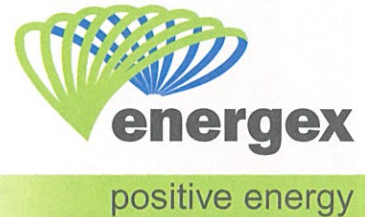


11 March 2016

Queensland Productivity Commission  
PO Box 12112  
George Street  
Brisbane QLD 4003



Dear Mr Wood

### **Electricity Pricing in Queensland: Draft Report February 2016**

Energex Limited (Energex) welcomes the opportunity to comment on the Queensland Productivity Commission (QPC) draft report on Electricity Pricing in Queensland.

Energex's original submission (November 2015) was guided by the following key themes; ensuring efficient costs for customers, providing choice and control for customers, promotion of economic development for Queensland by acting in the long term interests of customers, and the facilitation and integration of low carbon energy options (including renewable energy). Energex supports a number of the QPC recommendations which are consistent with Energex's previous submission and in support of these key themes.

In addition, Energex raises specific comments on the following:

#### **Ring-fencing (recommendation 14)**

Energex notes the QPC recommendation that the holding company ensures robust ring-fencing between the competitive and monopoly functions of the distribution businesses. Energex takes compliance with its regulatory obligations seriously and currently meets the ring fencing requirements and believes any changes to existing ring-fencing arrangements should be considered in the context of the long term interests of consumers and as part of the Australian Energy Regulator's (AER) development of a national guideline for electricity distribution ring-fencing.

#### **Shareholder role (recommendations 20 and 21)**

Energex supports the need for simplified reporting relationships for government owned corporations and a commercially based shareholder role, however we note that Energex is already subject to significant regulation under the AER and a robust commercial framework is already in place to ensure the Statement of Corporate Intent (SCI) process results in efficient and balanced outcomes.

#### **Enquiries**

Rachel Leaver

#### **Telephone**

(07) 3664 4115

#### **Facsimile**

(07) 3664 9806

#### **Email**

[rachel.leaver@energex.com.au](mailto:rachel.leaver@energex.com.au)

#### **Newstead**

26 Reddacliff Street

Newstead Qld 4006

#### **Corporate Office**

26 Reddacliff Street

Newstead Qld 4006

GPO Box 1461

Brisbane Qld 4001

Telephone (07) 3664 4000

Facsimile (07) 3025 8301

[energex.com.au](http://energex.com.au)

#### **Energex Limited**

ABN 40 078 849 055



In addition, Energex submits benchmarking data on an annual basis to the AER, which is used to produce an annual benchmarking report to assess the efficiency of the 13 distributors in the National Electricity Market (NEM). In Energex's opinion, any additional benchmarking requirements are unnecessary and likely to result in increased regulatory burden and the cost of which will ultimately get passed through to customers.

#### **Real time tariff study (recommendation 52)**

Energex notes the comments in recommendation 52 to ensure representative samples of customers are included in upcoming tariff studies, including vulnerable customers. Energex's Real Time Tariff Study (RTTS) has been designed to study four cohorts of customers on a sequential basis, covering a broad cross section of the residential customer base. The second customer cohort will include hardship and vulnerable customers. In scheduling these customers as the second cohort, it allows sufficient time to develop vulnerable customer protections and the need to provide matured education materials. Energex will continue to work with government and other stakeholders to ensure that appropriate data is collected during the study to improve our understanding of network tariff impacts and options are explored to protect vulnerable customers.

#### **Capex and opex forecasts (page 16 of report)**

Capex and opex forecasts have been developed by the QPC to 2035. Energex does not produce detailed expenditure forecasts this far into the future however it is worth noting that capex and opex forecasts are subject to a rigorous economic assessment every five years by the AER.

#### **Solar PV installation forecasts (page 19 of report)**

Energex has concerns regarding the published forecasts of solar PV installations in Queensland to 2035. While the draft report states that the solar PV market is moving closer to saturation, the growth rates used to project the capacity of rooftop solar PV appear to maintain a considerable growth throughout the forecast period. There are a number of residential premises in Queensland which would be unsuitable for solar PV (including apartments, units, townhouses and rental premises) meaning that high saturation rates may not be possible. Energex expects that larger scale solar installations including community solar farms and commercial scale solar systems are more likely to drive future growth in solar PV.

#### **Feed-in tariff (FiT) and battery energy storage systems (BESS) (p28 of report)**

Energex has concerns regarding the comments on p28 of the draft report where "ACIL Allen Consulting considered that existing solar PV customers, particularly those receiving the SBS, will not benefit financially from the subsequent integration of a battery unit, and that the NPV of incrementally installing storage is negative for much of the projection period". Energex understands that existing provisions in the Electricity Act 1994 (the Act) apply and should be used to guide the assessment of connection applications involving BESS/secondary systems and eligibility for the 44c FiT. Specifically, to continue receiving the 44c FiT where a BESS or second system is proposed, the exported energy must meet the requirements of s44a and Schedule 5 of the Act. Energy produced from anything other than a qualifying generator is not eligible for the 44c FiT. Energex notes that it may be possible for a customer to use a BESS in combination with a qualifying generator to increase the amount of solar exported, thereby increasing the level of their FiT payments.



**Jurisdictional requirements (page 73 of report)**

Energex notes that on p73 of the draft report the QPC states that both Energex and Ergon raised Schedule 8 as an impediment to efficient price signals and recommends that *"The Queensland Government should in its current review of state-based energy legislation eliminate jurisdictional requirements that potentially interfere with national requirements, unless a good policy rationale can be established."* Energex recommends that this be listed as a specific recommendation.

**Regulatory Asset Base (page 82 of report)**

Energex notes the QPC comments regarding asset write downs in section 4.6.2 (p82) of the draft report. Energex supports the Energy Network Association's (ENA) assessment that significant asset write-downs would generate higher, rather than lower, network tariffs as a result of the need to risk-adjust the return to investors. In addition, the existing regulatory framework provides incentives for distributors to ensure forecasts and investment strategies are prudent and efficient.

**Solar Bonus Scheme (SBS) costs (page 88 of report)**

In October and November 2015 Energex provided the QPC with information relating to SBS costs consistent with Energex's 2014 Regulatory Proposal<sup>1</sup>. Energex's most recent estimates are approximately 3 per cent lower than those already provided. Solar bonus scheme costs over the 2015-20 period are forecast at \$1,345 million (\$868m for the 2015-20 jurisdictional scheme and \$477m in under recoveries from the 2010-15 period).

Should you have any queries regarding this submission, please do not hesitate to contact Ms Rachel Leaver, A/Group Manager Regulation & Pricing, on (07) 3664 4115.

Yours sincerely



Jennifer Hocking  
A/Executive General Manager  
Strategy, Regulation and Governance

---

<sup>1</sup> Previously these costs were forecast at a total of \$1,387 million over the 2015-20 period (\$910 m for the 2015-20 jurisdictional scheme and \$477 m in under recoveries from the 2010-15 period).