Queensland Competition Authority

Draft determination

# Regulated retail electricity prices for 2015–16

**December 2014**

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# SUBMISSIONS

## Closing date for submissions: 27 February 2015

Public involvement is an important element of the decision-making processes of the Queensland Competition Authority (QCA). Therefore submissions are invited from interested parties concerning its draft determination of regulated retail electricity prices for 2015–16. The QCA will take account of all submissions received by the due date.

Submissions, comments or inquiries regarding this paper should be directed to:

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## Confidentiality

In the interests of transparency and to promote informed discussion, the QCA would prefer submissions to be made publicly available wherever this is reasonable. However, if a person making a submission does not want that submission to be public, that person should claim confidentiality in respect of the document (or any part of the document). Claims for confidentiality should be clearly noted on the front page of the submission and the relevant sections of the submission should be marked as confidential, so that the remainder of the document can be made publicly available. It would also be appreciated if two copies of each version of these submissions (i.e. the complete version and another excising confidential information) could be provided. Where it is unclear why a submission has been marked 'confidential', the status of the submission will be discussed with the person making the submission.

While the QCA will endeavour to identify and protect material claimed as confidential as well as exempt information and information disclosure of which would be contrary to the public interest (within the meaning of the *Right to Information Act 2009* (RTI)), it cannot guarantee that submissions will not be made publicly available.

## Public access to submissions

Subject to any confidentiality constraints, submissions will be available for public inspection at the Brisbane office, or on the website at www.qca.org.au. If you experience any difficulty gaining access to documents please contact us on (07) 3222 0555.

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# EXECUTIVE SUMMARY

The QCA has been delegated the task of determining regulated retail electricity prices (notified prices) for regional Queensland from 1 July 2015 to 30 June 2016. The QCA will not be setting notified prices for customers in south east Queensland; from 1 July 2015, price monitoring will replace price regulation in south east Queensland. Given the removal of price regulation in south east Queensland, we have reassessed our approach to setting notified prices in regional Queensland. We have decided to continue basing notified prices for residential and small business customers on the costs of supply in south east Queensland. This approach is most likely to produce prices generally consistent with expectations of standing offer prices in south east Queensland. Our approach will produce notified prices consistent with the Queensland Government's uniform tariff policy for 2015–16.

Setting notified prices solely for regional Queensland allows the QCA to consider changes to time of use tariffs that would improve the price signals to regional customers. We propose to use Ergon Energy Distribution's (Ergon Distribution's) network tariff structures for residential and small business customer time-of-use tariffs (tariff 12 and new tariff 22A[1]). We have reduced Ergon Distribution's network charges so that customers on these tariffs will (on average) pay the same for network services as customers in south east Queensland.

Our overall approach to determining notified prices for large business customers is unchanged from 2014–15.

Some regional businesses continue to use transitional and obsolete tariffs. These tariffs offer prices generally below the costs of supply in south east Queensland. In 2013-14, the QCA announced transitional arrangements that would see these tariffs phased out by 2020. Until then, existing and new customers will still benefit from lower prices than the prices offered by the standard business tariffs. We have continued to make a number of transitional tariffs available for 2015–16 and beyond. However, tariffs 41 (large) and 43 (large) will be removed in 2015–16, as scheduled.

Our draft determination is made on the basis of the latest information about the expected costs of supply in 2015-16. It is highly likely that there will be changes in costs between our draft and final determinations, particularly given significant uncertainty in relation to network costs. The network charges we have used are only indicative because the Australian Energy Regulator has not yet decided whether to accept the distributors' revenue proposals for the new five-year regulatory period beginning on 1 July 2015. The Government has also announced that it will pay Solar Bonus Scheme (SBS) costs from 1 July 2015, removing them from network charges, should it be returned to government for another term. As a policy proposal yet to be legislated, this change has not been factored into our calculation of draft notified prices.

## Underlying cost drivers

Increases in notified prices will moderate significantly in 2015–16 compared to recent years. This welcome relief is due to lower expected increases in all of the key cost drivers.

Customers can expect relief from the large network price increases experienced in recent years. Energex and Ergon have submitted to the Australian Energy Regulator their proposed network costs for the next

[1] Tariff structures can include, for example, combinations of fixed charges, demand charges and consumption charges. Consumption charges might be flat or they might vary based on the amount of electricity used or the time it is used.

five years. Assuming these proposals are accepted, the network cost component of typical customers' bills excluding SBS costs but including metering, would increase by about 1.2% (tariff 11) and 0.7% (tariff 20).

Solar feed-in tariffs under the SBS will continue to be a major cost for residential and small business customers. The costs of the SBS have almost doubled since 2013–14 and were expected to spike in 2015–16. Energex's latest regulatory proposal seeks to spread the 2015-16 increase across the five years of the next regulatory period to reduce the immediate impact on customers. The costs of the SBS are expected to increase by about 18.1% (tariff 11) and 13.4% (tariff 20). If the policy to remove SBS costs from notified prices is implemented, we would expect variable network charges to fall and that the typical tariff 11 customer's bill would reduce by $50 (or 3.4%) compared to 2014-15.

Increases in energy costs are also expected to generally moderate, due to lower spot prices and futures contract prices. The energy cost allowance for the Energex area is expected to rise by less than inflation in 2015–16 at 1.6%, while energy costs for tariff 33 are expected to fall by 1.6%. However, energy costs for tariff 31 (overnight controlled loads) are forecast to rise by 4.3% due to higher fuel costs prevailing overnight.

Retail operating costs (ROC) have generally increased in line with forecast inflation.

## Impacts on residential customers

The main retail tariff for residential customers is tariff 11. There is also a voluntary time-of-use tariff (tariff 12) for customers with interval meters. Residential customers may also choose ‘off-peak’ or ‘controlled load’ tariffs (tariffs 31 and 33) for uses such as water heating and pool pumps.

As noted above, we expect that residential and small business customers will see separate metering charges on their bills in 2015–16. These charges will reflect costs previously included in the daily fixed charge. Although these charges are not set by the QCA, or included in notified prices, we have taken them into account when estimating the change in typical customer bills to allow a like-for-like comparison with bills in 2014–15. To maintain the uniform tariff policy, we have assumed that the Government will provide a subsidy to ensure that regional customers pay the same metering charges as south east Queensland customers. However, this is a matter for the Government to decide.

### Tariff 11

The components of tariff 11 have not been cost-reflective, with the fixed charge set below cost and the variable charge above cost. For 2013–14, we established a three-year transition to rebalance the fixed and variable components of tariff 11 so that each component would be cost-reflective (in south east Queensland) by 1 July 2015. Next year will be the final step in this process. As a result of the re-balance, the variable charge for tariff 11 will decrease by about 2 cents/kWh (9%) in 2015–16, while the fixed charge will increase by 24 cents a day (29%).

As set out in Table 1 below, the charges for 2015–16 will increase a typical tariff 11 customer’s annual bill from $1,467 to $1,506 (2.7%). The impact on individual customers will vary depending on their consumption, with smaller customers facing a higher percentage increase than the typical customer and some large customers facing a decrease.

**Table 1 Tariff 11 – Charges and typical annual bill**

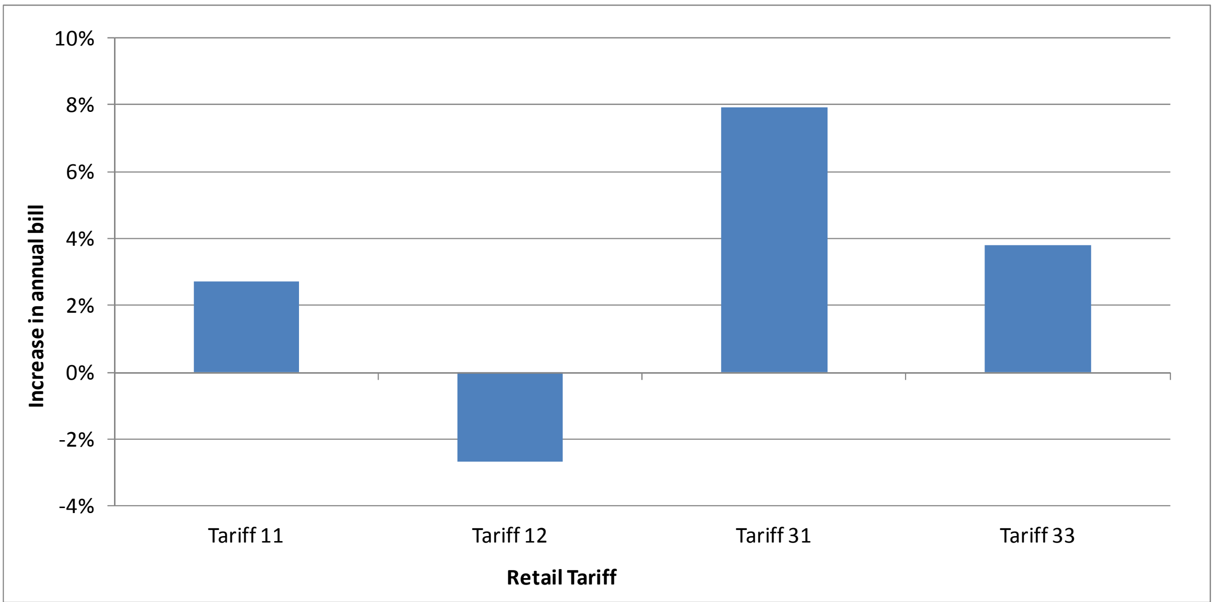
| | *2014–15 Final Determination (carbon exclusive)* | *2015–16 Draft Determination* | *Change (%)* |
|---|---|---|---|
| *Tariff components* | | | |
| Fixed charge (cents/day) | 83.414 | 107.483 | 28.9% |
| Variable charge (cents/kWh) | 25.378 | 23.135 | -8.8% |
| *Other charges* | | | |
| Metering charge (cents/day) | - | 10.700 | - |
| Annual Bill (GST inclusive) ($) | 1,467 | 1,506 | 2.7% |

*Note: Based on a typical tariff 11 customer consuming 4,053 kWh per year and assumes that the Energex metering charge will apply.*

## Summary of impacts on residential customers

Figure 1 shows the percentage changes that typical residential customers can expect in their annual electricity bills from 2014–15 to 2015–16 for each residential tariff. For tariff 11, bill impacts will vary depending on each customer's consumption. For tariff 12, bill impacts will vary depending on both the level of each customer's consumption and the time of day, and time of year, they consume.

**Figure 1 Change in electricity bills in 2015–16 for typical residential customers**




The bill increases for tariffs 31 and 33 are higher than for tariff 11 largely because of the new metering charge in 2015–16 and, for tariff 31, increases in energy prices overnight.

The decrease in the typical tariff 12 bill is largely due to a reduction in Energex's variable network charges compared to 2015-15.

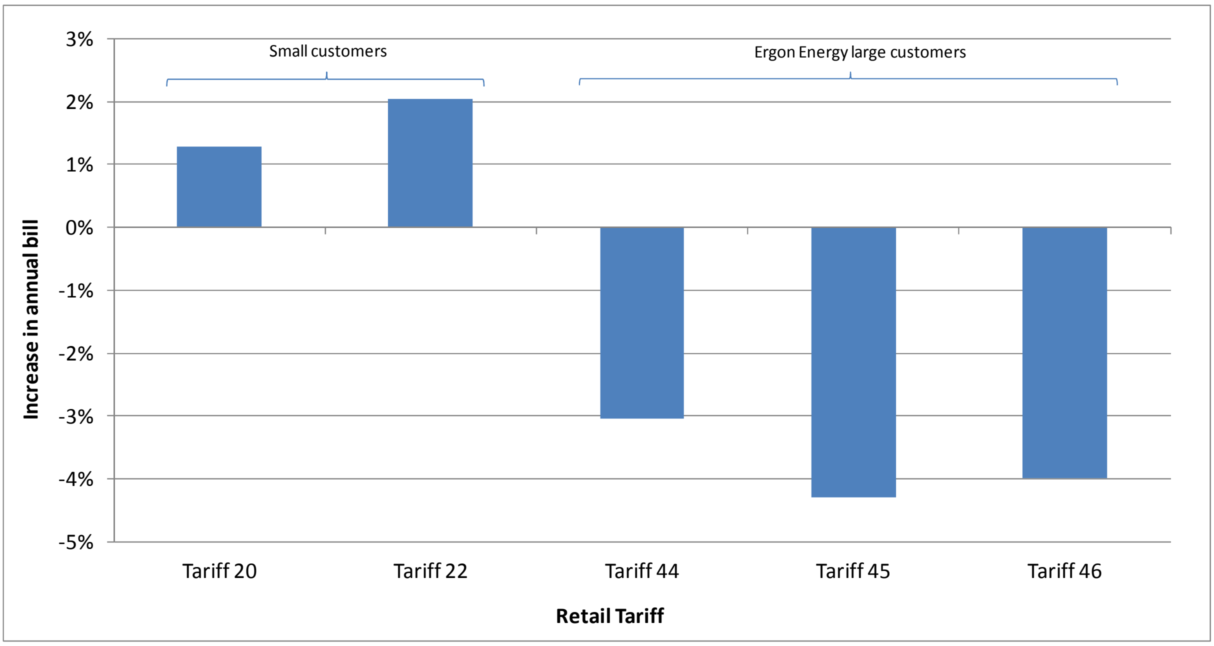
## Impacts on business customers

As noted above, we have used Ergon Distribution's network tariff structures as the basis for a new small business time-of-use tariff (tariff 22A). This tariff includes a peak usage charge for the summer months only rather than all year, as is the case for the existing small business time-of-use tariff 22.

The existing tariff 22 (based on the Energex network tariff structure) will be retained for two years. We proposeallowing customers to choose to switch to tariff 22A during that time. The typical tariff 22 customer's annual bill is expected to increase by 2% compared to 2014–15.

A typical business customer on tariff 20 can expect a bill increase of 1.3%. Typical customers on large business customer tariffs will experience annual bill decreases of between 3% and 4.3% next year. This has been driven by lower forecast wholesale energy costs and network costs. Figure 2 presents the estimated changes in annual bills for typical business customers. Bill impacts will vary depending on each individual customer's level and pattern of consumption.

**Figure 2 Change in electricity bills in 2015–16 for typical business customers**




## Arrangements for customers on obsolete and transitional tariffs

In 2013–14, we established transitional arrangements for customers on most obsolete tariffs, as many customers would have faced significant price impacts if they moved immediately to a standard business tariff.

We propose to maintain these transitional arrangements for 2015–16. Our general approach in past determinations has been to increase the charges in each transitional and obsolete tariff in line with the percentage increases in the standard business tariffs customers would otherwise pay. In cases where the gap between transitional and standard business tariffs is large, we applied an additional increase to limit charges for transitional and obsolete tariffs falling further below cost in dollar terms.

Increases in the standard business tariffs will be low or negative for 2015-16. When increases are low, our approach does little to reduce how far customers' bills are below cost in dollar terms. We propose a floor to price increases, just as we did in setting carbon-exclusive notified prices for 2014–15. In 2014-15, we set a floor increase of 10% to all transitional and obsolete tariffs. Given the large increases customers have faced in recent years, we propose a floor of 5% for 2015–16. However, if the anticipated price increases for the standard business tariffs do not eventuate, we will reassess our position.

New customers will continue to be allowed to use transitional tariffs to ensure that new and existing customers are treated equitably. As foreshadowed in the 2014–15 determination, tariffs 41 (large) and 43 (large) will be removed from 1 July 2015. Customers on these tariffs will need to choose a new tariff.

# THE ROLE OF THE QCA – TASK, TIMING AND CONTACTS

The Queensland Competition Authority (QCA) is an independent statutory authority that aims to promote competition as the basis for enhancing efficiency and growth in the Queensland economy.

The QCA's primary role is to ensure that monopoly businesses operating in Queensland, particularly in the provision of key infrastructure, do not abuse their market power through unfair pricing or restrictive access arrangements.

In 2012, that role was expanded to allow the QCA to be directed to: investigate, and report on, any matter relating to competition, industry, productivity or best practice regulation; and review and report on existing legislation.

## Key dates

**2015–16 review of regulated retail electricity prices: indicative timetable**

| | |
|---|---|
| Release of draft determination | 10 December 2014 |
| Details released on draft determination workshops - tentatively scheduled for Bundaberg, Cairns, Mackay, Mount Isa, Toowoomba and Townsville | early January 2015 |
| Workshops on draft determination | early February 2015 |
| Submissions on draft determination due | 27 February 2015 |
| Release of final determination | 29 May 2015 |

## Registration of interest

http://www.qca.org.au/Contact-us

## Contacts

Enquiries regarding this project should be directed to:

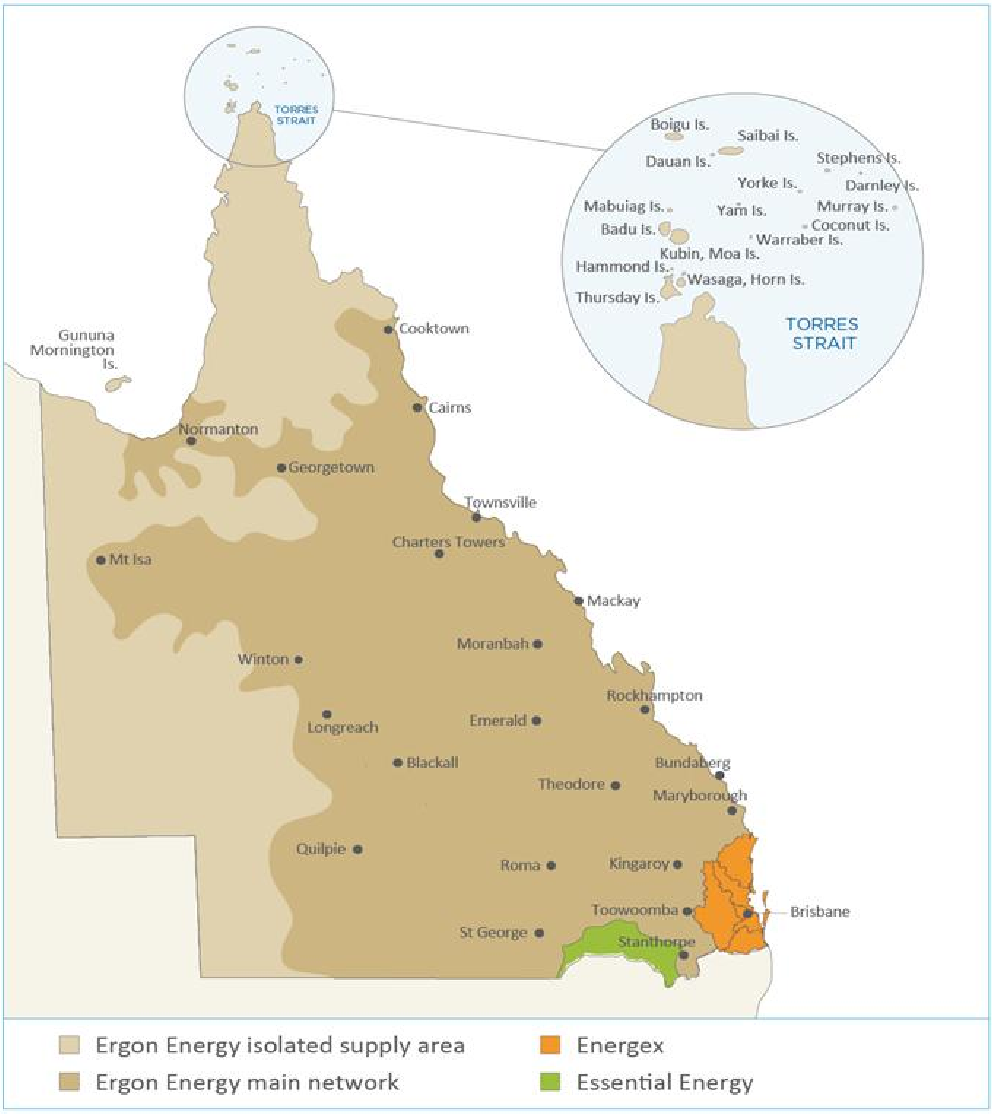
Tel (07) 3222 0555
http://www.qca.org.au/Contact-us
www.qca.org.au

# 1 INTRODUCTION

The Queensland Competition Authority (QCA) has received a delegation from the Minister for Energy and Water Supply (the Minister) to determine regulated retail electricity prices (notified prices) to apply to non-market customers from 1 July 2015 to 30 June 2016.

The determination will only apply in the Ergon Energy distribution area, which covers regional and rural areas of Queensland (see map below)[2]. The Queensland Government (the Government) has legislated to remove retail price regulation in the Energex distribution area (covering south east Queensland) from 1 July 2015, which means that customers in south east Queensland will no longer have access to notified prices.

**Figure 3 Queensland distribution areas**




[2] Around 5,700 customers in the Goondiwindi, Texas and Inglewood areas of southern Queensland are connected to Essential Energy's New South Wales distribution network. While notified prices do not apply to these customers, the Government provides a subsidy to Origin Energy to ensure that non-market customers pay no more than similar customers that have access to notified prices.

## 1.1 The uniform tariff policy and regional pricing

The Government's uniform tariff policy ensures that, regardless of where they live, eligible non-market customers of the same class pay the same notified prices[3]. To date, the policy has seen most notified prices based on the costs of supply in south east Queensland (i.e. the Energex distribution area).

Notified prices based on costs in south east Queensland benefit customers in regional Queensland who would otherwise face higher prices reflecting the higher costs of supplying electricity in regional areas. The difference in cost is largely due to the higher network and energy costs of supplying electricity over long distances to a relatively sparse customer base. These additional costs are significant: the uniform tariff policy's subsidy for regional electricity customers is expected to be $655 million in 2014–15[4].

The end of notified prices in south east Queensland from 1 July 2015 requires that we reassess our approach to setting notified prices for residential and small business customers in regional Queensland. In the absence of notified prices in south east Queensland, the QCA needs to set regional prices on a new basis, according to our obligations under the *Electricity Act 1994* (the Electricity Act) and taking into account matters raised in the delegation.

The Government has confirmed its commitment to retaining the uniform tariff policy[5]. While the Government is reviewing the effectiveness and objectives of the uniform tariff policy[6], its policy for 2015–16 is that residential and small business customers should not pay more than reasonable expectations of the prices that would be available to standing offer customers in south east Queensland[7]. This is generally consistent with how we have applied the uniform tariff policy for residential and small customers in past determinations.

## 1.2 Review process to date

On 30 September 2014, we released an interim consultation paper advising interested parties of the commencement of the review. We received 13 submissions in response, as listed in Appendix C.

We are releasing this draft determination, which includes draft regulated retail tariffs and prices for 2015–16, and explains how these were determined. In making our draft determination, we have taken into account the requirements of the Electricity Act and the delegation, matters raised in submissions, ACIL Allen's draft report on the cost of energy and our own investigations.

We appreciate the valuable contribution of stakeholders who have made submissions to our review. While we have not necessarily referenced all arguments or submissions, we have carefully considered each submission received by the due date. We note, however, that some issues raised are outside the scope of our review.

We will hold workshops to discuss the draft determination in regional centres in early February 2015. We tentatively plan to hold workshops in Brisbane, Bundaberg, Cairns, Mackay, Mount

[3] Department of Energy and Water Supply, *Electricity On-Supply in Queensland: Discussion Paper*, 2013, p. 7; and *Ministerial Delegation to the QCA to determine regulated retail electricity prices from 1 July 2013 to 30 June 2016*, 12 February 2013, p. 1.

[4] Queensland Government, *State Budget 2014-15 - Concessions Statement*, June 2014, p. 4.

[5] See the covering letter to the delegation (Appendix A) and the letter received from the Minister on 25 September 2014 (Appendix B).

[6] We provided advice to the Government on the policy earlier this year.

[7] See Appendix B. This advice accords with paragraph 5d(i) of the delegation.

Isa, Toowoomba and Townsville, depending on the level of stakeholder interest. Further details on the workshops, including how to register to attend, will be available early in January 2015 on our website.

Submissions in response to the draft determination are due no later than 27 February 2015. Details on how to make a submission are at the front of this paper. In preparing our final determination, we will consider all submissions received by the due date. In accordance with the delegation, we are required to publish a report on our final determination and gazette notified prices no later than 31 May 2015.

All non-confidential documents relating to this review are available on our website, www.qca.org.au.

# 2 LEGISLATIVE REQUIREMENTS AND PRICING FRAMEWORK

When we receive a delegation to determine notified prices, we must make the determination in accordance with our obligations under the Electricity Act. In this chapter, we explain these obligations and our draft decision on the framework we will apply to set notified prices for 2015–16.

## 2.1 Legislative requirements

The Electricity Act does not specify criteria or principles that we must apply when making a price determination. Rather, we are directed to have regard to various matters. In accordance with section 90(5) of the Electricity Act, the matters we are required to have regard to in making a determination are:

- the actual costs of making, producing or supplying the goods or services
- the effect of the price determination on competition in the Queensland retail electricity market
- any matter required by delegation
- any other matter we consider relevant.

