QUEENSLAND GOVERNMENT

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Dr David Watson
Chairperson
Queensland Competition Authority
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Dear Dr Watson

The Queensland Government acknowledges the Queensland Competition Authority's (QCA) ongoing process for Regulated Retail Electricity Prices for 2013–14, with the release of Consultation Papers for both *Transitional Issues* (November 2012) and *Cost Components and Other Issues* (December 2012).

As has been previously stated, this Government acknowledges the importance of notified prices and is committed to electricity sector reform with the aim of ensuring that electricity in Queensland is delivered in the most cost-effective manner for consumers, whilst ensuring the industry remains competitive, viable and sustainable.

I am pleased to note that subsequent to the Interim Consultation Paper released by the QCA in September 2012, the Transitional Issues Paper indicates the implementation of a more substantial consultation program. This more robust approach to consultation which includes a schedule of regional workshops is to be commended, as it will ensure that a broader range of stakeholder issues are raised for consideration by the QCA. I note with interest the QCA's comments in the *Consultation Paper on Cost Components and Other Issues* resulting from the regional workshops.

The matter of appropriate transitional arrangements for a range of customers remains the most significant concern for Government. To this end, Government's views in relation to this and on the specific questions asked by the QCA in the Transitional Issues Paper are addressed in the attached Submission.

Tariff 11 – Standard Residential Tariff

The expected increase to the fixed charge for Tariff 11 in 2013–14 has been highlighted in the media since the release of the Transitional Issues Paper. Whilst this has raised public awareness of the issue and the expected future increase, it has also increased the level of community concern with a move straight to cost-reflective tariffs. These adverse impacts, particularly for low consumption and vulnerable households need to be considered. The Queensland Government therefore believes it is essential that Tariff 11 be transitioned to cost-reflective levels over the three-year delegation period through a price path to avoid price shocks for consumers.

Obsolete Tariffs

The QCA is required under the Ministerial Delegation to consider whether appropriate transitional arrangements should be implemented for the existing obsolete tariffs (including farming, irrigation and large business customer tariffs in the Ergon Energy's (Ergon) distribution area). In assessing the need for transitional arrangements, the Government urges the QCA to consider a number of important factors, including the future of network tariff structures, the number of customers accessing the obsolete tariffs, the structural disparity between existing tariffs and alternate options for customers, and the financial impact on these customers of any proposed changes.

Further, the uncertainty surrounding Ergon's future network tariff structures suggests that, at this point in time, it may be difficult for the QCA to develop an efficient price path to transition customers on obsolete tariffs to alternate cost-reflective tariffs. As a result, the Government considers transitional arrangements may be necessary for all of Ergon's large customer tariffs (Tariff 20 (Large), Tariff 22 (Large), Tariff 41 (Large), Tariff 43 and Tariff 53) as it would be detrimental to force large customers in Ergon's area onto tariffs based around Ergon's current network tariffs, when it is possible that new network tariffs could be implemented in the coming years. This is particularly the case for Tariff 20 (Large) and Tariff 22 (Large) as the majority of Ergon's large customers access these tariffs.

The Government is also concerned about potential price impacts for customers on a number of farming and irrigation tariffs, should the QCA decide to remove these tariffs from the tariff schedule in 2013–14. To mitigate any adverse price impacts for customers, the Government considers Tariffs 62, 65 and 66 should be retained for at least the duration of the three-year delegation period, particularly as these tariffs are accessed by numerous Queensland farmers and irrigators and contain a time-of-use (ToU) component that encourages off-peak consumption.

For other obsolete tariffs, Tariff 21 (business, general supply) and Tariff 37 (non-domestic heating, ToU), the QCA should consider the ability of customers to move to alternate tariffs that may be similar in structure.

Access to Ergon's Obsolete Tariffs for New Customers

The uncertainty surrounding Ergon's future network tariff structures may also make it difficult for the QCA to forecast future price impacts, particularly for customers on the new cost-reflective large customer tariffs (Tariffs 44, 45, 46, 47 and 48) which were introduced in 2012-13. As these tariffs are based on Ergon's underlying network tariffs, any significant changes in the structure or rates of these network tariffs may result in significant price shocks for Ergon's large customers.

