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PRODUCTIVITY COMMISSION DRAFT REPORT
*Impact of Competition Policy Reforms
on Rural and Regional Australia*

COMMENTS by GREAT SOUTHERN ENERGY

IN PRINCIPLE SUPPORT

As indicated in our original submission, Great Southern Energy supports competition and competitive reform, and endorses the overall direction of changes in the Electricity Supply Industry.

Great Southern Energy contends that the long-term results will benefit rural areas by providing better business opportunities, but recognises that the removal of some previous cross-subsidies will have different effects on different classes of consumer. There may be a need for intervention outside the strict commercial operations of Government Trading Enterprises to provide safety nets for some customer otherwise exposed to price shock.

Regional development is an important issue. Equally, competitive provision and pricing of services is also critical I

In principle, competition is essential to improve our overall economic situation. However, there needs to be considered decision making to ameliorate economic and social impacts in rural and regional Australia....

Possibly, one solution is that governments recognise these issues by introducing Community Service Obligations (payments) so that the costs are transparent, but additionally to ensure that valuable export earnings are achieved.

(from original Great Southern, Energy submission to this Inquiry - #67, dated November 1998)-

This submission addresses some of the comments made in the Draft Productivity Commission Report *Impact of Competition Policy Reforms on Rural and Regional Australia (the Draft Report)* and some of the concerns expressed by other submissions to the Inquiry.

It considers broadly

- . Costs and changes in charges,
- . Loss of jobs in some areas
and
- . Standards of Service

Great Southern Energy notes that not all of the changes in its operations environment have been the result of National Competition Policy, as many have been in train over many years. Customer satisfaction and quality of service were drivers in the Industry for many years, while cross-subsidies had been identified between classes and within classes, and steps were in train to reduce these distortions.

This may not alter a layman's opinion "that it is all part of their push for economic efficiency", and perhaps this Inquiry has provided an opportunity for some to express more general feelings.

OVERVIEW

Great Southern Energy is, by its location and extent a "Rural" electricity distributor. It supplies electricity to an area of some 175,000 square kilometres, extending from Goulburn *in the north* east, south and east to the coast from Moruya to the Victorian border, west along the border past Deniliquin and north beyond Hillston.

It was formed in 1995/96 by the amalgamation of nine previous distributors largely named for their areas of supply as Monaro, Murray River, Murrumbidgee, Northern Riverina, Southern Riverina, Southern Tablelands, South West, Tumut River and the coastal Bega region from the previous Illawarra Electricity

As a distributor to areas away from the major cities, its Overall results and average *figures can be* regarded as relevant to "rural" Australia. As might be, expected, *customers in* some locations and their representatives might regard themselves as "having been deprived of a previous local presence" while others would have experienced the "sponge effect" gaining from the changes.

A sense of loss of local identity may still persist in these areas, possibly colouring comments about service, access etc. even where the actual situation may not have changed greatly.

REGULATORY REQUIREMENTS

It should be noted that the Energy Services Corporation Act 1995 requires, in part, Great Southern Energy to "maximise the net worth of the States investment" and to "exhibit a sense of responsibility towards regional development.

Great Southern Energy meets these requirements of the Act and is audited annually on its performance according to regulatory requirements.

The results of improvements in productivity, and reductions in energy costs have been returned to the customers through reduced prices for electricity, especially to large customers in the competitive market, and to Government by way of various taxation equivalents and dividends. Great Southern Energy has recognised the present underrecovery of costs to supply remote customers, and has sought to quantify the extent of the Customer Service Obligations implicit in making affordable electricity available to areas of low population and load density.

LOWER ELECTRICITY PRICES

Electricity prices have been progressively reduced to large and contestable customers because of reduced purchase rates for energy in the National Electricity Market and through the introduction of more cost reflective charges for the use of electricity transmission and distribution networks.

This is consistent with the first part of the following comment in the submission (#1)223) by Carrathool Shire Council that

Another example of the adverse impact of NCP has been the restructuring of the electricity industry which now provides tariff reduction to major industries at the expense of the smaller consumer, including small business, through increased electricity charges.

