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**ergon.com.au**

11 March 2016

Mr Kim Wood  
Commissioner  
Queensland Productivity Commission  
PO Box 12112  
**BRISBANE QLD 4003**

Dear Mr Wood

## **ELECTRICITY PRICING INQUIRY – DRAFT REPORT**

Ergon Energy Corporation Limited (EECL) and Ergon Energy Queensland Pty Ltd (EEQ) welcome the opportunity to provide comment to the Queensland Productivity Commission (QPC) on its *Electricity Pricing Inquiry – Draft Report* (Draft Report).

This submission is provided by:

- EECL, in its capacity as a Distribution Network Service Provider (DNSP) in Queensland; and
- EEQ, in its capacity as a non-competing area retail entity in Queensland.

In this submission, EECL and EEQ are collectively referred to as 'Ergon Energy'.

Ergon Energy would like to acknowledge the QPC's effort in conducting a thorough and pragmatic inquiry. We view the inquiry and draft recommendations as an important step in establishing a competitive electricity sector in regional Queensland to enable all consumers to benefit from technology improvements and market reform.

Ergon Energy is available to discuss this submission or provide further detail regarding the issues raised, should the QPC require. Do not hesitate to contact Ms Jenny Doyle, Group Manager Regulatory Affairs, on (07) 3851 6416.

Yours sincerely

A handwritten signature in black ink, appearing to be 'R. Baker', written over a horizontal line.

Roslyn Baker  
**ACTING CHIEF EXECUTIVE**

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## **INTRODUCTION**

Ergon Energy supplies electricity to more than 720 000 customers across a vast operating area of more than one million square kilometres (around 97 per cent of the state of Queensland). Ergon Energy owns and operates the distribution network in regional Queensland and is the fifth largest energy retailer by customer numbers in the National Electricity Market.

Ergon Energy supports the objectives of the inquiry whilst balancing the wider objectives of:

- productivity growth in the energy industry and among energy users;
- appropriate reliability, safety and security of electricity supply;
- efficient investment and operation of electricity infrastructure;
- environmental outcomes;
- fairness and equity;
- minimising impacts on vulnerable customers; and
- responsible and measured management of the State's finances.

Ergon Energy customers are at the centre of everything we do. Customer experience is Ergon Energy's first priority. We've listened to our customers to build a clear understanding of what they value. We recognise concern in the community about electricity prices. We also understand that our customers still want peace of mind that comes from having a safe, dependable electricity service. Our customers also increasingly want greater choice and control with their energy supply solutions. In this respect, Ergon Energy continues ongoing engagement with its customers to understand their needs when it comes to their electricity requirements.

Ergon Energy continues to identify and act on opportunities to create jobs and investment in the Queensland economy, particularly in the non-regulated sector. Additionally, Ergon Energy is continuing to identify operational efficiencies that will result in improved financial performance and commitments to deliver an open access platform and a network enabling the integration of renewable sources of energy.

## **ERGON ENERGY RESPONSE TO QPC DRAFT RECOMMENDATIONS**

Ergon Energy is generally supportive of the QPC's recommendations. The recommendations address the terms of reference, and for the most part represent a prudent approach to structural industry reform. However, we note the Government's initial response to some of the recommendations in the Draft Report. A small number of the QPC's recommendations warrant further discussion and Ergon Energy has addressed these below.

### **Benchmarking**

Ergon Energy would like to reiterate our comments in EECL's submission to the QPC's Electricity Pricing Inquiry – Issues Paper regarding benchmarking. In particular, Ergon Energy does not support the Australian Energy Regulator's (AER) use of economic benchmarking outcomes, to the exclusion of other assessment techniques or relevant and pertinent information in determining an efficient base year for Ergon Energy.

As a consequence of our rural and regional focus we have a generally low overall customer density, and some areas with a very low customer density. It is servicing these areas that provides significant challenges and can attract a cost premium. The limitations of the Powerlink transmission network also provide challenges in providing bulk supply to more isolated network areas.

Even if operating environmental factors are accounted for there is no reason to expect that Ergon Energy can provide network services to its population at the same cost as Powercor and SA Power. There are fundamental differences between these networks that mean it is more costly to run Ergon Energy's network.

Moreover, Ergon Energy does not support duplication of benchmarking by a Queensland regulator, particularly when this is already being done at a national level.

### **Ring-Fencing**

Ergon Energy does not support draft Recommendation 14 in terms of implementing Ring-Fencing between the competitive and monopoly functions of the network businesses. Ergon Energy believes that the scope of separation between the energy services business and the electricity distribution businesses' activities requires careful and evidence-led assessment processes. A careful assessment process is required to ensure that there are no unintended consequences of any proposed approaches that have the effect of discouraging efficient participation by networks in emerging contestable markets. This may potentially deprive customers of access to a range of innovative network services that they would value highly.

Further, Ergon Energy notes that the current regulatory regime ensures appropriate cost allocation between the regulated and other activities of network businesses, and empowers the AER to reduce the annual revenue requirement for a regulated business to reflect the costs of the regulated assets which are used in providing an unregulated service.