In response, the Government has directed the QCA, under the Ministerial Delegation, to consider whether customers on the new large customer tariffs should also be able to access the transitional (obsolete) tariffs that are currently only available to existing large customers in Ergon's area. The Government believes this may assist in mitigating any potential price shocks as a result of changes to Ergon's future network tariffs and encourages the QCA to give this matter careful consideration.

The attached Queensland Government Submission on the Transitional Issues Paper provides further detail on these and other key issues that the QCA will need to consider in its 2013–14 pricing process.

In relation to the *Consultation Paper on Cost Components and Other Issues*, I am pleased to see the breadth of matters being raised by the QCA and support the QCA's approach to stakeholder engagement on these issues. I refer to the Queensland Government's response (dated 29 October 2012) to the QCA's *Interim Consultation Paper for Regulated Retail Electricity Prices for 2013–14*. This response provided Government's views on various cost components and other matters of relevance, including the need to fully consider stakeholder input to the pricing process.

The work the QCA has undertaken to date for the 2013–14 regulated prices is appreciated. I look forward to monitoring the ongoing process and in particular, reviewing the responses from stakeholders on both Consultation Papers on *Transitional Issues and Cost Components and Other Issues*.

Yours sincerely

[redacted]

Andrew Cripps MP
Acting Minister for Energy and Water Supply

Att: - Queensland Government Submission to the Queensland Competition Authority: Response to the Transitional Issues Paper on Regulated Retail Electricity Prices for 2013–14

Department of **Energy and Water Supply**

Queensland Government submission to the Queensland Competition Authority

Response to the Transitional Issues Consultation Paper on regulated retail electricity prices for 2013-14

Queensland Government

Contents

1. Introduction

This submission is prepared in response the Queensland Competition Authority's (QCA) Consultation Paper on Transitional Issues for regulated retail electricity prices for 2013-14. It responds directly to the eight questions presented by the QCA to all stakeholders in relation to the transitional arrangements for the standard residential tariff (Tariff 11) and the obsolete tariffs (Ergon's large customer tariffs, farming and irrigation tariffs, Tariff 37 and Tariff 21). There were also two additional questions seeking views only from Energex Limited (Energex) and Ergon Energy (Ergon).

In addressing the questions posed by the QCA, this submission will highlight how transitional arrangements for retail tariffs align with the Queensland Government's wide-ranging agenda of reform for the electricity sector. This reform agenda was detailed in the Queensland Government's submission in response to the QCA Interim Consultation paper in October 2012. It includes the work of the Inter-Departmental Committee (IDC) on Electricity Sector Reform, the Independent Review Panel (IRP) on Network Costs, and the 30 Year Electricity Strategy.

Since the previous Queensland Government submission to the QCA, the reform agenda has progressed significantly with the public release of the IRP *Interim Report Summary Findings and Draft Recommendations*, and the 30 Year Electricity Strategy Directions Paper.

The reforms to be proposed by the Queensland Government will in the long-term provide significant benefit to electricity consumers and the industry. However, reform is not easy, and its success will depend heavily on engaging Queensland consumers (households, small and large businesses, and commercial and industrial operations), and implementing change in a way that represents the least disruption to these consumers. To this end, transitional arrangements for certain regulated retail tariffs are crucial. Depending on the tariff in question, if implemented carefully transitional arrangements have the ability to limit the impact from change, and provide confidence and certainty in regard to electricity costs over the next three years.

The Queensland Government acknowledges the extensive consultation schedule released by the QCA in the Transitional Issues Paper. In particular the Queensland Government commends the QCA on visiting regional areas to directly speak to the community and hear their views.

The remainder of this submission is structured to respond to the questions posed by the QCA in its Transitional Issues Paper: **Section 2** provides the Queensland Government's position in relation to transitional arrangements for Tariff 11; **Section 3** deals with transitional arrangements for obsolete tariffs; and **Section 4** comments on allowing new large customers to access obsolete tariffs.

