06 September 2013

energex
positive energy

Mr Mark Gray
Queensland Competition Authority
GPO Box 2257
Brisbane QLD 4001

Dear Mr Gray

Re: Regulated Retail Electricity Prices 2014/15

Energex is pleased to provide its response to the Authority's Interim Consultation Paper for Regulated Electricity Prices 2014-15.

Energex looks forward to ongoing participation in the consultation process and would be pleased to discuss the matter further. Should you have any enquiries, please contact Raquel Flynn on (07) 3664 5539.

Yours sincerely

[redacted]

Kevin Kehl
Executive General Manager
Customer and Corporate Relations

Enquiries
Raquel Flynn
Telephone
(07) 3664 5539
Facsimile
(07) 3664 9813
Email
raquelflynn
@energex.com.au

Corporate Office
26 Reddacliff Street
Newstead Qld 4006
GPO Box 1461
Brisbane Qld 4001
Telephone (07) 3664 4000
Facsimile (07) 3025 8301
energex.com.au

Energex Limited
ABN 40 078 849 055

Energex Limited

Regulated Retail Electricity Prices 2014/15

Response to Queensland Competition Authority – Interim Consultation Paper

6 September 2013

energex

positive energy

Table of contents

1 Introduction

Energex Limited (Energex) welcomes the opportunity provided by the Queensland Competition Authority (the Authority) to submit comments in response to its *Interim Consultation Paper on Regulated Retail Electricity Prices 2014/15* (Interim Consultation Paper).

Energex fully supports a robust and consultative approach to electricity pricing reform and looks forward to participating in the Authority's Public Consultation Process. Obtaining the understanding and support of customers in our distribution area is a major consideration for Energex when reviewing tariffs and implementing reforms.

Energex's submission focuses on informing the Authority of matters considered to be relevant to the Authority's task of setting regulated retail electricity prices for 2014/15 and beyond. Further, there are also comments on additional matters Energex wishes the Authority to consider.

2 Executive Summary

Energex is committed to delivering safe, reliable and affordable electricity to our customers in South East Queensland in a commercial environment that recognises the need to balance customer prices, service and performance.

As an electricity Distribution Network Service Provider (DNSP) operating in the National Electricity Market (NEM), the challenge for Energex is meeting customer peak demand while recovering its approved revenue via tariff prices. Ensuring sufficient network capacity to meet capacity demand placed on the network during peak periods without impacting excessively on electricity prices continues to be a significant challenge for Energex.

The Authority's ToR requires it to consider the actual costs of making, producing and supplying electricity. Customer demand during peak period drives network investment and augmentation.

With customers reducing their overall energy consumption but not their peak demand, the current network tariffs are not reflective and the costs incurred in providing network connection and supply services. Further effort is required to structure tariffs in a way that reflect the input costs. The Network plus Retail (N+R) cost-stack pricing approach introduced on 1 July 2012 is an improvement on the previous pricing approach. Ensuring cost-reflectivity in the calculation of the 'R' component of prices will complement the network tariffs to ensure that customers' total electricity costs reflect the real and total cost of their service provision.

Energex network prices are approved by the Australian Energy Regulator (AER) on an annual basis and must comply with Chapter 6 (section 6.18) of the National Electricity Rules (the *Rules*). Energex's network tariff structure and prices are included in Energex's Annual Pricing Proposal which is available on the AER website.

Network prices generally comprise approximately 50 percent of the final retail tariff for small customers and are calculated based on Energex's cost of supply and customer demand in terms of capacity, security and supply reliability. These prices seek to recover the cost of distribution and transmission network services through a cost reflective, combined Network Use of System (NUoS) charge. Under the N+R approach, this NUoS charge becomes Energex's 'N'.

Energex supports continuing the use of the N+R approach for setting regulated retail electricity prices. By allowing the direct translation of Energex's 'N' for residential and small business customers, Energex is in a position to send a price signal that represents the costs and that can be preserved in the final regulated tariff offering to ensure demand management benefits intended to be achieved through strong signalling can be realised.

Energex is of the view that sending cost-reflective price signals to customers regarding their network usage will provide significant benefits by encouraging customers to minimise demand during peak times, thereby reducing the total cost of delivering energy. Further, Energex supports the ToR's requirement for the Authority to progress the Residential Flat Rate Tariff, Tariff 11, towards cost-reflectivity and achieving this by 1 July 2015.

