

9 December 2011



positive energy

Mr Gary Henry  
Director Electricity and Gas  
Queensland Competition Authority  
Level 19, 12 Creek Street  
Brisbane QLD 4001

Dear Mr Henry

ENERGEX is pleased to provide its comments to the Authority's *Regulated Retail Electricity Prices 2012-13 Draft Methodology Paper* released 11 November 2011.

ENERGEX's comments and responses are limited to the specific questions regarding the treatment of network costs. ENERGEX has taken the opportunity to confirm its proposed new network tariff structures for domestic and small business network tariffs and has provided a revised tariff map.

As you are aware, ENERGEX's network prices are approved by the Australian Energy Regulator (AER) under the National Electricity Rules (Rules). Approval of network tariffs is contingent on compliance with the Rules. The network tariff structures proposed for this Review should therefore be considered as draft only at this stage.

ENERGEX looks forward to further participating in this Review and providing additional details regarding the proposed network tariff structures to the Authority as required.

Yours Sincerely

  
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Submission Paper

# Review of Regulated Retail Electricity Tariffs and Prices

## Response to the QCA Draft Methodology Paper

December 2011

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# 1 Introduction

ENERGEX Limited (ENERGEX) welcomes the opportunity provided by the Queensland Competition Authority (QCA) to submit comments on the *Regulated Retail Electricity Prices 2012-13 Draft Methodology Paper*<sup>1</sup>.

ENERGEX's responses are limited to the specific section of the Draft Methodology Paper regarding the treatment of network costs and some other general comments.

## 1.1 General comments

ENERGEX supports the objective of cost reflective tariffs and the direct pass-through of network costs for all customers through the regulated retail tariffs as set out in the Minister's Direction Notice.

The Direction Notice requires the QCA to adopt a cost reflective N (network) + R (energy and retail) pricing model. The QCA's Draft Methodology Paper primarily focuses on the proposed approach to the calculation of the R component of the regulated retail tariffs.

In July 2011, the QCA published an Issues Paper<sup>2</sup> inviting interested parties to respond. ENERGEX's submission in response to this paper can be found on the QCA's website.

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<sup>1</sup> <http://www.qca.org.au/electricity-retail/NEP/DMP/>

<sup>2</sup> <http://www.qca.org.au/electricity-retail/RevEPandTS/IssuesPaper.php>

## **2 Response to the Draft Methodology**

ENERGEX's responses to the Draft Methodology Paper regarding the treatment of network costs are provided below.

### **2.1 ENERGEX's network tariffs**

ENERGEX network prices are approved by the Australian Energy Regulator (AER) on an annual basis and must comply with Chapter 6 of the National Electricity Rules. These prices seek to recover the cost of distribution and transmission network services through a cost reflective, combined network use of system charge (NUoS).

The Direction Notice requires the QCA to adopt a cost reflective N+R pricing model under which the ENERGEX network costs (N) are to be treated as a straight pass through to customers. The proposed N+R approach to the regulated retail tariffs will therefore require a single network tariff to be mapped to each retail tariff.

#### **2.1.1 ENERGEX's submission to the QCA Issues Paper August 2011**

ENERGEX's submission to the QCA's Issues Paper set out its initial views regarding the alignment of network tariffs with the regulated retail tariffs. This included the development of a proposed Inclining Block Tariff (IBT) and Time of Use (ToU) network tariff structure for residential customers.

In addition, ENERGEX proposed to consolidate the existing four non-demand network tariff codes (NTC) for small business users in order to simplify the tariff structure and enable one to one mapping with the regulated tariffs. This will result in a single business flat-rate tariff and a single two-part business ToU tariff.

Following on from its August submission, ENERGEX has continued to review the current suite of network tariffs and proposed tariff changes in more detail. This has resulted in the following changes to the original proposals set out in its submission to the QCA in August:

- Through a detailed tariff analysis and implementation study, ENERGEX has decided against the introduction of a three-part business ToU network tariff for 1 July 2012 as ENERGEX's assessment is that implementation costs will exceed any network or customer benefit. ENERGEX's business ToU network tariff will therefore remain unchanged as a two-part ToU.
- The tariff map has been corrected to show ENERGEX's business flat rate network tariff mapped to the retail tariff 66 in line with current practice.