2. Transitional Arrangements for Tariff 11

Under the current Ministerial Delegation (issued on 5 September 2012) for regulated retail electricity pricing for 2013-14 to 2015-16, the QCA must consider implementing a three-year transitional arrangement to rebalance the fixed and variable charges of Tariff 11 so that each component of the tariff is cost-reflective by the final year of the delegation period.

The QCA is seeking stakeholders' views on the following:

(a) Should there be a transition to cost-reflective charges for Tariff 11 or should Tariff 11 prices be made cost-reflective from 2013-14?

(b) If some form of transitioning is preferred, how might this best be achieved and why should this particular approach be adopted?

(c) What other issues should the Authority consider regarding the transition to cost-reflective charges for Tariff 11?

The Queensland Government's position on these questions is provided below.

2.1 Transition to cost-reflective charges for Tariff 11

(a) Should there be a transition to cost-reflective charges for Tariff 11 or should Tariff 11 prices be made cost-reflective from 2013-14?

Summary position – *The Queensland Government believes that it is essential that Tariff 11 be transitioned to cost-reflectivity. This position is consistent with the Delegation and Terms of Reference provided to the QCA for the determination of regulated retail electricity prices for 2013-14 to 2015-16.*

In its Transitional Issues Paper, the QCA identified a divergence between the current fixed and variable charge components of Tariff 11 and the levels that would be applied under a cost-reflective Network (N) + Retail (R) framework. At present, the fixed charge is below cost-reflective levels whilst the variable charge is considered to be above cost-reflective levels.

According to advice received from the QCA, a move to cost-reflectivity under the N+R framework (based on 2012-13 estimates) would require an increase on current Tariff 11 rates in the fixed charge component from 26.17cents per day (c/day) to 78.578c/day and a decrease in the variable charge component from 23.071 cents per kilowatt hour (c/kWh) to 20.134 c/kWh.

By way of example, a household with consumption of 2,000 kWh per annum (very low) would currently have an annual bill of $557, and under cost-reflective rates the annual bill would increase by 24% to $689. By contrast, a household consuming around 10,000 kWh per annum (a large family) would currently have an annual bill of $2,403, and under cost-reflective rates would see a decrease in their bill to around $2,300. These cost-reflective rates are based on the 2012-13 rates provided by the QCA and all rates are GST exclusive.

The relative mismatch between current and cost-reflective levels in the fixed charge means that households with low energy consumption will experience the greatest proportional impact from a transition to cost reflectivity. This is because low household consumers are particularly exposed to changes in the fixed charge, and they do not consume enough electricity to benefit from a reduction in the variable (or consumption) charge.

The estimated increase to the fixed charge of Tariff 11 has created a great deal of concern with consumers, particularly low consumption households including pensioners. The impact of this change on these consumers reinforces the importance of gradually transitioning to cost reflectivity. In this way, the Queensland Government encourages the QCA to consider specific ways of modifying the fixed charge component that limits the financial impacts on households with low consumption and other vulnerable households.

2.2 Form of transition

(b) If some form of transitioning is preferred, how might this best be achieved and why should this particular approach be adopted?

Summary position – *The transition to cost-reflectivity should begin with a modest incremental change to the fixed charge in 2013-14, acknowledging the impact on low use consumers (including pensioners) and the uncertainty surrounding future short to medium-term cost drivers.*

The impact of moving to cost-reflectivity in 2013-14 on low energy consumers was noted above in section 2.1. Consistent with the over-arching rationale for implementing a transitional price path for Tariff 11 (on the basis that it will avoid an unacceptable price shock in the initial year for vulnerable customers), the Queensland Government believes the first step in moving to cost-reflectivity should be modest.

In moving towards cost-reflectivity, it is important to recognise that not all consumers will have the same ability to adjust their consumption in response to a change in price[1]. Some customer groups, particularly pensioners who consume low amounts of electricity, may not be able to reduce consumption or don't consume enough to off-set any increase in the fixed charge component of their bill.

For these customers, a significant increase in the fixed charge could have particularly severe financial impacts.