Unfortunately the latter part may reflect the perception rather than the facts.

The Draft Report (p 109) quotes the Cooma Shire. Council "that tariffs in the Cooma region had increased by around 5%". This statement may refer to the increase on obsolete tariffs (which were below cost recovery) but not electricity prices in general. In fact the majority of customers in the Cooma region have received substantial decreases in electricity charges.

It is worth comment that most of the large customers of Great Southern, Energy where electricity purchase decisions are taken locally (rather than on a State or multi-state basis) have chosen not to change to another retailer overt when supply became contestable.

ENERGY MARKET

Current prices for electricity from the National Electricity Market go significantly below those previously applying in the separate States, at least partly because of an oversupply of generation capacity, and the operation of that capacity in a competitive market situation. This has reduced the revenue and profitability of the generators, and has resulted in some plant being taken out of service. Some operators have taken this opportunity for major refurbishment and eventual return to the market as demand increases, allowing higher prices to be realised.

Many claim that the present Market price levels are not sustainable, and may rise from current levels generally below \$30 per Mega-Watt hour, to a figure closer to 535 per MWh.

Such an increase will flow to all customers eventually, but will be most evident for those large customers with low Network charges.

NETWORK CHARGES - Urban and Rural

Cost reflective network charges increase with distance from the supply point or reference node and with decreasing density of population and electrical consumption.

It is apparent that economic, cost recovery principles will result in greater network costs to customers supplied through long high voltage lines, local transformers and local low voltage mains than to customers located close to a supply source, with relatively short high voltage mains, and possibly taking direct supply from a distribution transformers without any common low voltage mains.

This is not a "town" versus "rural" situation per se, but rather a reflection into charges for the distribution network involved in the supply chain from the Distributors bulk supply point-

Any policy which results in "equal charges" to customers in such different circumstances must imply some cross subsidies, which, under the new rules are made "transparent", so that any "equalisation" amounts are clearly identified.

As indicated in the original Great Southern Energy submission, the, Transmission use of System Cost (TUOS) is greater for the Great Southern Energy area than for, say the Sydney Metropolitan areas. Thus TUOS for Great Southern Energy is around 1.1 c/kWh while the similar charge for bulk supply to the energy Australia (Sydney) area is around 0.6 c/kWh.

The Sydney area involves a relatively compact, high density area of customers on small blocks, with multistorey and high rise developments. The largest are supplied from a relatively compact reticulation network which results in a Distribution Use of System Cost (DUOS) for business customers in Sydney around 1.5 c/kWh. Rates applicable to the dispersed supply area of GREAT SOUTHERN ENERGY range from around 0.74 c/kWh for customers connected directly to the urban high voltage system to around 8.5 c/kWh for isolated rural business or farm customers supplied through an extensive high voltage system with low customer and consumption density.

These differences reflect the application, of cost-reflective charging for use of more or less of the transmission and distribution systems to supply the various locations.

CROSS SUBSIDIES

For many years, electricity tariffs had been set in a manner which did not well reflect costs to supply-These rates were set for many reasons, often more societal than commercial., possibly with reference to a perceived ability to pay.

Larger customers, and customers on "General Supply" tariffs generally paid more than smaller customers, especially those on "Domestic" tariffs. Cross subsidies were thus apparent within classes (from large to small customers) and between classes (from non-domestic customers to domestic customers).

Tariffs were generally uniform throughout a Distributor's supply area, irrespective of the distances and costs involved in the supply network so that a further cross subsidy from urban to rural areas often existed.

As customers become contestable in the Electricity Market, and as Network charges are separated and move more towards being cost reflective the costs for classes previously ~. source of cross subsidy have. reduced, while costs for other classes have remained largely the same.

