

# NETWORK PRICING TRENDS – A QUEENSLAND PERSPECTIVE

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# FOREWORD

The lease of Queensland's electricity grid is a huge opportunity to bring down the cost of power while paying for new infrastructure across Queensland.

That's why Queensland's peak business groups have joined together to commission this research, showing the community the high costs and low productivity of the electricity grid under public sector operation.

This arm's-length research has been commissioned from global consulting firm EY, and has been funded by:

- Infrastructure Partnerships Australia;
- The Chamber of Commerce & Industry Queensland (CCIQ);
- The Australian Industry Group (Ai Group); and
- The Property Council of Australia.

Together, we have invested in this research because the status quo is harming Queensland's small businesses and households through higher electricity bills.

This new research shows that inefficient public sector operation has, over the past 15 years:

- Increased customer network charges by 140 per cent;
- Driven nearly 90 per cent of the increases in customer power bills;
- Meant Queensland's electricity is 37 per cent more expensive than it should be, costing the average Queensland family \$570 more each year.

These findings show clearly that public operation of the grid has failed consumers.

But the case for the lease of the grid goes further.

Queensland's high public debt has already seen the loss of the AAA credit rating – and leaves Queensland with no options to pay for new infrastructure.

The lease of the grid will reduce state debt by \$25 billion and save Queensland \$1.3 billion in annual interest charges on its debt.

The lease of the grid will also give Queensland the money it needs to invest in growth infrastructure to support the economy and community.

For these reasons, the Queensland business community unequivocally supports the lease of the poles and wires.

We hope that this report will help Queenslanders to better understand this complex but fundamentally important issue.



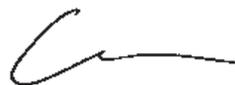
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# Network Pricing Trends

Queensland Perspective

20 January 2015



Building a better  
working world

# Foreword

This report has been prepared for Infrastructure Partnerships Australia (IPA). Its purpose is to help build community understanding of the likely price and reliability impacts of leasing network assets, based on evidence from interstate and independent analysis of data.

The report concludes that, in the Australian experience, privatised network businesses generally operate more efficiently, resulting in lower price increases compared to their government-owned counterparts. This appears to have been achieved without compromising service standards, and applies across both urban and rural customers.

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## Introduction

EY recently prepared a report on the long-term trends in the costs and prices associated with providing electricity network services, which revealed that, since privatisation of the electricity networks in Victoria and South Australia, network prices for typical residential customers in those states have fallen in real terms.<sup>1</sup> In contrast, network prices for typical residential customers in NSW and Queensland, where electricity network service providers are government-owned corporations (GOCs), have increased in real terms by over 100% over the same period.

The Queensland Government is currently considering options for reducing the State debt while delivering price benefits to Queenslanders. This report provides a Queensland-specific perspective on network pricing trends and highlights the potential price impacts for electricity consumers in Queensland of the non-government provision of network services.

## Background

The Queensland Government has expressed concern that the future prosperity of Queensland is threatened by unsustainable State debt approaching \$80 billion.<sup>2</sup> Queensland's State debt is the highest of any State in Australia with the average debt per Queenslander in 2014 now more than \$16,000. The annual interest payment for servicing this debt is \$4 billion.<sup>3</sup>

When the current Queensland Government was elected, the Independent Commission of Audit was appointed to undertake a review into the State's budgetary position. In April 2013, the Commission delivered its report to Parliament. It recommended that the debt be reduced by \$25-\$30 billion to strengthen the budget against broader structural challenges facing Australia and to build future prosperity. The Queensland Government has argued that, despite Queensland's economy being projected to grow faster than any other State over the next decade, the economic growth will not be sufficient to return the Budget to surplus due to the pressures and demands associated with the rapidly changing and expanding economy and population.<sup>4</sup> Therefore, in response to the report, the Queensland Government identified three options for achieving savings of that scale:

- Increase taxes
- Reduce services
- Sell or lease some assets.

Through the Strong Choices campaign, it was identified that leasing some of the State's infrastructure assets was the preferred option amongst Queenslanders to reduce the debt. The Government now proposes to offer leases over certain assets, including the electricity network assets.<sup>5</sup> Under the proposed leasing strategy, the State would remain owner of the assets while the private sector would be responsible for the operation, maintenance and expansion of the assets over the term of the lease.

The Queensland Government expects that the proposed lease option would achieve a debt reduction of at least \$25 billion, bringing the debt to around \$55 billion and reducing the annual interest bill to \$2.7 billion.

While the Queensland Government is facing these fiscal challenges, Queenslanders have faced significant increases in electricity prices. In the period from 1996-97 to 2012-13, the average

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<sup>1</sup> EY, *Electricity Network Services – Long-term trends in prices and costs*, 2014.