Notwithstanding the consumer impacts outlined above, a second reason for implementing a cautious start to cost-reflective pricing is the anticipated variability in network tariffs over the coming years. As network charges generally make up around 50% of an electricity bill, this will certainly influence the level of future price increases.

Beyond 2013-14 however, there is evidence to suggest a softening (or reduction) in network charges. In its submission to the QCA's Interim Consultation Paper, Energex stated that it was "*forecasting the moderation of network prices beyond 2013-14*".

The recommendations of the IRP may also contribute to lower network costs in the short to medium term. In its interim report, the IRP stated that:

> *"As a result of the implementation of its recommendations and other initiatives currently underway, the impact on electricity prices from network operations and capital programs will be greatly reduced. In the period to 30 June 2015, the Panel estimates that there will be a lower rate of increase in this component of household electricity prices (Tariff 11) compared with prices that would have prevailed under the original regulatory determination."*

The Queensland Government will consider the IRP recommendations carefully and announce its response to the IRP report, including an implementation action plan, in early 2013.

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[1] The Queensland Council of Social Service has identified a number of reasons why consumers may not be able to effectively respond to a change in price, including housing quality and tenure, household size and characteristics, or energy-intensive medical needs.

With a strong possibility that there will be a softening in network charges towards the end of the three-year delegation period, there is good reason to support a softer start in the initial year of the transitional period. This would provide a more appropriate foundation to make any future price changes that would be necessary to achieve cost- reflectivity.

2.3 Other issues to consider with respect to Tariff 11

(c) What other issues should the Authority consider regarding the transition to cost-reflective charges for Tariff 11?

Summary Position *– The QCA should work with Energex in developing the transition path for Tariff 11, to ensure that some customers are still encouraged to access Tariff 12.*

In recent years there has been momentum for more flexible network pricing signals that provide consumers with incentives to reduce or shift their consumption to different times of the day.

Consistent with this, on 1 July 2012, the Queensland Government established a voluntary ToU tariff for residential consumers – Tariff 12. Under Tariff 12, households receive a lower variable rate for consumption during off-peak and shoulder periods compared to the peak period. Tariff 12 is a voluntary tariff, and in 2012-13 customers who want to switch from Tariff 11 to Tariff 12 also have the option of switching back to Tariff 11 without charge (any subsequent tariff switches however may incur a charge).

The Government would like to see customers consider Tariff 12 as a viable option, although notes that the uptake of Tariff 12 has been slow, and that the low fixed charge on Tariff 11 (compared with Tariff 12 which has a 'cost-reflective' fixed charge) is a contributing factor. Despite this, it is considered that some customers should still have the opportunity to benefit from moving to the residential ToU tariff in 2013-14..

However it is acknowledged that the benefits to customers in accessing Tariff 12 compared with Tariff 11 will depend on the structure of the underlying network charge for Tariff 12 (Energex's NTC 8900[3]). The Government would encourage the QCA to work with Energex as part of the development of the transition path for Tariff 11 (and communicate its intentions to Energex) so that, where possible, the network tariff for Tariff 12 (NTC 8900) can be developed with the Tariff 11 transition path in mind.

3. Transitional Arrangements for Obsolete Tariffs

In considering transitional arrangements for obsolete tariffs, the QCA correctly noted in the Transitional Issues Consultation Paper that no timeframe was included in the Ministerial Delegation. It is not imperative that the QCA transition customers to cost-reflective tariffs within the three-year delegation period. If a better transitional solution requires more time, the QCA should carefully consider this.

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[3] Because of the Uniform Tariff Policy only Energex's ToU residential network tariff will impact on the regulated retail price.

[5] 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 on 19 October 2012, page 5.

The QCA seeks stakeholders' views on the following:

(a) How should the Authority determine whether transitional arrangements are necessary for each obsolete tariff? What would be considered a "significant" price impact?

(b) Are there any non-financial reasons why obsolete tariffs should be retained or other transitional arrangements put in place?