A revised tariff map reflecting these changes is included in Appendix A.

## **2.1.2 Suitability of ENERGEX's network tariffs**

### *Residential inclining block and time of use tariffs*

Consistent with the Minister's Direction Notice, ENERGEX has designed a new IBT which is proposed to replace the existing flat-rate residential network tariff. A new voluntary residential ToU network tariff has also been designed for introduction from 1 July 2012 as an alternative option for customers. Both of these new tariff structures are subject to approval by the AER.

For the default primary tariff for residential customers, ENERGEX is proposing a three step inclining block structure with steps placed at the equivalent of 5,000 and 10,000 kW.h per annum consumption (excluding energy consumed on controlled load tariffs) billed on a daily pro-rata basis as detailed in Appendix B. The number of steps and the placement of these steps have been chosen to send an appropriate price signal to the highest users whilst seeking to minimise the price impact on customers with average consumption or below. Appendix B details the structure of the proposed IBT for residential customers.

ENERGEX is proposing a three-part residential ToU tariff which includes off-peak, shoulder and peak periods similar to those available in other States. This will provide a sharper incentive around peak demand and customers with more flexibility will be encouraged to move their consumption away from the peak period, which will be limited to 4pm – 8pm on weekdays only. Consistent with the Minister's Direction Notice this tariff does not include seasonal rates. Appendix C details the structure of the proposed ToU for residential customers.

### *Tariffs for farmers and irrigators*

ENERGEX's proposed mapping of the network tariffs to the farming and irrigation regulated retail tariffs is shown in Appendix A.

The farming ToU tariffs 62 and 63 have the same peak (7am - 9pm, Monday to Friday) and off-peak (all other times) times as the existing business ToU tariff 22.

The irrigation ToU tariffs 64 (Obsolescent) and 65 each have three different peak time options (7am – 7pm, 7.30am – 7.30pm or 8am – 8pm, Monday to Friday). ENERGEX proposes these options remain for irrigation customers. This will maintain a level of diversity around load switching and remove the requirement to manually re-program several hundred meters in SEQ.

### *Tariffs for Ergon Energy's large customers*

From 1 July 2012 non-residential customers in South East Queensland (SEQ) consuming over 100MW.h per annum will no longer have access to a regulated retail tariff. The majority of ENERGEX's large customers, particularly those whose network price component is calculated on an individual basis, are already on market arrangements. However, large customers in Ergon Energy's distribution area will continue to have access to the regulated retail tariffs.

Tariffs 41, 43 and 53 are the current regulated retail tariff options most appropriate for >100MW.h per annum customers. ENERGEX proposes to map an existing network tariff which most closely aligns with the regulated retail tariffs. Appendix A shows the proposed mapping.

The notified retail electricity prices do not currently have a tariff specifically for >4 GW.h per annum customers, although these customers currently have access to the existing regulated retail tariffs.

ENERGEX network tariffs for customers >4 GW.h per annum are calculated on a site specific basis taking into account the voltage to which these customers are connected and the assets in use. This sends cost reflective, locational price signals to customers in this category.

The QCA has indicated in its Draft Methodology Paper that the current retail tariffs are not appropriate for Ergon Energy's very large customers with consumption >4GW.h per annum and that the QCA could require ENERGEX to calculate one or two network tariffs specifically for these customers. The paper suggests that these new tariffs could be based on the average of the cost reflective tariffs applied to ENERGEX's own very large customers.

ENERGEX is concerned that as this would be an average tariff it could result in a perverse outcome, namely regulated retail tariffs which are lower than the market tariffs available to some of ENERGEX customers with consumption >4GW.h per annum. ENERGEX does not believe this is an appropriate approach given ENERGEX customers >4 GW.h would not have access to this arrangement.