<sup>2</sup> Queensland Government, *Final Plan – The Strongest & Smartest Choice*, 2014

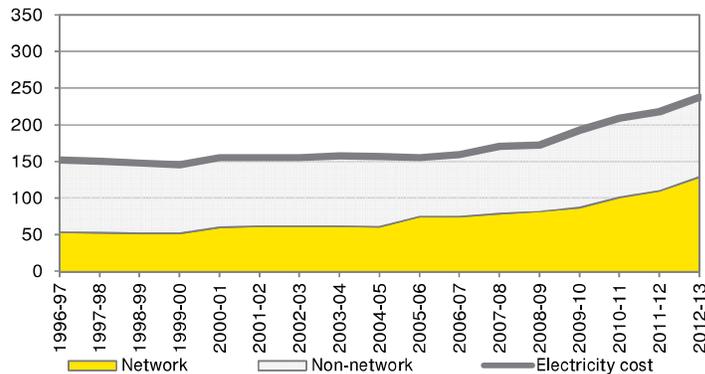
<sup>3</sup> Queensland Government, *Final Plan – The Strongest & Smartest Choice*, 2014

<sup>4</sup> Queensland Government, *Final Plan – The Strongest & Smartest Choice*, 2014

<sup>5</sup> It is understood that the Queensland Government will not offer any assets for lease until a mandate is obtained at the next election, which is scheduled for 31 January 2015.

electricity price in Queensland increased by 57% with network costs accounting for 87% of the increase, as illustrated in the following chart.<sup>6</sup>

**Figure 1: Breakdown of long-term electricity prices in Queensland (\$ per megawatt hour)**



Source: EY

We note that there are a range of factors that may have contributed to the price increases over the analysis period, including:

- Conflicting objectives faced by GOCs
- Record capital expenditure programs
- High cost to serve due to Queensland’s unique circumstances
- Reducing consumption.

#### Conflicting objectives faced by GOCs

GOCs are required to meet strict rules and regulations and must commonly take into account non-commercial and political considerations as well as the usual commercial and economic considerations common to all businesses. The report prepared by EY for the NSW Treasury highlighted that:

*“... it is widely recognised that it is difficult to replicate the incentives generated by private ownership in a Government ownership setting. The latter typically places a variety of constraints or conflicting incentives on network businesses, which can be difficult to overcome and lead to higher operating and capital costs.”*

This was also highlighted by the Productivity Commission (PC) in its 2013 inquiry, *Electricity Network Regulatory Frameworks*. It found many instances where state governments had imposed constraints on state owned corporations that increased their costs, for example social and environmental obligations, procurement guidelines and employee benefits.<sup>8</sup> The PC report also discussed the incompatibility of government ownership with incentive regulation, noting the potential conflicts arising where the government is both shareholder and regulator.<sup>9</sup>

Further, in addition to dividends, GOCs provide competitive neutrality payments and income tax equivalent payments to their government owners. This may create more of an incentive for those businesses to spend more than is necessary on their networks compared to private businesses, putting upward pressure on prices.<sup>10</sup>

<sup>6</sup> EY, *Electricity Network Services – Long-term trends in prices and costs*, 2014.

<sup>7</sup> EY, *Electricity Network Services – Long-term trends in prices and costs*, 2014, p.3.

<sup>8</sup> Productivity Commission, *Electricity Network Regulatory Frameworks*, No 62, 2013, p.263.

<sup>9</sup> Productivity Commission, *Electricity Network Regulatory Frameworks*, No 62, 2013, p.268.

<sup>10</sup> Grattan Institute, *Putting the Customer Back in Front: How to make electricity prices cheaper*, 2012

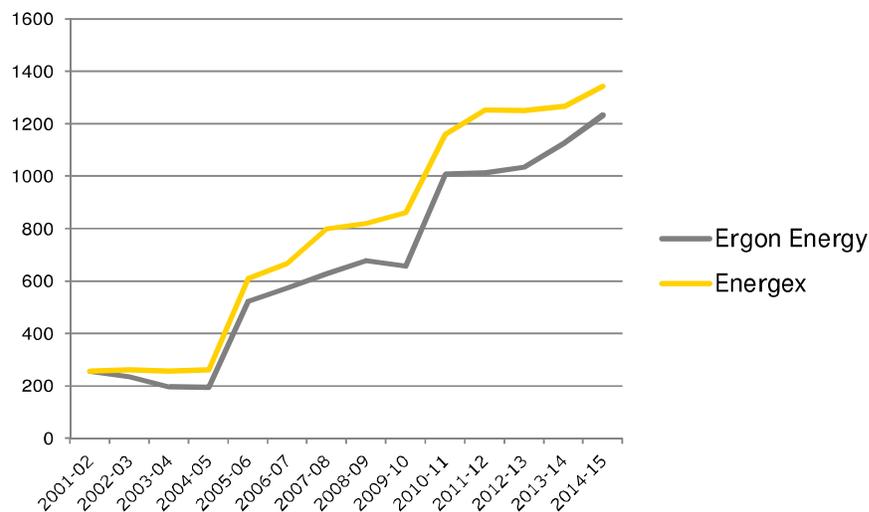
### Record capital expenditure programs

South East Queensland experienced a series of extended outages as a result of a significant storm season and hot weather in 2004. Subsequently, the Queensland Government requested an independent panel to provide a report on the State's electricity distribution networks. The *Electricity Distribution and Service Delivery for the 21<sup>st</sup> Century* (EDSD) Report was delivered in July 2004. The EDSD Report made a number of findings and 44 recommendations which were accepted by the government.<sup>11</sup> The recommendations resulted in the establishment of certain minimum acceptable network security service reliability levels.