(c) If transitional arrangements are necessary:

   I. Should the obsolete tariffs be retained and escalated or should other transitional arrangements be put in place?

   II. What would be a reasonable level of annual price increase and over what time period should transitioning occur?

(d) Any other suggestions on how customers might be transitioned from below cost prices to prices that more closely reflect the cost of consumption?

In considering the nature of the issues above, the Queensland Government notes the statements made by Ergon in its response to the QCA's Interim Consultation Paper[5]. In its response, Ergon indicated that it is currently developing a network pricing strategy to "guide the development and implementation of future network pricing proposals". Ergon further noted that as a result of the strategy, its network tariff structures may change.

This is important because it suggests that at this point in time the QCA may not have the required information in order to develop an efficient price path for many customers on obsolete tariffs. Whilst obsolete tariffs also exist in Energex's distribution area, for the majority of customers accessing obsolete tariffs, Ergon Energy's future network tariffs are of central importance.

The Queensland Government considers it essential that the QCA seeks advice from both Ergon and Energex on their network tariff development strategies over the three-year delegation period and considers their advice when determining the transitional arrangements.

The Queensland Government's positions on these questions relating to obsolete tariffs are provided below.

3.1 Individual obsolete tariffs

(a) How should the Authority determine whether transitional arrangements are necessary for each obsolete tariff? What would be considered a "significant" price impact?

Summary Position – *The QCA should assess the necessity of transitional arrangements based on a combination of important factors. These include: the future of network tariffs, the number of customers accessing obsolete tariffs, the disparity of structure between 'current' and 'alternate' tariffs for customers, and the financial impact on these customers.*

Ergon large customers

Given the earlier advice regarding the prospect of future change to Ergon's network tariffs, the Queensland Government believes continuing transitional arrangements may be necessary for all of Ergon's large customer obsolete tariffs (Tariff 20 (Large), Tariff 22 (Large), Tariff 41 (Large), Tariff

43 (Large) and Tariff 53 (Large)). This is certainly the case for Tariff 20 (Large) and Tariff 22 (Large) which are accessed by the majority of Ergon's large customers.

Moreover, the Government believes it would be detrimental to force Tariff 20 (Large) and Tariff 22 (Large) customers onto tariffs based around Ergon's current network tariffs, if there is the possibility that new network tariffs could be implemented in the coming years.

With regard to the current obsolete tariffs with demand components (i.e. Tariff 41 (Large), Tariff 43 (Large) and Tariff 53 (Large)), the Queensland Government acknowledges there will be fewer customers on these tariffs (compared with Tariff 20 (Large) and Tariff 22 (Large)). Since these tariffs are already demand retail tariffs, the impact on customers in moving to more cost-reflective tariffs could also be lower than for Tariff 20 (Large) or Tariff 22 (Large).

However, there may still be a strong case for retaining these tariffs. For example, Tariff 43 (Large) is a demand retail tariff with a ToU pricing energy component. Currently there are no network tariffs in Ergon's distribution area that have a ToU energy (or demand) component. Whilst this could change under Ergon's revised network tariff strategy, it would be unfortunate, disruptive and possibly costly, for customers who are used to ToU pricing to lose that option.

On the basis that Ergon's network tariffs may be restructured in the future, the Government believes that transitional arrangements should remain for Ergon's large customers for the three-year delegation period (as a minimum). The uncertainty of future network tariff structures should form the basis for maintaining transitional arrangements rather than focusing on what might be considered a 'significant' price impact.

Other obsolete tariffs (farming and irrigation tariffs, and Tariff 21 and Tariff 37)

The Queensland Government believes that Tariff 62, Tariff 65 and Tariff 66 should definitely remain on the tariff schedule as these tariffs are accessed by many Queensland farmers and irrigators (both small and large customers) and they also contain a ToU component that encourages off-peak consumption.

For customers in Ergon's area, the earlier rationale around the future of network tariffs also applies for these tariffs. Ergon's future network pricing strategy may include tariffs with a ToU component that these customers would be able to access to their own financial benefit, but also to the future benefit of the network.