When we make a determination, we also have regard to the objects of the Electricity Act, which are to:

- set a framework for all electricity industry participants that promotes efficient, economical and environmentally sound electricity supply and use
- regulate the electricity industry and electricity use
- establish a competitive electricity market in line with the national electricity industry reform process
- ensure that the interests of customers are protected
- take into account national competition policy requirements.

### 2.1.1 Key matters we are required to consider by delegation

The delegation sets out additional matters we are required to consider. Consistent with the approach of previous price determinations, we are required to consider applying the network (N) plus retail (R) cost build-up methodology.

We are also required to consider the Government's review of the effectiveness and objectives of the uniform tariff policy and options for improved regional competition.

When determining the network cost component, we must consider continuing with the same general approach we have applied in previous determinations. For residential and small business customer tariffs, this means using Energex's network charges and tariff structures for the flat rate tariffs (i.e., tariffs 11, 20, 31, 33, 41 and 91[8]). Adopting this approach would mean that network charges are below cost because they would be based on network costs in south

[8] Tariff 91 applies to unmetered supplies (except street lighting).

east Queensland, not regional Queensland. This is consistent with the Government's uniform tariff policy for 2015–16, which is that[9]:

> *... for the purposes of the delegation regional prices should, as much as practicable, aim to ensure that small customers outside south east Queensland do not pay more than reasonable expectations of the prices which would be available to standing offer customers in south east Queensland.*

For the time-of-use tariffs (i.e. tariffs 12 and 22[10]), we must also consider using Energex's network charges. However, there is a new requirement in the delegation to consider using Ergon Energy Distribution's (Ergon Distribution's) tariff structures. That is, network prices would be at the same *level* as Energex's network prices, but based on the *structure* of Ergon Distribution's network tariffs. Adopting this approach would still mean that network charges are below cost, although using Ergon Distribution's tariff structures would improve price signals and encourage customers to reduce consumption during peak periods in Ergon Distribution's area, as pointed out in the delegation.

For large business customer tariffs, we must consider using Ergon Distribution's network charges. This is the approach we have adopted in previous decisions.

We are also required to consider specific issues in relation to transitional arrangements for certain tariffs, in particular:

- completing the rebalancing of the fixed and variable components of tariff 11 (the standard residential tariff) using the approach established in the 2013-14 determination
- maintaining transitional arrangements for transitional and obsolete tariffs (for example, farming and irrigation tariffs).

## 2.2 2015–16 pricing framework

The matters we are required to consider in the Electricity Act and the objects of the Electricity Act indicate that cost-reflective prices and promoting retail competition are important guiding principles. Cost-reflectivity is important for efficiency and equity reasons. Previous determinations have also been designed to support retail competition, particularly in south east Queensland.

These considerations are in conflict with the Government's uniform tariff policy for most customers for 2015–16. However, the Electricity Act also allows us to have regard to any other matter we consider relevant. We consider that the impact on customers is a very relevant factor, particularly given the significant price increases customers have faced in recent years.

### 2.2.1 Residential and small business customers

Given that we are required to consider several potentially conflicting matters in making our price determination, we have explored a spectrum of possible pricing approaches for residential and small business customers. These approaches range from setting fully cost-reflective prices to our current approach of basing notified prices on the cost of supply in south east Queensland.

[9] Letter received from the Minister on 25 September 2014 (Appendix B).
[10] The delegation also requires that we consider removing tariff 13 (see Chapter 3).

### Cost base

Setting cost-reflective notified prices (i.e. reflecting the actual costs of supply to customers in each region) would avoid the need to subsidise electricity prices and would promote retail competition. However, it would be inconsistent with maintaining uniform tariffs because it would result in different notified prices for customers based on their location. It would also mean significant price increases, particularly for customers in western parts of the state, and those supplied by isolated systems. For instance, a typical tariff 11 customer paying cost-reflective prices in 2014–15 would pay around 140% more in western Queensland than in south east Queensland[11].

The Queensland Council of Social Services (QCOSS), Ergon Retail and Mr Tranter submitted that notified prices based on the cost of supply in regional Queensland would be prohibitively expensive for customers. However, the Energy Retailers Association of Australia (ERAA), Energy Suppliers Association of Australia (ESAA), Origin Energy (Origin) and Ergon Distribution submitted that customers should be transitioned to cost-reflective notified prices. ESAA suggested that the first step should reflect the lowest costs of supply in regional Queensland.

This is the approach we have used to set notified prices for large business customers since 2012. When price regulation for large business customers in south east Queensland ended in 2012, we decided to base notified prices for large business customers in regional Queensland on the lowest costs of supply for those customers still eligible for notified prices. This approach meant the new cost benchmark was Ergon Distribution's east pricing zone, transmission region 1[12]. We have continued this approach for subsequent determinations.

Adopting this approach for residential and small business customers would mitigate adverse price impacts for some customers and maintain uniform tariffs. It would also improve cost-reflectivity compared to the current approach based on south east Queensland costs and would reduce the subsidy paid by taxpayers to subsidise electricity prices. However, it would be inconsistent with the Government's uniform tariff policy for 2015–16, and price increases could still be significant. For example, in 2014–15, the costs of supplying residential customers in the east pricing zone were about 30% higher than in south east Queensland[13].

At the other end of the spectrum, notified prices could continue to be based on the cost of supply in south east Queensland. This would be consistent with the requirement in the delegation to consider basing the network cost component on Energex's charges and the Government's uniform tariff policy for 2015–16. However, it would result in customers continuing to pay much less than the cost of supply, potentially leading to inefficient investment and decision-making, as well as ongoing costs to taxpayers.

Some stakeholders considered that notified prices should continue to be based on the cost of supply in south east Queensland, including QCOSS, COTA Queensland, Queensland Consumers' Association, Ergon Retail and Canegrowers Isis. Several of these stakeholders considered that an approach based on south east Queensland costs best reflects the Government's intent for the uniform tariff policy.

[11] This is the estimated impact in 2014–15 on a typical tariff 11 customer in the Ergon Distribution west pricing zone (transmission region one) paying cost-reflective notified prices.

[12] Queensland Competition Authority, *Final Determination: Regulated Retail Electricity Prices 2012-13*, May 2012.

[13] This is the estimated impact in 2014–15 on a typical tariff 11 customer in the Ergon Distribution east pricing zone (transmission region one) paying cost-reflective notified prices.

We consider it is reasonable to continue to set notified prices based on the costs of supply in south east Queensland because it is consistent with the Government's uniform tariff policy for residential and small business customers in 2015–16 and avoids the potentially large price increases associated with the other approaches.

**QCA position**

Our draft decision is to continue to set notified prices based on the cost of supply in south east Queensland.

### Framework to determine notified prices

To establish an appropriate framework for setting notified prices based on the costs of supply in south east Queensland, we have considered the Government's policy that residential and small business customers should not pay more than reasonable expectations of the prices that would be available to standing offer customers in south east Queensland[14].

Standing offers are basic contracts with regulated terms and conditions. Customers who do not opt for market contracts are, by default, supplied under standing offer contracts. In markets with price regulation, standing offer prices are usually the notified prices set by the regulator. In markets without price regulation, standing offer prices are set by the retailer. In both markets, standing offer prices tend to be the benchmark price from which retailers offer discounted market prices[15].

QCOSS submitted that notified prices should be based on the costs of an efficient south east Queensland retailer, rather than higher standing offer prices[16]. However, this approach would be inconsistent with the uniform tariff policy which seeks to ensure that standing offers across the State are equivalent. It would be unusual if the QCA set a standing offer in regional Queensland, available automatically to all eligible customers, which would be a lower, discounted offer compared to the standing offers available to customers in south east Queensland. Moreover, it would also mean that customers in regional Queensland would pay prices even further below cost. Using standing offer prices for south east Queensland to set notified prices for regional Queensland will still deliver substantial benefits to regional customers. For instance, notified prices in south east Queensland are about 30% lower than the actual costs of supply for regional customers on the main residential tariff (tariff 11).

We consider that standing offer prices in south east Queensland are the most appropriate benchmark prices to use when setting notified prices for regional Queensland customers. Like notified prices, standing offer prices in south east Queensland will apply to a default contract with standard terms and conditions. Market contract prices are not directly comparable, because the terms and conditions in these contracts will vary from the default contract and from retailer to retailer.

On balance, the QCA believes it is reasonable to use a 'standing offer' approach to set notified prices. In the absence of information about standing offer prices that will apply in south east Queensland in 2015-16, our draft decision is to add a standing offer margin of 5% of total costs. This is consistent with our previous decisions to include a headroom allowance of 5% in the notified prices applying to customers in south east Queensland.

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[14] The Minister's letter is included in Appendix B.

[15] Australian Energy Market Commission, *2014 Retail Competition Review, Final Report*, 22 August 2014, p.35 and p.182.

[16] Submissions from the Australian Sugar Industry Alliance, Queensland Consumers' Association, COTA Queensland and Mr Tranter did not support setting notified prices above costs.

**QCA position**

Our draft decision is to determine notified prices based on reasonable expectations of standing offer prices in south east Queensland. We will apply this approach by estimating the costs of supply in south east Queensland and adding a standing offer margin of 5% of total costs.

We will estimate the costs of supply for each retail tariff in accordance with an N+R cost build-up approach, where we treat the N (network cost) component as a pass-through and determine the R (energy and retail cost) component.

### 2.2.2 Large business customers

As noted above, we have previously determined notified prices for large business customers based on the lowest cost of supplying customers in regional Queensland. This approach has the benefit of being more cost-reflective and less costly to subsidise than an approach based on south east Queensland costs. It is also consistent with the requirement in the delegation to consider basing the network cost component on Ergon Distribution's network charges.

Ergon Distribution and Ergon Retail both submitted that we should maintain our current approach to setting notified prices for large business customers.

#### QCA position

Consistent with previous determinations, our draft decision is to set notified prices for large business customers based on the lowest costs of supply in regional Queensland, which is Ergon Distribution's east pricing zone, transmission region one. We will also continue to estimate the costs of supply for each retail tariff in accordance with an N+R cost build-up approach, which is consistent with our approach to setting notified prices for residential and small business customers, as discussed above.

# 3 NETWORK COSTS

Network costs are the costs associated with transporting electricity through the transmission and distribution networks and account for around 50% of the final cost of electricity for small customers.

As regulated monopoly businesses, Powerlink, Energex and Ergon Distribution all earn regulated revenues that are determined by the Australian Energy Regulator (AER). In addition to recovering their own distribution network costs, Energex and Ergon Distribution pass Powerlink's costs on to customers in network charges that are also approved by the AER.

The delegation requires that we consider:

- for small customer retail tariffs (except tariffs 12 and 22), basing the network cost component on Energex network charges and tariff structures
- for small customer tariffs 12 and 22, basing the network cost component on Energex network charges, but using the relevant Ergon Distribution tariff structures
- removing small customer tariff 13 from the tariff schedule, because Ergon Distribution does not have a network tariff for this tariff and no customers in regional Queensland use it
- for large customer retail tariffs, basing the network cost component on Ergon Distribution network charges.

## 3.1 Key network issues for 2015–16

The beginning of a new regulatory period for the distribution businesses on 1 July 2015 and the possible removal of Solar Bonus Scheme costs from network charges are the key issues affecting network tariffs and charges for 2015–16.

### Beginning of a new regulatory period

A new five-year regulatory period for the distribution businesses begins on 1 July 2015. Ergon Distribution and Energex submitted their revenue proposals to the AER on 31 October 2014. We have used the network tariffs and charges proposed by the distributors to recover their proposed revenue in our draft determination. Using network charges based on the distributors' proposed revenue, rather than approved revenue, means there is a higher risk of material changes between the draft and final determinations compared to previous years.

The AER will publish its preliminary revenue determination on 30 April 2015. Based on the preliminary determination, the distribution businesses will then be required to submit 2015–16 network charges to the AER by 21 May 2015. The AER is unlikely to approve the network charges before we are required to publish our final determination, which means that we may need to set notified prices based on the submitted network charges.

While the AER is required to make a final determination by 31 October 2015[17], which will apply from the date it is published, any revenue differences between the preliminary and final

[17] National Electricity Rules, clause 11.60.4(c).

determination will be accounted for in the remaining years of the regulatory period. Therefore, it is our understanding that the final determination will not affect 2015–16 network charges[18].

### Reclassification of metering services

The AER has proposed reclassifying type 6 metering services from standard control to alternative control from 1 July 2015[19]. The reclassification means that metering costs will be removed from standard network charges and distributors will be allowed to charge separately for metering services. The reclassification also means that metering charges can no longer be included in notified prices[20].

The main consequence of this change is that customers will see separate charges on their bills for metering, when previously metering costs were included in the fixed charges of regulated retail tariffs and shared between all customers. To maintain the uniform tariff policy, we have assumed that the Government will provide a subsidy to ensure that regional customers pay the same metering charges as south east Queensland customers. Although this will be a matter for the Government to decide. Compared to what they were paying previously, some customers may pay more and others less, depending on their network tariff. For example, customers on tariffs 31 and 33 will see a metering charge for the first time, and solar customers will also pay an additional metering charge.

While no longer part of notified prices, we have taken account of Energex's proposed metering charges in our analysis of the impact on customers of price changes between 2014–15 and 2015–16. This ensures a like-for-like comparison is made with 2014–15 notified prices, when metering charges were included in notified prices.

### Possible removal of Solar Bonus Scheme costs from network charges

The cost of the Solar Bonus Scheme (SBS) is included in network charges and recovered through notified prices. While the Government has announced that it will remove the cost of the SBS from electricity prices from 1 July 2015 if it is successful at the next election, our draft determination is made on the basis of network charges that include SBS costs.

## 3.2 Network tariffs for residential, small business and unmetered supply customers

For the 2014–15 determination, we used Energex's network charges and tariff structures as the basis for setting retail tariffs for residential customers, small business customers and unmetered supplies (excluding street-lighting—see section 3.3 below) because they reflected the costs of supplying customers in south east Queensland.

For our 2015–16 determination, we are only determining notified prices for regional customers. Therefore, we must decide whether to use the network charges and tariff structures of Energex or Ergon Distribution.

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[18] AEMC, *Rule Determination: National Electricity Amendment (Economic Regulation of Network Service Providers) Rule 2012*, 29 November 2012, pp. 260-261.

[19] The AER is also proposing to reclassify type 5 metering services, although we understand that type 5 meters are not permitted in Queensland. AER*, Final Framework and approach for Energex and Ergon Energy - Regulatory control period commencing 1 July 2015*, April 2014, Chapter 1.

[20] We consider that the reclassification of metering charges means that they now meet the definition of 'distribution non-network charges' in the Electricity Act. Distribution non-network charges cannot be included in notified prices (s. 90(3)(d) of the Electricity Act).

Firstly, we must decide on the *level* of network charges. As discussed in Chapter 2, our draft decision is to base notified prices on south east Queensland costs. This means we will set network charges at Energex levels. Setting network charges at the same level as Energex network charges means that customers in regional Queensland will, on average, pay the same for network services as customers in south east Queensland.

Secondly, we must consider whether to use the tariff *structures* of Energex or Ergon Distribution. Tariff structures can include, for example, combinations of fixed charges, demand charges and consumption charges. Consumption charges might be flat or they might vary based on the amount of electricity used or the time it is used.

In this section, we explain our draft decision to use Energex network structures for the flat retail tariffs and Ergon Distribution network structures for the time-of-use retail tariffs. We also explain our draft decision to remove retail tariff 13 from the tariff schedule and retain tariff 41.

### 3.2.1 Energex or Ergon Distribution tariff structures

There are three key differences between the flat rate tariff structures of Energex and Ergon Distribution. First, Ergon Distribution tariffs are more heavily weighted toward the recovery of costs through fixed charges than Energex tariffs. Second, Energex has flat consumption charges, while Ergon Distribution has three-part inclining block tariffs (IBTs). Third, Energex does not have a fixed charge for its controlled load tariffs, but Ergon Distribution does.

The Ergon Distribution residential time-of-use tariff structure is the same as the Energex structure (i.e. a fixed charge and peak, shoulder and off-peak consumption charges), but different time periods apply to each consumption charge. The main difference is that the Ergon Distribution peak and shoulder periods are limited to the summer months, which means the off-peak period accounts for a much greater proportion of time. Unlike the residential time-of-use tariff, there is a mismatch between the structure of the Energex and Ergon Distribution small business time-of-use tariffs. Energex has peak and off-peak consumption charges, while Ergon Distribution has peak, shoulder and off-peak consumption charges. Like the residential tariff, the peak and shoulder periods are limited to the summer months.

Further information on differences between the tariff structures is provided in Appendix E1.

#### Consideration of potential approaches

We have considered whether to continue to use Energex tariff structures as the basis for all residential and small business customer retail tariffs or whether Ergon Distribution tariff structures could be used as the basis for some or all tariffs.

**Energex tariff structures for all retail tariffs**

Continuing to use Energex tariff structures as the basis for all retail tariffs would be consistent with our previous decisions and ensure that some customers would not experience a significant change in the size of their bills as a result of a change in tariff structure. Queensland Consumers' Association and COTA Queensland supported this approach on the basis that it is the best way to meet the objective of the uniform tariff policy. Mr Tranter also supported this approach.

However, this approach would continue to result in all customers facing price signals that do not reflect the impact of their consumption on Ergon Distribution's network and would continue to encourage inefficient consumption and investment decisions to be made.

### Ergon Distribution tariff structures for all retail tariffs

Under this approach, all tariffs would be based on Ergon Distribution tariff structures. Ergon Distribution and Origin agreed with this approach on the basis that it would be a further step towards improving cost-reflectivity, and encourage efficient consumption and investment decisions.

However, all customers would be affected by the change in tariff structure, with some customers better off and some customers worse off. We consider that this change may be too significant to make in 2015–16 and does not align with the requirement in the delegation to consider basing the flat and controlled load tariffs on Energex tariff structures.

### Mix of Energex and Ergon Distribution tariff structures

Under this approach, Energex's tariff structures would be used for some retail tariffs and Ergon Distribution's tariff structures would be used for others. In the delegation, we were directed to consider using Energex structures for the flat and controlled load tariffs and Ergon Distribution structures for the time-of-use tariffs. The time-of-use tariffs are tariff 12[21] (residential customers) and tariff 22 (small business customers).

Using Ergon Distribution structures for the time-of-use tariffs would improve cost-reflectivity and encourage customers to reduce consumption during peak periods on Ergon Distribution's network, as pointed out in the delegation. While changing the tariff structure will result in negative impacts for some customers, it will only affect the relatively small proportion of customers that are on time-of-use tariffs. Ergon Retail supplies about 7,000 customers (7% of its small business customers) on tariff 22[22] and around 100 residential customers on tariff 12[23].

For these reasons, our draft decision is to use Energex tariff structures as the basis for flat rate tariffs and Ergon Distribution tariff structures for time-of-use tariffs.

The next section discusses how we have applied Ergon Distribution tariff structures to determine network charges for the time-of-use tariffs.

## 3.2.2 Applying Ergon Distribution tariff structures to time-of-use tariffs

As discussed, we have decided to use Ergon Distribution tariff structures as the basis for setting time-of-use tariffs for residential and small business customers, while reducing the overall level of prices to Energex levels.

We have considered two options that would achieve this outcome. Each option involves reducing Ergon Distribution east zone network charges so that customers will, on average, pay the same for network services as customers in south east Queensland[24]. The effect on customers that consume more or less than average, and the incentives for customers to move between the flat rate and time-of-use tariffs, will vary according to the option selected.

[21] Tariff 13 is also a time-of-use tariff for residential customers. However, our draft decision is to remove tariff 13 from the tariff schedule (as discussed below).
[22] Based on 2013–14 data.
[23] As at 1 July 2014.
[24] A third option was also considered for tariff 12, which was to apply the Energex prices in place of the Ergon Distribution fixed charge, and peak, shoulder and off-peak variable charges. However, we decided against this approach because it would result in customers paying less for network services than customers in south east Queensland. This is due to the far higher proportion of off-peak time under the Ergon Distribution structure. This option would not be possible for tariff 22 due to the mismatch in Energex and Ergon Distribution network structures, as discussed in section 3.2.1.

### Option 1: Uniformly decrease Ergon Distribution fixed and consumption charges

Under this option, all Ergon Distribution tariff components (fixed and consumption) are reduced uniformly. While this option maintains the relativities between the Ergon Distribution tariff components, it results in a higher fixed charge than the flat rate tariffs (tariffs 11 and 20), which may reduce the incentives for customers to move to a time-of-use tariff.

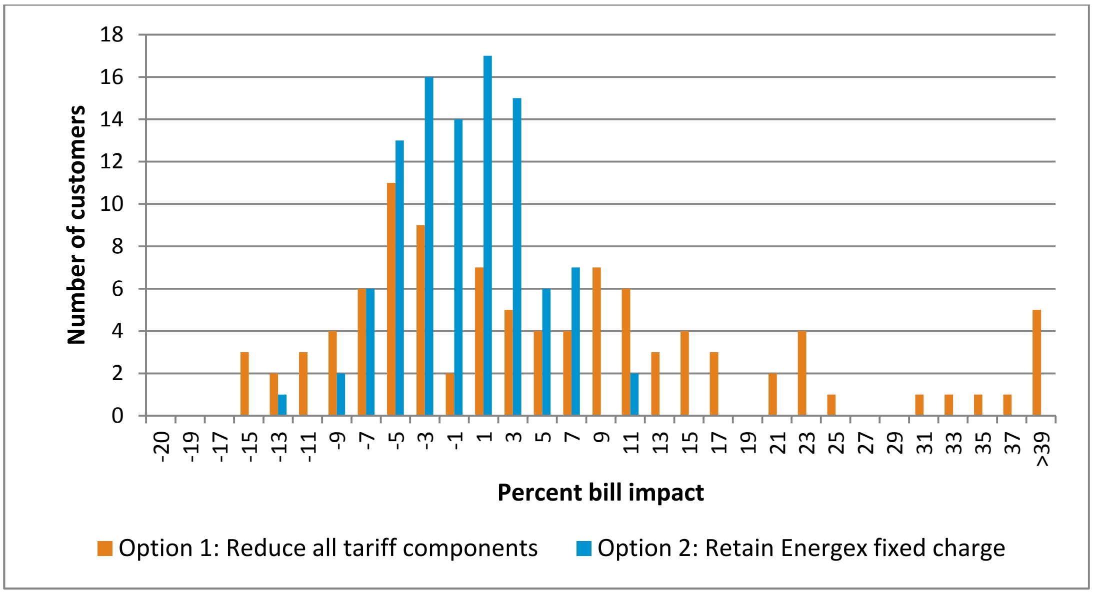
### Option 2: Maintain Energex fixed charge and reduce Ergon Distribution consumption charges

This option involves maintaining the Energex fixed charge and decreasing the Ergon Distribution consumption charges to a level where customers will, on average, pay the same as in south east Queensland. Keeping the Energex fixed charge results in a lower fixed charge than option one and means that it would align with the fixed charges in tariffs 11 and 20. Canegrowers Isis suggested that this option would be appropriate for tariff 22.

While this option preserves the relativities between the variable components of Ergon Distribution's tariffs, it does not preserve the relativities between the fixed and variable components. This leads to low consumption customers paying less than they would and high consumption customers paying more than they would if option one was used. However, it would provide an incentive for a larger number of customers to move to time-of-use tariffs than option one (based on information provided by Ergon Energy about customers' actual and assumed patterns of consumption). This is consistent with the suggestion in the delegation of encouraging customers to switch to time-of-use tariffs. The alignment of fixed charges in the flat rate and time-of-use tariffs may also improve incentives for those customers that are discouraged by high fixed charges.

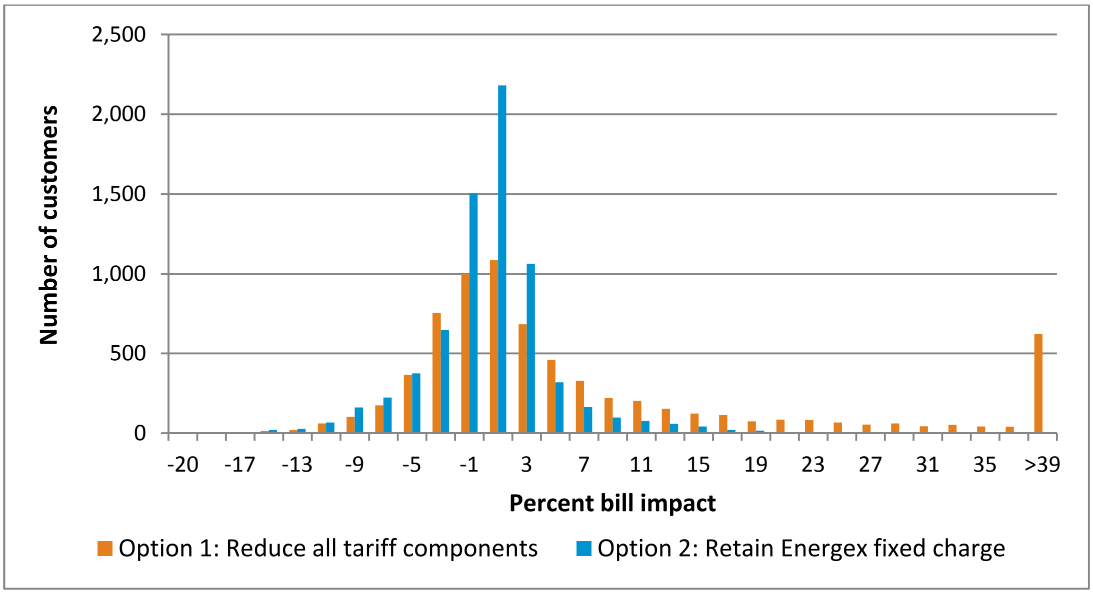
As shown in Figures 4 and 5, customer impacts are clearly less significant under option two than option one, mainly due to the lower fixed charge, which benefits customers with lower levels of consumption.