In addition, network prices are subject to approval by the AER and as such ENERGEX is unable to create customised tariffs for customers outside of its distribution area. In ENERGEX's view, it would be inappropriate to create a new tariff(s) outside of the regulated network tariffs submitted annually to the AER.

ENERGEX therefore considers that should the QCA require an ENERGEX network tariff for the purpose of creating a notified retail tariff for >4 GW.h customers, ENERGEX's existing HV Demand network tariff (NTC 8000) would be the most

appropriate. An alternative way forward may be for the QCA to explore other options with Ergon Energy.

### *Street Lighting*

From 1 July 2012 the regulated retail tariff for street lighting will apply to Ergon Energy's distribution area only.

ENERGEX proposes that the volume (kW.h) component be based on the unmetered supply network tariff (NTC9600) as per the tariff map shown in Appendix A.

The fixed asset charge per lamp per annum rates for street lighting are currently a Alternative Control Service (ACS). ENEREX proposes these be based on Ergon Energy's rates as these will apply to Ergon Energy's customers only.

### *Obsolete and declining block retail tariffs*

From 1 July 2012 obsolescent retail tariffs and declining block tariffs will no longer be available.

The QCA's Draft Methodology Paper proposes customers are moved onto network tariff codes which most closely match the redundant tariffs they currently have.

ENERGEX believes the transition of these customers to alternative tariffs will require joint consultation with the customer and the customer's retailer. In particular, metering restrictions may need consideration. For example, customers on tariff 37 will require their meter to be re-programmed to access the business ToU (NTC8800). Therefore, ENEREX proposes that customers on tariff 37 be mapped to the business flat rate tariff (NTC8500) unless the customer's retailer has indicated otherwise.

## **2.1.3 Maintaining alignment of retail and network tariffs**

ENERGEX submits its Pricing Proposal to the AER for approval on 30 April each year in accordance with Chapter 6 of the National Electricity Rules and the Queensland Distribution Determination 2010-11 to 2014-15. These instruments require ENEREX to adjust its network prices by the March CPI figure each year.

ENERGEX is able to comply with the QCA's proposed approach requiring it to provide the QCA with draft network prices at the same time they are submitted to the AER. These draft prices would then be subject to approval by the AER.

## **3 Other comments**

### **3.1 Terms and conditions**

ENERGEX understands that the Queensland Government, in association with ENERGEX and Ergon Energy, will be responsible for the eligibility criteria and other terms and conditions for the new tariff structure.

A change to tariffs under the current proposal has the risk of introducing a number of unintended consequences and hence ENERGEX is currently reviewing the network tariff criteria to minimise this risk and preserve the spirit of the objectives of this review. This includes criteria allowing for:

- Only one form of primary residential tariff at each National Meter Identifier (NMI). That is, IBT or residential ToU, but not both at the same NMI.
- NMIs with an IBT assigned to multiple meters, the consumption across each meter will be aggregated for billing purposes.
- Consistent with the Minister's Direction Notice, residential customers who choose to take up the voluntary ToU tariff via their retailer, will be eligible to change back to the IBT at no cost. However, subsequent requests to change to the ToU tariff will be subject to ENERGEX network tariff terms and conditions.

### **3.2 Approval of network tariffs by the AER**

ENERGEX's network tariffs are subject to approval by the AER, and accordingly ENERGEX notes that the proposed changes to the tariff structure will require it to demonstrate compliance with the National Electricity Rules.