With regard to customers in South East Queensland (the Energex distribution region), the Government is not confident that the alternate tariff for customers on Tariff 62, Tariff 65 or Tariff 66 (i.e. Tariff 22 - small) is of sufficient benefit to these customers, or the utilisation of the network, to have them removed. Tariff 22 (small) has little differential between the peak and off-peak rates, and as such, there is limited incentive for farmers and irrigators to use the off-peak energy for irrigation purposes.

In relation to Tariff 21 and Tariff 37, the Queensland Government encourages the QCA to consider the number of customers accessing these tariffs, and the potential impact on these customers in moving to new tariffs. Whilst both of these tariffs may be considered secondary in nature, the impacts arising from removing access to these tariffs could be significant. The QCA should consider what these tariffs are used for, and the ability for customers to shift to alternate tariffs that may be similar in structure.

3.2 Non-financial aspects

(b) Are there any non-financial reasons why obsolete tariffs should be retained or other transitional arrangements put in place?

Summary Position *– Retaining some of the obsolete retail tariffs, particularly those which encourage off-peak usage, could have some benefits for the network.*

A strong theme that has emerged within the current public discussion on electricity prices is that too much money has been invested in building infrastructure for assets used for only a short period of time. Amongst others, this has been well documented in reports by the Australian Energy Market Commission[6] and the Australian Government Productivity Commission[7].

Many of the current obsolete tariffs in Queensland are ToU tariffs. The current public discussion on how to lower electricity prices has been centred on providing appropriate price signals that encourage consumers to shift their consumption away from the peak period, when the cost of producing electricity is highest. As such, removing ToU tariffs which provide incentives to use electricity during off-peak periods runs counter to the current discussion on how to manage peak demand.

The Government acknowledges the difficulties faced by the QCA in implementing transitional arrangements under the N+R methodology, namely, that the QCA has no control over the determination, structure or approval of network tariffs that form the basis of the retail tariffs. Nonetheless, rather than removing access to obsolete tariffs, the QCA could consider how the structure of the obsolete tariffs could be improved. This is addressed further in section 3.3.

3.3 Retaining obsolete tariffs

(c) If transitional arrangements are necessary:

I. Should the obsolete tariffs be retained and escalated or should other transitional arrangements be put in place?

II. What would be a reasonable level of annual price increase and over what time period should transitioning occur?

Summary Position *– Most of the obsolete tariffs should be retained for at least the entire QCA delegation period. Any escalation should be low given that customers (particularly Ergon's large customers) do not know what they are being transitioned to. The QCA should not rule out the option of no escalation for some tariffs for 2013-14, or escalating components of some tariffs by different amounts (e.g., for the ToU tariff, the peak and off-peak periods could be escalated by different amounts).*

The Queensland Government believes that most obsolete tariffs should be retained in 2013-14, as detailed in section 3.1.

For Ergon's large customers, it would be extremely difficult to implement a 'price path' due to the fact that the structure of Ergon's future network tariffs are subject to change. Given these tariffs are

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[6] Final Report – Power of choice review – giving consumers options in the way they use electricity 30 November 2012

[7] Productivity Commission Draft Report Volume 1 – Electricity Network Regulatory Frameworks October 2012

not yet finalised, and based on Ergon's previous submission to the QCA's Interim Consultation Paper, the Queensland Government considers that there should be no material change to the structure of these network tariffs for 2013-14.

Furthermore, the implementation of new network tariffs is a complicated process and must first be approved by the AER. As such, there can be no guarantee that all new network tariffs will be available for implementation in 2014-15, let alone next year.

Based on this uncertainty, the Queensland Government believes that there is a case for retaining most obsolete tariffs for the entire QCA delegation period (2013-14 to 2015-16), and for stating this in the QCA's Draft Determination due by 15 February 2013. This would give consumers certainty and an improved ability to plan for the future when the obsolete tariffs are removed. Should new network tariffs (with corresponding retail tariffs) be introduced prior to the end of the Delegation period, customers could have the option of moving to these earlier.