The cost of achieving these minimum requirements was subsequently reflected in the capital works programs of the Queensland network service providers, particularly Ergon Energy and Energex. As shown in Figure 2 below, Ergon Energy's capital expenditure allowance increased from around \$195 million in 2004-05 to more than \$1.2 billion in 2014-15. Similarly, Energex's capital expenditure allowance increased from \$260 million to \$1.3 billion over the same period.

This large investment in network infrastructure achieved the goal of delivering more reliable electricity during infrequent periods of high peak demand. However, the increased capital expenditure, combined with declining average consumption (see below) has contributed to network prices more than doubling since 2007-08.

Figure 2: Capital expenditure allowance (\$ millions)



Source: Energex, Ergon Energy, AER

In October 2011, the original members of the EDSD Panel reconvened to undertake a further review of the State's electricity distribution system, which became known as the *Electricity Network Capital Program Review 2011* (ENCAP). The Panel reviewed the progress made since 2004 and in particular whether the service levels, service quality standards and N-1 network security requirements<sup>12</sup> set in 2004 remained appropriate. The ENCAP Review Report identified capital expenditure savings over the remainder of the regulatory control period (2010-2015) associated with variations to the security and reliability standards.<sup>13</sup>

<sup>11</sup> Independent Panel, *Electricity Network Capital Program Review, 2011*

<sup>12</sup> Under a N-1 level of security, the system would be able to maintain supply with one element out of service.

<sup>13</sup> Independent Panel, *Electricity Network Capital Program Review, 2011*

### High cost to serve due to Queensland's unique circumstances

There are 4.6 million Queenslanders. Queensland's population grew by almost 100,000 between 2010 and 2013 making it the second fastest growing Australian state behind Western Australia.<sup>14</sup> Despite the significant growth in Queensland's population, the population remains small compared to the land size. At June 2013, the population density of Queensland was 2.7 people per square kilometre. In 93% of the State there is less than one person per square kilometre.<sup>15</sup> The low density population spread over large distances means the electricity sector requires a vast network of power lines and poles to transport the electricity around the State, particularly in Ergon Energy's distribution area. Ergon Energy and Energex have 160,109 and 51,781 overhead and underground circuit kilometres respectively to transport electricity to consumers. This is significantly larger than other distribution network service providers in other states such as CitiPower and SA Power Networks. CitiPower, a largely urban / CBD distributor, has 4,318 kilometres and SA Power Networks, which has a combination of CBD, urban and rural feeders, has 87,882 kilometres of network to service customers across their respective jurisdictions.<sup>16</sup> The unit cost of servicing the lines is relatively high for Ergon Energy on a dollar per customer basis. We also note that Queensland only experiences peak demand a few times a year when the State is experiencing extremely hot temperatures. This means that the infrastructure to cater for this demand remains unused for the majority of the year. It is estimated by Energex that 16% of its network has been designed and built for this peak demand, but remains unused for most of the year.<sup>17</sup> This is also a contributing factor to network charges paid by consumers in Queensland. The large capital investment in the distribution networks in Queensland has resulted in the value of Queensland's extensive transmission and distribution network reaching more than \$29.2 billion. This is equal to approximately 35% of the network value in the National Electricity Market although the networks accounts for approximately just 22% of customers.<sup>18</sup>

### Reducing consumption

A number of factors, such as the uptake of solar photo-voltaic (PV) and more efficient appliances, have contributed to the changing electricity consumption patterns. From 2005-06 to 2012-13, the average energy consumption (megawatt hours (MWh)) per residential customer in Queensland decreased by approximately 15%.<sup>19</sup> Energex experienced a decrease of over 17% during this period and Ergon Energy's residential consumption on a per customer basis decreased by approximately 10%.

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<sup>14</sup> Queensland Government Department of Energy and Water Supply, *PowerQ: a 30-year strategy for Queensland's electricity sector*, 2014

<sup>15</sup> Australian Bureau of Statistics, *3218.0-Regional Population Growth, Australia 2012-2013*, 2014

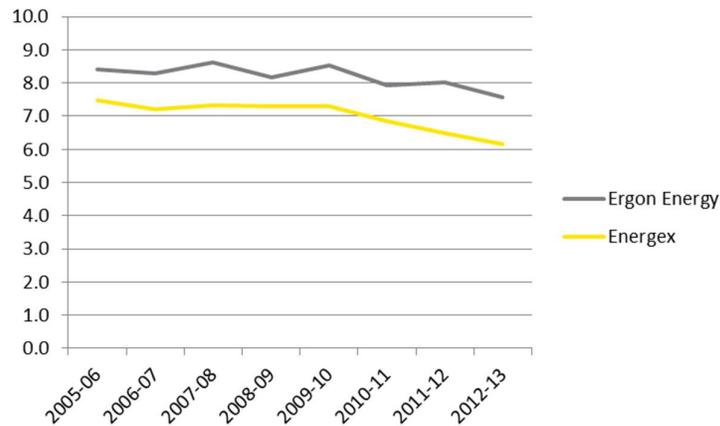
<sup>16</sup> Australian Energy Regulator, *Economic Benchmarking RIN-Financial and non-financial information*, various, 2014

