Submission Paper

Review of Regulated Retail Electricity Tariffs and Prices

Response to the QCA Draft Determination *Regulated Retail Electricity Prices 2012-13*

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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 2012-2013 Draft Determination*[1].

Energex's responses are limited to the specific issues regarding the treatment of network costs, transitional arrangements 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.

Energex acknowledges that there will be a price impact on customers as a result of this review. However, the network tariffs proposed are designed to be cost reflective in line with the National Electricity Rules and provide a number of customer options to manage their usage and, hence, costs.

The Direction Notice requires the QCA to adopt a cost reflective N (network) + R (energy and retail) pricing model. The QCA's Draft Determination provides details of the proposed regulated retail tariffs and prices for 2012-13, and explains how these were determined. It also explains the approach to calculating the N and R components of the tariffs and provides indicative impacts of the revised tariffs and prices on customers.

In July 2011 and November 2011, the QCA published an Issues Paper[2] and Draft Methodology Paper[3], respectively, inviting interested parties to respond. Energex's submissions in response to these papers can be found on the QCA's website.

[1] http://www.qca.org.au/electricity-retail/NEP/draftDec.php

[2] http://www.qca.org.au/electricity-retail/RevEPandTS/IssuesPaper.php

[3] http://www.qca.org.au/electricity-retail/NEP/DMP/

2 Response to the Draft Determination

Energex's comments about the Draft Determination 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.

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. However, large customers in Ergon Energy's distribution area will continue to have access to the regulated retail tariffs.

Energex notes that for these large customers with continued access to the regulated tariffs, the QCA proposes to use Ergon Energy network prices as the basis for the (N) component. Energex supports this approach as it provides a more cost reflective outcome.

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 resulted in a single business flat-rate tariff and a single two-part business ToU tariff.

2.1.2 Energex's submission to the QCA Draft Methodology Paper December 2011

ENERGEX's submission to the QCA's Draft Methodology Paper outlined its proposed changes to network tariffs for domestic and business customers and the processes for passing through network costs to the customer and maintaining alignment of retail and network tariffs. The submission also provided some comments on metering, tariff changes and transitional arrangements.

Following its August submission, Energex continued to review the current suite of network tariffs and proposed tariff changes in more detail. The following changes to the original proposals were highlighted in Energex's December submission:

- Through a detailed tariff analysis and implementation study, Energex decided against the introduction of a three-part business ToU network tariff for 1 July 2012 as Energex's assessment is that implementation costs would exceed any network or customer benefit. Energex's business ToU network tariff would therefore remain unchanged as a two-part ToU.

- The tariff map was 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 was included as an appendix in Energex's December submission and is available in Appendix A of this submission.

2.1.3 Application of Energex's tariffs

Energex generally agrees with the QCA's proposed application of network tariff codes to the regulated retail tariffs with the following exception.

In preparing the Draft Determination, QCA has inadvertently used the superseded version of the tariff map and has mapped Energex's demand network tariff (NTC 8300) to tariff 66[4]. As a result, the report is incorrectly indicating a significant price increase for customers on tariff 66 of 337% or $10,320 per annum.[5]

Under Energex's proposed mapping of network tariffs, Energex's business flat rate network tariff (NTC 8500) is mapped to the retail tariff 66, in line with current practice. Energex's proposed tariff map is available in Appendix A.

[4] Refer to Table 6.4: Alignment of Existing Regulated Retail Tariffs with New 2012-13 Regulated Retail Tariffs (and Underlying Network Tariffs), page 81.

[5] Refer to Figure 6.3: Change in Electricity Bills in 2012-13 for Customer Currently on Farming and Irrigation Tariffs, page 83.

For tariff 66 customers, mapping this retail tariff to Energex's network tariff NTC 8500 / tariff 20 will result in the price increase being significantly less than currently indicated.

2.1.4 Transitional Arrangements

Tariff 37

Energex notes that the QCA proposes to maintain tariff 37 in its current form for 2012-13 as a transitional provision. Tariff 37 would then be removed from the regulated retail tariff schedule from 1 July 2013. The QCA has indicated these customers would then be moved onto the business ToU tariff 22.

Customers on tariff 37 will require their meter to be re-programmed to access tariff 22 (NTC8800). There are an estimated 1047[6] customers currently accessing this tariff in SEQ. 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.

Therefore, Energex proposes that customers remaining on tariff 37 as of 30 June 2013 be mapped to the business flat rate tariff (NTC8500) unless the customer's retailer has indicated otherwise.