In summary, the Queensland Government believes that the following tariffs should be retained for the entire delegation period:

- Two of the Ergon large customer tariffs - Tariff 20 (Large) and Tariff 22 (Large);
- Tariff 37 (non-domestic heating, ToU); and
- Three of the farm/irrigation tariffs - Tariff 62, Tariff 65 and Tariff 66.

There may also be a need to retain the remaining Ergon large customer tariffs (Tariffs 41 (Large), 43 (Large) and 53 (Large)) depending on customer impacts and the number of customers still accessing these tariffs.

Additionally, and subject to the QCA's own analysis relating to customer impacts, the Government acknowledges that there may be some rationale for removing the following tariffs from 2013-14:

- Tariff 21 (declining block) - with Tariff 21 customers moved to Tariff 20; and
- Two of the farm/irrigation tariffs (Tariffs 63 and 64) – with Tariff 63 customers moved to Tariff 62, and Tariff 64 customers moved to Tariff 65.

During the QCA's 2009 *Review of the Electricity Pricing Methodology and Tariff Structures*, there was support from some stakeholders for rationalising the number of farming and irrigation tariffs and removing the obsolete tariffs (Tariffs 63 and 64) from the tariff schedule. Consistent with this, the focus of stakeholder concerns throughout the QCA's 2012-13 pricing process related to Tariffs 62, 65 and 66, and not Tariffs 63 and 64.

However, removing Tariffs 63 and 64 and transferring these customers to Tariffs 62 and 65 respectively, may have implications for eligibility, as Tariffs 62 and 65 are obsolete with no new customers allowed to access these tariffs. The issue of allowing new large customers to access obsolete tariffs is addressed in section 4.1.

Finally, the Government recognises that the QCA adopted the approach of increasing each component of the transitional tariffs by the same determined percentage in the 2012-13 determination. The QCA should also investigate whether each component of the transitional tariffs should be independently adjusted if the QCA considers this will assist with the transition to a new retail tariff and maintain the underlying intent of the retail tariff reform process.

3.4 Other matters

(c) Any other suggestions on how customers might be transitioned from below cost prices to prices that more closely reflect the cost of consumption?

In the Transitional Issues paper, the QCA concisely and accurately summed up the approaches that could be adopted to transition customers on obsolete tariffs to alternative tariffs. These included:

I. Escalating tariffs by nominated percentages
II. Moving customers on obsolete tariffs to cost-reflective tariffs and discounting the charges by progressively smaller amounts each year.

In relation to the second approach, for it to be effective, it is imperative the network tariffs used in the calculation of the cost-reflective retail tariffs are representative of the longer term. Therefore, the Queensland Government considers that this approach should only be adopted if the future of network tariffs becomes clear during the delegation period. As discussed earlier, this may not occur during the delegation period as Ergon is currently in the process of developing its future network tariff strategy.

4. Allowing New Large Customers to Access Obsolete Tariffs

4.1 Access to obsolete tariffs

(a) Should large customers on Tariffs 44, 45, 46, 47 and 48 be able to access any transitional arrangements that are put in place for large customers on obsolete tariffs?

Under the Delegation, the QCA is required to consider whether customers on the new large business customer tariffs in Ergon's network area (i.e. Tariffs 44, 45, 46, 47 and 48) should be able to access any transitional arrangements the QCA may put in place for the existing obsolete large business customer tariffs (i.e. Tariff 20 (Large), Tariff 22 (Large), Tariff 41 (Large), Tariff 43 (Large) and Tariff 53 (Large)).

At present, no new customers in Ergon's area are eligible to be supplied under the obsolete large customer tariffs. However, given the prospect of future changes to the underlying structure and rates of Ergon's network tariffs, particularly from 2014-15 onwards, large customers on the new tariffs may be faced with significant price increases in future years. Given the current uncertainty around Ergon's future network tariffs and to assist large customers in managing any potential price shocks, Government considers it may be worthwhile allowing these customers to access any transitional arrangements the QCA may put in place for the existing obsolete large customer tariffs.

Government is seeking the QCA's recommendation on this matter to enable it to assess whether the terms and conditions for the obsolete large customer tariffs in the 2013-14 Retail Tariff Schedule should be changed.