<sup>17</sup> Queensland Government Department of Energy and Water Supply, *PowerQ: a 30-year strategy for Queensland's electricity sector*, 2014

<sup>18</sup> Queensland Government Department of Energy and Water Supply, *PowerQ: a 30-year strategy for Queensland's electricity sector*, 2014

<sup>19</sup> Australian Energy Regulator, *Economic Benchmarking RIN-Financial and non-financial information*, various, 2014

**Figure 3: Energy delivered per residential customer (MWh)**



Source: AER

The decrease in consumption means that the cost of operating and maintaining the network needs to be recovered through higher unit charges.

## Queensland Government policy responses

The Queensland Government recently developed the *Queensland Plan*. Developed in part through community consultation, it sets out the 30-year vision for the State and is intended to serve as a strategic blueprint for the future.<sup>20</sup> The *Queensland Plan* is regarded with such importance by the Queensland Government that all submissions to Cabinet for new policy, program or service proposals must demonstrate how they contribute to delivering on the *Queensland Plan*'s long term goals and targets.<sup>21</sup>

*PowerQ: a 30 year strategy for Queensland's electricity sector* was also developed by the Queensland Government to achieve the vision of the *Queensland Plan* by establishing a “resilient, cost-effective and consumer-focussed electricity supply by responding and fostering the State's opportunities and challenges”.<sup>22</sup>

The foundation of *PowerQ* builds on the short-term electricity reforms introduced by the Queensland Government in 2013 to stabilise the electricity market:

- Build necessary infrastructure only and improve the efficiency of network businesses
- Maximise the benefits of competition while protecting consumers
- Develop a more effective role for Government.

Under *PowerQ*, the Queensland Government proposes to replace price regulation in South East Queensland with a price-monitoring regime. Price regulation will not be removed until important pre-conditions are met, including:

- Ensuring there is sufficient retail competition to allow consumers to benefit
- Adopting harmonised consumer protections and retail standards
- Implementing a consumer engagement strategy
- Establishing an effective price monitoring regime to ensure retailers are offering the best deals and services
- Developing a suitable approach to setting prices outside South East Queensland that maintains support for regional consumers.

<sup>20</sup> State of Queensland, *The Queensland Plan*, 2014

<sup>21</sup> State of Queensland, *The Queensland Plan*, 2014

<sup>22</sup> Queensland Government Department of Energy and Water Supply, *PowerQ: a 30-year strategy for Queensland's electricity sector*, 2014

The Government has stated that the uniform tariff policy (UTP), which ensures all Queensland non-market electricity customers of a similar type pay the same price for electricity regardless of where they live, will not change as a result of the removal of price regulation in South East Queensland. This means that regional Queenslanders will continue to pay a price for electricity that is on par with that paid by residents of South East Queensland.<sup>23</sup>

The Government has also documented that it is considering options to improve the structure of the regional subsidy arrangements. It will address the way in which subsidies are paid to enable new retailers to offer competitive deals to consumers without altering the Government's commitment to support regional consumers by subsidising electricity prices.

## Impact of private sector investment

EY understands that there may be concerns about the impact private sector investment in the electricity networks will have on prices and service levels. We note that moving away from the GOC model would potentially drive efficiencies in the electricity sector, which would benefit consumers through reduced growth in the network charges component of electricity bills. As noted above, one of the contributing factors to the higher prices in Queensland is that GOCs tend to have conflicting objectives that increase operating and capital costs.

Further to this, the Grattan Institute found that government-owned companies have inefficiently invested in their networks, even when accounting for the number of customers and the size of the network.<sup>24</sup> Operating expenditure was also found to be higher in government-owned companies compared to privately owned companies.<sup>25</sup>

More recently, the AER published its 2014 annual benchmarking report for electricity distribution network providers which showed that generally, the privatised Victorian and South Australian distributors appeared the most productive.<sup>26</sup> This was the case across both operating expenditure and capital expenditure, and taking into account customer density.