The Authority's ToR also requires consideration of ToU pricing with the view to encouraging customers to switch to ToU tariffs and potentially reduce their energy consumption during peak times. With a long-term strategic goal of moving towards fully-cost reflective tariffs for all customers, Energex supports the progression towards more widely applied ToU tariffs as a first step in this process of incremental change.

3 Response to Matters raised

Section 1.1 of the Authority's Interim Paper identified a number of specific matters in its Delegation and ToR that the Authority is required to consider when setting retail electricity tariffs and prices. This section provides Energex's comments in response to each of these matters.

3.1 Network Costs

3.1.1 Strategy for Residential and Small business tariffs

Energex has an on-going program for reviewing network tariffs for its customers. As outlined in Energex's 2013/14 Pricing Proposal, Energex is considering rebalancing the fixed and variable components of residential tariffs to improve cost-reflectivity and in the medium term, Energex will also look at progressively rolling out demand and/or capacity based tariffs for small business and, eventually residential customers in the future. Energex will also continue to strengthen the time of use signal sent through our residential tariffs to encourage better use of the network.

3.1.2 N + R cost build up approach

Energex supports continuing the use of the N+R methodology for setting regulated retail electricity prices. By allowing the direct pass through of Energex's 'N', Energex is in a position to send a price signal that is cost-reflective and can be preserved in the final regulated tariff offering. Price signals are also used to support Energex's demand management strategy. Preserving these signals ensures the intended demand management benefits can be realised.

As large customers in the Energex network area no longer have access to notified prices (since 1 July 2012) it is reasonable that large customer tariffs be set based on Ergon Energy's 'N' as it is only large customers in the Ergon Energy network area that are subject to these tariffs.

3.1.3 Maintaining alignment of retail and network tariffs

In previous consultation papers, Energex outlined a range of risks surrounding the publication dates for the Authority's pricing documents. These risks still remain, and are due to the tight timeframes within which Energex's draft prices would need to be prepared and a lack of alignment between the Authority's and the AER's regulatory timeframes.

Energex appreciates the Authority's acknowledgement of these risks and the introduction of a cost pass through mechanism in the case of material differences between the draft

network prices provided to the Authority and those subsequently approved by the AER. Regardless of this recovery mechanism, in Energex's view, acceptance by stakeholders and customers that Draft Prices and Final Prices may vary is necessary due to the risk of change being very material.

3.2 Energy Costs

3.2.1 Time of Use pricing

Despite comprising the greater proportion of regulated tariffs at the low voltage supply level, Energex believes that the onus for sending ToU price signals to customers should not rest entirely with the 'N' component. Strong overall signals are dependent on the 'R' component integrating a ToU element reflecting the costs of generation.

Energex acknowledges that the Authority has not pursued ToU energy pricing as this is not reflective of the current Net System Load Profile approach to market settlements; however, Energex also notes that stakeholders are 'broadly supportive of the inclusion of time-of-use signals in wholesale energy costs, but only to the extent that they could be implemented on a cost-reflective basis.'

With this in mind, Energex supports the Authority further investigating options for implementing cost-reflective ToU energy pricing reflective of the real costs of energy.

3.2.2 Strategic use of ToU tariffs

In addition to reducing energy demand during peak periods and, consequently, electricity prices, Energex encourages a move towards ToU tariffs (preferably capacity and/or demand-based) as a first step towards achieving its long-term strategic goal of implementing more effective price signals.

The progression towards more effective prices signals is supported by introducing tariff structures comprising ToU elements (such as residential ToU or the proposed new large business ToU Demand tariff) that account for the time of a customer's demand and the impact this has on available network capacity. During the residential peak demand period, 4pm – 8pm, capacity on the network is limited and, as a result, the value capacity is at a premium during this time. ToU pricing reflects this premium value by charging a higher, more cost-reflective rate during the peak period.

3.3 Competition and other issues

3.3.1 Accounting for Unforeseen or Uncertain Events

Energex supports the Authority using a cost pass-through mechanism to adjust for any material difference when setting notified prices.

3.3.2 Large customer threshold

The threshold between small and large customers and the Government Uniform Tariff policy (UTP) are both matters for Government. However, Energex supports a review of 100MWh per year threshold, supported by transitional arrangements, to provide customers with more choice.

3.4 Transitional Arrangements for Obsolete Tariffs

3.4.1 Transitional arrangements for Tariff 11

Energex recognises and appreciates the need to transition the residential Tariff 11 from the historical structure to the appropriate N+R structure that is reflective of the cost components.

