



Submission to the Queensland Productivity Commission

Electricity Pricing Inquiry

November 2015

Local Government Association of Queensland

18 November 2015

The Local Government Association of Queensland

The Local Government Association of Queensland (LGAQ) is the peak body for local government in Queensland. It is a not-for-profit association setup solely to serve councils and their individual needs.

The LGAQ has been advising, supporting and representing local councils since 1896, allowing them to improve their operations and strengthen relationships with their communities. The LGAQ does this by connecting councils to people and places that count; supporting their drive to innovate and improve service delivery through smart services and sustainable solutions; and delivering them the means to achieve community, professional and political excellence.

Electricity Pricing Inquiry

The LGAQ appreciates the opportunity to provide comment on the Queensland Productivity Commission's (QPC) *Electricity Pricing in Queensland Issues Paper*.

The value of submissions provided from individual Queensland councils, which are best placed to provide advice about their individual circumstances, is acknowledged by the Association. LGAQ also acknowledges and supports the submission made by its subsidiary company Local Government Infrastructure Services (LGIS) in relation to issues specific to local government electricity generation projects and recommends the QPC refer to the LGIS submission in this regard. This response is therefore limited to providing a general overview of the issues relevant to Queensland local government as a whole.

LGAQ Policy

LGAQ's overarching Policy Statement 2015 is a definitive statement of the collective voice of local government in Queensland which identifies how local government seeks to engage with and be recognised by State and Federal governments. Several points within the Policy Statement are relevant to our response to the Issues Paper as follows:

8.7.2.1 The provision of public lighting is an essential community service. Distribution entities have a role in the provision of this community service, and as such should seek to minimise the charges levied for the installation and operation of public lighting (i.e. the Alternate Control Service Charge).

8.7.2.2 Distribution entities should have a publicly available Service Charter regarding the provision of public lighting. Further to this, the distribution entities should enter into a specific Service Level Agreement with individual councils upon request.

8.7.2.3 Local government recognises the advancement of public lighting technology, especially in relation to energy efficiency. Distribution entities should make their plans for a timely transition to these new technologies publicly available.

8.7.3.1 Local government understands the network efficiency benefits that arise from metering capable of measuring kilovolt amperes (kVA). Where local government infrastructure requires upgrading, distribution entities should allow sufficient time for investigation and installation of necessary equipment prior to the commencement of charging on a kVA basis.

8.7.3.3 Existing local government infrastructure provides opportunities for distribution entities to better manage peak demand. Distribution entities should enter into arrangements with local government that reduce (curtail) electrical load during periods of peak demand.

Comments on the Issues Paper

Local government assets provide a range of services, many of which are essential to Queensland's communities. These assets include local roads, water supply and distribution networks, reticulated sewage treatment systems, stormwater management, and parks – among others. Many of these assets, in one way or another, rely upon the safe, reliable and cost-effective supply of electricity to function.

While the Issues Paper poses many questions across a broad range of matters that influence electricity pricing, LGAQ has focussed its comments on the following:

Customer interaction with the electricity system

In LGAQ's February 2014 submission to the Australian Energy Regulator (AER) on their Framework and Approach for the 2015-2020 Regulatory Control Period, the Association supported the AER's view that the classification of distribution services remain under Direct Control for the period. The LGAQ's support for this position is a reflection of the fact that electricity supply arrangements are extremely complex and that dedicated resources are necessary to manage such complex arrangements. Most local governments, as customers, are simply not in a position to negotiate prices according to a framework established by the rules (with arbitration by the AER where necessary) due to capacity constraints.

Owing to the level of complexity involved, LGAQ's subsidiary Local Buy provides resources with a wealth of industry knowledge and experience whom are dedicated to supporting councils in managing their electricity purchasing requirements. This industry knowledge and experience is critical to ensuring the best possible outcomes for local government, as a customer. For example, in South-East Queensland (a forced contestable market for street lights), 10 of the 12 local governments and the Department of Transport & Main Roads currently manage their electricity purchasing arrangements through Local Buy. While there are collective purchasing benefits in such arrangements, it is also a reflection of the requirement for dedicated resources which the majority of councils throughout Queensland do not have.