CSO's FOR UNIFORMITY

If customers currently contributing less than the cost of supply are to be insulated from price shocks, it becomes apparent that safety net mechanisms must be in place to support actions by Great Southern Energy which are on a basis which gives more weight to the regulatory requirement to "Consider rural areas' than to "Act commercially'

Great Southern Energy notes the comment in the Telstra Submission (#110) that

Uniform tariffs are the most costly of the CSO's delivered by utilities

The extent of this cross subsidy is considerable, as noted in the original submission:

At Great Southern Energy we believe that current level of cross subsidies to our 50,000 isolated or rural customers is \$22 million annually.

The Commission's attention is drawn to the transcription error in the Draft Report (at page 102) where this figure is shown as \$2 million rather than \$22 million.

CONTRIBUTIONS FOR EXTENSIONS or CONNECTION

There may be some confusion in terminology in the area of charging for connection to an existing reticulation system at a customer's location. and recovering a contribution towards the capital cost of a more significant extension or augmentation to the network.

Under some circumstances, a few of the original 9 Distributors comprising Great Southern Energy required a relatively small connection fee from customers, including domestic customers, at their time of initial connection. This no longer applies in the Great Southern Electricity area as it didn't for most of the 9 distributors.

Where a major extension or augmentation was required to make supply available to a customer under the conditions of a standard published tariff, it has been judged equitable and commercial to recover part or all of the cost of that work as a capital contribution in cash or kind from the customer requiring it. Under the National Electricity Code, the rules for determining network charges require exclusion of any such new asset in the calculation of a "return on investment" element in the network charge, even in a case where the asset is transferred to the Distributor.

LOSS of JOBS in SOME LOCATIONS

Great Southern Energy acknowledges that the local presence and number of personnel has diminished in various areas. The staff associated with the amalgamated organisation has been reduced from that associated with nine "County Council" organisations (including, for example, 9 County Clerks, 9 Chief Engineers, 9 Chief Accountants, 9 design offices, 9 billing and accounting systems, 9 purchasing organisations etc).

The figures quoted in the Draft Report (p 113) for employment impacts at Tumut and Cooma are questioned for accuracy. Great Southern Energy's figures for employment changes are -

Tumut	27(Claim 50)
Cooma	34 (Claim 80)

Great Southern Energy is proud that there have been no forced redundancies, as staff have been invited to seek a voluntary redundancy or early retirement from the organisation, or to accept a position within the new organisation, albeit with a possible associated relocation (It may be noted that many staff from smaller areas seemed to welcome the opportunity to relocate to one of the larger centres.)

Great Southern Energy has put in place mechanisms for enquires and contact, for routine matters or fault reporting, and for attention to local needs. While the transition from the 9 original distributors did initially cause some lessening of communication service response, the service level on enquiries and fault reporting is now considered at industry best practice levels. It may be noted that response capability for serious emergency situations has been increased, as the organisation can call on crews from other locations more readily than when each organisation was separate. Various options for account payment have been put in place through agencies, or by electronic transfers etc.

SERVICE STANDARDS

Great Southern Energy takes this opportunity to include further information on network performance, reliability and restoration of supply to supplement that shown in the Draft Report in Figures 5.7 and 5.8.

Measures commonly used to refer to the duration and frequency of supply interruptions *are as follows:*

CAIDI	Customer Average Interruption Duration Index (Minutes per year per Customer interrupted) - Sum of Customer Interruption Durations / Total Number of Customers Interrupted
SAIDI	System Average Interruption Duration Index (Minutes per year per Customer) - Sum of Customer interruption durations / Total Number of Customers
SAIFI	System Average Interruption Frequency Index (Interruptions, per year per Customer) - Total Number of Customers Interrupted / Total Number of Customers Served.

CAIDI is a measure of response and restoration time for faults which have occurred, and reflects the effectiveness of the organisation in a fault *situation*. *SAM can be* a measure of system condition, but can be highly influenced by the occurrence, extent and duration of storm events- SAIDI, being the product of the duration and frequency is a reflection of both factors.