This appears to be reflected in the differences in the pattern of expenditure between networks that are GOCs and the privatised networks in South Australia and Victoria:

- In Queensland and NSW, the distribution networks over the period of the analysis (i.e. 1996-2013):
  - Increased their underlying operating cost per unit of energy distributed in real terms
  - Spent more on operating and capital costs than the allowances provided by the regulator over the past two complete regulatory periods
- In Victoria and South Australia, the distribution networks over the period of the analysis (i.e. 1996-2013 for Victoria and 1998-2011 for South Australia):
  - Reduced their underlying operating costs per unit of energy distributed in real terms
  - Spent less on operating and capital costs than the allowance provided by the regulator over the past two complete regulatory periods.<sup>27</sup>

EY has found that, since privatisation, residential electricity customers in Victoria and South Australia have benefited in terms of a reduction in network prices, without an adverse impact on service levels. Specifically:

- Network prices for typical residential customers in Victoria and South Australia have fallen in real terms since privatisation. By contrast, network prices for typical residential customers in NSW and Queensland have increased in real terms by over 100% in the same period (see Figure 4)

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<sup>23</sup> State of Government, *Final Plan – The Strongest & Smartest Choice*, 2014

<sup>24</sup> Grattan Institute, *Putting the customer back in front: How to make electricity cheaper*, 2012, p.32

<sup>25</sup> Grattan Institute, *Putting the customer back in front: How to make electricity cheaper*, 2012, p.39

<sup>26</sup> AER, *Electricity distribution network service providers: Annual benchmarking report*, 2014, p.6.

<sup>27</sup> EY, *Electricity Network Services – Long term trends in prices and costs*, 2014, p.11. The past two complete regulatory periods for the Queensland distributors were the 2000/01-2004/05 and 2005/06-2009/10 regulatory control periods. We have not undertaken an analysis of the current, incomplete regulatory periods.

- Retail electricity prices have risen significantly over the long term in all States, with network charges being the main driver of these increases only in Queensland and NSW, where the distribution networks are GOCs (see Table 1).<sup>28</sup>

**Figure 4: Long term Change in Average Network Charges (%)**



Source: EY

**Table 1: Long term Change in Average Annual Electricity Prices (%)**

	Government-owned		Privately-owned	
	Queensland 1996-97 to 2012-13	NSW 1996-97 to 2012-13	Victoria 1996 to 2013	South Australia 1996-99 to 2010-11
Retail electricity prices	+57%	+83%	+28%	+23%
Network prices	+140%	+122%	-18%	-17%
Non-network costs plus other costs	+11%	+51%	+72%	+86%

Source: EY

## Service standards

While the analysis suggests that privatised businesses operate more efficiently, questions may be raised about whether this has come at the expense of network reliability. The Australian Energy Regulator, in response to community concerns about the potential impact of privatisation, noted in its State of the Energy Market Reports, including in the inaugural 2007<sup>29</sup> edition and also in 2009<sup>30</sup>:

*“... the System Average Interruption Duration Index data [SAIDI – a key indicator of reliability] indicates that since 2000-01 the average duration of outages per customer tended to be lower in Victoria and South Australia than other jurisdictions – despite some community concerns that privatisation might adversely affect service quality.”*

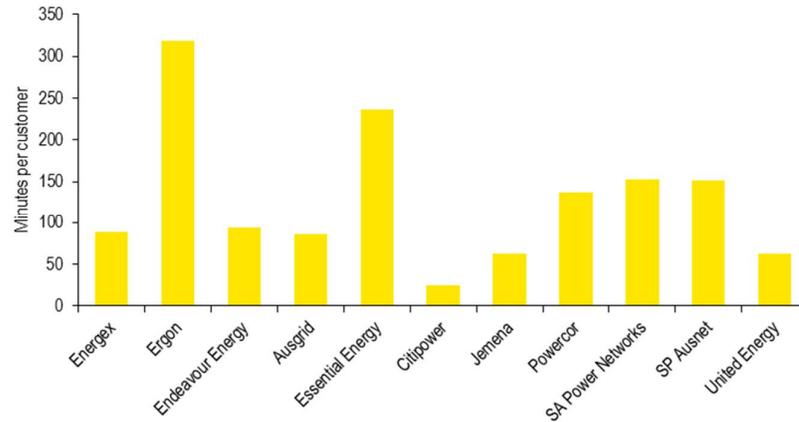
More recent figures indicate that some of the government-owned networks significantly improved their SAIDI over the period 2006-2013, as a result of increased spending to meet minimum service standards. Figure 5 shows the average number of minutes without supply per customer for the period 2006-2013.

<sup>28</sup> EY, *Electricity Network Services – Long-term trends in prices and costs*, 2014, p.3.

<sup>29</sup> Australian Energy Regulator, *State of the Energy Market*, 2007, page 159

<sup>30</sup> Australian Energy Regulator, *State of the Energy Market*, 2009, page 176