LGAQ thus contends that the level of customer interaction with the electricity supply system is a reflection of the level of complexity inherent within the system. Customer interaction can be significantly improved through the availability of information in more readily accessible and easily understood forms. The availability of clearly documented, and customer friendly processes and service levels would provide for a greater understanding of what customers actually receive in return for the prices paid. For example, as noted in the above section on LGAQ Policy, the Association believes that Distribution Network Service Providers (DNSP), namely Energex and Ergon Energy, should provide a Service Charter in relation to public lighting assets under their control.

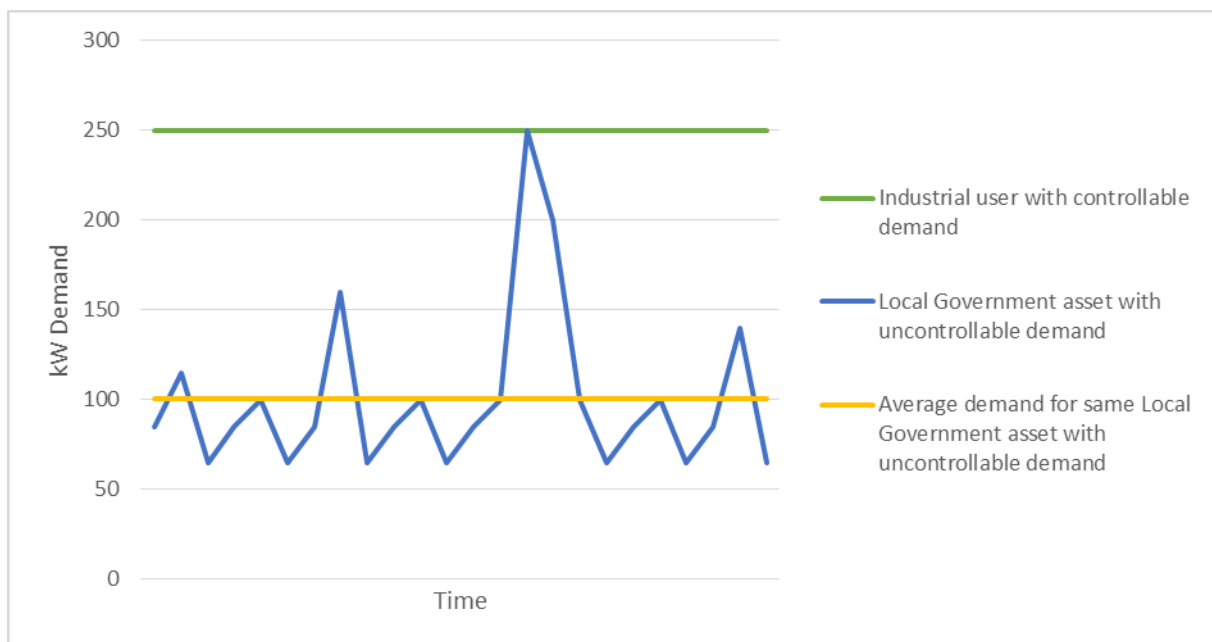
LGAQ representations (to both DNSPs and the AER) throughout the course of the recent regulatory reset, have resulted in the adoption of a 'Public Lighting Management Standard' (PLMS) by Energex in April 2015. The adoption of the PLMS was the first time in which the levels of service, provided in return for the Alternate Control Service (ACS) charges approved by the AER and levied by the DNSPs, were documented and made publicly available – noting, these charges have been levied by Energex since 2008. In a similar vein, LGAQ is currently working with Ergon Energy on a Service Charter for councils within their distribution area - where councils are currently levied 10% of the overall ACS charges for street lights (and subject to a yet to be determined price path that will transition these charges over time).