## **4 Appendices**

## 4.1 Appendix A – Proposed tariff map

| 2012-13 Tariff Mapping  |              |  |                                   | Notified Tariffs – Queensland Gazette |                 |                          |                          |                   |                    |                 |                 |                                    |                 |                 |                |                  |                          |                 |                                |                 |
|-------------------------|--------------|--|-----------------------------------|---------------------------------------|-----------------|--------------------------|--------------------------|-------------------|--------------------|-----------------|-----------------|------------------------------------|-----------------|-----------------|----------------|------------------|--------------------------|-----------------|--------------------------------|-----------------|
|                         |              |  |                                   | T11<br>Existing                       | T20<br>Existing | T22<br>Existing          | T31<br>Existing          | T33<br>Existing   | T41<br>Existing    | T43<br>Existing | T53<br>Existing | T71<br>Existing                    | T81<br>Existing | T91<br>Existing | T11 (A)<br>New | T62<br>Existing  | T65<br>Existing          | T66<br>Existing | T67<br>Existing                | T68<br>Existing |
| NTC                     | Description  | Approx cust. Numbers 2011-12   | IBT – Domestic                    | Flat – Business                       | TOU – Business  | Flat – Controlled Load 1 | Flat – Controlled Load 2 | Demand – min 75kW | Demand – min 400kW | Demand – HV     | Public Lamps    | Flat – Unmetered (Rename Required) | Watchman Lights | TOU – Domestic  | TOU – Farm     | TOU – Irrigation | Flat Demand – Irrigation | Flat – Farm     | Flat – Irrigation Drought Area |                 |
| ENERGEX Network Tariffs | 8400         | Domestic IBT   | 1,227,588                         | ✓                                     |                 |                          |                          |                   |                    |                 |                 |                                    |                 |                 |                |                  |                          |                 |                                |                 |
|                         | 8900<br>New  | Domestic TOU   | n/a – proposed tariff             |                                       |                 |                          |                          |                   |                    |                 |                 |                                    |                 | ✓               |                |                  |                          |                 |                                |                 |
|                         | 8500<br>8600 | Business Small - Flat<br>Business Medium - Flat<br>Combined into one tariff:<br>Business Flat (8500) | 73,932 (Small)<br>19,422 (Medium) |                                       | ✓               |                          |                          |                   |                    |                 |                 |                                    |                 |                 |                |                  |                          | ✓               | ✓                              | ✓               |
|                         | 8700<br>8800 | Business Small – TOU<br>Business Medium – TOU<br>Combined into one tariff:<br>Business TOU (8800)    | 7,265 (Small)<br>8,278 (Medium)   |                                       |                 | ✓                        |                          |                   |                    |                 |                 |                                    |                 |                 | ✓              | ✓                |                          |                 |                                |                 |
|                         | 9000         | Controlled Load 1 - Flat   | 216,000                           |                                       |                 |                          | ✓                        |                   |                    |                 |                 |                                    |                 |                 |                |                  |                          |                 |                                |                 |
|                         | 9100         | Controlled Load 2 - Flat   | 511,000                           |                                       |                 |                          |                          | ✓                 |                    |                 |                 |                                    |                 |                 |                |                  |                          |                 |                                |                 |
|                         | 9600         | Unmetered - Flat   | n/a – volume charge only          |                                       |                 |                          |                          |                   |                    |                 |                 | ✓                                  | ✓               | ✓               |                |                  |                          |                 |                                |                 |
|                         | 8300         | Demand Small   | 4,795                             |                                       |                 |                          |                          | ✓                 |                    |                 |                 |                                    |                 |                 |                |                  |                          |                 |                                |                 |
|                         | 8100         | Demand Large   | 403                               |                                       |                 |                          |                          |                   | ✓                  |                 |                 |                                    |                 |                 |                |                  |                          |                 |                                |                 |
|                         | 8000         | HV Demand  | 29                                |                                       |                 |                          |                          |                   |                    |                 | ✓               |                                    |                 |                 |                |                  |                          |                 |                                |                 |

### Obsolete Retail Tariffs

| Notified Tariff | Description                       |
|-----------------|-----------------------------------|
| Tariff 21       | Declining Block Tariff – Business |
| Tariff 37       | TOU – Non – domestic heating      |
| Tariff 63       | TOU – Farm                        |
| Tariff 64       | TOU – Irrigation                  |