**Figure 4 Potential bill impacts for tariff 12**




*Note: Based on actual 2013-14 consumption, and assumes customers would consume 5% peak, 4% shoulder and 91% off-peak under the Ergon Distribution structure.*

**Figure 5 Potential bill impacts for tariff 22**




*Note: Based on actual 2013-14 consumption, and assumes customers would consume 6% peak, 4% shoulder and 90% off-peak under the Ergon Distribution structure.*

### QCA position

Our draft decision is to apply option two to determine network charges for the time-of-use tariffs. We consider that this option provides a greater incentive for customers to move to time-of-use tariffs[25] and the least customer impacts.

We note that customers can move between tariffs 11 and 12 twice a year without penalty. As a result, customers may take advantage of the off-peak rate in the Ergon Distribution based tariff 12 for the non-summer months and avoid the higher tariff 12 peak rate over the summer months by reverting to tariff 11. Over a year, this could result in customers paying less for network services than customers in south east Queensland, which may be inconsistent with the uniform tariff policy. It may also result in the time-of-use signals being ineffective at encouraging more efficient use of the network. However, it may encourage more customers to move to tariff 12 than if stricter conditions on tariff changes were imposed. These issues may also be relevant to the small business customer tariffs, because we understand that customers are charged a relatively modest fee after the first tariff change in a year.

We will consider whether stricter conditions should apply for the final determination and welcome comments from stakeholders on this issue.

On the basis of our assessment of customer impacts, we consider that tariff 12 can be moved to the Ergon Distribution structure without any transitional arrangements. However, as the impacts on some tariff 22 customers are more significant, we propose retaining the existing tariff 22 (based on the Energex tariff structure) for two years and allowing customers to voluntarily move to the new tariff during that period. Tariff 22 will be closed to new customers, meaning that only customers already on this tariff will be allowed to continue accessing it[26].

[25] Based on information provided by Ergon Energy about customers' actual and assumed patterns of consumption.

[26] This is consistent with our decision to close access to transitional tariffs that are only available for a short period of time (i.e. tariffs 41(large) and 43 (large)).

Ergon Distribution and Ergon Retail noted that meters would need to be re-programmed or replaced to enable Ergon Distribution structures to be used for time-of-use tariffs. They advised that it would be possible to achieve this by 1 July 2015 for the small number of customers on tariff 12, but that it would not be possible for all customers on tariff 22. As we have decided that the existing tariff 22 will be retained for two years due to customer impacts, we expect that this will provide sufficient time for Ergon Distribution to make the required metering changes to enable all customers to transition to the new tariff by 1 July 2017. We invite feedback from Ergon Distribution and Ergon Retail on this proposal.

As tariff 22 will be retained, the new retail tariff based on Ergon Distribution's tariff structures will be tariff 22A.

### 3.2.3 Tariffs 13 and 41

Tariff 13 is a residential time-of-use tariff available to customers that have a PeakSmart Air Conditioning Unit[27]. The delegation requires that we consider removing tariff 13 from the tariff schedule on the basis that Ergon Distribution does not have a network tariff for this tariff and no customers in regional Queensland are using it.

Ergon Retail advised that it now has one customer on this tariff, but did not envisage that the removal of this tariff would have a significant impact on that customer. The Queensland Consumers' Association suggested that tariff 13 should be retained to ensure the uniform tariff policy operates fairly across the state. However, this would require setting tariff 13 based on the Energex network tariff, which would be inconsistent with basing tariff 12 on the Ergon Distribution network tariff. Therefore, our draft decision is to remove access to tariff 13.

In the interim consultation paper, we indicated that we were considering removing tariff 41 on the basis that Ergon Distribution does not have a network tariff available for small business customers with this structure. Tariff 41 is a low voltage demand tariff that has fixed, variable and demand charges and is based on an Energex network tariff. While Energex designates this network tariff as a large customer network tariff, it is made available to small customers on a voluntary basis.

Queensland Consumers' Association suggested tariff 41 should be retained to ensure the uniform tariff policy operates fairly across the state. Given that our approach is to use Energex tariff structures for flat-rate tariffs and that the Energex network tariff is available to small customers in south east Queensland, our draft decision is to retain tariff 41.

#### QCA position

Our draft decision is to remove retail tariff 13 from the tariff schedule, which means that customers will no longer have access to this tariff. We will retain tariff 41.

### 3.2.4 Network tariffs and charges for 2015-16

Our draft decision is to base regulated retail tariffs for 2015–16 on:

- Energex network tariffs and charges for tariffs 11, 20, 31, 33, 41 and 91
- Energex network tariffs and charges for tariff 22, which will become an obsolete tariff that is available for two years

[27] A PeakSmart Air-Conditioning Unit is an air-conditioning unit that can be remotely adjusted by the distributor to use less electricity during periods of high demand.

- calculated network tariffs and charges for tariffs 12 and 22A based on Ergon Distribution tariff structures that maintain the level of the Energex fixed charge and decrease the Ergon Distribution consumption charges to a level where regional customers will, on average, pay the same as customers in south east Queensland.

Our draft decision on the network charges to be used as the basis for notified prices for 2015-16 for residential, small business and unmetered supply customers are presented in the following tables.

**Table 2 Energex network charges for 2015–16 for regulated retail tariffs 11, 20, 22 (obsolete), 31, 33, 41 and 91 (GST exclusive)**

| *Retail tariff* | *Energex network tariff* | *Fixed charge[1] c/day* | *Demand charge $/kW/month* | *Variable rate (flat or peak) c/kWh* | *Variable rate (off-peak)* |
|---|---|---|---|---|---|
| Tariff 11 - Residential (flat rate) | 8400 | 50.300 | | 12.938 | |
| Tariff 20 - Business (flat rate) | 8500 | 71.500 | | 13.637 | |
| Tariff 22 - Business (time-of-use - obsolete) | 8800 | 71.500 | | 15.242 | 9.888 |
| Tariff 31 - Night rate (super economy) | 9000 | | | 5.616 | |
| Tariff 33 - Controlled supply (economy) | 9100 | | | 10.217 | |
| Tariff 41 - Low voltage (demand - obsolete) | 8300 | 730.700 | 24.604 | 1.624 | |
| Tariff 91 - Unmetered | 9600 | | | 10.321 | |

*1. Charged per metering point.*

**Table 3 Calculated network charges for 2015–16 for regulated retail tariffs 12 and 22A (GST exclusive)**

| *Retail tariff* | *Fixed charge[1] c/day* | *Variable rate (peak)* | *Variable rate (shoulder)* | *Variable rate (off-peak)* |
|---|---|---|---|---|
| Tariff 12 - Residential (time-of-use) | 50.300 | 45.581 | 22.588 | 8.276 |
| Tariff 22A - Business (time-of-use) | 71.500 | 31.249 | 23.406 | 10.692 |

*1. Charged per metering point.*

## 3.3 Network tariffs for large business and street lighting customers

For the 2014–15 determination, we based retail tariffs for large business customers and street lighting customers on the network tariffs and charges applying to Ergon Distribution's east pricing zone, transmission region one. We propose to continue with this approach for 2015–16 because it is consistent with our draft decision, discussed in Chapter 2, to set notified prices for large business customers based on the lowest costs of supply in regional Queensland.

There was support in submissions from Ergon Distribution and Ergon Retail to maintain this approach for 2015–16. Toowoomba Regional Council suggested that Energex network tariffs should be used as the basis for large customer tariffs, until Ergon Distribution network tariffs have time-of-use signals.

Ergon Distribution proposes to introduce a new seasonal time-of-use demand tariff in 2015–16 (in addition to the demand tariffs that form the basis of tariffs 44 to 46). This new voluntary tariff would provide an alternative to the existing flat rate tariffs and we understand that it has been designed to encourage more efficient use of Ergon Distribution's network. The structure of this proposed network tariff is set out in Table 4.

**Table 4 Ergon Distribution large customer time-of-use demand tariff**

| *Item* | *Unit* | *Threshold demand* | *Time period* |
|---|---|---|---|
| Fixed charge | $/day | n/a | n/a |
| Demand peak | $/kW/month | 15 | 11:30am - 5:30pm summer weekdays |
| Demand shoulder | $/kW/month | 15 | 10:00am - 11:30am and 5:30pm - 8:00pm summer weekdays |
| Capacity off-peak | $/kW/month | 40 | All other times |
| Consumption flat | c/kWh | n/a | n/a |

While we propose to create a new retail tariff based on this new network tariff, Ergon Distribution advised that the introduction of the tariff is subject to stakeholder consultation and approval by the AER, and customer access is subject to adequate metering capability.

### 3.3.1 Network tariffs and charges for 2015-16

Our draft decision is to:

- continue to base retail tariffs for large business customers and street lighting customers on the network tariffs and charges applying to Ergon Distribution’s east pricing zone, transmission region one
- create a new retail tariff based on the new time-of-use demand tariff that Ergon Distribution proposes to introduce (tariff 50).

Our draft decision on the network charges to be used as the basis for regulated retail tariffs for large business and street lighting customers in 2015–16 are presented in Table 5.

**Table 5 Ergon Distribution network charges for 2015–16 large customer regulated retail tariffs and street lighting (GST exclusive)**

| *Retail tariff* | *Ergon Distribution network tariff* | *Fixed charge[1] c/day* | *Demand charge $/kW/month (flat/off-peak)* | *Demand charge $/kW/month (peak/shoulder)* | *Variable rate c/kWh* |
|---|---|---|---|---|---|
| Tariff 44 - Over 100 MWh small (demand) | EDSTT1 | 4,413.777 | 29.990 | | 1.964 |
| Tariff 45 - Over 100 MWh medium (demand) | EDMTT1 | 13,400.197 | 28.790 | | 1.964 |
| Tariff 46 - Over 100 MWh large (demand) | EDLTT1 | 39,396.170 | 26.490 | | 1.964 |
| Tariff 47 - High voltage (demand) | EDHTT1 | 34,583.413 | 18.990 | | 1.889 |
| Tariff 48 - Over 4 GWh High voltage (demand) | EDHTT1 | 34,583.413 | 18.990 | | 1.889 |
| Tariff 50 - Seasonal time-of-use (demand) - New | ESTOUDT1 | 4,477.425 | 11.330 | 54.990 | 3.364 |
| Tariff 71 - Street Lighting[2] | EVUT1 | 4.100 | | | 16.579 |

1. *Charged per metering point.*
2. *The fixed charge for street lighting applies to each lamp.*

# 4 ENERGY COSTS

Energy costs are costs a retailer incurs, either directly or indirectly, in purchasing electricity to meet the demand of its customers. As with previous determinations, we have determined energy costs based on advice from our consultant, ACIL Allen. We consider that engaging the same consultant provides continuity and certainty to stakeholders. The terms of reference for ACIL Allen's engagement are available on our website.

Energy costs can be split into three general categories:

- wholesale energy costs
- other energy costs, which include Renewable Energy Target (RET) costs, National Electricity Market (NEM) participation fees and ancillary services charges, and prudential capital costs
- energy losses.

A discussion of each of these components, and how they have been determined, is provided below. A more detailed explanation is provided in ACIL Allen's draft report, which is available on our website.

## 4.1 Wholesale energy costs

Wholesale energy costs are incurred by a retailer when purchasing electricity from the National Electricity Market (NEM) to meet the demand of its customers. The NEM is a wholesale market for electricity across the five interconnected states. The electricity market matches power supply and demand in real time. As the NEM is a volatile market, retailers routinely use hedging strategies to reduce their risk, such as purchasing financial derivatives (for example, futures, swaps and options), entering long-term power purchase agreements (PPAs) with generators, and investing in generation assets.

The two main approaches for determining wholesale energy costs are the hedging-based approach, which aims to estimate the costs of a retailer purchasing financial derivatives, and the long-run marginal cost (LRMC) approach, which aims to estimate the costs of directly investing in generation assets. We used a hedging-based approach for the 2014–15 determination as we considered that the approach was transparent and best reflected the actual costs that retailers incur when purchasing electricity from the NEM. Further, the Australian Energy Market Commission (AEMC) endorsed the hedging-based approach as a best-practice method for estimating wholesale energy costs for regulated retail prices[28].

Consistent with their submissions to previous determinations, Origin and the ERAA supported an LRMC approach. Conversely, COTA Queensland, Ergon Retail and the Queensland Consumers' Association supported a continuation of the 2014–15 approach to estimating all energy costs.

Consistent with our view in previous determinations, we have used the hedging-based approach to estimate wholesale energy costs for 2015–16. Retaining this approach for 2015–16 will also provide certainty to stakeholders.

[28] AEMC, *Advice on Best Practice Retail Price Regulation Methodology - Final Report,* September 2013.

Origin argued that "structural biases" such as the ramp up of liquefied natural gas (LNG) plants and rooftop solar generation had led to the wholesale market price being below expected long-term levels and, if the QCA adopted a hedging approach, its methodology should be modified to account for these factors over a longer horizon.

The factors identified by Origin are well known and market participants will take them into consideration along with all other factors when establishing their hedging strategy. As a result, these factors will be reflected in the electricity forward prices, which form the basis of ACIL Allen's energy cost estimates. ACIL Allen has identified the effect of these factors on energy costs in its report. ACIL Allen outlined how increased penetration of rooftop solar generation had increased the peakiness of overall system load, increasing retailer hedging costs. ACIL Allen also explained how the LNG ramp up had led to increased gas prices which, along with increases in coal prices, had increased base-load generation costs. The resulting increase in electricity prices was most notable at night when electricity is predominately generated from gas and coal-fired generation.

Origin also restated concerns raised in previous determinations that the relationship between peak demand and high temperatures has not been adequately established and should be clarified. This issue was addressed in detail by ACIL Allen in its 2014–15 final report.

We agree with ACIL Allen that its existing methodology adequately takes into account the issues raised by Origin, and produces estimates that reflect the efficient costs of supply.

Table 6 presents ACIL Allen’s wholesale energy cost estimates for 2015–16. Increases in energy costs are expected to generally moderate, however changes will vary between tariffs. ACIL Allen has forecast a decrease in energy prices during the day, due to decreased market demand (driven largely by solar photovoltaic (PV) generation), and an increase in energy prices at night, due to increased fuel costs (gas and coal) for base-load generation. In addition, the Energex and Ergon Energy Net System Load Profiles (NSLPs) have become peakier due to the increased penetration of solar PV, and have become more expensive for retailers to hedge.

The net effect of these factors is that:

- the Energex NSLP energy costs are forecast to increase by 1.9%, while a small decrease is forecast for the Ergon Energy NSLP energy costs. As 70% of solar installations are in the Energex area, day-time demand for energy under the Energex NSLP is comparatively lower, and correspondingly benefits less from the reduction in day-time electricity prices than the Ergon Energy NSLP.
- tariffs with a predominantly night-time load profile, such as the Energex controlled load 9000, have increased, while ACIL Allen's forecasts for tariffs with a comparatively higher proportion of load during the day, such as the Energex controlled load 9100, show slight decreases.

**Table 6 Estimated wholesale energy costs at the regional reference node for 2015–16**

| ***Settlement class*** | ***Retail tariff*** | ***$/MWh*** | ***% change from 2014–15*** |
|---|---|---|---|
| Energex NSLP and unmetered supply | 11, 12, 20, 22, 22A 41, 91 | $63.42 | 1.9% |
| Energex Controlled Load 9000 | 31 | $38.56 | 5.4% |
| Energex Controlled Load 9100 | 33 | $49.72 | -2.0% |
| Ergon Energy NSLP and streetlights | 44, 45, 46, 47, 48, 50, 71 | $55.60 | -0.3% |

*Source: ACIL Allen, Draft Estimated Energy Costs for 2015–16, 20 November 2014.*

## 4.2 Other energy costs

In addition to wholesale energy costs, we must also consider other costs that retailers incur when purchasing electricity from the NEM, which are those relating to:

- the Renewable Energy Target (RET)
- NEM participation fees and ancillary services charges
- prudential capital costs.

### Renewable Energy Target costs

The RET is a Federal Government policy that aims to ensure renewable energy contributes the equivalent of 20% of Australia's electricity (41,000 GWh) by 2020. The scheme has two components—a Large-scale Renewable Energy Target (LRET) and a Small-scale Renewable Energy Scheme (SRES).

#### LRET costs

The LRET sets annual targets for the amount of electricity that must be sourced from large-scale renewable energy projects like wind farms. Retailers must purchase a set number of large-scale generation certificates (LGCs) according to the amount of electricity they have sold to customers in the calendar year. While the LRET scheme is under review, at present the annual target is determined on the basis of achieving the goal of sourcing 41,000 GWh of electricity from large-scale renewable generation by 2020[29].

For the 2014–15 final determination, ACIL Allen estimated LRET costs using the 2014 renewable power percentage (RPP) for the first half of the pricing period and the latest published 2015 LRET target for the second half of the pricing period. LGC prices were based on forward prices for certificates published by the Australian Financial Markets Association (AFMA).

Origin considered that LRET costs should be determined based on the legislated policy in place at the time of the decision. Origin also argued that policy uncertainty had led to a lack of liquidity in the LGC market and, as with its submissions to previous determinations, suggested that an approach based on the LRMC of renewable generation would be a more reliable and cost-reflective approach to determine LRET costs in these circumstances.

[29] *Renewable Energy (Electricity) Act 2000.*

Ergon Retail also noted the current uncertainty around the LRET scheme and urged the QCA to use the most up to date market information possible to capture the effect of any change in policy. Ergon Retail, along with COTA Queensland and the Queensland Consumers' Association, supported a continuation of the market-based approach.

ACIL Allen examined market prices over a number of years and concluded that the market price has reacted as expected to uncertainty over the review of the LRET, and that prices within the spot and futures market represent the most reliable indicator of the consensus view of the price of LGCs. ACIL Allen's approach uses data from retailer surveys of LGC prices, which is supplied by AFMA. The quality of this data is not dependent upon the number of trades conducted in the LGC market, but on the responses to survey questions from electricity retailers participating in the NEM. ACIL Allen have scrutinised the data for 2015 and 2016 and found it to be of the same quality as previous years, with the same number of retailers providing data, and a similar level of consensus being demonstrated. ACIL Allen considers that its approach continues to provide a superior basis for estimating LRET costs than a modelled LRMC methodology. ACIL Allen has provided a detailed explanation of its calculation of LRET costs in its draft report, along with information on LGC prices and assumptions underpinning the implied RPPs used.

After considering issues raised in submissions, and advice from ACIL Allen, we remain of the view that the market-based approach, using the most up to date targets and price information published by AFMA, is the most transparent approach and is likely to produce the most reliable estimate of costs to be incurred by retailers in 2015–16. Retaining a consistent approach for 2015–16 will also provide certainty to stakeholders.

We accept ACIL Allen's advice on this matter and its LRET cost estimates, which are outlined in Table 7. We expect to update these cost estimates for the final determination based on the binding RPP for 2015, which is expected to be published by 31 March 2015.

### SRES costs

The SRES covers small-scale technologies such as solar panels and solar hot water systems installed by households and small businesses. Retailers have an obligation to purchase small-scale technology certificates (STCs) based on expected rates of STC creation.

For the 2014–15 determination, ACIL Allen estimated SRES costs using the binding 2014 small-scale technology percentage (STP) target for the first half of the pricing period and the latest available non-binding 2015 STP target for the second half of the pricing period. STC prices were based on the clearing house price of $40 per certificate.

ACIL Allen recommended retaining its approach to estimate SRES costs and basing its estimate on the latest available non-binding STP targets, as the binding STP for 2015 has not yet been published. We expect to update these cost estimates for the final determination using the binding STP for 2015, which is due to be published by 31 March 2015, and the latest non-binding STP for 2016.

We are satisfied with ACIL Allen's approach and accept its SRES cost estimates, which are outlined in Table 7.

## NEM participation fees and ancillary services charges

NEM participation fees are levied on retailers by the Australian Energy Market Operator (AEMO) to cover the costs of operating the NEM. Ancillary services charges cover the costs of the services used by AEMO to manage power system safety, security and reliability.

As with the 2014–15 determination, ACIL Allen used AEMO budget and fee projections to estimate NEM participation fees for 2015-16. Ancillary services charges were based on the average historical costs observed over the preceding 52 weeks.

We are satisfied with ACIL Allen's approach and accept its cost estimates, which are outlined in Table 7.

### Prudential capital costs

Prudential capital costs relate to the financial guarantees a retailer must provide to AEMO and initial margins lodged with the hedge providers for futures contracts. These costs must be accounted for as we rely on futures contracts to derive our wholesale energy cost estimates.

As with the 2014–15 determination, ACIL Allen calculated prudential capital costs for 2015–16 in line with the latest published AEMO requirements and margin requirements for trading in the futures market. Prudential capital costs have increased compared to the 2014–15 final determination primarily due to a change to AEMO requirements.

We are satisfied with ACIL Allen's approach and accept its prudential capital cost estimates, which are outlined in Table 7.

### Summary of other energy costs for 2015–16

Table 7 sets out the draft estimates of other energy costs for 2015–16, which will be added to the wholesale energy cost components for all tariffs.

**Table 7 Other energy costs —all tariffs— excluding losses**

| *Cost Component* | *2014–15 final determination* | *2015–16 draft determination* | *Change* |
|---|---|---|---|
| | **$/MWh** | **$/MWh** | **%** |
| LRET | 4.01 | 4.18 | 4.2% |
| SRES | 4.12 | 4.08 | -1.0% |
| NEM Fees | 0.47 | 0.50 | 6.4% |
| Ancillary Services | 0.48 | 0.36 | -25.0% |
| Prudential Capital | 0.71 | 0.79 | 11.3% |
| **Total** | **9.79** | **9.91** | **1.2%** |

*Source: ACIL Allen, Draft Report Estimated Energy Costs for 2015–16, 20 November 2014.*

*Note: Totals may not add due to rounding.*

## 4.3 Energy losses

A retailer must purchase sufficient energy to supply its customers' load and allow for the transmission and distribution losses that will be incurred. As with previous determinations, ACIL Allen applied transmission and distribution losses published by AEMO in a manner that aligns with AEMO's settlement process.

We are satisfied with ACIL Allen's approach and accept its loss factor calculations, which are outlined in Table 8. These losses are based on AEMO's 2014–15 published loss factors, as loss factors for 2015–16 have not been published yet. We expect to base our final determination on AEMO's 2015–16 loss factors, which are due to be published by 1 April 2015.

## 4.4 Total energy cost allowances for 2015–16

Table 8 summarises the total draft energy cost allowances for each retail tariff for 2015–16.

**Table 8 Draft decision – total energy allowances for 2015–16**

| ***Settlement class*** | ***Retail Tariff*** | ***Wholesale energy*** | ***Other energy*** | ***Energy losses*** | ***Total energy allowance*** | | ***Change from 2014–15*** |
|---|---|---|---|---|---|---|---|
| | | **$/MWh** | **$/MWh** | **%** | **$/MWh** | **c/kWh** | **%** |
| Energex NSLP and unmetered supply | 11, 12, 20, 22, 22A, 41, 91 | 63.42 | 9.91 | 6.9% | 78.39 | 7.839 | 1.6% |
| Energex Controlled Load 9000 | 31 | 38.56 | 9.91 | 6.9% | 51.81 | 5.181 | 4.3% |
| Energex Controlled Load 9100 | 33 | 49.72 | 9.91 | 6.9% | 63.74 | 6.374 | -1.6% |
| Ergon Energy NSLP – small, medium and large demand and streetlights | 44, 45, 46, 50, 71 | 55.60 | 9.91 | 14.1% | 74.75 | 7.475 | -1.0% |
| Ergon Energy NSLP-high voltage demand and customers over 4 GWh | 47, 48 | 55.60 | 9.91 | 7.8% | 70.63 | 7.063 | -1.1% |

*Source: ACIL Allen, Draft Estimated Energy Costs for 2015–16, 20 November 2014.*

# 5 RETAIL COSTS

The R component includes an allowance for retail costs, which comprise retail operating costs (ROC) and the retail margin. ROC are the costs associated with services provided by a retailer to its customers. The retail margin is the reward to investors for a retailer's exposure to systematic risks associated with providing customer retail services.

Although we are estimating retail costs based on the costs of supply in south east Queensland for residential and small business customers and regional Queensland for large business customers, we do not expect costs to vary significantly based on location. We note that the Independent Pricing and Regulatory Tribunal (IPART) determined a single ROC allowance and retail margin for all three distribution areas in New South Wales (NSW) in its 2013 decision[30]. However, there are some additional costs of operating in a competitive retail market that would not be incurred in a market that is not competitive.

Consistent with previous determinations, we have adopted a benchmarking approach to set retail costs for this draft determination. As we are not aware of more recent relevant benchmarks to use, or new information to update our analysis, we have:

- maintained the 2014–15 ROC allowances in real terms and continued to apply ROC to the fixed component of retail tariffs
- maintained the retail margin at 5.7% of total costs (including the margin) and continued to apply it equally (on a percentage basis) to each component (fixed, variable and demand) of each retail tariff.

## 5.1 Retail operating costs

ROC are the costs associated with services provided by a retailer to its customers and typically include the costs associated with customer administration, call centres, corporate overheads, billing and revenue collection, IT systems, regulatory compliance, and customer acquisition and retention costs (CARC). CARC are the costs that retailers incur in a competitive market to attract new customers and retain existing customers.

### 5.1.1 Approach to estimating ROC

In previous determinations, we adopted a benchmarking approach to estimate the ROC allowances because we considered that a bottom-up approach may not necessarily have produced results that were any more robust or defensible. In our 2014–15 determination, we indicated that we would reconsider using a benchmarking approach in future determinations depending on the regulatory framework established to set notified prices in regional Queensland.

Given the uncertainty about the regulatory framework that will apply beyond 2015–16, we have decided to continue to adopt a benchmarking approach to estimate ROC for 2015–16, rather than a potentially data-intensive and costly bottom-up approach. Stakeholders did not object to the continuation of a benchmarking approach.

[30] IPART, *Review of regulated retail prices and charges for electricity from 1 July 2013 to 30 June 2016*, June 2013.

### QCA position

We have decided to continue to use a benchmarking approach to determine the ROC allowances for 2015–16 notified prices.

## 5.1.2 Implementing the benchmarking approach

In previous determinations, we set three separate ROC allowances for small, large and very large customers, and have done the same for this draft determination.

### Establishing a benchmark ROC allowance for residential and small business customers

The ROC allowance in our 2014–15 determination was established in our 2013–14 determination and maintained in real terms. The 2013–14 ROC allowance was consistent with the ROC allowance IPART adopted in its 2013 decision[31]. IPART estimated ROC using a bottom-up approach based on cost information from retailers and then benchmarked this estimate against regulatory decisions in other jurisdictions and retailers' publicly-reported costs.

We have considered whether there are more recent benchmarks available. As we are not aware of any new information to update our analysis we have decided to maintain our 2014–15 ROC estimates in real terms.

**Customer acquisition and retention costs**

In our Interim Consultation Paper, we said that we would consider whether it is appropriate to continue to include an allowance for CARC, given that competition is extremely limited in regional Queensland.

Ergon Retail and COTA Queensland supported an allowance for CARC to help maintain the uniform tariff policy. Ergon Retail also noted that it would aid the transition to a competitive retail market in regional Queensland. QCOSS suggested that an allowance for CARC is not justified, as most customers in regional Queensland cannot access a competitive market offer.

While we acknowledge that competition is limited, we are setting ROC based on the estimated costs of an efficient retailer operating in the competitive south east Queensland market. As retailers operating in this market will incur costs to acquire and retain customers, we consider that an allowance for CARC is justified.

In the absence of any new information to update our analysis, we have decided to maintain the 2014–15 CARC allowances in real terms. This allowance has previously been assessed for reasonableness against the range of estimates that IPART included in its 2013 decision.

**QCA position**

We have decided to maintain the 2014–15 ROC allowance (including CARC) in real terms and will again include an allowance for regulatory fees (see below).

### Establishing benchmark ROC allowances for large business customers

We have previously found limited evidence with which to determine an appropriate ROC allowance for large customers, because regulators in most other jurisdictions only determine retail electricity prices for small customers. However, for our 2012–13 determination, we were able to draw on analysis conducted by Frontier Economics (Frontier) for the Western Australian Office of Energy in 2009 and Economic Regulation Authority (ERA) in 2012. Frontier's analysis

[31] IPART, *Review of regulated retail prices and charges for electricity from 1 July 2013 to 30 June 2016*, June 2013, Chapter 8.

suggested that the cost of servicing larger customers was significantly higher than the cost of servicing smaller customers, which reflected more substantial marketing and account management costs, and the additional cost of pricing large customer loads.

While acknowledging that there was limited evidence with which to determine ROC for large customers, we accepted that retailers may incur higher costs to target larger customers, as they are less numerous and hence low-cost blanket marketing would not be appropriate. We also noted that larger customers are likely to require more time and effort on the part of retailers, to analyse their energy needs and construct appropriate offers, and that it seemed reasonable that the larger the customer, the more time and effort may be required to manage their accounts.

We decided to set higher ROC allowances for large and very large business customers based on Frontier's analysis. No additional allowance was provided for CARC because it was implicitly included in Frontier’s estimates. We maintained these allowances in real terms for our 2013–14 and 2014–15 determinations.

#### QCA position

As we are not aware of any new evidence with which to update our estimates for 2015–16, we have maintained the 2014–15 allowances for large and very large business customers in real terms, and will again include an additional allowance for regulatory fees (see below).

### Regulatory fees

For 2015–16, we are estimating ROC based on the costs of supply in south east Queensland for residential and small business customers and regional Queensland for large business customers. Therefore, we will base the allowance for regulatory fees for residential and small business customers on the combined fees to be paid in 2015-16 by retailers operating in south east Queensland and the allowance for regulatory fees for large business customers on the fee to be paid in 2015-16 by Ergon Retail.

However, as the estimated fees for retailers in 2015–16 are not yet available, we have used the fees paid by retailers in 2014-15 for the draft determination. For residential and small business customers, we calculated a fee per customer of $0.23 by dividing the total fees of $328,000 by the most recently-available data on customer numbers in south east Queensland of 1,403,930 (as at 30 June 2014). For large business customers, we calculated a fee per customer of $3.00 by dividing the fees paid by Ergon Retail of $2,165,000 by the most recently-available data on customer numbers in regional Queensland of 720,898 (as at 30 June 2014).

We will update these estimates for our final determination.

#### QCA position

We have included an allowance for regulatory fees of $0.23 per customer for residential and small business customers and $3.00 per customer for large business customers.

### Conclusion on retail operating costs

In summary, we have:

- set three different ROC allowances to reflect the costs of supplying small, large and very large customers
- escalated the 2014–15 ROC allowances by the forecast change in the consumer price index (CPI), except for regulatory fees, which are separately estimated
- included a separate allowance for QCA regulatory fees.

These allowances are presented in Table 9.

**Table 9 Draft Determination — 2015–16 ROC ($ per customer)**

| | *2014–15 Final Determination* | *2015–16 Draft Determination* |
|---|---|---|
| **Residential and small business customers consuming up to 100 MWh/yr:** | | |
| Benchmark ROC | 119.85 | 122.25 |
| + CARC | 45.46 | 46.37 |
| + Regulatory fees | 1.33 | 0.23 |
| *Total ROC* | *166.65* | *168.86* |
| **Large business customers (consuming between 100 MWh and 4 GWh/yr):** | | |
| Benchmark ROC (incl CARC) | 737.23 | 751.98 |
| + Regulatory fees | 1.33 | 3.00 |
| *Total ROC* | *738.56* | *754.98* |
| **Very large business customers (consuming more than 4 GWh/yr):** | | |
| Benchmark ROC (incl CARC) | 2,106.38 | 2,148.50 |
| + Regulatory fees | 1.33 | 3.00 |
| *Total ROC* | *2,107.71* | *2,151.51* |

*Where relevant, CPI of 2% is used, which is consistent with the mid-range of the RBA forecast of 1.5–2.5% for the 12 months to 30 June 2015. Source: Reserve Bank of Australia, Statement on Monetary Policy, November 2014.*

### 5.1.3 Applying ROC to retail tariffs

In previous determinations, we decided to allocate the ROC allowances to the fixed component of retail tariffs because we could not find any evidence to suggest that these costs vary with electricity consumption. No ROC allowances were applied to the controlled load retail tariffs and unmetered retail tariffs because we assumed that customers accessing those tariffs would also access another general supply tariff and pay their fixed charges in that context.

We have continued with the approach adopted in the 2014–15 determination, which is to apply the ROC allowance to the fixed component of each retail tariff, except:

- controlled load tariffs (tariffs 31 and 33), because customers accessing these retail tariffs will also be supplied under one of the general supply residential or small business tariffs (for example, tariff 11 or 20)
- unmetered tariffs (tariffs 71 and 91), because customers accessing these tariffs are also likely to be supplied under another general supply business tariff.

#### Conclusion on retail operating costs

We have applied the relevant ROC allowance (for small, large and very large customers) to the fixed component of each retail tariff, as follows:

- the small customer ROC of $168.86 per customer will apply to retail tariffs for residential and small business customers (tariffs 11, 12, 20, 22, 22A and 41)

- the large customer ROC of $754.98 per customer will apply to retail tariffs for large business customers that generally consume between 100 MWh and 4 GWh per year (tariffs 44, 45, 46, 47 and 50)
- the very large customer ROC of $2,151.51 per customer will apply to the retail tariff for very large business customers that generally consume more than 4 GWh per year (tariff 48)
- no ROC will apply to controlled load retail tariffs (tariffs 31 and 33) or unmetered retail tariffs (tariffs 71 and 91).

Table 10 presents these allowances as daily charges.

**Table 10 Draft Determination — ROC allowances for 2015–16 — Fixed Charge[1]**

| *Retail Tariff* | *2014–15 Final Determination (c/day)* | *2015–16 Draft Determination (c/day)* |
|---|---|---|
| 11, 12, 20, 22, 22A, 41 | 45.626 | 46.230 |
| 44, 45, 46, 47, 50 | 202.208 | 206.702 |
| 48 | 577.059 | 589.050 |

*1. Charged per metering point.*

## 5.2 Retail margin

The retail margin represents the reward to investors for committing capital to a business and for accepting risks associated with providing customer retail services.

### 5.2.1 Approach to estimating the retail margin

In previous determinations, we set the retail margin on an earnings-before-interest, tax, depreciation and amortisation (EBITDA) basis. This meant that an allowance for depreciation and amortisation was implicitly included. The retail margin was also calculated as a percentage of total costs.

In previous determinations, we adopted a benchmarking approach to set the retail margin. We adopted this approach because we were not convinced that a more extensive and detailed analysis, such as a bottom-up and/or expected-returns approach, would deliver significant benefits over a benchmarking approach.

In our 2014–15 determination, we indicated that we would reconsider using a benchmarking approach in future determinations depending on the regulatory framework established to set notified prices in regional Queensland.

As with estimating ROC, we have decided to continue with a benchmarking approach for 2015–16, given the uncertainty surrounding the regulatory framework that will apply in regional Queensland beyond 2015–16. Stakeholders did not object to the continuation of a benchmarking approach.

#### QCA position

We have continued to apply the benchmarking approach to estimate the retail margin and to calculate the retail margin as a percentage of total costs.

### 5.2.2 Implementing the benchmarking approach

In our 2014–15 determination, we set the retail margin at 5.7% of total costs (including the margin). This was the retail margin we adopted in our 2013–14 determination and consistent with the retail margin IPART adopted in its 2013 decision[32]. IPART engaged a consultant to provide advice on a feasible range for the retail margin using three approaches—expected returns, benchmarking and bottom-up—and applied equal weighting to the margins estimated under each approach. We decided that it was appropriate to adopt the same retail margin as IPART, because it was the most recently-estimated benchmark available, it was based on extensive analysis, and we considered that retailers face similar levels of risk in Queensland and NSW.

We consider that a retail margin of 5.7% remains appropriate, as it is based on the most up-to-date and relevant analysis available.

#### QCA position

We have continued to set the retail margin at 5.7% of total costs, inclusive of the margin.

### 5.2.3 Applying the retail margin to retail tariffs

In previous determinations, we applied the retail margin equally (on a percentage basis) to each component (fixed, variable and demand) of each retail tariff. This meant that all customers would pay the same margin as a percentage of their total bill but, in dollar terms, high-use customers would pay more than low-use customers. We still consider that this approach is appropriate because the retail margin is calculated as a percentage of total costs.

#### Conclusion on retail margin

We have set the retail margin at 5.7% of total costs, inclusive of the margin[33], and have applied it equally (on a percentage basis) to each component of each retail tariff.

[32] IPART, *Review of regulated retail prices and charges for electricity from 1 July 2013 to 30 June 2016*, June 2013, Chapter 7.

[33] This is equivalent to applying a retail margin of 6% on top of total allowed costs, excluding the margin.

# 6 OTHER ISSUES

In this chapter, we explain our draft decisions on the inclusion of:

- an allowance for headroom for large business customers
- a cost pass-through mechanism.

## 6.1 Competition and headroom

The Government is considering options to improve competition in regional areas, including changing the way that subsidies are paid[34]. One option under consideration is providing subsidies to Ergon distribution, rather than its retail business. This would remove the key barrier to competition in the residential and small business customer market and allow retailers to compete on a more even level playing field. However, the timing of these reforms is still to be decided.

Unlike notified prices for residential and small business customers (which are based on the costs of supply in south east Queensland), notified prices for large business customers have been based on the lowest costs of supply in regional Queensland since our 2012-13 determination. We have also included an allowance for headroom of 5% of costs to promote competition.

It is difficult to assess the impact of more cost-reflective notified prices and the inclusion of headroom on competition. However, AGL has previously indicated that it became more active in providing competitive market offers to these customers following the introduction of more cost-reflective prices in 2012–13[35]. Nevertheless, there has only been a small increase in the proportion of large regional customers on market contracts over the last few years. As at 30 June 2014, around 27% of large regional customers were supplied under a market contract, compared to around 25% in June 2012.

However, we have previously identified barriers to competition in this market, for instance:

- setting uniform retail tariffs means that customers in higher cost areas of regional Queensland are not paying cost-reflective notified prices and very large customers are paying a notified price based on a network charge for high voltage demand customers (rather than their site-specific network charge)
- many customers are still accessing obsolete and transitional tariffs, which are not cost-reflective
- once large business customers accept a market contract they are not allowed to return to notified prices, which may discourage them from accepting a market offer[36].

Even if headroom is set at a reasonable level, these barriers are likely to limit the extent to which competition develops. However, we consider that it is appropriate to continue to include an allowance for headroom to ensure that the level of notified prices is not a barrier to

35 AGL, *Submission to the QCA's 2013-14 price review*, January 2013.

36 This restriction also applies to any future occupants of that premises (for example, if the premises is sold or occupied by a new tenant).

competition, to the extent possible. In the absence of any compelling reasons to change the level of headroom, our draft decision is to maintain headroom at 5%.

### QCA position

Our draft decision is to continue to include an allowance for headroom in notified prices for large business customers and to maintain the allowance at 5% of costs.

## 6.2 Cost pass-through mechanism

Cost pass-through mechanisms are used by regulators to account for the risk that the costs allowed for in regulated prices are higher or lower than actual costs. Cost pass-through mechanisms are usually included in multi-year price determinations and restricted to events that are outside the control of the regulated entity.

We applied a cost pass-through mechanism for the first time in our 2014–15 determination to pass through an under-recovery of costs in 2013–14 associated with the SRES. We also decided that the mechanism could be used to account for material differences in network charges, in the event that the charges billed to retailers (usually the AER-approved charges) differed from those used to set notified prices. However, there was no difference in 2013–14.

### 6.2.1 Pass-through arrangements for 2015-16

As set out in Chapter 2, consistent with the Government's stated intent of the uniform tariff policy for 2015–16, our draft decision is to continue to base notified prices for residential and small business customers on the costs of supply in south east Queensland. Not allowing a true-up of costs resulting from events that are outside retailers' control may result in notified prices being out of alignment with south east Queensland costs, which could deviate from the intent of the uniform tariff policy.

Therefore, we will continue to consider allowing the pass through of differences between certain costs included in 2014–15 notified prices and actual costs, at our discretion. Consistent with our 2014–15 determination, we will also apply the mechanism to notified prices for large business customers.

The continuation of a pass-through mechanism was supported by retailers (Origin and Ergon Retail) and consumer groups (COTA Queensland and the Queensland Consumers' Association). It was not supported by Canegrowers Isis, although no reasons were provided.

Consistent with the approach adopted in our 2014–15 determination, we will consider passing through differences in SRES costs, where the amounts provided in the determination are found to be materially understated or overstated as a result of differences between the non-binding and binding STPs. As stated above, we have previously allowed the cost pass-through mechanism to account for material differences in network charges. However, as the final 2014–15 network charges billed to retailers did not differ from those used to set 2014–15 notified prices, no adjustment is required.

We do not consider that it is necessary to prescribe a materiality threshold. Instead, we will continue to assess each event on its merits. We will revisit the need for any pass-through adjustment in our final determination when the binding STP is released.

#### QCA position

Our draft decision is to continue to consider passing through differences in SRES costs, where the amounts provided in our 2014–15 determination are found to be materially understated or overstated as a result of differences between the non-binding and binding STPs.

We will revisit the need for any pass-through adjustment in our final determination when the binding STP is released.

### 6.2.2 Pass-through arrangements beyond 2015-16

Depending on the regulatory framework that will apply after 2015–16 and whether any changes are made to the uniform tariff policy or the subsidy arrangements underpinning it, the pass-through provisions discussed here may or may not remain appropriate for setting 2016–17 notified prices. Therefore, we do not propose to commit to the continued availability of a cost pass-through mechanism beyond 2015–16.

# 7 TRANSITIONAL ARRANGEMENTS

The delegation requires that we consider completing the rebalancing of the fixed and variable components of tariff 11 and maintaining transitional arrangements for tariffs classed as transitional or obsolete, which include farming and irrigation tariffs.

Our draft decision is to:

- complete the re-balancing of the fixed and variable components of tariff 11 using the approach established in the 2013–14 determination
- maintain the transitional arrangements for tariffs classed as transitional or obsolete where there would be significant price impacts for customers moving to the standard business tariffs
- continue to allow all customers access to transitional tariffs.

## 7.1 Re-balancing the fixed and variable charges in tariff 11

In our 2013–14 determination, we implemented a three-year transitional arrangement to re-balance the fixed and variable components of tariff 11 so that they would be cost-reflective for south east Queensland customers by 1 July 2015. This approach involved gradually increasing the fixed charge, while making off-setting adjustments to the variable charge. We considered that tariff 11 should be transitioned, rather than directly moved to cost-reflectivity, to strike an appropriate balance between:

- limiting increases in the fixed charge, to ease the financial pressure on customers with low levels of consumption
- moving the variable charge closer to cost, to reduce the cross-subsidy paid by customers with high levels of consumption.

For the 2015–16 determination, the delegation requires that we consider completing the rebalancing using the approach established in the 2013-14 determination.

As set out in Chapter 2, our draft decision is to continue to base notified prices for residential and small business customers on the costs of supply in south east Queensland. Therefore, we consider that it is appropriate to complete the transition to a tariff 11 notified price that reflects the costs of supply in south east Queensland. This was supported by the ESAA, Ergon Retail, Origin and the Queensland Consumers' Association.

Table 12 presents the draft 2015–16 fixed and variable tariff 11 charges. These have been fully re-balanced to cost reflective levels in south east Queensland. As discussed in Chapter 3, the draft 2015–16 charges exclude the costs of metering, as there will be a separate metering charge.

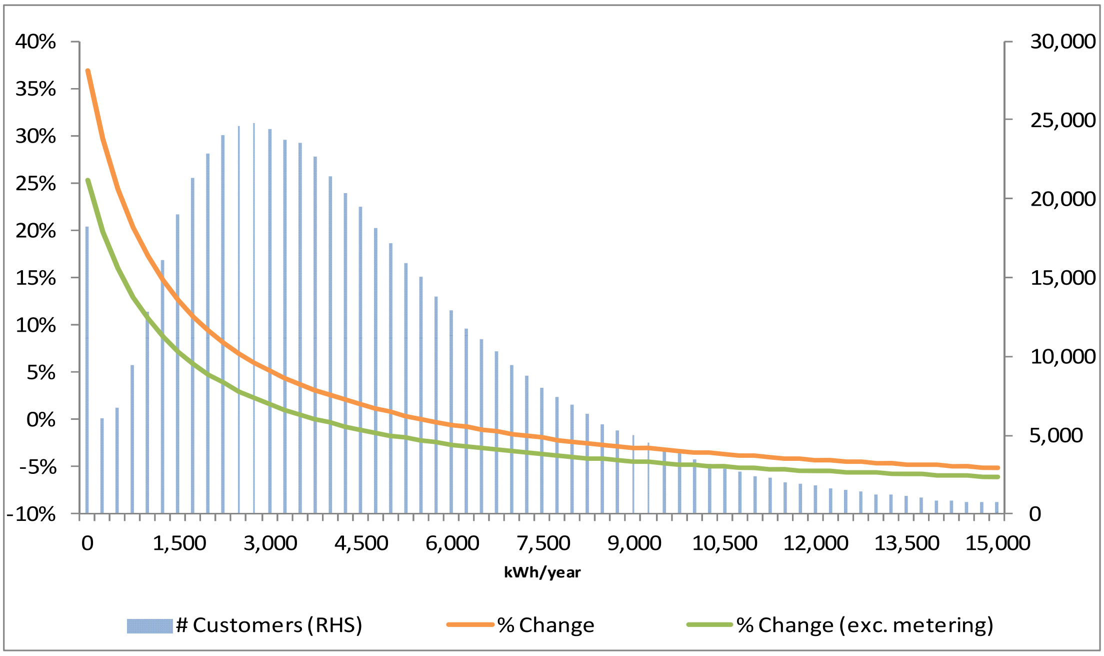
**Table 12 Transitional 2014–15 and draft 2015–16 charges[a]**

| *Tariff Component* | *Transitional 2014–15* | *Draft 2015–16* |
|---|---|---|
| Fixed charge (cents/day) | 83.414[b] | 107.483[c] |
| Variable charge (cents/kWh) | 25.378 | 23.135 |

*a. All charges are GST exclusive.*
*b. Includes charges for metering services.*
*c. Excludes charges for metering services.*

Figure 6 shows the percentage change in customers' annual bills by moving from the transitional tariff 11 charges for 2014–15 to the charges for 2015–16, across a range of consumption levels. To ensure a valid comparison is made between the two years, we have included Energex's metering charges in 2015–16 bills[37].

**Figure 6 Bill impacts resulting from moving to 2015–16 charges**




*Note: Based on 2013–14 consumption data provided by Ergon Energy.*

As shown in Figure 6, the lower a customer's level of consumption, the larger the percentage increase in their bill because the effect of the higher fixed charge more than offsets the effect of the lower variable charge. However, customers that consume more than around 6,000 kWh per year (including metering charges) will experience decreases in their bills because the effect of the lower variable charge more than offsets the effect of the higher fixed charge. Further analysis of the bill impacts on different types of customers is presented in Chapter 8.

QCOSS and COTA Queensland were concerned about the impact of higher fixed charges on financially vulnerable customers with low levels of consumption. We have transitioned the fixed charge over three years to mitigate the impact on customers with low consumption. However, we also note that the offsetting reduction to the variable charge will benefit those financially vulnerable customers with high consumption.

[37] As discussed in Chapter 3, we have included Energex's metering charges (rather than Ergon Distribution's) because we assume that the Government will provide a subsidy to ensure that regional customers pay the same metering charges as south east Queensland customers.

Nevertheless, we consider that the needs of financially vulnerable customers are best met through targeted welfare assistance measures. A summary of current assistance arrangements is provided in Appendix J. It is a matter for the Government to decide whether additional assistance measures are appropriate.

#### QCA Position

Our draft decision is to complete the rebalancing of the fixed and variable components of tariff 11, so that it reflects the costs of supply in south east Queensland.

## 7.2 Transitional arrangements for obsolete and transitional tariffs

Some business customers are supplied under transitional or obsolete tariffs. These include farming and irrigation tariffs. Customers on these tariffs are often paying below the cost of supplying customers in the lowest cost area of the state (i.e. south east Queensland).

In previous determinations, we decided that most of these tariffs should continue to be available for several years because many customers would face significant financial impacts if they were moved to a standard business tariff.

The delegation requires that we consider maintaining the transitional arrangements and continuing to allow all customers access to transitional tariffs. Our draft decision is to maintain transitional arrangements for 2015–16 where there would be significant price impacts if customers moved to a standard business tariff.

### How much to escalate transitional and obsolete tariffs?

In previous determinations, we escalated the charges in each transitional and obsolete tariff based on the percentage increase in the charges in the standard business tariff that customers would otherwise pay. We applied additional escalation factors to these increases, to limit charges for transitional and obsolete tariffs falling further below cost in dollar terms. However, as we noted in our 2014–15 determination, when underlying cost increases are low, applying those escalation factors will do very little to reduce how far customers' bills are below cost in dollar terms. For this reason, we applied a floor to price increases of 10% to all transitional and obsolete tariffs to set carbon-exclusive notified prices in our 2014–15 determination.

We acknowledge the concerns of the Australian Sugar Industry Alliance about price increases in recent years and the impact that further price increases in 2015–16 may have (Appendix F). Many other customer groups have faced similar or higher price increases. We have responded to industry concerns by extending the transition to standard business tariffs from the original 12 months to seven years (i.e. to 2020) and allowing continued access by all customers to transitional tariffs.