Charging based on Demand (kVA charging)

Uncontrollable demand

Demand at local government facilities such as waste water treatment and sewage pumping facilities is not predictable or necessarily controllable in extreme weather events. With a significant number of such council sites classified within Customer Asset Connection (CAC) and Standard Asset Connection (SAC) large thresholds, the use of any one maximum half hour period for determination of monthly demand charges leaves councils exposed to unpredictable costs due to issues outside of their control. Such events may not occur in usual network peak periods. In this regard, the LGAQ previously requested that the AER, in reviewing annual DNSP network tariff proposals, only approve kVA charging based on the average kW that the National Meter Identifier (NMI) registers during the peak day in the month as this would alleviate cost pressures faced by councils from assets with uncontrollable demand.

The following illustrative example, represents the potential cost impacts of kVA charging for a local government NMI with uncontrollable demand versus its average demand and compared to that of an industrial user with controllable demand.



kVA implementation lead time and metering issues

In order to mitigate any potential impacts arising from the implementation of kVA charging, councils require sufficient lead-time to correct the power factor for each NMI affected. For affected local government NMIs, this will allow sufficient time to rectify the situation considering the required metering upgrades, an appropriate amount of time to quantify the average power factor at maximum demand (allowing for seasonal demands) and allowing for the power factor data to be collated and then be included in a tender for the installation of the necessary rectification measures. The LGAQ believes that a minimum of 12 months, following upgrade of meters and quantification of the average power factor, would be necessary.

It should also be noted that a significant number of local government sites consuming greater than 100MWh per annum, both CAC and SAC-large, may not have demand metering installed. In some cases demand metering is installed, however the demand data is not easily retrievable. In recent LGAQ submissions to the DNSPs regarding their respective Tariff Structure Statements, the Association has highlighted the need for the DNSPs to work with local governments to identify NMIs where metering

upgrades are necessary. As noted above, any necessary metering upgrades are an essential first step in preparing local government sites for the implementation of kVA charging.

Inconsistent thresholds

While LGAQ understands and appreciates the network benefits derived from charging on a kVA basis, the Queensland thresholds result in an earlier imposition of kVA charging when compared to similar sites in New South Wales. This creates disproportionately higher cost impacts for sites that, while classified as large, ultimately have relatively low kW/h consumption. In order to alleviate cost pressures experienced from assets with uncontrollable demand, the LGAQ requests that the QPC, in its final report, recommend that the Queensland Government make appropriate legislative changes such that the 100MWh threshold contained in the *Electricity Amendment Regulation (No.3) 2007* is amended to reflect the 160MWh threshold in New South Wales.

Uniform Tariff Policy and the Large Contestable Market

LGAQ supports the current Uniform Tariff Policy (UTP) and strongly recommends that a Community Service Obligation (CSO) payment be retained. In relation to the CSO and the broader objective of encouraging retail competition in Regional Queensland, and considering the two options from the previous work undertaken by the Queensland Competition Authority as noted in the Issues Paper, LGAQ supports the transition of the CSO payment from the 'Retail' arm to the 'Network' arm of Ergon Energy.

In recent times, Local Buy has transferred a number of council accounts into the Large Contestable Market (LCM) achieving substantial annual savings for councils as a result. While substantial annual savings have been achieved, there is currently no ability to revert to notified prices should the best pricing available in the LCM be higher than that of the notified prices. LGAQ suggests that in considering the issues surrounding the CSO and UTP, the QPC also give consideration to the non-reversion provisions for councils who have transitioned certain accounts to the LCM. The ability to revert to notified prices would act as a retail safety net, providing greater certainty to councils regarding the cost of providing essential community services.

Local Government involvement in electricity supply

Section 4.3 of the QPC's Issues Paper refers to a potential role for local government in the provision of electricity supply arrangements through community-based solutions. As noted at the beginning of this submission, LGAQ refers the QPC to the submission made by LGIS which provides details in response to the questions posed by the QPC in this section. Any decision to participate in community-based solutions for electricity supply should be optional, at the sole discretion of the individual local government concerned, and consider adequate levels of support and/or incentives from the State Government in the first instance.

Contacts

Should further information on any aspect of the Association's response be required, please don't hesitate to contact Mr Scott Britton, Principal Advisor – Roads, Transport and Infrastructure on 1300 542 700 or scott_britton@lgaq.asn.au.