### Other Energex Network Tariffs

| NTC           | Description            | Approx current cust. numbers | Proposal for 2012-13  |
|---------------|------------------------|------------------------------|---|
| 9400          | Streetlights - Flat    | n/a – volume charge only     | Network tariff to be removed – all unmetered supply is to be mapped to NTC 9600.                  |
| 9500          | Watchman lights - Flat | n/a – volume charge only     | Network tariff to be removed – all unmetered supply is to be mapped to NTC 9600.                  |
| 8200          | Demand Medium          | 3,041                        | Network tariff to be removed – all existing customers transferred to Demand Small or Demand Large |
| Site specific | ICC, CAC, EG           | 488                          | Designed for customers > 4 GWh – ENERGEX network tariff only, not available in the gazette        |

## 4.2 Appendix B – Proposed Inclining Block Tariff

Fixed Service Charge (\$/day)

+

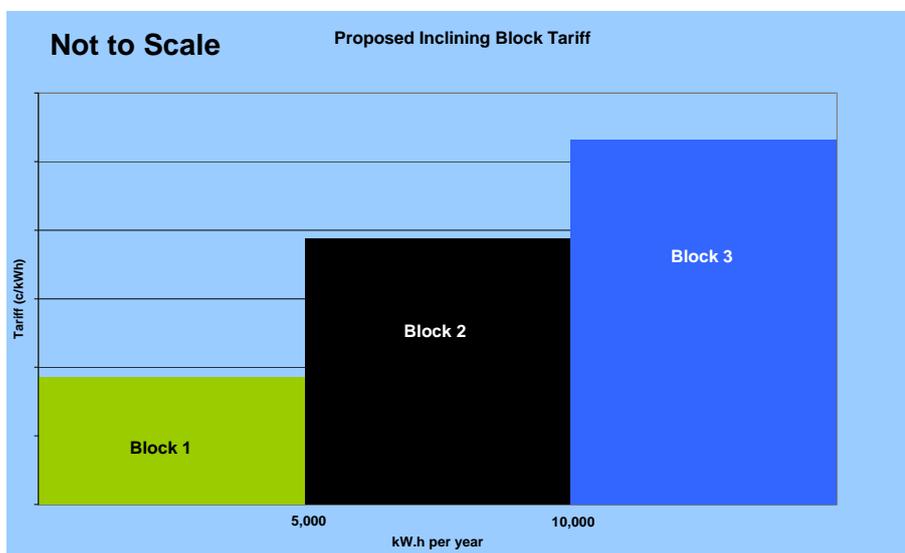
Consumption charge (c/kW.h) based on the following inclining block structure:

Block 1 - 0 - 5000 (kW.h per annum)

Block 2 - 5001 - 10000 (kW.h per annum)

Block 3 - 10,001 + (kW.h per annum)

The proposed structure is illustrated below:



ENERGEX proposes the above would be billed on a daily pro-rata basis as outlined below.

C = Consumption in billing period (kW.h)

D = Number of days in billing period (days)

B1 = Block 1 consumption allowance (kW.h) = 5000 x D / 365.25 kW.h

B2 = Block 2 consumption allowance (kW.h) = 5000 x D / 365.25 kW.h

R1 = Tariff rate in first block (c/kW.h)

R2 = Tariff rate in second block (c/kW.h)

R3 = Tariff rate in third block (c/kW.h)

where  $C \leq B1$ ,

Consumption Charge (\$) =  $C \times R1/100$

where  $C > B1$  and  $C \leq B2$

Consumption Charge (\$) =  $(B1 \times R1/100) + ((C - B1) \times R2/100)$

where  $C > B2$ ,

Consumption Charge (\$) =  $(B1 \times R1/100) + (B2 \times R2/100) + ((C - (B1+B2)) \times R3/100)$

### 4.3 Appendix C – Proposed residential ToU tariff

Proposed structure for the residential time of use:

Fixed Service Charge (\$/day)

+

Consumption charge (c/kW.h) based on the following time of use structure:

*Monday to Friday (inclusive of public holidays)*

- Off-peak 10pm – 7am
- Shoulder 7am – 4pm, 8pm – 10pm
- Peak 4pm – 8pm

*Saturday/Sunday*

- Off-peak 10pm – 7am
- Shoulder 7am – 10pm
- No Peak

The proposed structure is illustrated below:

