TOOWOOMBA REGIONAL COUNCIL

Our Reference: DM5343377
Contact Officer: Alan Kleinschmidt
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7 January 2013

Queensland Competition Authority
GPO Box 2257
BRISBANE QLD 4001

Dear Sir/Madam,

Toowoomba Regional Council has previously provided comments to the Queensland Competition Authority (16 October 2012) and to the Minister for Energy and Water Supply (4 May 2012) with regard to the recent restructure of Qld regulated retail electricity prices. Council appreciates the opportunity to provide further comments on both the *Transitional Issues Consultation Paper* (Oct 2012) and the *Cost Components and Other Issues Consultation Paper* (Dec 2012).

As previously noted in the above correspondence, Toowoomba Regional Council is one of Ergon's largest customers, having almost 600 Ergon accounts with a total expenditure of almost $9 million in 2011/12 and a combined consumption of over 38 GWh. Four of those accounts are Connection Asset Customers (CAC) servicing three very large bulk water supply pump stations and half of Toowoomba city's wastewater treatment plant (WWTP). In 2011/12 the combined cost of these four accounts was almost $1.4 million (GST incl). However, 2011/12 was not a typical consumption year due to major maintenance being conducted on two of the three pumps. If the average consumption rates for the previous four years is used to calculate a typical cost based on 2011/12 tariffs, the total combined cost for all four accounts should have been more like $1.7 million (GST incl).

The three pump accounts were on the now obsolete tariff 22, while the wastewater treatment plant account was on the now obsolete tariff 43. The three pump accounts are now on the corresponding transitional tariff 22, while the WWTP account has been moved to the new T48 at our request. Therefore, in terms of transitional arrangements the three pump accounts are the only accounts of concern. Council staff have advised that 2012/13 combined costs for the three pump accounts will exceed $1.1 million (GST incl). This price rise is entirely due to the 20% rate rise with the transitional tariff 22. Should the three pump accounts move to the new tariff 48 on 1 July 2013, as currently proposed by the QCA, the combined annual cost, for a typical operating year, will jump from $1.1 million to $2.1 million(GST incl) – an almost 50% one-off price jump. This price forecast is based on the current 2012/13 tariff and does not account for any additional price rises for 2013/14.

Council considers a 50% one-off price rise to be a very significant cost impact. In fact, Council considers a one-off price rise of 20% to be significant.

In addition to these four CAC accounts, Toowoomba Regional Council has a further 26 Large – SAC accounts. Fourteen of those are accounts servicing water and wastewater assets, while the remaining twelve service community assets such as public pools, libraries and Council office buildings. Five of these accounts have been moved to new demand tariffs; however, 21 remain on the corresponding transitional tariff. It is understood that three of these accounts do not have the appropriate meters to move from a flat rate tariff. Council staff have estimated that the cost impact of moving to the corresponding new tariff at the expiration of the transition period for two of these Large – SAC accounts will exceed 100%.

Toowoomba Regional Council has no choice but to pass on these additional costs by way of increased water charges, as outlined in our previous correspondence. In order to reduce the cost impact to Toowoomba rate payers, Council requests the QCA extend the transition period beyond 1 July 2013, at the very least for all CAC accounts. Council requests a three year transition period with evenly distributed price rises. Council requires some surety to this price path so that it can budget appropriately.

Council believes an extension of the transition period would also allow Ergon and the QCA more time to consider whether network tariffs need to provide time-of –use signals. Council does not believe that Ergon and the QCA have fully considered the adverse outcomes of removing time-of-use price incentives for large commercial customers. The removal of time-of-use incentives for large commercial customers contradicts broader government objectives to reduce peak demand.

The majority of the price rise for the three bulk water pump accounts is due to the loss of access to time-of-use pricing. These three pumps currently operate almost exclusively during off-peak hours. As noted in our previous correspondence, this operating protocol was instigated at the request of Ergon in the early 1990's. With the loss of a cheaper off-peak consumption rate, costs will rise significantly, and Council will revert to operating these pumps during business hours. Council encourages Ergon and the QCA to review its policy on time-of-use pricing for Large and Very Large customers in order to both avoid adverse network outcomes and reduce potential cost impacts.

As noted above, 2011/12 was not a typical year for electricity usage with regard to Council's three bulk water CAC pumps. This point is important to note, as Council understands Ergon and the QCA have used consumption figures for the period Oct 2011 to Sept 2012 to provide cost estimates for site specific retail tariff impact analysis, as provided in Appendix A of the *Advice to the Minister for Energy and Water Supply – Retail Electricity Prices for Ergon Energy Queensland's Very Large Customers* November 2012. While the tables in that Appendix were deliberately left blank at Ergon's request, Ergon has since forwarded Toowoomba Regional Council a copy of the table as it relates to our four CAC accounts. The 2012/13 current tariff forecast figures for the 3 pumps in that table appear to be substantially underestimated and Council questions the accuracy of the table's contents. Council's own cost forecasts are almost double those provided in that table for the three bulk water pumps. The costing for the WWTP appears to correlate closely to our own estimates.

As indicated in our previous correspondence, Toowoomba Regional Council is also concerned with what the QCA may advise the Minister regarding CAC accounts. The QCA's advice to the Minister at the end of November 2012 indicates there are two options being investigated:

1. Retaining access to notified prices determined on site-specific costs, or
2. Removing access to notified prices altogether and forcing all existing CAC customers into the private market.

Council understands that the first option would replace the current tariff 48. Instead of our four CAC accounts being billed as per tariff 48, each account would have a unique costing arrangement. This concept is not fully explained in the Advice to the Minister and as such Council is unsure of the cost implications. The table provided by Ergon was supposed to explain this option, but as indicated above, Council does not believe the estimates in that table are correct. Council respectfully requests that the QCA and Ergon review their cost forecasts for Council's four CAC accounts and provide a more detailed explanation of the proposed option. Council would also like to point out that at no point in the entire restructure/consultation process has any member of our staff been directly contacted by either QCA or Ergon to discuss issues pertaining to site-specific network charges associated with our four CAC accounts. As indicated above, the cost associated with these four CAC accounts is considerable and Council is most concerned with regard to possible adverse impacts resulting from the QCA's advice to the Minister. An extension of the transition period to three years would provide an opportunity for the QCA and Ergon to adequately consult with Council and the other 104 very large customers in this matter.

As already raised in our earlier submission, Toowoomba Regional Council questions the competitiveness of the retail market outside SEQ and believes any privately negotiated supply contract would be at a higher cost than notified prices and on this basis does not support the second option. Council would like to reiterate that it would require at least 12 months' notice to complete the requisite purchasing process for any privately negotiated supply contract.

Council trusts the above comments are given due consideration and looks forward to further discussions with both the QCA and Ergon regarding these issues.

Yours faithfully

[redacted]

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