

**Ergon Energy Corporation Limited
and
Ergon Energy Queensland Pty Ltd**

**Submission on the *Regulated Retail
Electricity Prices 2013–14*
Interim Consultation Paper
Queensland Competition Authority
19 October 2012**





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1. INTRODUCTION

Ergon Energy Corporation Limited (EECL) and Ergon Energy Queensland Pty Ltd (EEQ) welcome the opportunity to provide comment to the Queensland Competition Authority (QCA) on its *Interim Consultation Paper: Regulated Retail Electricity Prices 2013-14* (the Interim Consultation Paper).

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 supports the Minister for Energy and Water Supply's (the Minister) Delegation to the QCA to determine the regulated retail electricity prices (or Notified Prices) for 2013–14 to 2015–16 based on a network (N) plus retail (R) cost build-up methodology. As highlighted in our previous submissions to the 2012–13 Notified Prices, Ergon Energy believes the N+R framework enables distributors to send network signals directly to non-market customers. This, in turn, encourages changes in customer behaviour and potentially has flow-on benefits to the electricity market (e.g. by deferring network augmentation). Ergon Energy considers that the reflection of network pricing signals in retail tariffs presents a significant opportunity for distributors to achieve improved asset utilisation and, consequently, manage the long-term growth of electricity costs for customers.

In developing cost reflective retail tariffs, the QCA should consider providing a degree of stability and certainty to retailers, distributors and customers. We also believe that retail tariffs must not penalise customers who have little alternative to accessing the Notified Prices. Ergon Energy strongly considers that the unique circumstances of customers in regional Queensland must be taken into account by the QCA when setting the Notified Prices.

In its Interim Consultation Paper, the QCA has invited comments on matters relevant to the QCA's task under the Delegation and Terms of Reference provided by the Minister. To support these views, the QCA has also requested detailed arguments and evidence. Section 2 outlines Ergon Energy's response to this request.

Ergon Energy is available to discuss this submission or provide further detail regarding the issues raised, should the QCA require.



2. SPECIFIC COMMENTS

This section outlines Ergon Energy's specific comments in relation to the Interim Consultation Paper.

2.1. Customer impacts and transitional arrangements

Ergon Energy welcomes the Minister's Delegation to the QCA regarding transitional arrangements for customers on the standard regulated residential tariff (i.e. Tariff 11), existing obsolete tariffs (e.g. farming and irrigation), and large business customer tariffs introduced in 2012–13 (i.e. Tariffs 44, 45, 46, 47 and 48). As outlined in previous submissions to the QCA on the development of the 2012–13 Notified Prices, Ergon Energy strongly supports the use of transitional arrangements for customers most affected by the tariff reform process.

Ergon Energy notes that the impacts of tariff reform will vary between different customer segments and even within these segments. As illustrated in the QCA's Final Determination for 2012–13, the impact on customers from moving to cost reflective retail tariffs can result in some customers facing price rises of over 100 per cent, while other customers may receive small price decreases.¹ Due to the varied impact on customers, a transitional approach is necessary to mitigate price shocks for many customers. Customer education is also vital to ensuring customers are able to make informed judgements about opportunities and outcomes arising from the tariff reform process.

Our specific concerns relating to transitional arrangements and customer impacts are discussed below.

2.1.1 Transition period

In terms of the transition period, Ergon Energy considers that sufficient time is required to implement any metering and systems needed to support the retail tariff structure, and to allow for customers on obsolete tariffs to transition to appropriate cost reflective tariffs. Business customers will also require sufficient time to assess and manage the impact of higher electricity costs on their business and to potentially alter their business operations to mitigate this risk.

2.1.2 Large business customer tariffs

Ergon Energy notes that the gazetted Tariff Schedule for 2012–13 currently prevents any new customers from accessing the obsolete large business customer tariffs (e.g. Tariffs 20 (Large), 22 (Large), 43 (Large) etc.), effectively forcing new customers to move to the new demand retail tariffs. To promote equitable outcomes for customers, Ergon Energy supports all large customers having access to the transition tariffs during the transition period.