We disagree with suggestions that transitional and obsolete tariffs should not be increased. Delaying this would result in charges for most of these tariffs falling further below cost and therefore result in some customers facing even larger increases at the end of the transition period.

For 2015–16, bill increases for the standard business tariffs are either low or negative, as shown in Table 13 below.

**Table 13 Bill increases for standard business tariffs in 2015–16[a]**

| ***Retail tariff*** | ***Bill increases*** |
|---|---|
| Energex network tariffs | |
| Tariff 20 | 1.3% |
| Tariff 22A[b] | 2.0% |
| Ergon Energy network tariffs | |
| Tariff 44 | -3.0% |
| Tariff 45 | -4.3% |
| Tariff 46 | -4.0% |

*a. Based on consumption and demand data provided by Ergon Energy for 2013–14, as presented in Appendix F.*

*b. Assumes 90% of consumption is off-peak, 6% is peak and 4% is shoulder, as advised by Ergon Energy.*

*c. Tariffs 47 and 48 are omitted because there are only a very small number of customers on these tariffs, which may skew the results.*

Table 14 maps transitional and obsolete tariffs to the tariffs customers are most likely to move to and shows the escalation that reflects the increase in underlying costs of the alternative standard business tariff. As with previous determinations, we have averaged the increases for tariffs 20 and 22A[38], as the alignment of obsolete and transitional tariffs to tariffs 20 and 22A is not always clear cut, and the price impacts of moving to tariff 22A are sensitive to the assumed split of peak, off-peak and shoulder consumption. The resulting average is an increase of 1.7%, as shown in Table 14. The average reduction for tariffs 44, 45 and 46 is 3.8%.

**Table 14 Alignment of tariffs and underlying cost increases**

| ***Standard business tariff*** | ***Transitional or obsolete tariff*** | ***Escalation to reflect increase in underlying costs*** |
|---|---|---|
| Tariff 20 | Tariffs 21, 37, 66 | 1.7% |
| Tariff 22A | Tariffs 62, 65 | 1.7% |
| Tariffs 44-48[a] | Tariffs 20 (large), 22 (small and large)[b] | -3.8% |

*a. The most appropriate tariff depends on the customer's kW demand and voltage requirements.*

*b. Small customers on tariff 22 (small and large) will most likely move to tariff 22A, however as most customers on this tariff are large, it is aligned with the large customer tariffs for this purpose.*

Where underlying price increases are 1.7%, adopting the escalation factors of between 1.1 and 1.5 times the underlying cost increase that we have previously used will only marginally increase transitional tariffs and do little to reduce how far customers' bills are below cost in dollar terms. Where underlying price increases are negative, the escalation factors will lead to transitional tariffs falling by a larger proportion than the standard business tariffs, increasing the dollar gap between them. This is the opposite of what the escalation factors were intended to achieve.

In these circumstances, we think a sensible approach is to apply a floor to price increases, just as we did in setting carbon-exclusive notified prices for 2014–15, when we applied an increase

[38] Customers will now move to the new tariff 22A (which is based on Ergon Distribution tariff structures), rather than the old tariff 22 (which will become an obsolete tariff that is not available to new customers).

of 10% to all transitional and obsolete tariffs. The Government also capped price increases for transitional and obsolete tariffs by 10% in 2013–14.

While we consider that a 10% increase is not unreasonable, given the price increases customers have faced in recent years and that customers on the standard business tariffs will face small bill increases, we consider that an increase of 5% is more appropriate for 2015–16. In addition to this increase, a metering charge may be added to customers' bills if they have a type 6 meter. However, this is a matter for the Government to decide. If the anticipated price increases for the standard business tariffs do not eventuate, we will reassess our position.

## Transition period

We established transitional time periods in our 2013–14 determination and decided to maintain these periods in our 2014–15 determination. Tariffs 20 (large), 21, 22 (small and large), 37, 62, 65 and 66 were made available until 2020 to allow time for businesses to recoup some of the value of investments made to suit the level and structure of these tariffs. Tariffs 41 (large) and 43 (large) were made available until 30 June 2015, on the basis that a significant number of customers would be better off on a standard business tariff.

We consider that these transition periods provide certainty to businesses and allow them to prepare for the new tariffs. We do not wish to create uncertainty for customers by changing the transition periods unless an analysis of customer impacts indicates that a tariff can be removed without significant customer detriment.

Our analysis shows that around 91% of customers on tariff 20 (large) would see bill reductions if they switched to a standard business tariff. Around 3% of customers would see bill increases of up to 10%, 3% would see increases of between 10% and 50%, and 3% would see increases of over 50%. Although the vast majority of customers would be better off on a standard business tariff, some customers would be significantly worse off. For this reason we will retain this tariff for 2015–16. However, we will closely monitor bill impacts over the remainder of the transition period and will consider removing this tariff in future if the number of customers facing significant price impacts from shifting to a standard business tariff continues to decline.

We do not propose to remove any other transitional tariffs earlier than scheduled, as many customers would experience significant price impacts if they moved to a standard business tariff immediately. Further information on our customer impact analysis is set out in Appendix F.

Canegrowers Isis called for a longer transition period for tariffs 62, 65 and 66 because its members have invested heavily in irrigation systems and cannot justify further investment if the transitional tariffs will not be available after 2020. We do not propose to extend the transition period for two reasons. Firstly, as explained in previous determinations, we decided on the transition period by taking the Australian Taxation Office's defined depreciable life of an irrigation pump of 12 years as a starting point and then reduced it because we considered that most investments of this type would have been partly, if not fully, depreciated. Secondly, we do not consider that encouraging further uneconomic investment is a good reason to continue subsidising prices.

## Access to obsolete tariffs

The delegation requires that we consider continuing to allow all customers access to transitional tariffs.

In the 2013–14 determination, we decided that all business customers should have access to transitional tariffs throughout the transition period, subject to individual tariff terms and conditions. This applied to tariffs 20 (large), 21, 22 (small and large), 62, 65, and 66[39]. We made this decision to ensure equity for all businesses.

In the 2014–15 determination, we noted that we would consider closing access to transitional tariffs to new customers if there was a significant increase in the number of customers accessing transitional tariffs, and thereby an increase in the subsidy paid by taxpayers. However, we did not find that there had been a significant increase and decided to continue to allow open access.

Origin suggested that access to transitional tariffs should only be available to those customers that made investments on the expectation that these tariffs would remain. However, we consider that this would not be an equitable outcome and may prevent customers from moving to a standard business tariff.

Our analysis shows that there has still not been a significant increase in the number of customers accessing transitional tariffs. Therefore, we propose to continue to allow all business customers to have access to transitional tariffs.

## Conclusion on transitional arrangements

A summary of our draft decision on transitional arrangements for 2015–16 is provided in Table 15.

**Table 15 Draft decision - transitional arrangements for 2015–16**

| ***Obsolete/transitional tariff*** | ***Period to be retained*** | ***Proposed 2015–16 price increase*** |
|---|---|---|
| Tariff 20 (large) – transitional | 5 years | 5% |
| Tariff 21 – transitional | 5 years | 5% |
| Tariff 37 – obsolete | 5 years | 5% |
| Tariff 62 – transitional | 5 years | 5% |
| Tariff 65 – transitional | 5 years | 5% |
| Tariff 66 – transitional | 5 years | 5% |
| Tariff 22 (small and large) – transitional | 5 years | 5% |
| Tariff 41 (large) obsolete | Remove | N/A |
| Tariff 43 (large) obsolete | Remove | N/A |

*Note: In addition to this increase, a metering charge may be added to customers' bills if they have a type 6 meter.*

[39] New customers cannot access tariffs classified as obsolete. We made this decision on the basis that they had been obsolete for some time (tariff 37) or because they would be removed in a shorter timeframe (tariffs 41 (large) and 43 (large)).

# 8 DRAFT DECISION

This chapter sets out our draft determination of regulated retail electricity prices (notified prices) to apply from 1 July 2015 to 30 June 2016, as well as expected customer impacts.

Under the network plus retail (N+R) approach, retail tariffs are aligned with network tariffs approved by the AER. For the purposes of this draft determination, Energex and Ergon Energy have provided their draft 2015–16 network tariffs. The network tariffs used to develop retail tariffs are discussed in Chapter 3.

Chapters 4 and 5 set out our draft decisions on energy and retail costs, which comprise the R component of the tariff calculation. A headroom allowance, discussed in Chapter 6, is applied to the total N+R cost build-up to arrive at the draft notified prices for each retail tariff.

The draft determination also includes notified prices for a number of retail tariffs that have been declared transitional or obsolete. Transitional arrangements for these tariffs are discussed in Chapter 7.

The regulated retail tariffs and notified prices are published in a tariff schedule which includes other information, including the eligibility criteria and terms and conditions for each tariff. The draft tariff schedule for 2015–16 is provided in Appendix H.

The following tables set out our draft determination of regulated retail tariffs for 2015–16. All tariffs are presented exclusive of goods and services tax (GST).

**Table 16 2015–16 Draft regulated retail tariffs and prices for residential customers (excl GST)**

| ***Retail tariff*** | ***Energex network tariff*** | ***Fixed charge [a]*** | ***Variable rate (flat)*** | ***Variable rate 1 (off-peak)*** | ***Variable rate 2 (shoulder)*** | ***Variable rate 3 (peak)*** |
|---|---|---|---|---|---|---|
| | | ***c/day*** | ***c/kWh*** | ***c/kWh*** | ***c/kWh*** | ***c/kWh*** |
| Tariff 11 - Residential (flat rate) | 8400 | 107.483 | 23.135 | | | |
| Tariff 12 - Residential (time of use) [b] | N/A [c] | 107.483 | | 17.943 | 33.879 | 59.481 |
| Tariff 31 - Night rate (super economy) | 9000 | | 12.023 | | | |
| Tariff 33 - Controlled supply (economy) | 9100 | | 18.474 | | | |

*a. Charged per metering point.*

*b. Peak – 4:30pm-9pm Mon-Fri (Summer only); Shoulder – 3pm-4:30pm Mon-Fri, 9pm-9:30pm Mon-Fri, 3pm-9:30pm weekends (Summer only); Off peak - All other times.*

*c. Based on the structure of Ergon Distribution's small residential customer time of use network tariff ERTOUT1.*

**Table 17 2015–16 Draft regulated retail tariffs and prices for other small business and unmetered supply customers, other than street lighting (excl GST)**

| ***Retail tariff*** | ***Energex network tariff*** | ***Fixed charge [a]*** | ***Demand charge*** | ***Variable rate (flat/off-peak)*** | ***Variable rate (shoulder)*** | ***Variable rate (peak)*** |
|---|---|---|---|---|---|---|
| | | ***c/day*** | ***$/kW/month*** | ***c/kWh*** | ***c/kWh*** | ***c/kWh*** |
| Tariff 20 - Business (flat rate) | 8500 | 131.088 | | 23.913 | | |
| Tariff 22 - Business (time of use) - obsolete [b] | 8800 | 131.088 | | 19.739 | | 25.700 |
| Tariff 22A - Business (time of use)[c] | N/A[d] | 131.088 | | 20.634 | 34.791 | 43.524 |
| Tariff 41 - Low voltage(demand) | 8300 | 865.087 | 27.396 | 10.537 | | |
| Tariff 91 - Unmetered | 9600 | | | 20.221 | | |

*a. Charged per metering point.*

*b. Tariff 22 (obsolete) – Peak - 7:00am to 9:00pm, weekdays; Shoulder - n/a; Off-peak - All other times. New customers will not be eligible for this tariff.*

*c. Tariff 22A– Peak - 11:30am to 5:30pm on summer weekdays; Shoulder - 10:00am to 11:30am and 5:30pm to 8:00pm on summer weekdays; Off-peak - All other times*

*d. Based on the structure of Ergon Distribution's small customer business time of use network tariff EBTOUT1.*

**Table 18 2015–16 Draft regulated retail tariffs and prices for large business and street lighting customers (excl GST)**

| *Retail tariff* | *Ergon Energy network tariff* | *Fixed charge [a]* | *Demand charge (flat/off-peak)* | *Demand charge (peak/shoulder)* | *Variable rate (flat)* |
|---|---|---|---|---|---|
| | | *c/day* | *$/kW/mth* | *$/kW/mth* | *c/kWh* |
| Tariff 44 - Over 100 MWh small (demand) | EDSTT1 | 5,144.754 | 33.393 | | 10.511 |
| Tariff 45 - Over 100 MWh medium (demand) | EDMTT1 | 15,150.842 | 32.057 | | 10.511 |
| Tariff 46 - Over 100 MWh large (demand) | EDLTT1 | 44,096.517 | 29.496 | | 10.511 |
| Tariff 47 - High voltage (demand) | EDHTT1 | 38,737.668 | 21.145 | | 9.968 |
| Tariff 48 – Over 4 GWh High voltage (demand) | EDHTT1 | 39,163.400 | 21.145 | | 9.968 |
| Tariff 50 - Over 100 MWh seasonal time-of-use | ESTOUDT1 | 5,215.624 | 12.616[d] | 61.230[c] | 12.069 |
| Tariff 71 - Street lighting [b] | EVUT1 | 4.565 | | | 26.783 |

*a. Charged per metering point.*
*b. The fixed charge for street lighting applied to each lamp.*
*c. Peak - 11:30am to 5:30pm Summer weekdays, threshold demand (DUOS and TUOS) 15kW; Shoulder - 10:00am to 11:30am and 5:30pm to 8:00pm on Summer weekdays, threshold demand (DUOS & TUOS) 15kW.*
*d. Off-peak - All other times, threshold demand (DUOS & TUOS) 40kW.*

**Table 19 2015–16 Draft transitional and obsolete regulated retail tariffs and prices (excl GST)**

| *Retail tariff* | *Fixed charge [b]* | *Min Charge* | *Variable rate 1[c]* | *Variable rate 2[d]* | *Variable rate 3[e]* | *Variable rate (flat)* | *Capacity (Up to 7.5kw)* | *Capacity (Over 7.5kw)* |
|---|---|---|---|---|---|---|---|---|
| | *c/day* | *c/day* | *c/kWh* | *c/kWh* | *c/kWh* | *c/kWh* | *$/kW/yr* | *$/kW/yr* |
| Tariff 37[a] | | 26.398 | 18.799 | | 47.019 | | | |
| Tariff 20 (lge) | 66.255 | | | | | 32.409 | | |
| Tariff 21 | | 64.615 | 43.909 | 41.256 | 31.407 | | | |
| Tariff 22 | 159.235 | | 42.947 | | 15.123 | | | |
| Tariff 62 | 69.791 | | 41.382 | 34.994 | 14.633 | | | |
| Tariff 65 | 69.791 | | 33.010 | | 18.182 | | | |
| Tariff 66 | 153.818 | | | | | 17.302 | 33.555 | 100.889 |

*a. New customers are not eligible for this retail tariff.*
*b. Charged per metering point.*
*c. Tariff 21 – first 100 kWh, tariff 22 – 7am-9pm M-F, tariff 37 – 10:30pm-4:30pm, tariff 62 – 7am-9pm M-F first 10,000kWh, tariff 65 – 12hr peak.*
*d. Tariff 21 – 101-10,000 kWh, tariff 62 – 7am-9pm M-F over 10,000kWh.*
*e. Tariff 21 – over 10,000 kWh, tariff 22 – all other times, tariff 37 – 4:30pm-10:30pm, tariffs 62, & 65 – all other times.*

## 8.1 Underlying cost drivers

Notified prices will rise in 2015–16 due to increases in the underlying costs of supply. However these increases will be moderate compared to those in recent years.

Customers can expect some relief from the large network price increases that they have faced in recent years. While it appears that network costs for some tariffs will fall slightly next year, this is largely the result of the anticipated removal of metering costs from network tariffs. These metering costs are expected to be applied as a separate charge in 2015–16. Taking into account the impact of this metering charge, but excluding costs of the Solar Bonus Scheme (SBS), the network cost component of typical customer bills will increase by around 1.2% for tariff 11 and 0.7% for tariff 20.

The SBS continues to be a major component of network charges. The costs of the SBS have almost doubled since 2013–14 and will continue to have an impact in 2015–16. However, the cost impact of the SBS on typical customer bills in 2015–16 is not as large as previously expected, because Energex now proposes to spread the recovery of these costs over the next regulatory period to remove the significant price shock that would have otherwise resulted. The costs of the SBS are expected to increase by about 18.1% (tariff 11) and 13.4% (tariff 20). If the policy to remove SBS costs from notified prices is implemented, we would expect that the typical tariff 11 customer's bill would reduce by $50 (or 3.4%) compared to 2014-15.

Increases in energy costs are also expected to generally moderate, due to lower spot prices and futures contract prices. The overall energy cost allowance for the Energex area is expected to rise by less than inflation in 2015–16 at 1.6%, while energy costs for tariff 33 are expected to fall by 1.6%. However, energy costs for tariff 31 (overnight controlled loads) are forecast to rise by 4.3% due to higher generation fuel costs prevailing overnight.

ROC are expected to generally increase in 2015–16 in line with forecast inflation.

## 8.2 Customer impacts

Figures 7 and 8 show the percentage change that typical residential and business customers can expect in their annual electricity bills in 2015–16. This takes into account the expected introduction of a separate metering charge for customers with types 5 and 6 meters, which is discussed further in Chapter 3.

It is important to note that the changes shown in the figures are for levels and patterns of consumption that represent typical customers on regulated tariffs. Some customers may have consumption profiles and levels of consumption that differ from those assumed in this analysis and therefore may experience quite different impacts.

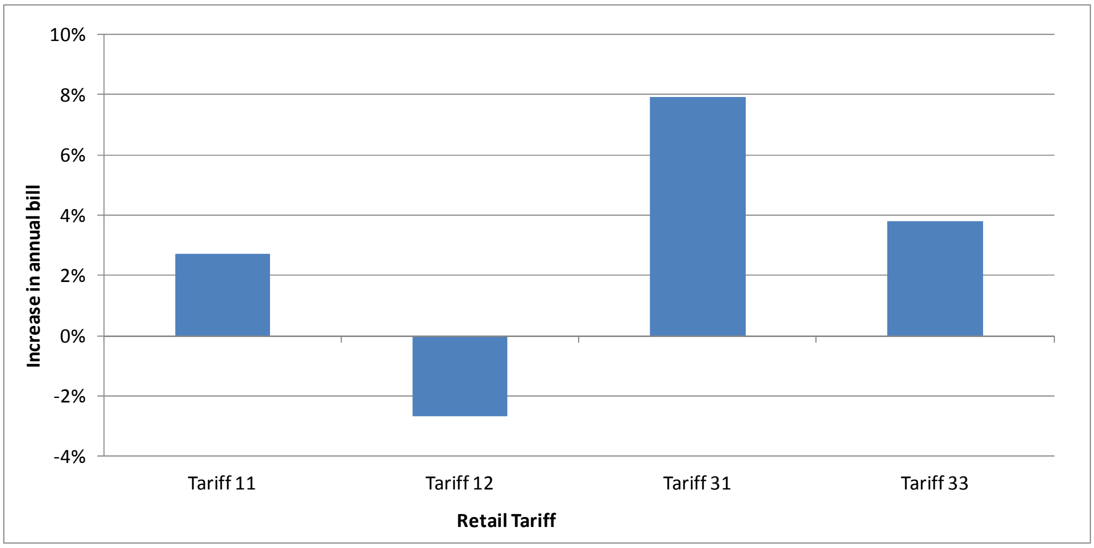
### Residential customers

Figure 7 shows the percentage changes that typical customers can expect in their annual electricity bills in 2015–16 for each of the residential tariffs.

For tariff 11, the typical customer can expect their annual bill to increase by 2.7%. However, impacts will vary depending on each customer’s level of consumption. While increases will be higher for those that consume less than the typical customer, those consuming more than around 6,000 kWh a year will see bill decreases. This is due to the impact of the higher fixed charge which has increased due to the rebalancing of the fixed and variable components. Estimated bill impacts for different types of customers are illustrated below in Table 20 and discussed further in section 7.1).

From next year, tariff 12 will be based on Ergon Distribution's underlying time-of-use network tariff structure, which features peak rates that are much higher than 2014–15, but apply for the summer months only. For tariff 12, bill impacts will vary depending on both the level of each individual customer’s consumption, the time of day, and time of year they consume. However, the typical tariff 12 customer can expect their annual bill to decrease by 2.7%.

**Figure 7 Changes in electricity bills in 2015–16 for residential customers[a]**




*a. Bill impacts are based on assumed annual consumption levels as set out in Appendix I. Includes impact of metering charges.*

**Table 20 Change in electricity bills in 2015–16 for tariff 11 customers**

| *Customer Type [a]* | *Annual consumption (kWh)[b]* | *2014–15 Annual Bill* | *2015–16 Annual Bill [c]* | *Increase ($)* | *Increase (%)* |
|---|---|---|---|---|---|
| Mostly vacant holiday home | 1,000 | $614 | $729 | $115 | 18.7% |
| Frugal single person | 2,200 | $949 | $1,035 | $85 | 9.0% |
| Frugal couple; high-earner single person | 3,070 | $1,192 | $1,256 | $64 | 5.4% |
| Single parent one child; couple no children | 4,091 | $1,477 | $1,516 | $39 | 2.6% |
| Median [d] | 4,053 | $1,467 | $1,506 | $40 | 2.7% |
| Couple with one child; single parent two children; | 5,112 | $1,762 | $1,776 | $14 | 0.8% |
| Two parent, two child family | 6,133 | $2,047 | $2,036 | $(12) | -0.6% |
| Two parents, two children, pool; two parents four children | 8,490 | $2,705 | $2,635 | $(70) | -2.6% |
| Two parents, four children, pool; two parents six children | 10,572 | $3,286 | $3,165 | $(121) | -3.7% |

*a. Tariff 11 customers will typically also have consumption on one of the off-peak tariffs (tariff 31 or 33).*

*b. Annual consumption thresholds were based on ACIL Tasman's 'Electricity Bill Benchmarks for Residential Customers', December 2011; and the Australian Energy Regulator's Energy Made Easy comparator, available at: http://www.energymadeeasy.gov.au/bill-benchmark*

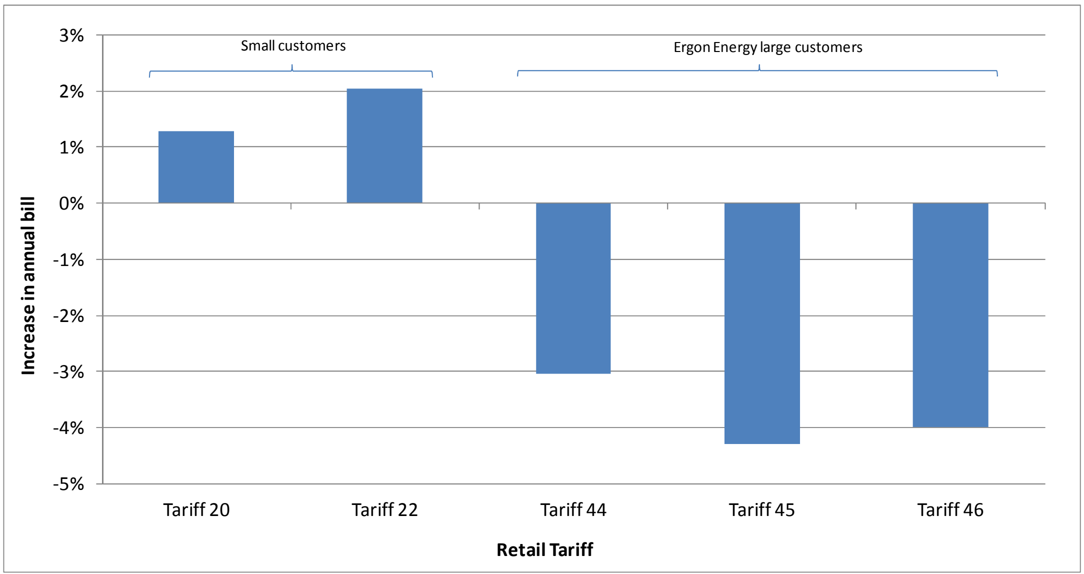
*c. Includes impact of metering charges.*

*d. Based on 2013–14 actual consumption data, as advised by Ergon Energy.*

## Non-residential and business customers

Figure 8 presents the expected increases in annual bills for typical business customers from 2014–15 to 2015–16. Bill impacts will vary depending on each customer's level and pattern of consumption. Typical small business customers on tariffs 20 and 22 will see moderate annual bill increases of between 1.3% and 2.0%, while typical customers on large business tariffs (tariffs 44, 45 and 46) can expect bill decreases of between 3.0% and 4.3%. The old tariff 22 will become obsolete and customers on this tariff will be transitioned to new tariff 22A (based on Ergon Distribution tariff structures) by 30 June 2017.

**Figure 8 Change in electricity bills in 2015–16 for business customers[a]**




*a. Bill impacts are based on assumed annual consumption levels as set out in Appendix I. Includes impact of metering charge (tariffs 20 and 22).*

## Transitional arrangements for customers on obsolete tariffs

In 2013–14, we established transitional arrangements for customers on most of the existing obsolete tariffs, as many customers would have faced significant price impacts if they were immediately moved to a standard business tariff.