**Figure 5: Average number of minutes off supply per customer (2006-2013)**



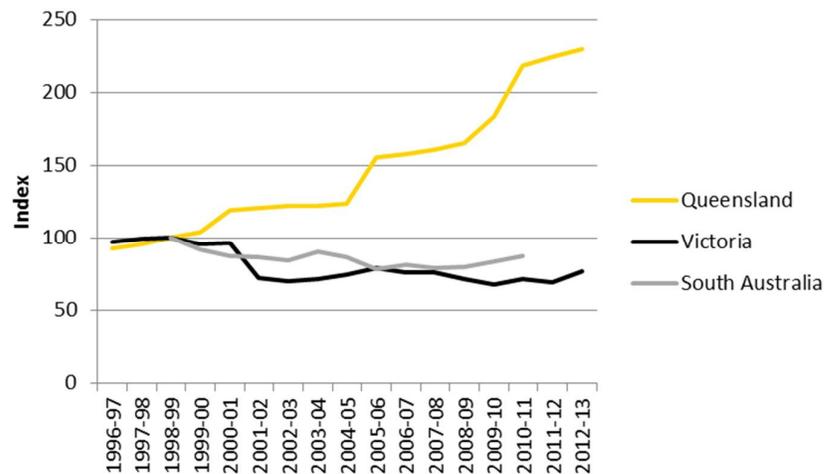
Source: AER

While the three most reliable networks are privately owned, on average reliability performance does not seem to be related to ownership. In most cases the networks improved their reliability over the period 2006-2013. This suggests that efficiencies made by privatised network businesses have not been at the expense of service standards.

## Indicative electricity bill

As noted above, there has been real growth in the average network charges for residential customers in Queensland, while the average network charges for residential customers in Victoria and South Australia, which are privatised, have fallen in real terms. The following graph presents the average network charges for residential electricity bills for Queensland, Victoria and South Australia from 1996-97 through to 2012-13 in index form, which highlights the differences in relative network charges between these jurisdictions.

**Figure 6: Average Network Charges, Residential Electricity Bills (Index)**



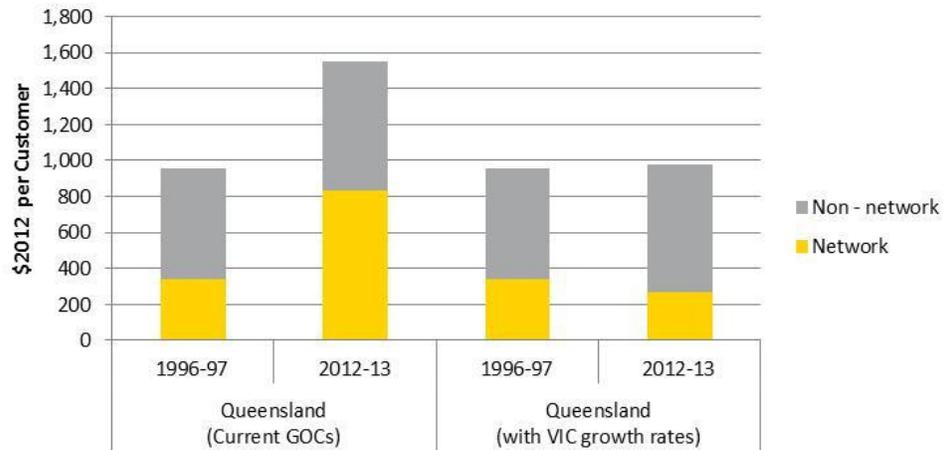
Source: EY

To illustrate the potential impact of private operation of the Queensland electricity distribution network on the average residential electricity bill (i.e. including both network and non-network components), we have applied the average growth rate in the network component of the electricity bills for residential customers in Victoria and South Australia to the average bill for Queensland residential customers.<sup>31</sup> The results are presented in the following sections.

#### Indicative bill with Victorian growth rates

The following chart presents the indicative average residential electricity bill if the Victorian growth rates in network charges had applied from 1996-97.

**Figure 7: Indicative Average Residential Electricity Bill, Residential Customer (\$2012)**



Source: EY

The average electricity bill for residential customers in Queensland increased from \$959 (\$2012) in 1996-97 to \$1,547 (\$2012) in 2012-13. If there were similar growth rates in network charges as for the privatised Victorian networks over this period, the average electricity bill for a residential customer in Queensland would potentially have been 37% lower in 2012-13 (see Table 2). This analysis is indicative only as there are a number of factors, such as the capital expenditure resulting from the EDSD review, that are likely to have contributed to the differences in the growth in average network charges between Queensland, Victoria and South Australia.

<sup>31</sup> That is, we assumed that the Queensland distribution networks were leased to private operators in 1996-97 and then applied the average network charge growth rate for Victoria to the network component of the average electricity bill, while assuming there were no changes to the non-network component. The same was then repeated, but using the average growth rates for the network component for South Australia using the date range for which South Australian data was available.