2.1.3 Tariff 22

The 2012–13 Notified Prices resulted in a significant increase (approximately 80 per cent) to the off-peak charge of Tariff 22. This has resulted in customers that have designed their business operations to use more energy in off-peak hours experiencing high price increases.

While Ergon Energy is primarily concerned about the impact Tariff 22 off-peak pricing has had on our customers, it is also noted that the low differential between the peak and off-peak charges of Tariff 22 acts as a disincentive for customers to move load out of the peak. It seems suboptimal that the price signal evident in Tariff 22 prior to the reform process was substantially weakened through the resetting of Tariff 22 under the N+R cost build-up methodology.

Ergon Energy recommends that the QCA explore options to strengthen price signals where price signals have been weakened and where customers have been significantly financially impacted from high price rises to off-peak tariffs. Ergon Energy suggests that the QCA undertake a public consultation on this specific issue with stakeholders.

¹ QCA (2012), *Final Determination: Regulated Retail Electricity Prices 2012–13*, May 2012, pp94-109, Figures 6.3 to 6.20.



2.2. Network cost component

Ergon Energy wishes to reiterate our previous position that the network and retail tariffs should be aligned. We consider that the network tariff structure should influence the number and structure of the retail tariffs, and the eligibility rules for network tariffs should direct the eligibility of the associated retail tariff. In addition to this, Ergon Energy has outlined below a number of areas which will impact on the network cost component.

2.2.1 Network pricing strategy

Ergon Energy is currently developing a network pricing strategy to guide the development and implementation of future network pricing proposals. The purpose of the strategy is to document a strategic pathway that best delivers on desirable reforms to network pricing in the short, medium and long term taking into account economic, social, legal, technical and logistical requirements of the Ergon Energy distribution network, its customers and key stakeholders.

The strategy will seek to identify options where pricing can support business initiatives to reduce future network investment and resultant revenue requirements. As a result of the strategy, there may be some changes to our network tariff structures. Ergon Energy acknowledges the importance of early communication of the proposed structures to both the QCA and retailers, and will endeavour to do so.

2.2.2 Provision of network prices

Ergon Energy acknowledges that the QCA will require information on our network prices in order to set the Notified Prices. However, it is important to note that Ergon Energy submits its Pricing Proposal to the Australian Energy Regulator (AER) for approval on 30 April each year, in accordance with Chapter 6 of the National Electricity Rules and the Queensland Final Distribution Determination for 2010–15. This means Ergon Energy is only able to provide the QCA with indicative network prices for 2013–14, until the AER approves our Pricing Proposal. We note that there is no formal timeframe in which the AER is required to approve a Pricing Proposal. However, we would not expect to receive AER-approval of the network prices to apply in 2013–14 until at least the end of May or early June 2013.

Further, we note that the QCA may require network prices for 2014–15 and 2015–16 given the three-year delegation period and the Minister's direction for the QCA to consider a three-year transitional arrangement to rebalance the fixed and variable components of Tariff 11. Ergon Energy is happy to assist on this matter. However, it is important to note that the prices would be indicative in nature and based on Ergon Energy's forecast of the ARR, and best estimate of the customer numbers, energy consumption and demand that may apply in future years. It is also important to note that Ergon Energy is reviewing its network tariffs as part of its Network Pricing Strategy. This means the structure and rates applying to Ergon Energy's network tariffs could change from 2013–14 onwards.

2.2.3 Terms of reference

The QCA has stated that the "Delegation includes a Terms of Reference which requires that the Authority consider a number of specific matters, including:

....

- (c) basing the network cost component for:
 - (i) small customers on the network charges to be levied by Energex; and
 - (ii) large customers on the network charges to be levied by Ergon Energy".²

Ergon Energy notes that this differs from the actual Terms of Reference which indicates that the QCA must consider basing the network cost component for large business customers on Ergon Energy's network charges, and residential and small business customers on Energex's network charges.³ Also, given street lighting customers are treated in the same manner as large customers under the *Electricity*

² QCA (2012), *Interim Consultation Paper: Regulated Retail Electricity Prices 2013–14*, September 2012, p2.

