

30 June 2014

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The Chairperson
State Development, Infrastructure and Industry Committee
Parliament House
George Street
BRISBANE QLD 4000

Dear Sir/Madam

Submission to the State Development, Infrastructure and Industry Committee

The invitation to make a submission to the Parliamentary Inquiry into the-

- Electricity Competition and Protection Legislation Amendment Bill 2014;
and **Submission No. 005 11.1.20**
- National Energy Retail Law (Queensland) Bill 2014; **Submission No. 011 11.1.21**

by the State Development, Infrastructure and Industry Committee is welcomed by Queensland Urban Utilities.

Queensland Urban Utilities' submission (attached) seeks to add value to the work of the Committee by highlighting the issues and difficulties faced by water utilities from electricity market reforms.

Yours sincerely



PAUL BELZ
Executive Leader Planning
Queensland Urban Utilities

Att: Submission to the State Development

Attachment 1 - Queensland Urban Utilities Submission

Queensland Urban Utilities and Energy Consumption

On 1 July 2010, Queensland Urban Utilities was established as a statutory body to be a distributor/retailer under the provision of the South East Queensland Water (Distribution and Retail Restructuring) Act 2009 and as a service provider under the Water Supply (Safety and Reliability) Act 2008.

Our shareholders are Brisbane, Ipswich, Lockyer Valley, Scenic Rim, and Somerset Councils and we are governed by an independent Board.

Queensland Urban Utilities is primarily responsible for delivering drinking water, recycled water and sewerage services to a population of more than 1.3 million in South East Queensland.

In 2012/13, we:

- supplied around 132,000ML of tap water to 516,000 residential dwellings and 37,000 commercial properties,
- supplied around 9,700ML of recycled water to 110 businesses,
- supplied around 2,900ML of recycled water to the Western Corridor Recycled Water Scheme,
- removed and treated around 128,000ML of sewage from 492,000 residential dwellings and 34,000 commercial properties, including 5,200 trade waste customers,
- responded to more than 24,000 written customer enquiries,
- answered more than 300,000 customer phone calls,
- employed more than 1,400 staff.

These services are delivered via our \$4.5 billion infrastructure network, which includes:

- 125 water reservoirs,
- 41 water pump stations,
- 107 water boosters,
- 336 sewage pump stations,
- 27 sewage treatment plants,
- 8,967km of water mains,
- 9,152km of sewerage mains.

Our strategic direction is articulated through our strategic pillars - Customers, Shareholders and Communities, Operational Excellence and People. The strategic pillars help us to define what we will focus on to achieve our vision and purpose.

Our goals to reduce the cost of water and sewerage services and deliver service that is valued and trusted by our customers and community are driven by our strategic pillars.

Energy costs are Queensland Urban Utilities' third highest operational cost with the cost of energy contributing significantly to the cost of water and sewerage services. Electricity charges have increased substantially over the past few years and these increases have had to be passed on to our customers. It is our goal to reduce water and sewerage service costs to our customers. It is therefore vital that Queensland Urban Utilities' energy costs be contained. Queensland Urban Utilities energy sources include electricity, natural gas and stationary and transportation fuels.

Queensland Urban Utilities is committed to implementing a range of initiatives to reduce energy consumption and costs, and the resultant cost of water and sewage services for our customers:

1. Queensland Urban Utilities is implementing energy efficiency, energy management and electricity peak demand control programs and measures to reduce energy costs and greenhouse gas emissions.
2. Queensland Urban Utilities is also implementing a Renewable Energy Plan over the next 5 years which involves the installation of solar PV systems and cogeneration plants to further reduce energy costs and greenhouse gas emissions
3. Queensland Urban Utilities produces biogas from the sludge digestion process and uses the biogas to generate electricity for on-site use at our Sewage Treatment Plants and offset the cost of imported electricity.
4. Queensland Urban Utilities has taken advantage of past electricity market reforms to reduce energy costs. Electricity for all Queensland Urban Utilities sites (600 small and 50 large) is now purchased through retail market contracts with Origin Energy.

Queensland Urban Utilities' Issues and Difficulties

Past market reforms have been beneficial. They have however been limited in some instances and have resulted in difficulties in others.

Among the issues for Queensland Urban Utilities are the following:

1. **The Focus on Retail Competition and Energy Charges** - *The focus to date has been on energy charges, as opposed to a focus on kWh charges.* In the past energy charges constituted about 55%, with network charges making up 30% and market, environmental and miscellaneous charges making up 15% of the total kWh charge. Competition among retailers effectively reduced the energy price and therefore the total cost of electricity for Queensland Urban Utilities. Dramatic developments in recent years have resulted in a situation now where network charges make up 50% of the kWh charge, with energy now making up 35% and miscellaneous charges 15%. Further reform focussed on energy price regulation is welcomed, but the benefits are declining in that they relate to a declining proportion of the cost of each kWh.
2. **Network Charge Increases** – Substantial network charge rate increases have been applied over the past few years.

In addition to the rate increases, revised network charge structures and categories e.g. moving from kW demand to kVA demand and the introduction of capacity charges have resulted in substantial network charge increases over recent years.

3. **Electricity Retailer, Network Provider and Meter Data Agent Relationships** – Dealing with boundary and business to business issues such as the establishment of new accounts and account migration has been time-consuming and costly for electricity market customers.

For Queensland Urban Utilities, the net result of these developments has been a large increase in the cost of electricity which in turn has increased the cost of water and sewerage services for our customers.

New Energy Market Reform (National Energy Customer Framework - NECF)

We understand that the NECF governs the rights, obligations and consumer protections with respect to the retailer-customer relationship and the distributor-customer relationship and that the latest Energy Market reforms are contained in five (5) pieces of legislation consisting of Laws, Rules and Regulations viz.

1. National Energy Retail Law
2. National Energy Retail Regulations
3. National Energy Retail Rules (1,452 pages)
4. National Electricity Rules
5. National Gas Rules

We further understand that the latest energy market developments are in keeping with the reform set out in the COAG Australian Energy Market Agreement (AEMA) and are to be applied in conjunction with Australian Consumer Law.

Expectation

While not familiar with the details in the legislative package, it is our expectation that the matters we have raised will be investigated and that, if needed, the proposed Bills will be amended to address our concerns and reduce the cost of energy.

Reduced energy charges will help us to achieve our goal of reducing water and sewerage service charges to our customers.