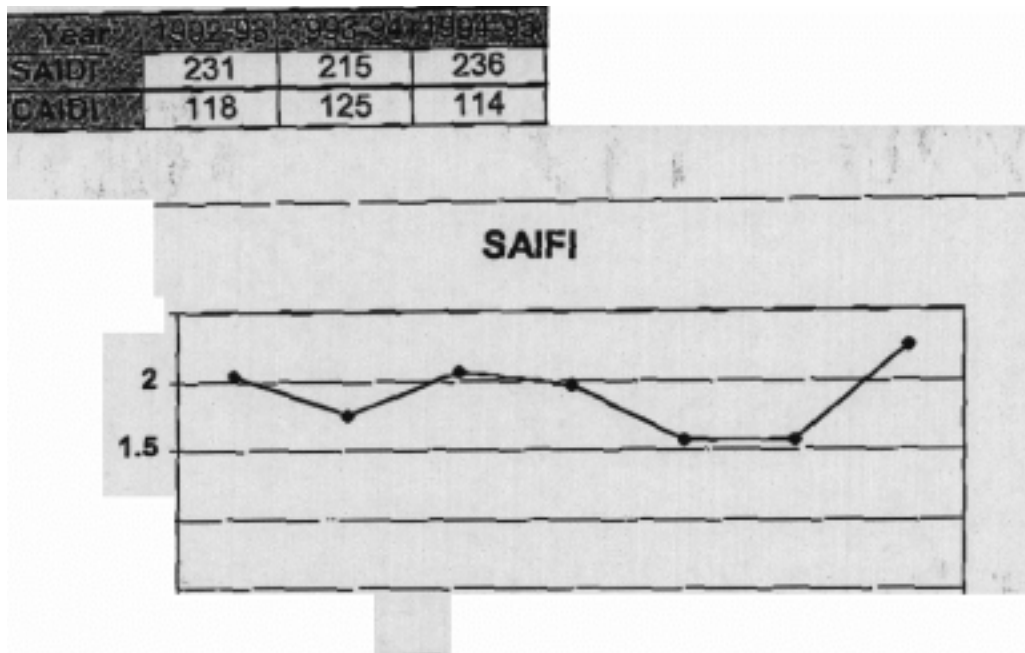
The following raw data includes the effect of storms etc as well as the effect of transient interruptions less than one-minute duration. It confirms the statement in the original submission, which used data to the 1996/97 year, showing relatively consistent and decreasing CAIDI - the measure of response to interrupted customers. The last couple of years have shown increased SAIFI and consequently SAIDI partly due to greater storm activity in these years.

(For example, faults attributed to "lightning or electrical storms" were responsible for 2,654 interruptions affecting 127,716 customers in 1998/99, compared with 1080 interruptions affecting 31,230 customers in 1997/98. Detailed figures for earlier years are not available.)

(Data for the years before amalgamation have been assembled from the best information available from the previous distributors, but may be less complete or consistent than recent data.)

Year	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99
SAIDI	231	215	236	186	134.50	174.20	214.28
CAIDI	118	125	114	94.60	85.30	111.06	95.09

THE GRAPH DIDN'T SCAN VERY SUCCESSFULLY



Year	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99
SAIFI	2.04	1.75	2.06	1.97	1.58	1.57	2.25

The Commission's attention is drawn to the New South Wales graphs in the Draft Report (pages 114 and 115). Both chart items are identical, and probably represent "Average outage duration" (CAIDI) as appropriate for Figure 5,8 rather than "Average loss of supply per customer" (SAIDI) as indicated for Figure 5.7 Other states seem correct.

SUMMARY

Changes to the operating regime of Great Southern Energy over the past 3 - 4 years were the inevitable result of -

- a requirement to compete in a contestable market.
- a reduction in capital works to the rural network
- comparison with international utilities which indicated overall poor competitive performance.

To ensure that rural and regional southern NSW was competitively placed in terms of electricity supply it was essential that Great Southern contributed to the process of reform.

The outcomes of forming Great Southern Energy have been -

- a move towards international best practice in operating its distribution system
- lower electricity prices to large and medium customers
- most residential customers have seen no price increase or a reduction in prices.