**Table 2: Indicative Average Residential Electricity Bill (with Victorian growth rates) (\$2012)**

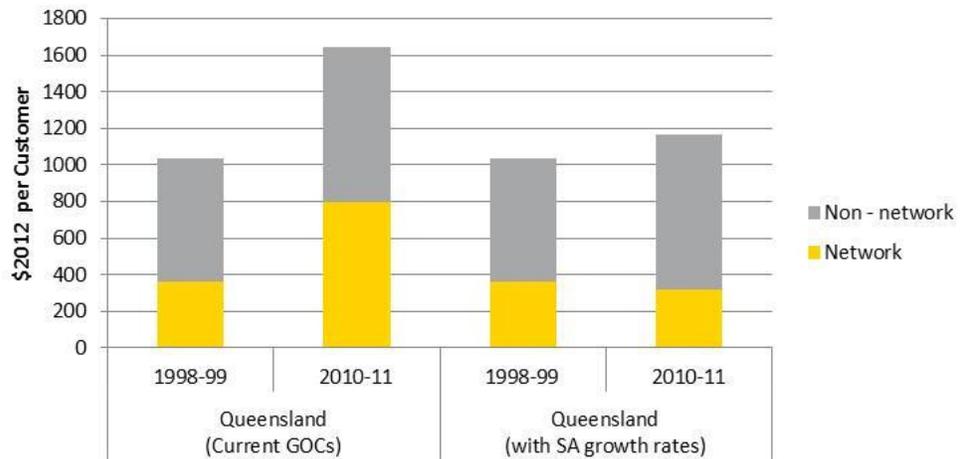
	Queensland (Current GOCs)		Queensland (with Victorian growth rates)	
	1996-97	2012-13	1996-97	2012-13
Network price	338	836	338	267
Non-network price	620	710	620	710
Total	959	1,547	959	977
Change relative to GOC				570 (37%)

Source: EY

**Indicative bill with South Australian growth rates**

The following chart presents the indicative average residential electricity bill if the South Australian growth rates in network charges had applied from 1998-99.

**Figure 8: Indicative Average Residential Electricity Bill, Residential Customer (\$2012)**



Source: EY

The average electricity bill for residential customers in Queensland increased from \$1,033 (\$2012) in 1998-99 to \$1,642 (\$2012) in 2010-11. If there were similar growth rates in network charges as for the privatised South Australian network over this same period, the average electricity bills for a residential customer in Queensland would potentially have been 29% lower in 2010-11 (see Table 3). This analysis is indicative only as there are a number of factors, such as the capital expenditure resulting from the EDSR review, that are likely to have contributed to the differences in the growth in average network charges between Queensland, Victoria and South Australia.

**Table 3: Indicative Average Residential Electricity Bill, Residential (with South Australian growth rates), (\$2012)**

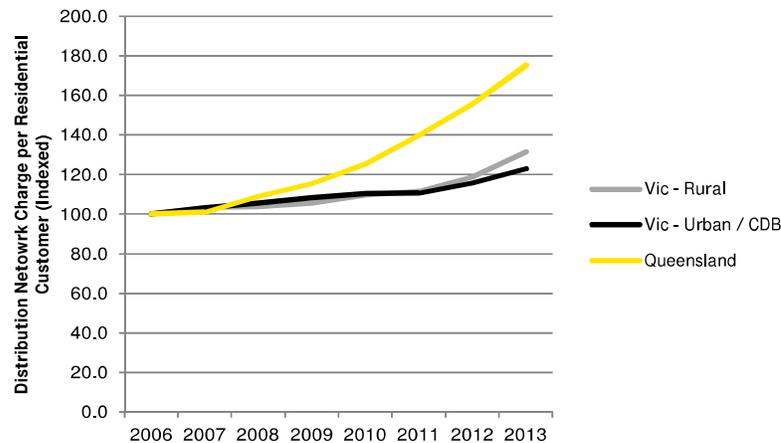
	Queensland (Current GOCs)		Queensland (with SA growth rates)	
	1998-99	2010-11	1998-99	2010-11
Network price	\$365	\$795	\$365	\$319
Non-network price	\$669	\$847	\$669	\$847
Total	\$1,033	\$1,642	\$1,033	\$1,166
Change relative to GOC				\$476 (29%)

Source: EY

### Rural versus urban residential customers

EY understands that there are concerns regional customers will not benefit from a move away from the GOC model to the same extent as customers in South East Queensland. To address these concerns, we considered the growth in the average network charges for the rural versus urban / CBD electricity distributors in Victoria. This is illustrated in the following graph, with the equivalent data for Queensland presented for comparison purposes.

**Figure 9: Average Distribution Network Charge per Residential Customer, 2006-2013**



Source: AER

From 2006 to 2013, the average distribution network charge per residential customer for the rural distributors in Victoria increased by 32% compared to an increase of 23% for the urban / CBD distributors.<sup>32</sup> This compares to an increase of 75% in the average revenue requirement per residential customer for the Queensland distributors over the same period.

Thus, while the growth in average network charges in regional Victoria over the period from 2006 to 2013 has been greater than the increase in average network charges for the urban and CBD distribution networks over the same period, the overall growth in average charges has been well below that of the average network charge for Queensland distributors. We note, however, that

<sup>32</sup> Australian Energy Regulator, *Economic Benchmarking RIN – Financial and non-financial information*, Various, 2014

the operation of the UTP ensures that regional Queenslanders will continue to pay a price for electricity that is on par with that paid by residential customers of South East Queensland.