We have maintained these transitional arrangements for 2015–16. Our general approach in past determinations has been to escalate the charges in each transitional and obsolete tariff based on the percentage increase in the charges in the tariff that customers would otherwise pay. We applied additional escalation factors to these increases, to limit charges for transitional and obsolete tariffs falling further below cost in dollar terms.

However, increases in the standard business tariffs are low or negative for 2015-16. Where increases are low, this approach will only marginally increase transitional and obsolete tariffs and do little to reduce how far customers' bills are below cost in dollar terms. We have applied a floor to price increases, just as we did in setting carbon-exclusive notified prices for 2014–15, when we applied an increase of 10% to all transitional and obsolete tariffs.

However, in light of the large increases that customers have faced in recent years, we have adopted an escalation of 5% (rather than 10%) for 2015–16. In addition to this increase, a metering charge may be added to customers' bills if they have a type 6 meter (as discussed in Chapter 7). However, if the anticipated price increases for the standard business tariffs do not eventuate, we will reassess our position on the proposed 5% increase.

New customers will continue to be allowed to access the transitional tariffs to ensure that new and existing customers are treated equitably. As foreshadowed in the 2014–15 determination, tariffs 41 (large) and 43 (large) will be removed from 1 July 2015 and customers on these tariffs will be moved to the standard business tariffs.

**Table 21 Draft decision - transitional arrangements for 2015–16**

| ***Obsolete/transitional tariff*** | ***Period to be retained*** | ***Proposed 2015–16 bill increase*** |
|---|---|---|
| Tariff 20 (large) – transitional | 5 years | 5% |
| Tariff 21 – transitional | 5 years | 5% |
| Tariff 37 – obsolete | 5 years | 5% |
| Tariff 62 – transitional | 5 years | 5% |
| Tariff 65 – transitional | 5 years | 5% |
| Tariff 66 – transitional | 5 years | 5% |
| Tariff 22 (small and large) – transitional | 5 years | 5% |
| Tariff 41 (large) obsolete | Remove | N/A |
| Tariff 43 (large) obsolete | Remove | N/A |

*Note: In addition to this increase, a metering charge may be added to customers' bills if they have a type 6 meter.*

# GLOSSARY

| | |
|---|---|
| **A** | |
| AEMC | Australian Energy Market Commission |
| AEMO | Australian Energy Market Operator |
| AER | Australian Energy Regulator |
| AFMA | Australian Financial Markets Association |
| **C** | |
| CARC | Customer acquisition and retention costs |
| CER | Clean Energy Regulator |
| COTA Queensland | Council on the Aging Queensland |
| CPI | Consumer Price Index |
| c/day | cents per day |
| **E** | |
| EBITDA | Earnings-before-interest, tax, depreciation and amortisation |
| Ergon Distribution | Ergon Energy Corporation Limited (electricity distribution arm) |
| Ergon Retail | Ergon Energy Queensland (electricity retail arm) |
| Electricity Act | *Electricity Act 1994* (Qld) |
| ERA | Economic Regulation Authority |
| ERAA | Electricity Retailers Association of Australia |
| ESAA | *Energy Suppliers Association of Australia* |
| **F** | |
| Frontier | Frontier Economics |
| **G** | |
| GST | Goods and services tax |
| GWh | Gigawatt hour |
| Government | Queensland Government |
| **I** | |
| IBT | Inclining block tariff |
| IPART | Independent Pricing and Regulatory Tribunal |
| **K** | |
| kWh | kilowatt hour |
| **L** | |
| LGC | Large-scale generation certificate |
| LNG | Liquefied natural gas |
| LRET | Large-scale Renewable Energy Target |
| LRMC | Long-run marginal cost |
| **M** | |
| Minister | Minister for Energy and Water Supply |
| MWh | Megawatt hour |

| | |
|---|---|
| **N** | |
| N | Network cost |
| NEM | National Electricity Market |
| Notified prices | Regulated retail electricity prices |
| NSLP | Net System Load Profile |
| N + R | Network + Retail cost build-up methodology |
| NSW | New South Wales |
| **O** | |
| Origin | Origin Energy |
| **P** | |
| PPA | Power purchase agreement |
| PV | Photovoltaic |
| **Q** | |
| QCA | Queensland Competition Authority |
| QCOSS | Queensland Council of Social Services |
| **R** | |
| R | Energy and retail cost |
| RET | Renewable Energy Target |
| ROC | Retail operating costs |
| RPP | Renewable power percentage |
| **S** | |
| SBS | Solar Bonus Scheme |
| SRES | Small-scale Renewable Energy Scheme |
| STC | Small-scale technology certificate |
| STP | Small-scale technology percentage |

# APPENDIX A: MINISTERIAL DELEGATION AND COVER LETTER

Office of the
Minister for Energy and Water Supply

QLD COMPETITION AUTHORITY
01 SEP 2014
DATE RECEIVED

CLLO CIC-14109

Level 13 Mineral House
41 George Street Brisbane 4000
PO Box 15456 City East
Queensland 4002 Australia
**Telephone** +61 7 3719 7140
**Facsimile** +61 7 3220 6233

29 August 2014

Dr Malcolm Roberts
Chairman
Queensland Competition Authority
GPO BOX 2257
BRISBANE QLD 4001

Dear Dr Roberts

I refer to the current Delegation and Terms of Reference (ToR), issued to the Queensland Competition Authority (QCA) on 12 February 2013, for determining regulated retail electricity (notified) prices for the three-year delegation period 2013-14 to 2015-16, as authorised under section 90AA(1) of the *Electricity Act 1994*.

As you would be aware, the Queensland Government is undertaking wide-ranging reform of the electricity sector. These reforms, announced in June 2013, have been established with the objectives of ensuring:

1. electricity in Queensland is delivered in a cost-effective manner for customers;
2. Queensland has a viable, sustainable and competitive electricity industry; and
3. electricity is delivered in a financially sustainable manner from the government's perspective.

The introduction of market monitoring in South East Queensland (SEQ) by 1 July 2015, subject to a number of pre-conditions being met, is a key reform to the electricity sector designed to improve competition and reduce pressure on prices. To facilitate this, on 20 May 2014, the *National Energy Retail Law (Queensland) Bill 2014* and the *Electricity Competition and Protection Legislation Amendment Bill 2014* were introduced into the Legislative Assembly.

However, this Government remains committed to the Uniform Tariff Policy (UTP) and the QCA will continue to set notified prices for the Ergon Energy Corporation Limited distribution region, while Government finalises a strategy for introducing competition into regional Queensland in the future.

Page 1 of 2

In this context, I thank the QCA for the advice provided in April 2014, on matters relating to the UTP and options for retail price regulation in regional Queensland. Government has considered the QCA's advice and I have attached a new Delegation and ToR on the matters the QCA is required to consider in its regional price determination process for 2015-16. Following Government consideration, this report can now be publically released and there may be benefit in releasing it concurrently with the QCA's Interim Consultation Paper on 2015-16 regulated regional prices.

The new Delegation and ToR will assist in building on the measures already undertaken to deliver on Government's longer term reform objectives. The ToR will provide a platform for improved competition in regional Queensland and in the longer term, consumer benefits that will flow from this.

I would like to take this opportunity to thank the QCA for its ongoing work on regulated retail electricity prices.

Should you require anything further, please contact Mr Benn Barr, General Manager- Energy Pricing, Consumer and Retail, on (07) 3199 4901, or email benn.barr@dews.qld.gov.au.

Yours sincerely

Mark McArdle
**Minister for Energy and Water Supply**

Att: Delegation and Terms of Reference

**ELECTRICITY ACT 1994**
**Section 90AA(1)**

**DELEGATION**

I, Mark McArdle, the Minister for Energy and Water Supply, in accordance with the power of delegation in section 90AA(1) of the *Electricity Act 1994* (the Act), delegate to the Queensland Competition Authority (QCA) the function under section 90(1) of the Act of deciding the prices that a retail entity may charge its non-market customers for customer retail services in the Ergon Energy Corporation Limited (EECL) distribution area for the tariff year 1 July 2015 to 30 June 2016.

The following are the Terms of Reference of the price determination:

**Terms of Reference**

1. These Terms of Reference apply for the tariff year 1 July 2015 to 30 June 2016.

2. The QCA is to calculate the notified prices and publish an annual price determination, in the form of a tariff schedule, in accordance with these Terms of Reference.

3. In accordance with section 90(5)(a) of the Act, in making a price determination for each tariff year QCA must have regard to the matters set out in paragraph 5 of these Terms of Reference.

4. In accordance with section 90(5)(b) of the Act, QCA may have regard to any other matter that QCA considers relevant.

5. The matters that QCA is required by this delegation to consider are:

   (a) It is the Government's intention, that from 1 July 2015, price regulation in the Energex distribution area will be removed for small customers and replaced with a market monitoring approach. This will mean that notified prices will only apply to customers in the EECL distribution area;

   (b) Uniform Tariff Policy Review - As part of Government's longer term electricity sector reform program a review of the effectiveness and objectives of the Uniform Tariff Policy and Community Service Obligation, and options for improved regional competition is currently being undertaken;

   (c) Framework - QCA must use the Network (N) plus Retail (R) cost build-up methodology when working out the notified prices and making the price determination, where N (network cost) is treated as a pass-through and R (energy and retail cost) is determined by QCA;

(d) When determining the N components for each regulated retail tariff, QCA must consider the following:

(i) For residential and small business customer tariffs (with the exception of Tariffs 12 and 22) in the EECL distribution area - basing the network cost component on the network charges to be levied by Energex and the relevant Energex tariff structures;

(ii) For Tariff 12 residential time-of-use and Tariff 22 small business time-of-use tariffs in the EECL distribution area - basing the network cost component on the network charges to be levied by Energex, but utilising the relevant EECL tariff structures, in order to 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;

(iii) For Tariff 13 residential peaksmart time-of-use, as EECL does not have a network tariff for this tariff, and no customers access the tariff, it is proposed that this tariff be removed from the tariff schedule; and

(iv) For large business customers in the EECL distribution area who consume 100MWh or more per annum - basing the network cost component on the network charges to be levied by EECL.

(e) Transitional Arrangements - QCA must consider:

(i) for the standard regulated residential tariff (Tariff 11), complete the rebalancing of the fixed and variable components of Tariff 11 using the approach established in the 2013-14 Determination;

(ii) maintaining transitional arrangements for tariffs classed as transitional or obsolete (i.e. farming, irrigation, declining block, non-domestic heating and large business customer tariffs), and

(iii) continuing to allow all EECL customers access to tariffs designated as transitional in 2013-14.

*Interim Consultation Paper*

6. QCA must publish an interim consultation paper identifying key issues to be considered when calculating the N and R components of each regulated retail electricity tariff and transitioning relevant retail tariffs.

7. QCA must publish a written notice inviting submissions about the interim consultation paper. The notice must state a period during which anyone can make written submissions to QCA about issues relevant to the price determination.

8. QCA must consider any submissions received within the consultation period and make them available to the public, subject to normal confidentiality considerations.

*Consultation Timetable*

9. QCA must publish an annual consultation timetable within two weeks after submissions on the interim consultation paper are due, which can be revised at the discretion of QCA, detailing any proposed additional public papers and workshops that QCA considers would assist the consultation process.

*Workshops and additional consultation*

10. As part of the interim consultation paper and in consideration of submissions in response to the interim consultation paper the QCA must consider the merits of additional public consultation (workshops and papers) on identified key issues.

*Draft Price Determination*

11. QCA must investigate and publish its draft price determination on regulated retail electricity tariffs, with each tariff to be presented as a bundled price.

12. QCA must publish a written notice inviting submissions about the draft price determination. The notice must state a period during which anyone can make written submissions to QCA about issues relevant to the draft price determination.

13. QCA must consider any submissions received within the consultation period and make them available to the public, subject to normal confidentiality considerations.

*Final Price Determination*

14. QCA must investigate and publish its final price determination on regulated retail electricity tariffs, with each tariff to be presented as a bundled price, and gazette the bundled retail tariffs.

*Timing*

15. QCA must make its reports available to the public and, at a minimum, publicly release the papers and price determinations listed in paragraphs 6 to 14.

16. QCA must publish the interim consultation paper for the 2015-16 tariff year no later than one month after the date of this Delegation.

17. QCA must publish the draft price determination on regulated retail electricity tariffs no later than 12 December 2014.

18. QCA must publish the final price determination on regulated retail electricity tariffs for the 2015-16 tariff year, and have the bundled retail tariffs gazetted, no later than 31 May 2015.

19. This Delegation revokes my previous Delegation issued on 12 February 2013.

**DATED** this 28th day of ~~XX 2014~~ August 2014.

**SIGNED** by the Honourable )
Mark McArdle, ) ................................................
Minister for Energy and Water Supply ) (signature)

# APPENDIX B: ADDITIONAL LETTER FROM THE MINISTER

Queensland Government

Office of the
Minister for Energy and Water Supply

Ref CTS 23690/14

Level 13 Mineral House
41 George Street Brisbane 4000
PO Box 15456 City East
Queensland 4002 Australia
**Telephone** +61 7 3719 7140
**Facsimile** +61 7 3220 6233

25 September 2014

Dr Malcolm Roberts
Chairman
Queensland Competition Authority
GPO BOX 2257
BRISBANE QLD 4001

Malcolm

Dear Dr Roberts

I write with respect to paragraphs 5(b) and 5(d)(1) of the Terms of Reference in the delegation under s90AA of the *Electricity Act 1994* dated 28 August 2014.

There have been a number of recent statements questioning this Government's commitment to the Uniform Tariff Policy (UTP) and the Community Service Obligation (CSO) payment that underpins it. As identified in the delegation, the Government is reviewing the effectiveness and objectives of the UTP and CSO, and options for improved regional competition. I understand that due to this process there could be some uncertainty and therefore, I feel it is important to formally re-affirm the Government's support for the UTP and provide advice regarding the Government's interpretation of the UTP.

The Government determined before making the delegation that for the purposes of the delegation regional prices should, as much as is practicable, aim to ensure that small customers outside south east Queensland do not pay more than reasonable expectations of the prices which would be available to standing offer customers in south east Queensland.

It is clear the matters which the QCA has been asked to consider in the delegation are consistent with this approach. In particular, the specific network tariffs identified to underpin the retail tariffs for small customers demonstrate the Government's preference that the prices regional customers will pay are consistent with customers in south east Queensland. In addition, the matters set out in the delegation were developed to maintain consistency with the approach used in the previous delegation.

In noting this, I also understand the delegation sets out matters the QCA must consider and it is reasonable to expect that the QCA may consider other approaches in its consultation.

Should you require anything further, please contact Mr Benn Barr (General Manager- Energy Pricing, Consumer and Retail) on 3199 4901, or email benn.barr@dews.qld.gov.au.

Yours sincerely

Mark McArdle
**Minister for Energy and Water Supply**

# APPENDIX C: SUBMISSIONS

## C.1: Submissions to the Interim Consultation Paper

### Organisation/individual

- Australian Sugar Industry Alliance
- Canegrowers Isis
- Council on the Ageing Queensland
- Energy Retailers Association of Australia
- Energy Supply Association of Australia
- Ergon Energy Corporation Ltd
- Ergon Energy Queensland Pty Ltd
- Mark Tranter (individual)
- Origin Energy
- Queensland Consumers' Association
- Queensland Council of Social Services
- Toowoomba Regional Council
- One confidential submission

# APPENDIX D: RESPONSES TO ADDITIONAL ISSUES RAISED IN SUBMISSIONS

We have provided responses to a number of additional issues raised in submissions that were not addressed in our draft decision.

| ***Issue*** | ***Submitted by*** | ***QCA position*** |
|---|---|---|
| An extended transitional period is essential if tariff 11 charges are based on Ergon Distribution's network tariffs and prices | QCOSS | As we have determined tariff 11 notified prices based on Energex's network structure and prices, we do not consider an extended transitional period is necessary. |
| Further increases in the fixed charge component of tariff 11 provide no incentive to reduce energy usage or peak demand. | COTA | Despite the service charge being higher in 2015-16, customers can still control the impact of the variable charge on their bill if they reduce their energy usage. The variable charge is expected to account for around 70% of a typical residential customer's annual tariff 11 bill in 2015-16. |
| Customers should be able to change time-of-use tariffs at least twice a year free of charge. | Canegrowers Isis | Business customers can change tariffs once a year free of charge. Each subsequent switch costs $32. We do not expect that this fee would pose a significant impediment to changing tariffs more often. |
| Irrigators should be able to access tariff 33. | Canegrowers Isis | The terms and conditions of access to tariff 33 are set by Ergon Distribution, not the QCA. |
| Ergon Distribution network prices are too high. | Australian Sugar Industry Alliance | The AER is responsible for determining what the distributors can charge for network services. The AER has started its consultation process for the 2015-20 regulatory period and we encourage stakeholders to engage in this process.<br>We also note that notified prices for residential and small business customers are based on the network charges of Energex, rather than Ergon Distribution. This is consistent with the Government's uniform tariff policy. |

# APPENDIX E: NETWORK TARIFF STRUCTURES

## E1: Comparison of Energex and Ergon Energy's Tariff Structures

**Table 22 Comparison of Energex and Ergon Distribution non time-of-use tariffs**

<table>
<tr><th>Type</th><th>Distributor</th><th>Fixed[1]</th><th colspan="3">Variable</th></tr>
<tr><td rowspan="2">Residential (tariff 11)</td><td>Energex</td><td>c/day</td><td colspan="3">Flat rate c/kWh</td></tr>
<tr><td>Ergon Distribution</td><td>c/day</td><td>c/kWh 1st 1,000 kWh/year</td><td>c/kWh next 5,000 kWh/year</td><td>c/kWh >6,000 kWh/year</td></tr>
<tr><td rowspan="2">Small business (tariff 20)</td><td>Energex</td><td>c/day</td><td colspan="3">Flat rate c/kWh</td></tr>
<tr><td>Ergon Distribution</td><td>c/day</td><td>c/kWh 1st 1,000 kWh/year</td><td>c/kWh next 19,000 kWh/year</td><td>c/kWh >20,000 kWh/year</td></tr>
<tr><td rowspan="2">Small business demand (tariff 41)</td><td>Energex</td><td>c/day</td><td colspan="2">Flat rate c/kWh</td><td>$/kW/month</td></tr>
<tr><td>Ergon Distribution</td><td colspan="4">No network tariff</td></tr>
<tr><td rowspan="2">Night controlled load (tariff 31)</td><td>Energex</td><td>n/a</td><td colspan="3">Flat rate c/kWh</td></tr>
<tr><td>Ergon Distribution</td><td>c/day</td><td colspan="3">Flat rate c/kWh</td></tr>
<tr><td rowspan="2">Controlled load (tariff 33)</td><td>Energex</td><td>n/a</td><td colspan="3">Flat rate c/kWh</td></tr>
<tr><td>Ergon Distribution</td><td>c/day</td><td colspan="3">Flat rate c/kWh</td></tr>
<tr><td rowspan="2">Unmetered (tariff 91)</td><td>Energex</td><td>n/a</td><td colspan="3">Flat rate c/kWh</td></tr>
<tr><td>Ergon Distribution</td><td>c/day</td><td colspan="3">Flat rate c/kWh</td></tr>
</table>

*1. Customers can also expect to pay an additional fixed charge for metering services in 2015-16 (as discussed in chapter 3).*

**Table 23 Comparison of Energex and Ergon Distribution time-of-use tariffs**

| *Type* | *Distributor* | *Peak* | *Shoulder* | *Off-peak* |
|---|---|---|---|---|
| Residential (tariff 12) | Energex[1] | 4pm-8pm Mon-Fri<br>1,040 hours per year | 7am-4pm, 8pm-10pm Mon-Fri<br>7am-10pm Weekends<br>4,420 hours per year | 10pm-7am every day<br>3,276 hours per year |
| | Ergon Distribution | 4:30pm-9pm Mon-Fri<br>Summer only<br>292.5 hours per year | 3pm-4:30pm Mon-Fri<br>9pm-9:30pm Mon Fri<br>3pm-9:30pm weekends<br>Summer only<br>299 hours per year | All other times<br>8,144.5 hours per year |
| Small business (tariff 22) | Energex | 7:00am to 9:00pm, weekdays<br>3,640 hours per year | n/a | All other times<br>5,096 hours per year |
| | Ergon Distribution | 11:30am to 5:30pm on summer weekdays<br>390 hours per year | 10:00am to 11:30am and 5:30pm to 8:00pm on summer weekdays<br>260 hours per year | All other times<br>8,086 hours per year |

*1. The network tariff underpinning tariff 13 has the same structure as tariff 12. Ergon Distribution does not have a network tariff for tariff 13.*

## E2: Ergon Energy Tariff Structure Options

This section outlines the methodology we used to determine network charges for the residential and small business customer time-of-use tariffs using Ergon Distribution network tariff structures, as discussed in section 3.2.2. It also provides further information on customer impacts of using Ergon Distribution tariff structures, rather than Energex tariff structures.

To determine these network charges, we used customer information provided by Ergon Retail for the 2013-14 financial year.

### Establishing network prices

Options 1 and 2 involve adjusting Ergon Distribution's network charges as follows:

- For option 1: uniformly decrease the Ergon Distribution east, transmission zone one fixed and variable charges by an amount that equalises the average customer's network bill with the bill they would face if they were a south east Queensland customer paying Energex's charges.
- For option 2: set the fixed charge at the same level as Energex's fixed charge and decrease the Ergon Distribution east, transmission zone one variable charges by an amount that equalises the average customer's network bill with the network bill they would face if they were paying Energex's charges.

As shown in Table 24, Ergon Distribution provided a break-down of consumption into time-of-use components for an average customer on an Energex-based tariff in 2013-14 and how it expects an average customer would consume on an Ergon Distribution-based tariff.

**Table 24 Time-of-use breakdowns and 2013-14 annual consumption**

| *Tariff* | | *Peak* | *Shoulder* | *Off-peak* | *Total consumption kWh/year* |
|---|---|---|---|---|---|
| Residential time-of-use | Ergon-based | 4.6% | 4.5% | 90.9% | 10,888 |
| | Energex-based | 15.3% | 51.3% | 33.4% | 10,888 |
| Small business time-of-use | Ergon-based | 6.3% | 3.9% | 89.8% | 38,369 |
| | Energex-based | 48.6% | n/a | 51.4% | 38,369 |

Tables 25 and 26 show the network price results for options 1 and 2.

**Table 25 Network price options for tariff 12**

| | *Fixed c/day* | *Peak c/kWh* | *Shoulder c/kWh* | *Off-peak c/kWh* |
|---|---|---|---|---|
| Energex 8900 | 50.3 | 19.909 | 10.235 | 6.99 |
| Ergon ERTOUT1 | 164.3 | 56.558 | 28.028 | 10.269 |
| Ergon - adjusted option 1 | 108.2 | 37.254 | 18.462 | 6.764 |
| Ergon - adjusted option 2 | 50.3 | 45.581 | 22.588 | 8.276 |

**Table 26 Network price options for tariff 22A**

| | *Fixed c/day* | *Peak c/kWh* | *Shoulder c/kWh* | *Off-peak c/kWh* |
|---|---|---|---|---|
| Energex 8800 | 71.5 | 15.242 | n/a | 9.888 |
| Ergon EBTOUT1 | 164.3 | 42.759 | 32.027 | 14.631 |
| Ergon - adjusted option 1 | 116.0 | 30.189 | 22.612 | 10.330 |
| Ergon - adjusted option 2 | 71.5 | 31.249 | 23.406 | 10.692 |

## Customer impacts

Table 27 summarises the results underpinning Figures 4 and 5 in section 3.2.2, which shows customer impacts of moving from time-of-use tariffs based on Energex tariff structures to time-of-use tariffs based on Ergon Distribution structures.

**Table 27 Summary of customer bill impacts for options one and two**

| | *Tariff 12* | | *Tariff 22A* | |
|---|---|---|---|---|
| | *Option 1* | *Option 2* | *Option 1* | *Option 2* |
| Average impact[a] | 7% | 0% | 8% | 0% |
| Minimum impact | -16% | -13% | -17% | -17% |
| Maximum impact | 86% | 11% | 62% | 25% |
| Median impact | 4% | -1% | 2% | 0% |
| % of customers better off | 40% | 53% | 35% | 45% |
| % of customers worse off | 60% | 47% | 65% | 55% |

*a. This is a simple average of the individual customer impacts.*

# APPENDIX F: TRANSITIONAL AND OBSOLETE TARIFFS - CUSTOMER IMPACTS

This appendix contains the analysis of bill impacts for customers on transitional and obsolete tariffs discussed in Chapter 7.

The graphs below show the bill impacts for customers moving from their transitional 2014–15 tariffs to an alternative 2015–16 draft standard business tariff. For the final determination, we will compare transitional tariffs for 2014–15 with the final standard business tariffs for 2015–16.

Some customers are supplied under multiple tariffs and the impacts of price changes in these tariffs are aggregated for each customer. We have grouped customers on multiple tariffs according to the tariff on which they consume most of their electricity.