Irrigation tariffs 64 and 65

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). In its December submission, Energex proposed these options remain for irrigation customers. This was proposed by Energex to allow a level of diversity around load switching to be maintained and remove the requirement to manually re-program thousands of meters and/or time switches[7] in SEQ, predominantly in remote and rural areas. Despite this, Energex's proposal in relation to this matter has not been reflected in the Draft Determination.

In the absence of the three different peak time options being retained and the application of the tariff 22 peak time of 7am to 9pm being applied to tariff 64 (Obsolescent) and 65, Energex requires a 12 month transition period to facilitate the transferral of customers, including the reprogramming of meters and/or time switches and the restructuring of businesses whose current operations are dependently programmed with consideration for their selected peak time option.

[6] Figure is accurate as at 11 April 2012.

[7] As at August 2011, there were approximately 2350 NMIs associated with tariffs 64 and 65. For each NMI, there can be multiple meters and/or time switches attached to it. As such, thousands of meters and/or time switches will require manual re-programming to facilitate the transfer to tariff 22.

It is proposed that tariff 64 and 65 be retained in their current format for 12 months to facilitate customer transitions with tariff 64 becoming obsolete at the end of the transition period and the single peak time under tariff 22 becoming applicable to customers on tariff 65. This proposal is similar to the transition periods provided for tariff 37 and 66 which will both be retained for 12 months to facilitate customer transitions to tariff 22 and 20, respectively.

2.1.5 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 Energex to annually adjust its network prices by the March CPI figure.

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 has been provided the opportunity of some input into the regulated retail tariff terms and conditions gazette produced by the Queensland Government.

Energex is satisfied that the issues raised in its previous submission regarding the risk of introducing a number of unintended consequences has been minimised and the spirit of the review objectives has been preserved.

3.2 Availability of ToU ready meters

In principle, Energex believes that ToU metering should be encouraged because due to its potential to contribute to a reduction in peak network demand. However, resources and meter availability are likely to limit the availability of the ToU option to customers in the short term.

Energex currently has approximately 300,000 ToU capable meters installed which will need to be reprogrammed to facilitate the tariff change. Where the customer does not have a ToU capable meter, Energex proposes to replace the meter at no cost to the customer. However, where additional costs are required to upgrade the wiring or distribution board on a customer's premises, these costs should be met by the customer.

A phased roll out of ToU metering to facilitate the ToU tariff option is required from a practical perspective. Energex is considering various options, such as first-come basis or on a geographical basis. The option will be dependent on the number of customers requesting to transfer to the ToU tariff and on the availability and efficient use of resources.

3.3 Approval of network tariffs by the AER

The network prices included in the QCA's Draft Determination are draft network prices only and may be subject to change due to various factors, including the CPI figure and final Transmission Use of System charges. 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 Existing	T12 New	T20 Existing	T22 Existing	T31 Existing	T33 Existing	T41 Existing	T71 Existing	T91 Existing
ENERGEX Network Tariffs	NTC	Description	Approx cust. numbers 2011-12	*IBT – Domestic*	*TOU – Domestic*	*Flat – Business*	*TOU – Business*	*Flat – Controlled Load 1*	*Flat – Controlled Load 2*	*Demand – min 75kW*	*Public Lamps*	*Watchman Lights*
	8400	*Domestic IBT*	*1,227,588*	✓								
	8900 New	*Domestic TOU*	*n/a – proposed tariff*		✓							
	8500 **8600**	*Business Small - Flat* *Business Medium - Flat* ***Combined into one tariff:*** ***Business Flat (8500)***	*73,932 (Small)* *19,422 (Medium)*			✓						
	8700 **8800**	*Business Small – TOU* *Business Medium - TOU* ***Combined into one tariff:*** ***Business TOU (8800)***	*7,265 (Small)* *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*							✓		

Transitional Retail Tariffs

Notified Tariff	Description	NTC
Tariff 37	*TOU – Non-domestic heating*	*8800*
Tariff 62	*TOU – Farm*	*8500*
Tariff 63	*TOU – Farm*	*8800*
Tariff 64	*TOU – Irrigation*	*8800*

Notified Tariff	Description	NTC
Tariff 65	*TOU – Irrigation*	*8800*
Tariff 66	*Flat / Demand – Irrigation*	*8500*
Tariff 67	*Flat – Farm*	*8800*
Tariff 68	*Flat – Irrigation Drought Area*	*8800*

Note

The following tariffs are only available to customers of Ergon Energy Corporation Limited:

- Tariff 42 – Business Over 100MWh (Demand Small)
- Tariff 43 – Business Over 100MWh (Demand Medium)
- Tariff 44 – Business Over 100MWh (Demand Large)
- Tariff 53 – Business – High Voltage General Supply (Demand)