³ Refer to item 5(d) in the Terms of Reference.





Act 1994,⁴ Ergon Energy believes that these customers will be considered large business customers for the purposes of this price determination process (i.e. the QCA will need to consider basing the network cost component on Ergon Energy's network charges).

2.3. Retail margin

Ergon Energy supports the use of a differentiated retail margin for each customer segment. This approach is consistent with the philosophy the QCA has adopted for calculating other components of the retail tariff cost stack. For example, in developing the 2012–13 Notified Prices for large customers, the QCA applied a unique retail cost allowance, used Ergon Energy's network tariffs and based the wholesale energy calculation on Ergon Energy's Net System Load Profile. However, the QCA applied the same retail margin for large customers as small customers.

As stated in Ergon Energy's response to the QCA's Draft Determination for 2012–13:⁵

Applying the IPART decision on retail margin to EEQ's Large customers is not appropriate for the following reasons:

- *The retail margin is considered substantially excessive when compared to what Large customers would be required to pay under market contracts.*
- *As noted in the Draft Determination "a key point to note is that the Authority must determine regulated retail electricity prices for all small customers and Large customers (those using more than 100 MWh per annum), whereas regulators in other jurisdictions are required to set prices for small customers only"⁶.*
- *As noted in the Draft Determination "the benchmarks from these jurisdictions are most relevant in providing information on the costs of supplying relatively small customers"⁷.*

Ergon Energy is happy to contribute towards the development of an appropriate methodology in determining differentiated retail margins.

2.4. Metering implications

The QCA has been directed to consider whether its approach to calculating time-of-use tariffs can strengthen or enhance the underlying network price signals and encourage customers to switch to time-of-use tariffs and reduce their energy consumption during peak times. Ergon Energy notes that residential customers in Ergon Energy's distribution area that choose to switch to a time-of-use tariff will require an upgrade of their electricity meter to a time-of-use capable meter. As highlighted in our previous submissions, Ergon Energy has a finite operational capacity to perform meter upgrades and is not able to accommodate large quantities of customers wishing to switch to the time-of-use tariff at any point in time. Customers may also incur additional costs in relation to their switch to a time-of-use tariff (e.g. preparing meter boards for the new meter).

Depending on the future of obsolete tariffs, Ergon Energy also believes there could be financial implications for other customers that require a metering change or modification. Ergon Energy believes the QCA should take these issues into consideration as part of this process. Finally, Ergon Energy has a number of customers on card operated meters. Due to metering limitations, the QCA will need to take this into account when considering applicable retail tariffs.

2.5. Carbon price

Since the introduction of the carbon price on 1 July 2012, Ergon Energy has received a number of queries from customers relating to the carbon price amount that has been applied to each retail tariff. Ergon Energy believes the QCA should explicitly publish this information during the price determination process.

⁴ See, for example, sections 49(4) and 51(3) of the *Electricity Act 1994* in relation to standard large customer retail contracts, and section 6 of the *Energy and Water Ombudsman Act 2006* which excludes the definition of street lighting customers from 'small customers'.

⁵ Ergon Energy (2012), *Response to the Queensland Competition Authority's Draft Determination*, 16 April 2012, pp24-25.

⁶ QCA (2012), *Draft Determination: Regulated Retail Electricity Prices 2012–13*, March 2012, p52.

⁷ *Ibid.*





2.6. “Service Fee” term

In Ergon Energy’s experience, the use of the term “Service Fee” in the gazetted Tariff Schedule creates confusion for some customers. The term “Service” in this context refers to the installation and maintenance of the electricity supply. However, customers interpret the term to mean assistance and advice provided during and after the sale of electricity. Accordingly, Ergon Energy believes that any rebalancing of prices towards higher fixed charges and lower consumption charges may lead to an influx of customer enquiries about what extra services they will be receiving for the increase in the “Service Fee”. Ergon Energy suggests that this term may need to be revised.