## Tariffs 21, 37 and 66

Tariffs 21, 37 and 66 align with tariff 20 for small business customers and tariffs 44 to 48 for large business customers (depending on the customer's demand and voltage requirements). Figures 9 to 13 show the impacts of customers moving to these standard business tariffs.

**Figure 9 Change in electricity bills for small customers on tariff 21 moving to tariff 20**

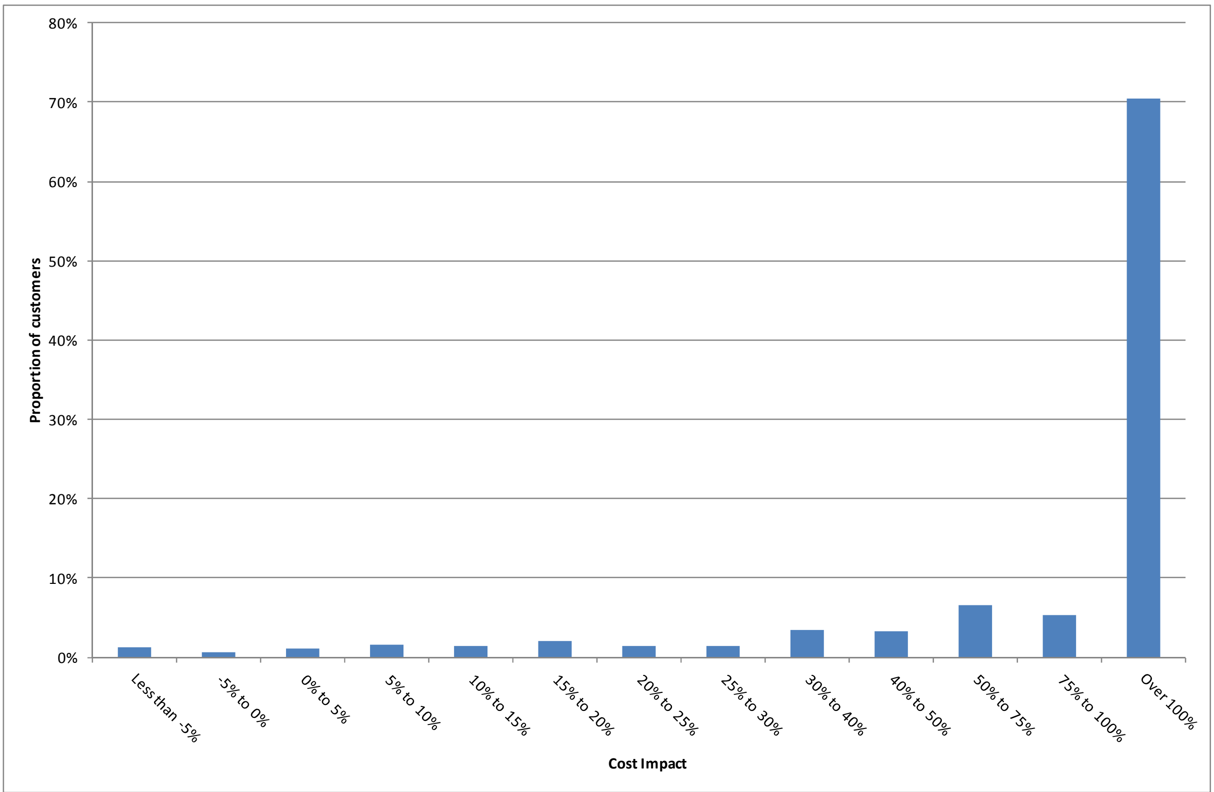


**Table 28 Information on tariff 21**

| *Who the tariff is for* | *Number of customers* | *Most common increase* | *Driver for increase* | *Retain?* |
|---|---|---|---|---|
| Small business, general supply | Around 14,000 | Over 100% | The tariff 20 fixed charge is more than twice the minimum daily charge of tariff 21. This is significant as customers on tariff 21 typically have very low usage. | Yes |

**Figure 10 Change in electricity bills for small customers on tariff 37 moving to tariff 20**

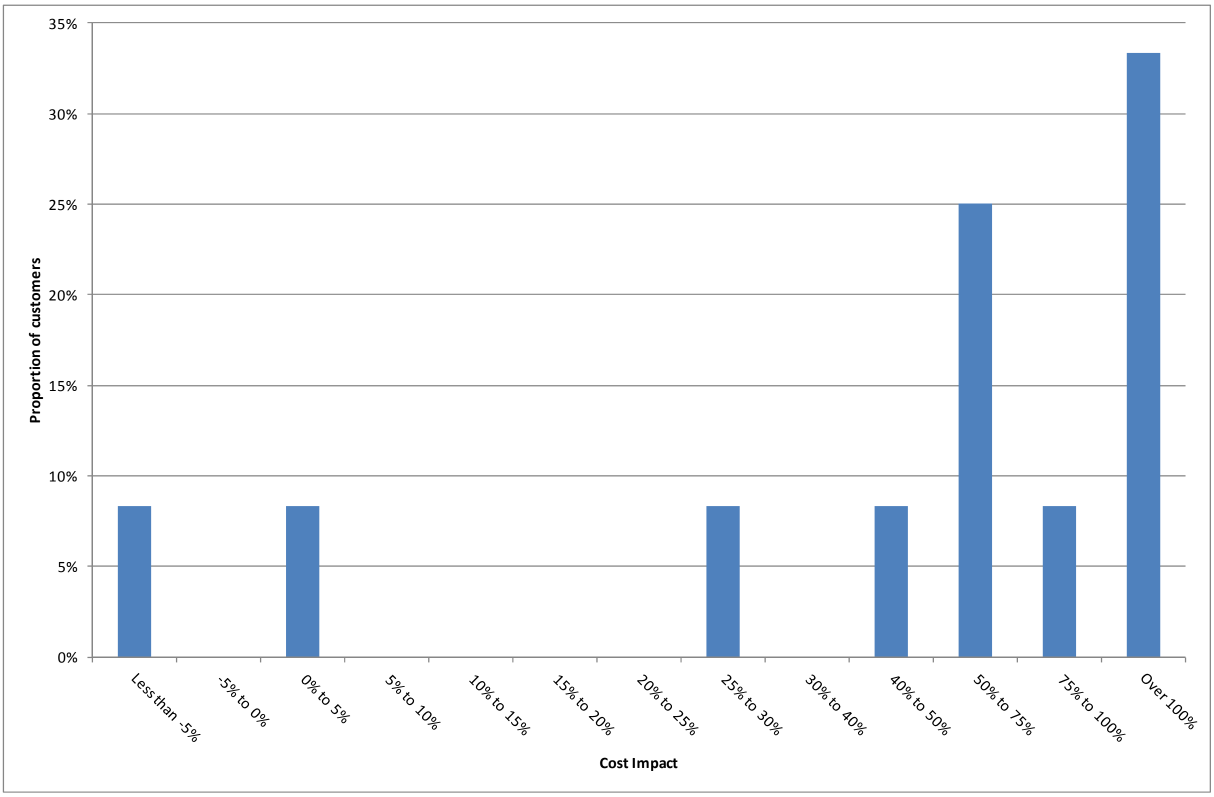
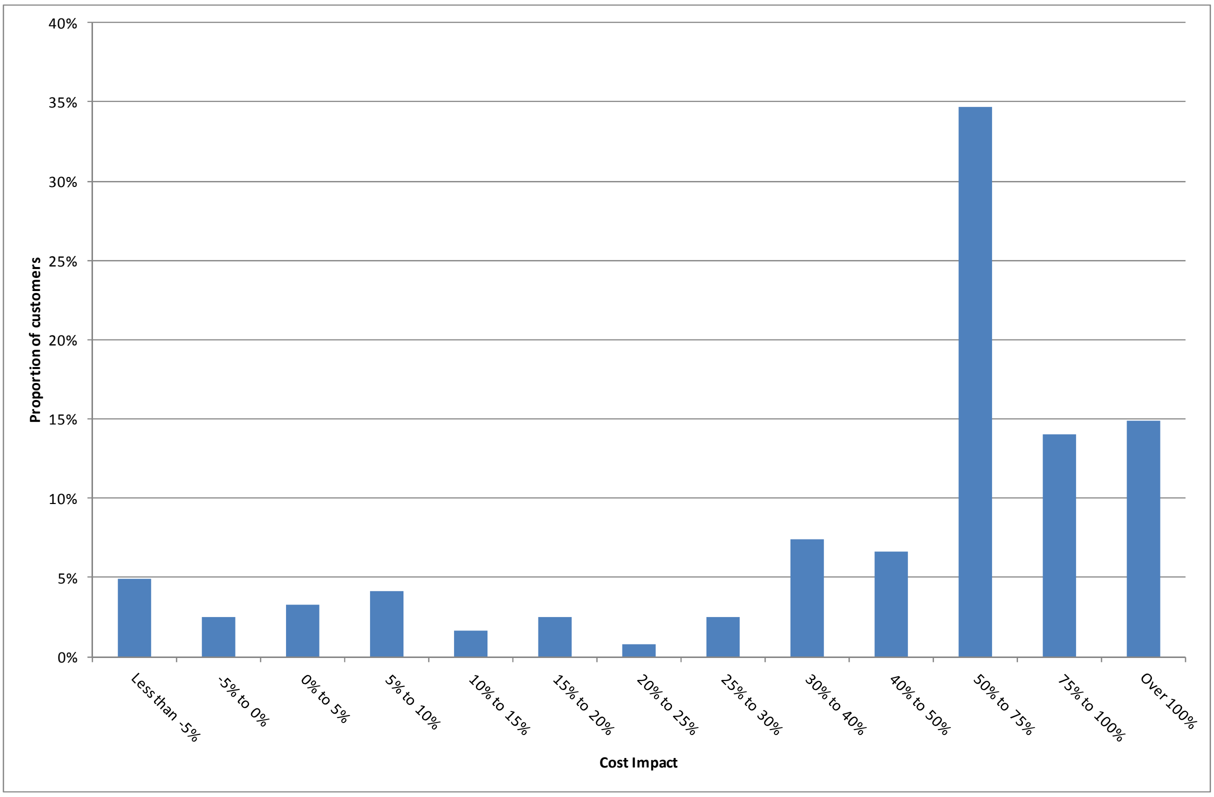


**Figure 11 Change in electricity bills for large customers on tariff 37 moving to one of tariffs 44 to 48**




### Table 29 Information on tariff 37

| *Who the tariff is for* | *Number of customers* | *Most common increase* | *Driver for increase* | *Retain?* |
|---|---|---|---|---|
| Small and large business, for non-domestic heating | Small: around 10<br>Large: around 100 | Small: over 100%<br>Large: 50% - 75% | Small: losing off-peak charges for most of the standard working day and a higher fixed charge on tariff 20 compared to tariff 37.<br>Large: standard business tariffs have demand charges, while tariff 37 does not. The standard business tariffs also have significantly higher fixed charges. | Yes |

**Figure 12 Change in electricity bills for small customers on tariff 66 moving to tariff 20**

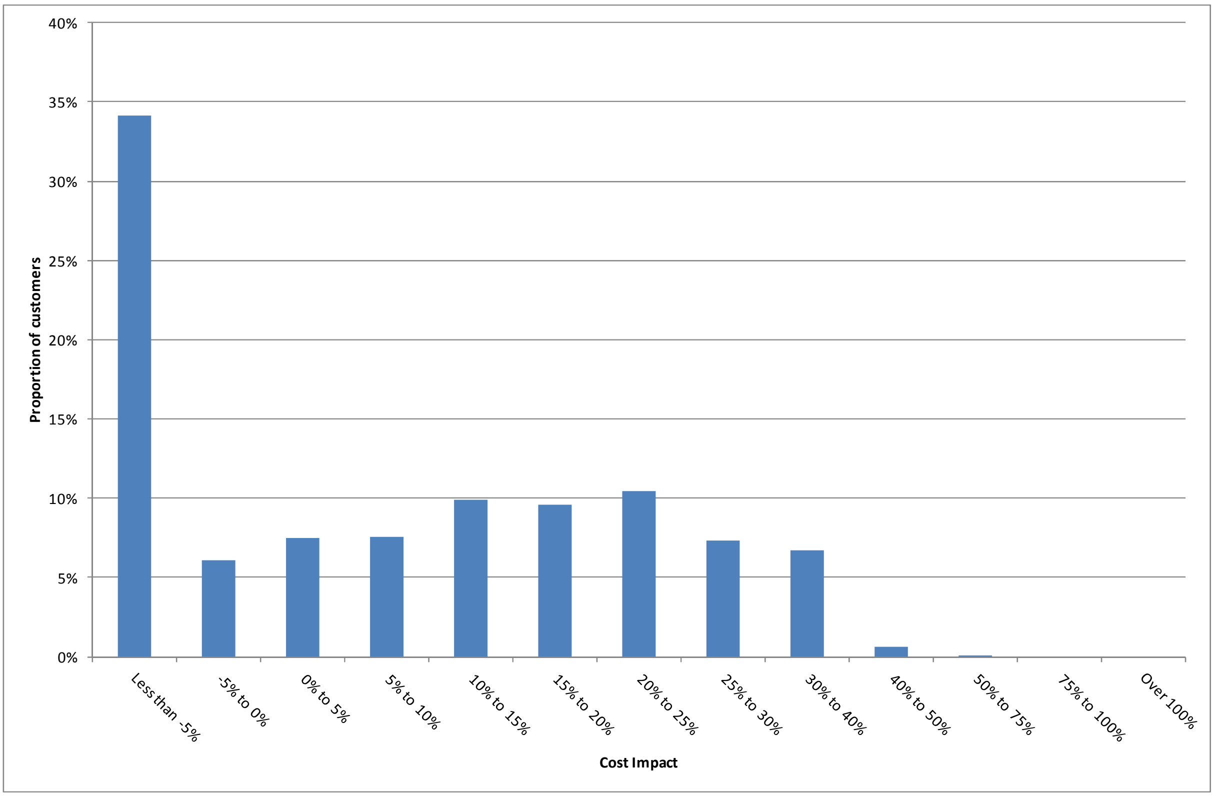



**Figure 13 Change in electricity bills for large customers on tariff 66 moving to tariff 44 or tariff 45**

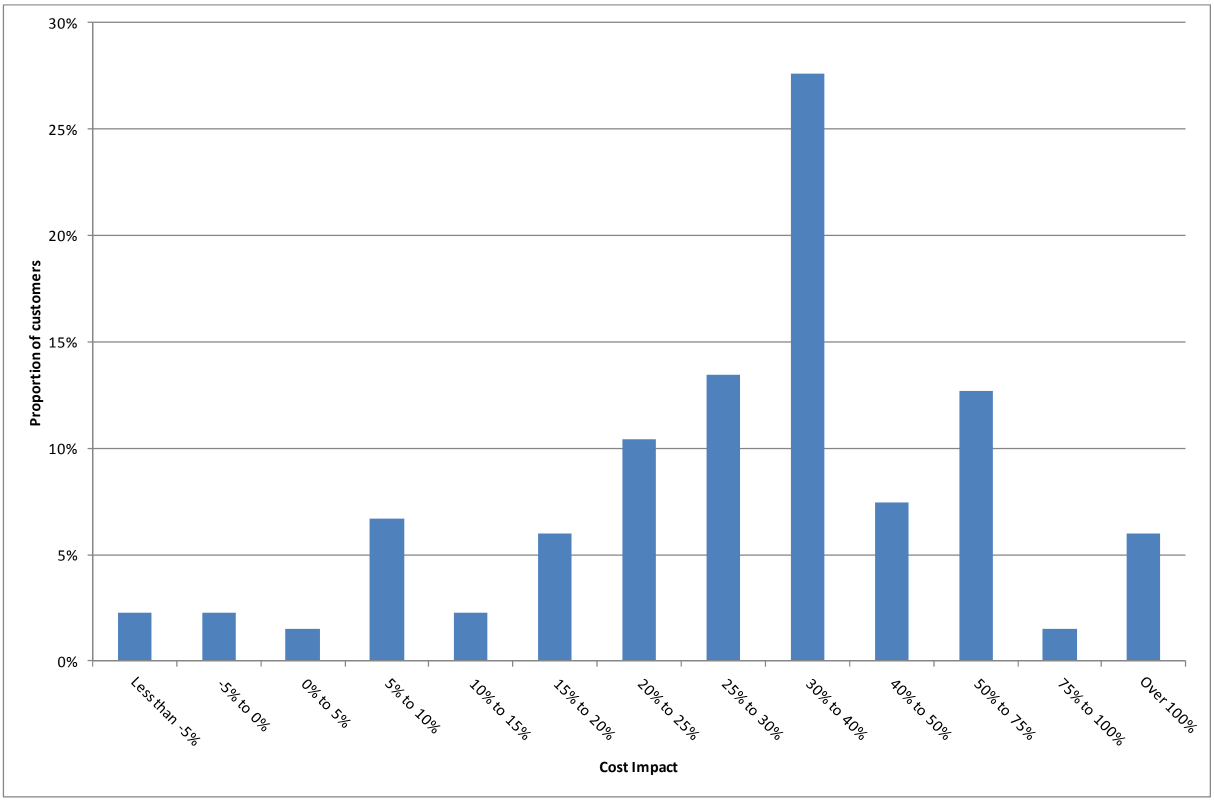


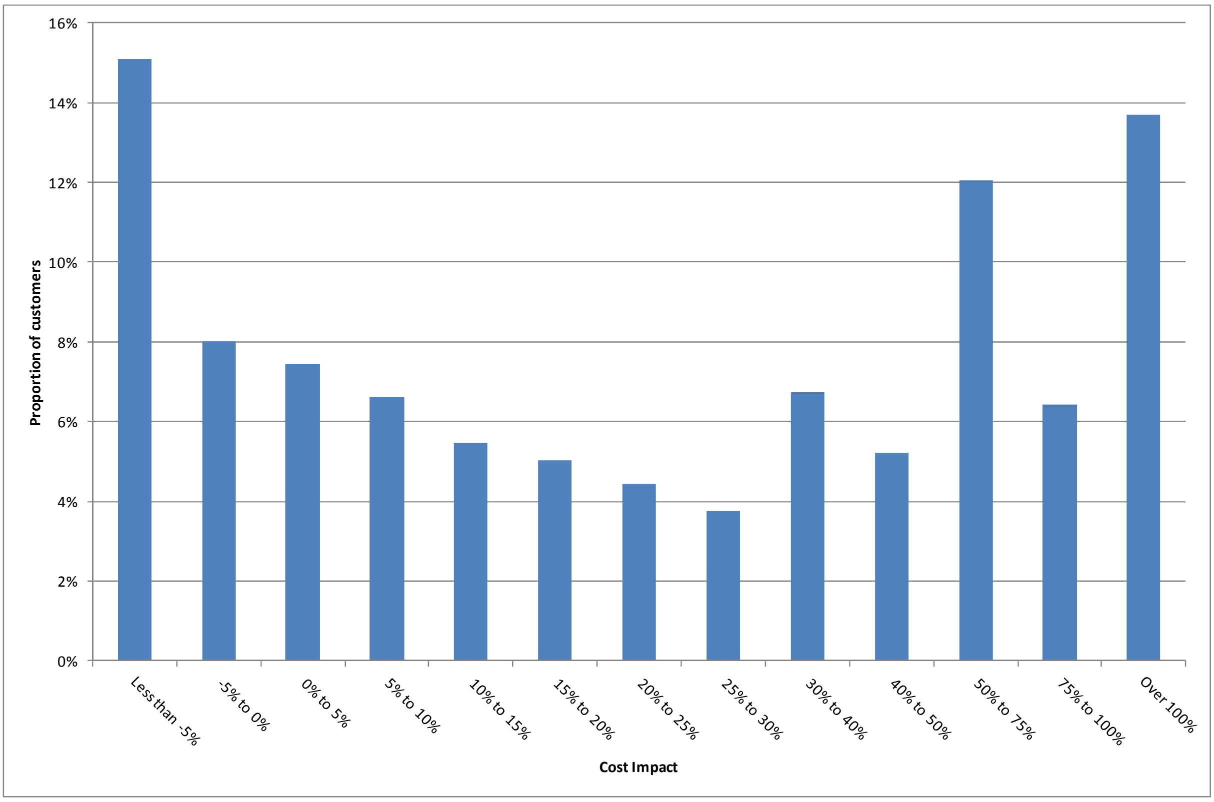
**Table 30 Information on tariff 66**

| ***Who the tariff is for*** | ***Number of customers*** | ***Most common increase*** | ***Driver for increase*** | ***Retain?*** |
|---|---|---|---|---|
| Small and large irrigators | Small: around 2,500<br>Large: around 100 | Small: less than -5%<br>Large: 30% - 40% | Small: tariff 20 has a higher variable charge than tariff 66.<br>Large: standard business tariffs have demand charges, while tariff 66 does not. The standard business tariffs also have significantly higher fixed charges. | Yes |

## Tariffs 62 and 65

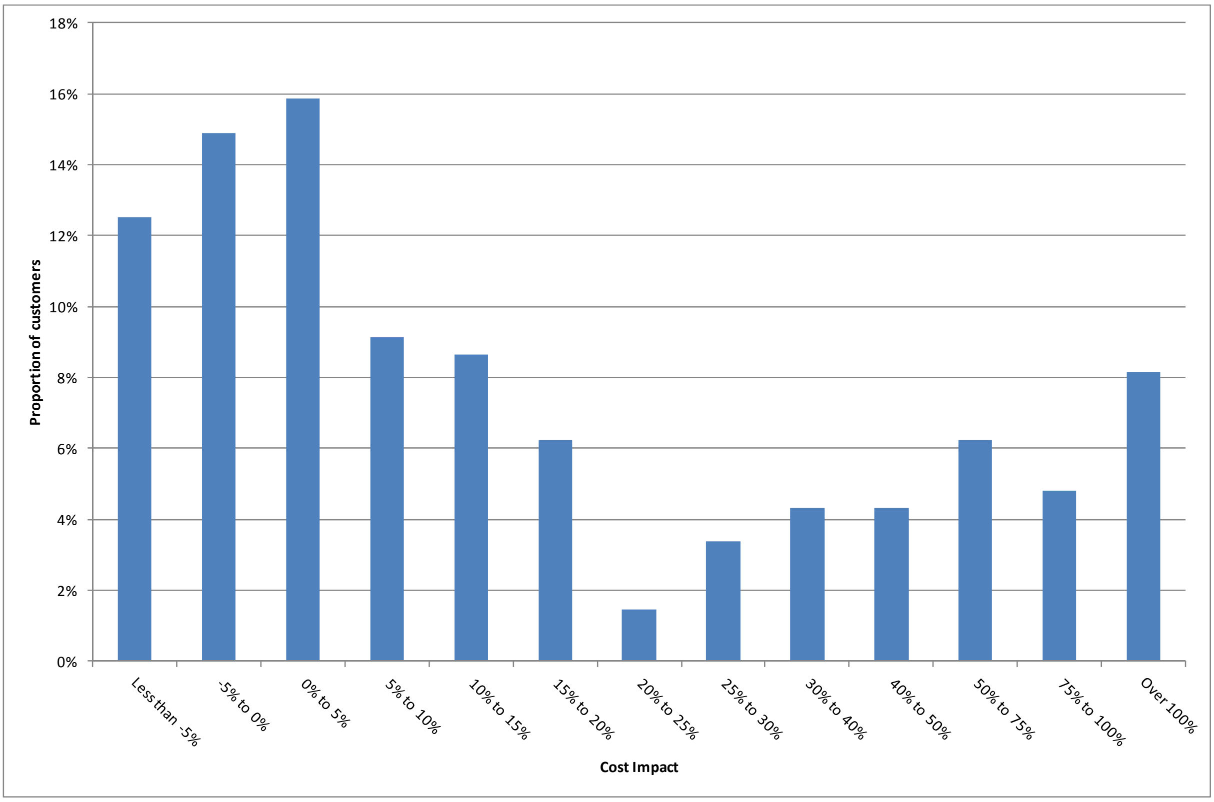
Most small customers on tariffs 62 and 65 will move to tariff 22A[40], and large customers will move to large business tariffs 44 to 48 (depending on demand and voltage requirements). Figures 14 to 17 show the impacts of customers moving to these tariffs.