There are a range of factors contributing to tariff increases, including the recovery of the costs of funding the Solar Bonus Scheme. Any delays to this transition, and in particular any constraint of network prices, will result in recoveries in future years unless an alternate source of funding is utilised. Energex is forecasting the moderation of network prices into the next regulatory control period (2015-20) and would encourage the QCA to consider options that could offset the transitional tariff path against future tariff increases outside of the economic regulatory framework.

In accordance with the *Rules,* the network tariff will continue to be presented to the AER for approval at its real price.

3.4.2 Transitional Arrangements for Tariffs Made Obsolete in 2012-13

In pursuit of progressing cost-reflective tariffs, Energex supports option 1 proposed by the Authority.

3.4.3 Allowing new large customers access to transitional tariffs

Energex acknowledges that for many customers, especially business customers, the transition between tariffs following wide-spread reforms can be difficult to manage, especially where transitions have involved changes to peak / off-peak times or switching

from consumption to demand-based tariffs. As such, in pursuit of progressing to cost-reflective tariffs, Energex believes transition arrangements should not be open to new customers.

4 Additional Matters for consideration

This section details additional matters Energex wishes the Authority to consider when determining regulated retail electricity prices for 2013/14 to 2015/16.

4.1 Capability of existing metering

Energex's current reliance on kWh consumption-based charging for residential customers is a direct consequence of existing metering capability limitations. Most small and residential customers currently have single register kWh accumulation metering which precludes the measurement of demand in kVA and prevents ToU pricing.

Energex commenced the procurement of three-register ToU capable meters in 2005. Approximately 300,000 small customers in Energex's region now have electronic meters that are both ToU and profile capable and are read as accumulation meters, with all new customer connections receiving electronic meters.

These meters would not require a metrological change if they were reprogrammed for ToU tariffs and read manually as they are still being read as an accumulation meter. All meters currently procured by Energex are capable of being programmed with three-rate ToU data displayed and can be read as an accumulation meter.

At this stage, to support the adoption of the residential ToU tariff on 1 July 2012, where a residential customer does not have a ToU capable meter but wishes to change to the residential ToU tariff, Energex will replace the meter at no cost to the customer. However, there are a large number of residential customers who still have electro-mechanical meters with a single accumulation register.

For widespread adoption of ToU and / or demand-based tariffs for small and residential customers, an accelerated roll-out of electronic interval meters is required. From a practical perspective, a phased roll-out would be required and Energex would consider various options such as first come, minimum threshold or a geographical basis for any roll-out of three-register meters. A key consideration of the preferred option would be the availability and efficient use of resources to undertake the meter replacement program.

4.2 Customer understanding of tariffs

In Energex's view, a customer education and awareness campaign is critical to the success of any future tariff reform. As electricity retailers are the point of contact for customers (i.e. their customers) in relation to electricity prices and tariffs, a successful campaign would be dependent on the support and cooperation of electricity retailers.

Energex submits that an integrated approach to a campaign, involving key stakeholders, would be the most effective way of ensuring successful implementation of future tariff reform.

4.3 Customer Engagement and Tariff Strategy

Energex is currently developing a detailed customer engagement strategy to build on our existing customer knowledge with the aim of increasing our understanding of customers' expectations of Energex, now and into the future. This includes building a framework that considers how these expectations should be incorporated into Energex's business and operational planning to better align customers' expectations and Energex's Investment decisions. This work includes extensive research and planning on ensuring that network tariffs are designed in a manner that understands and considers customer and stakeholder requirements.

Increased understanding of expectations provides the opportunity to develop an improved customer engagement strategy and implementation framework to engage customers in a way that is meaningful and relevant to them to ensure their interests are represented in network investment strategies.

An in-depth qualitative and quantitative research program involving a diverse range of connected customers (both residential and business), stakeholders and representative groups, will explore the value drivers of different customer cohorts and their willingness to pay and trade for services across various touch points, interactions and relationships they have with Energex.

5 Glossary

A list of acronyms and abbreviations used throughout this submission is provided below.

AER	Australian Energy Regulator
DNSP	Distribution Network Service Provider
IPART	Independent Pricing and Regulatory Tribunal
kVA	Kilovolt amperes
kWh	Kilowatt hours
'N'	Network charge/s
NEM	National Electricity Market
NUoS	Network Use of System
'R'	Retail charge/s
The Authority	The Queensland Competition Authority
ToU	Time of Use
UTP	Uniform Tariff Policy