**Table 4: Distribution Network Charge per Residential Customer, 2006-2013**

	2006	2007	2008	2009	2010	2011	2012	2013	% change
Queensland	\$461	\$466	\$503	\$532	\$580	\$646	\$719	\$809	75%
Victoria – Rural	\$280	\$290	\$291	\$296	\$307	\$312	\$333	\$369	32%
Victoria – Urban	\$235	\$241	\$247	\$254	\$259	\$259	\$271	\$288	23%

Source: EY

#### Small commercial customers

Due to data constraints, this analysis has focused on impacts to residential customer prices. A similar analysis for small business customers is not possible based on publicly available data. However, it would be reasonable to conclude a similar outcome for small business customers, who are generally on similar tariff structures to residential customers.

## Conclusion

The analysis undertaken by EY indicates that the network prices for Government-owned businesses have increased at a faster rate than they have for privately owned businesses. In summary, the analysis has found that:

- Network charges in Queensland and NSW have increased in real terms while the average network charges in Victoria and South Australia have decreased in real terms, without an adverse impact on service quality
- The service quality of privatised network businesses has not deteriorated since privatisation, despite benchmarking showing those businesses as the most cost-effective
- If Queensland had experienced similar growth rates in network charges as Victoria and South Australia after privatisation, residential network bills could have been up to 37% or \$570 lower in 2012-13
- While the average distribution network charges in rural Victoria have increased more than the average distribution network charges in urban and CBD networks in Victoria, the rate of increase was well below that of the average distribution network charge increase in Queensland.

Furthermore, we note that the Queensland Government has made a commitment to retain the UTP that ensures all Queensland non-market electricity customers of a similar type pay the same price for electricity regardless of where they live.

## Appendix – Release Notice

Ernst & Young ("**Consultant**") was engaged on the instructions of Infrastructure Partnerships Australia ("**Client**") to prepare a report providing a Queensland perspective on network pricing trends, in accordance with the engagement agreement dated 29 October 2014, including the General Terms and Conditions ("**the Engagement Agreement**").

The results of the Consultant's work, including the assumptions and qualifications made in preparing the report, are set out in the Consultant's report dated 20 January 2015 ("**Report**"). You should read the Report in its entirety including any disclaimers and attachments. A reference to the Report includes any part of the Report. No further work has been undertaken by the Consultant since the date of the Report to update it.

Unless otherwise agreed in writing with the Consultant, access to the Report is made only on the following basis and in either accessing the Report or obtaining a copy of the Report the recipient agrees to the following terms.

1. Subject to the provisions of this notice, the Report has been prepared for the Client and may not be disclosed to any other party or used by any other party or relied upon by any other party without the prior written consent of the Consultant.
2. The Consultant disclaims all liability in relation to any other party who seeks to rely upon the Report or any of its contents.
3. The Consultant has acted in accordance with the instructions of the Client in conducting its work and preparing the Report, and, in doing so, has prepared the Report for the benefit of the Client, and has considered only the interests of the Client. The Consultant has not been engaged to act, and has not acted, as advisor to any other party. Accordingly, the Consultant makes no representations as to the appropriateness, accuracy or completeness of the Report for any other party's purposes.
4. No reliance may be placed upon the Report or any of its contents by any recipient of the Report for any purpose and any party receiving a copy of the Report must make and rely on their own enquiries in relation to the issues to which the Report relates, the contents of the Report and all matters arising from or relating to or in any way connected with the Report or its contents.
5. Subject to clause 6 below, the Report is confidential and must be maintained in the strictest confidence and must not be disclosed to any party for any purpose without the prior written consent of the Consultant.
6. All tax advice, tax opinions, tax returns or advice relating to the tax treatment or tax structure of any transaction to which the Consultant's services relate ("**Tax Advice**") is provided solely for the information and internal use of Client and may not be relied upon by anyone else (other than tax authorities who may rely on the information provided to them) for any purpose without the Consultant's prior written consent. If the recipient wishes to disclose Tax Advice (or portion or summary thereof) to any other third party, they shall first obtain the written consent of the Client before making such disclosure. The recipient must also inform the third party that it cannot rely on the Tax Advice (or portion or summary thereof) for any purpose whatsoever without the Consultant's prior written consent.
7. No duty of care is owed by the Consultant to any recipient of the Report in respect of any use that the recipient may make of the Report.
8. The Consultant disclaims all liability, and takes no responsibility, for any document issued by any other party in connection with the Project.
9. No claim or demand or any actions or proceedings may be brought against the Consultant arising from or connected with the contents of the Report or the provision of the Report to any recipient. The Consultant will be released and forever discharged from any such claims, demands, actions or proceedings.
10. To the fullest extent permitted by law, the recipient of the Report shall be liable for all claims, demands, actions, proceedings, costs, expenses, loss, damage and liability made against or brought against or incurred by the Consultant arising from or connected with the Report, the contents of the Report or the provision of the Report to the recipient.
11. In the event that a recipient wishes to rely upon the Report that party must inform the Consultant and, if the Consultant so agrees, sign and return to the Consultant a standard form of the Consultant's reliance letter. A copy of the reliance letter can be obtained from the Consultant. The recipient's reliance upon the Report will be governed by the terms of that reliance letter.

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