**Figure 14 Change in electricity bills for small customers on tariff 62 moving to tariff 22A**




40 This will be a new tariff in 2015-16 (see Chapter 3).

**Figure 15 Change in electricity bills for large customers on tariff 62 moving to tariff 44 or 45**




## Table 31 Information on tariff 62

| *Who the tariff is for* | *Number of customers* | *Most common increase* | *Driver for increase* | *Retain?* |
|---|---|---|---|---|
| Small and large irrigators | Small: around 9,000<br>Large: around 200 | Small: less than – 5%<br>Large: 0 – 5% | Small: tariff 22A has a higher fixed charge and off-peak rate compared to tariff 62.<br>Large: standard business tariffs have demand charges, while tariff 62 does not. The standard business tariffs also have significantly higher fixed charges. | Yes |

**Figure 16 Change in electricity bills for small customers on tariff 65 moving to tariff 22A**

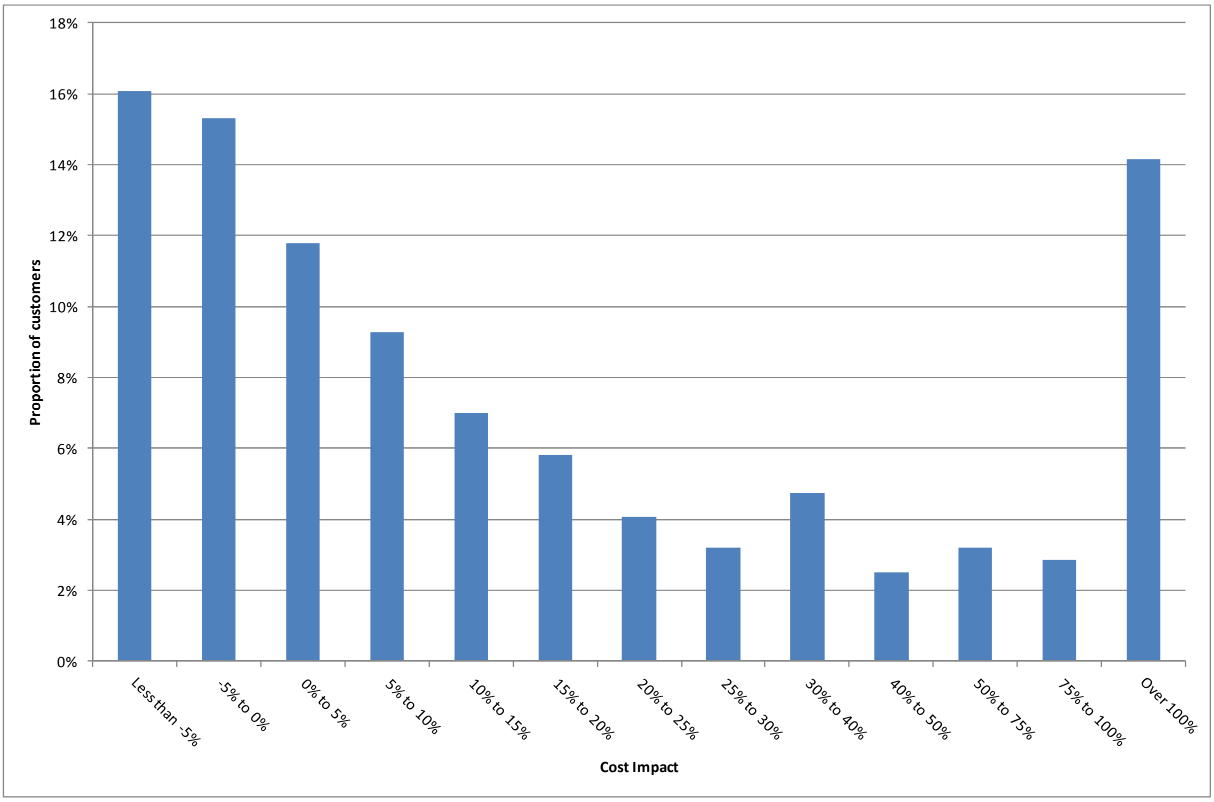



**Figure 17 Change in electricity bills for large customers on tariff 65 moving to tariff 44 or 45**

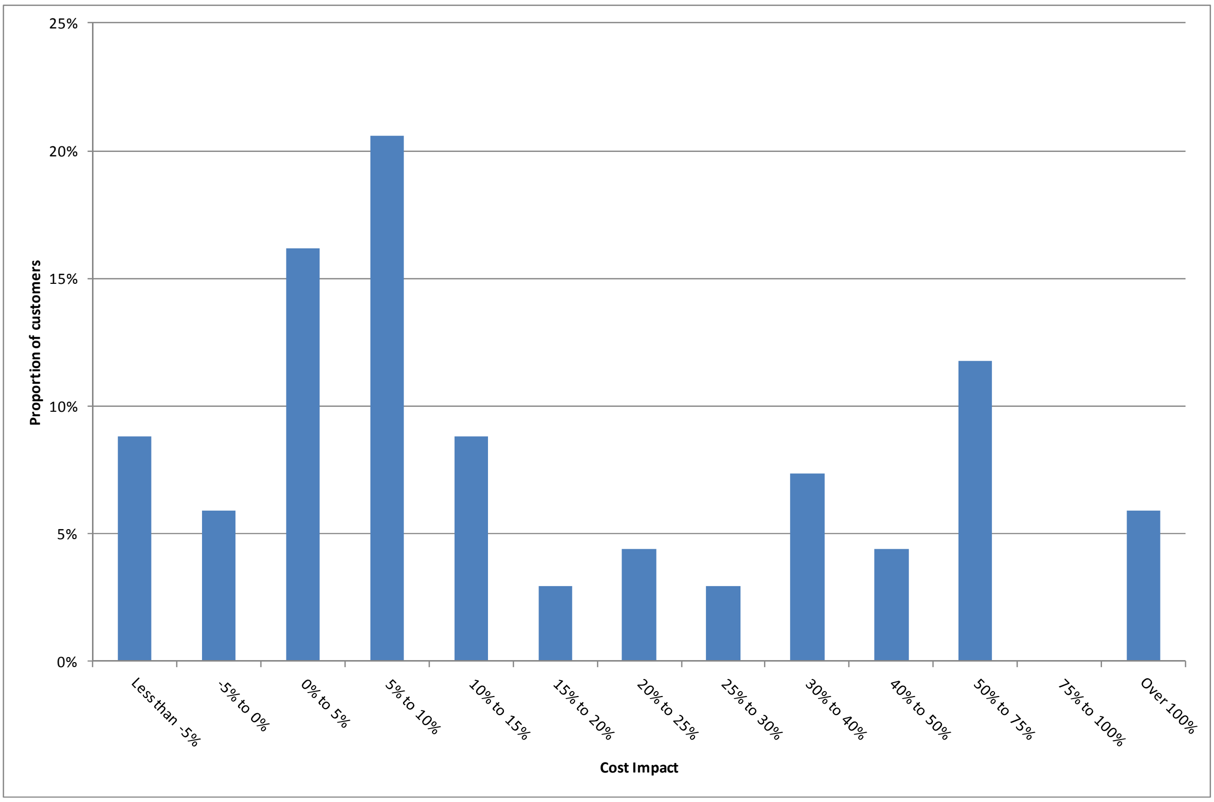


**Table 32 Information on tariff 65**

| *Who the tariff is for* | *Number of customers* | *Most common increase* | *Driver for increase* | *Retain?* |
|---|---|---|---|---|
| Small and large irrigators | Small: around 5,500<br>Large: under 100 | Small: Less than -5%<br>Large: 5% - 10% | Small: tariff 22A has a higher daily fixed charge and off-peak rate compared to tariff 65.<br>Large: standard business tariffs have demand charges, while tariff 65 does not. The standard business tariffs also have significantly higher fixed charges. | Yes |

## Large customer tariffs

Transitional large tariffs 20 and 22 align with tariffs 44 to 48, which are based on Ergon Energy network tariffs. Figures 18 to 19 show the likely impacts for large customers moving from these transitional tariffs to the most appropriate of the standard business tariffs.

**Figure 18 Change in electricity bills for customers on tariff 20 (large) moving to one of tariffs 44 to 48**

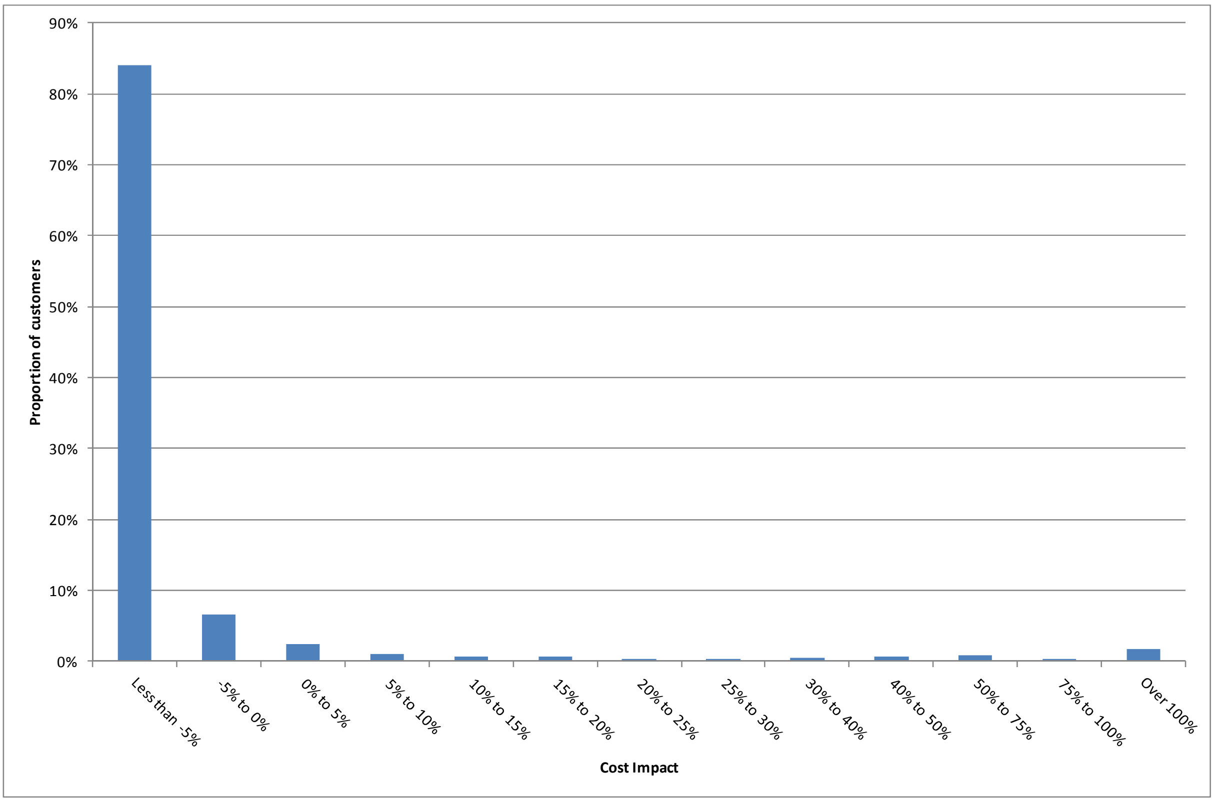


**Figure 19 Change in electricity bills for customers on tariff 22 (small and large) moving to one of tariffs 44 to 48**

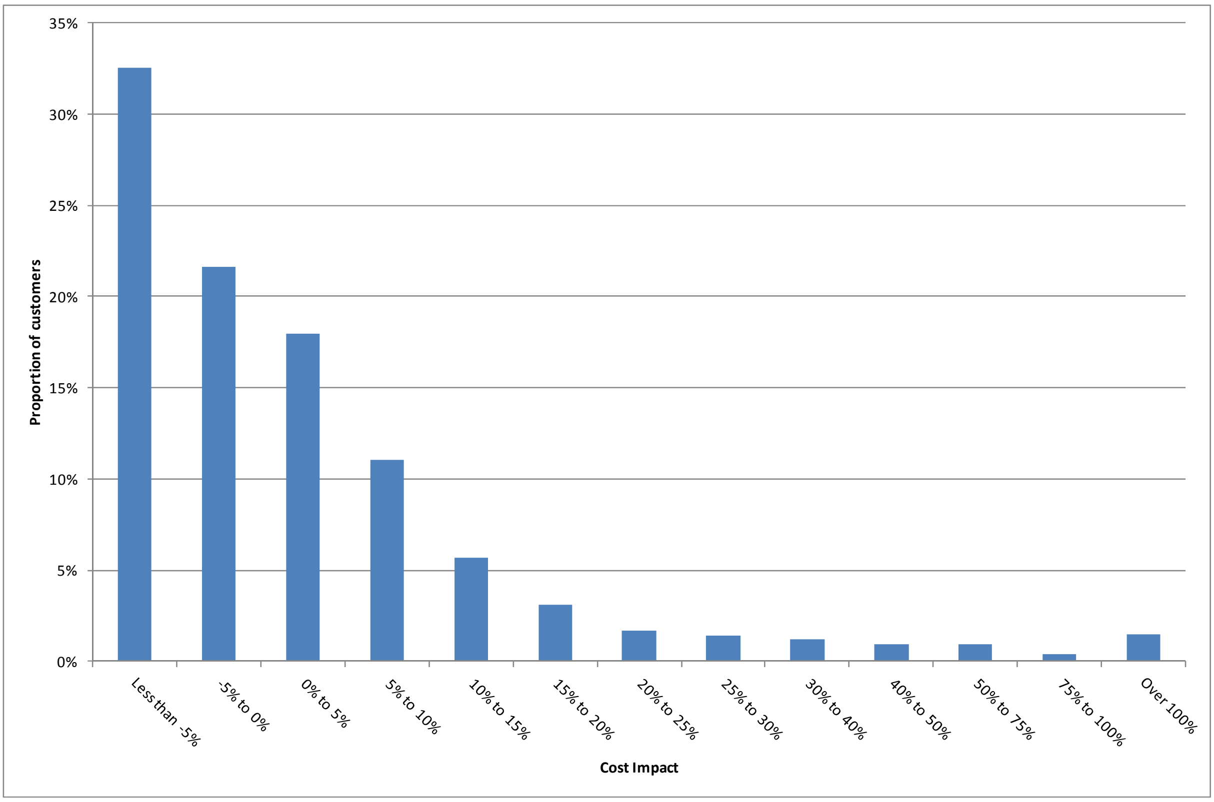



**Table 33 Information on tariff 20 (large) and tariff 22 (small and large)**

| ***Who the tariff is for*** | ***Number of customers*** | ***Most common increase*** | ***Driver for increase*** | ***Retain?*** |
|---|---|---|---|---|
| Large business[41] | Tariff 20 (large): around 2,000<br>Tariff 22 (small and large): around 2,000 | Tariff 20 (large): less than -5%<br>Tariff 22 (small and large): less than -5% | Standard business tariffs have demand charges, while these tariffs do not. The standard business tariffs also have significantly higher fixed charges. | Tariff 20 (large): yes<br>Tariff 22 (small and large): yes |

[41] Tariff 22 (small and large) is also available to small business customers.

# APPENDIX G: BUILD-UP OF PRICES

### Table 34 Residential Regulated Retail Tariffs (GST exclusive)

| *Retail tariff* | *Tariff component* | *Fixed charge*[a] | *Variable rate 1 (flat/off-peak)* | *Variable rate 2 (shoulder)* | *Variable rate 3 (peak)* |
|---|---|---|---|---|---|
| | | *c/day* | *c/kWh* | *c/kWh* | *c/kWh* |
| Tariff 11 - Residential (flat rate) | Network | 50.300 | 12.938 | | |
| | Energy | | 7.839 | | |
| | Retail | 46.230 | | | |
| | Margin | 5.835 | 1.256 | | |
| | Headroom | 5.118 | 1.102 | | |
| | Total[b] | 107.483 | 23.135 | | |
| Tariff 12 - Residential (time of use) | Network | 50.300 | 8.276 | 22.588 | 45.581 |
| | Energy | | 7.839 | 7.839 | 7.839 |
| | Retail | 46.230 | | | |
| | Margin | 5.835 | 0.974 | 1.839 | 3.229 |
| | Headroom | 5.118 | 0.854 | 1.613 | 2.832 |
| | Total[b] | 107.483 | 17.943 | 33.879 | 59.481 |
| Tariff 31 - Night rate (super economy) | Network | | 5.616 | | |
| | Energy | | 5.181 | | |
| | Retail | | | | |
| | Margin | | 0.653 | | |
| | Headroom | | 0.573 | | |
| | Total[b] | | 12.023 | | |
| Tariff 33 - Controlled supply (economy) | Network | | 10.217 | | |
| | Energy | | 6.374 | | |
| | Retail | | | | |
| | Margin | | 1.003 | | |
| | Headroom | | 0.880 | | |
| | Total[b] | | 18.474 | | |

*a. Charged per metering point.*

*b. Totals may not add due to rounding.*

**Table 35 Small business customer regulated retail tariffs and unmetered supplies other than street lighting (GST exclusive)**

| *Retail tariff* | *Tariff component* | *Fixed charge*[a] | *Demand charge* | *Variable rate (flat/off-peak)* | *Variable rate (shoulder)* | *Variable rate (peak)* |
|---|---|---|---|---|---|---|
| | | *c/day* | *$/kW/month* | *c/kWh* | *c/kWh* | *c/kWh* |
| Tariff 20 - Business (flat rate) | Network | 71.500 | | 13.637 | | |
| | Energy | | | 7.839 | | |
| | Retail | 46.230 | | | | |
| | Margin | 7.116 | | 1.298 | | |
| | Headroom | 6.242 | | 1.139 | | |
| | Total[b] | 131.088 | | 23.913 | | |
| Tariff 22 - Business (time of-use - obsolete) | Network | 71.500 | | 9.888 | | 15.242 |
| | Energy | | | 7.839 | | 7.839 |
| | Retail | 46.230 | | | | |
| | Margin | 7.116 | | 1.072 | | 1.395 |
| | Headroom | 6.242 | | 0.940 | | 1.224 |
| | Total[b] | 131.088 | | 19.739 | | 25.700 |
| Tariff 22A - Business (time of-use) | Network | 71.500 | | 10.692 | 23.406 | 31.249 |
| | Energy | | | 7.839 | 7.839 | 7.839 |
| | Retail | 46.230 | | | | |
| | Margin | 7.116 | | 1.120 | 1.889 | 2.363 |
| | Headroom | 6.242 | | 0.983 | 1.657 | 2.073 |
| | Total[b] | 131.088 | | 20.634 | 34.791 | 43.524 |
| Tariff 41 - Low voltage (demand) | Network | 730.700 | 24.604 | 1.624 | | |
| | Energy | | | 7.839 | | |
| | Retail | 46.230 | | | | |
| | Margin | 46.962 | 1.487 | 0.572 | | |
| | Headroom | 41.195 | 1.305 | 0.502 | | |
| | Total[b] | 865.087 | 27.396 | 10.537 | | |
| Tariff 91 - Unmetered | Network | | | 10.321 | | |
| | Energy | | | 7.839 | | |
| | Retail | | | | | |
| | Margin | | | 1.098 | | |
| | Headroom | | | 0.963 | | |
| | Total[b] | | | 20.221 | | |

*a. Charged per metering point.*

*b. Totals may not add due to rounding.*

**Table 36 Large customer regulated retail tariffs and street lightning (GST exclusive)**

| *Retail tariff* | *Tariff component* | *Fixed charge*[a] | *Demand charge (flat/off-peak)* | *Demand charge (peak/shoulder)* | *Variable rate (flat)* |
|---|---|---|---|---|---|
| | | *c/day* | *$/kW/month* | *$/kW/month* | *c/kWh* |
| Tariff 44 - Over 100 MWh small (demand) | Network | 4,413.777 | 29.990 | | 1.964 |
| | Energy | | | | 7.475 |
| | Retail | 206.702 | | | |
| | Margin | 279.287 | 1.813 | | 0.571 |
| | Headroom | 244.988 | 1.590 | | 0.501 |
| | Total[b] | 5,144.754 | 33.393 | | 10.511 |
| Tariff 45 - Over 100 MWh medium (demand) | Network | 13,400.197 | 28.790 | | 1.964 |
| | Energy | | | | 7.475 |
| | Retail | 206.702 | | | |
| | Margin | 822.474 | 1.740 | | 0.571 |
| | Headroom | 721.469 | 1.527 | | 0.501 |
| | Total[b] | 15,150.842 | 32.057 | | 10.511 |
| Tariff 46 - Over 100 MWh large (demand) | Network | 39,396.170 | 26.490 | | 1.964 |
| | Energy | | | | 7.475 |
| | Retail | 206.702 | | | |
| | Margin | 2,393.811 | 1.601 | | 0.571 |
| | Headroom | 2,099.834 | 1.405 | | 0.501 |
| | Total[b] | 44,096.517 | 29.496 | | 10.511 |
| Tariff 47 - High voltage (demand) | Network | 34,583.413 | 18.990 | | 1.889 |
| | Energy | | | | 7.063 |
| | Retail | 206.702 | | | |
| | Margin | 2,102.902 | 1.148 | | 0.541 |
| | Headroom | 1,844.651 | 1.007 | | 0.475 |
| | Total[b] | 38,737.668 | 21.145 | | 9.968 |
| Tariff 48 – Over 4 GWh High voltage (demand) | Network | 34,583.413 | 18.990 | | 1.889 |
| | Energy | | | | 7.063 |
| | Retail | 589.050 | | | |
| | Margin | 2,126.013 | 1.148 | | 0.541 |
| | Headroom | 1,864.924 | 1.007 | | 0.475 |
| | Total[b] | 39,163.400 | 21.145 | | 9.968 |
| Tariff 50 - Over 100 MWh (time-of-use + demand) | Network | 4,477.425 | 11.330 | 54.990 | 3.364 |
| | Energy | | | | 7.475 |
| | Retail | 206.702 | | | |
| | Margin | 283.134 | 0.685 | 3.324 | 0.655 |
| | Headroom | 248.363 | 0.601 | 2.916 | 0.575 |
| | Total[b] | 5,215.624 | 12.616 | 61.230 | 12.069 |
| Tariff 71 - Street lighting[c] | Network | 4.100 | | | 16.579 |
| | Energy | | | | 7.475 |
| | Retail | | | | |
| | Margin | 0.248 | | | 1.454 |
| | Headroom | 0.217 | | | 1.275 |
| | Total[b] | 4.565 | | | 26.783 |

*a. Charged per metering point*

*b. Totals may not add due to rounding*

*c. The fixed charge for street lighting applies to each lamp.*

# APPENDIX H: GAZETTE NOTICE

## Queensland Government Gazette

**RETAIL ELECTRICITY PRICES FOR CUSTOMERS ON STANDARD RETAIL CONTRACTS AND STANDARD LARGE CUSTOMER RETAIL CONTRACTS IN THE ERGON ENERGY CORPORATION LIMITED DISTRIBUTION AREA ONLY**

***Electricity Act 1994***

Pursuant to the Certificate of Delegation from the Minister for Energy and Water Supply (dated 28 August 2014) and sections 90(2) and 90AB of the *Electricity Act 1994* (the Electricity Act), I hereby state that the Queensland Competition Authority decided that, on and from 1 July 2015, the notified prices that a retail entity must charge its customers on a Standard Retail Contract or Standard Large Customer Retail Contract (also referred to as a Standard Retail Contract) in Ergon Energy Corporation Limited's distribution area subject to the provisions of sections 55, 90, 91 and 91A of the Electricity Act, are the applicable prices set out in the attached Tariff Schedule or, as the case may be, the prices obtained by applying the applicable methodology or process set out in the attached Tariff Schedule.

This Tariff Schedule does not apply to customers on a Standard Retail Contract supplied under Origin Energy Electricity Limited's Special Approval number SA02/11 (being customers on a Standard Retail Contract connected to Essential Energy's New South Wales network which extends into southern Queensland). Under the terms of the Special Approval, these customers will generally pay no more for electricity than other Queensland customers on a Standard Retail Contract of similar usage categories or classes.

The Tariff Schedule does not apply to any customers in Energex Limited's distribution area, as from 1 July 2015, customers in this area do not have access to notified prices.

Eligible customers may access the transitional tariffs in Part 2 of the Tariff Schedule. These tariffs will be available for a set period of time as a transitional measure to assist customers in moving to the standard business tariffs in the future. Customers on the transitional tariffs may opt to transfer to the standard business tariffs in Part 1 of the Tariff Schedule at any time.

As required by section 90AB(4) of the Electricity Act, the notified prices are exclusive of the goods and services tax ('GST') payable under the *A New Tax System (Goods and Services Tax) Act 1999* (Cth) ('the GST Act').

In addition to the applicable tariff, a retail entity may charge a customer on a Standard Retail Contract an additional amount in accordance with a program or scheme for the purchase of electricity from renewable or environmentally-friendly sources (whether or not that additional amount is calculated on the basis of the customer's electricity consumption), but only if –

(a) the customer voluntarily participates in such program or scheme;

(b) the retail entity has obtained the customer's consent (as defined in the Electricity Industry Code) to charge the customer an additional amount (and whether such amount is inclusive or exclusive of GST), provided that if a customer is participating in such a program or scheme at 30 June 2013 the customer is taken to have provided explicit informed consent for the retail entity to charge the customer the additional amount payable under the program or scheme; and

(c) the retail entity gives the customer prior written notice of any change to the additional amount payable under the program or scheme.

Dated this TBC day of May 2015.

**Dr Malcolm Roberts, Chairman**
**Queensland Competition Authority**

## TARIFF SCHEDULE

**Note 1:** For the purposes of sections 55, 90, 91 and 91A of the Electricity Act, the tariffs and other retail fees and charges in this Tariff Schedule are exclusive of GST payable under the GST Act.

**Note 2:** This Tariff Schedule replaces the Tariff Schedule published in the Queensland Government Gazette on 18 July 2014.

**Note 3:** This Tariff Schedule is structured in several Parts:

Parts 1 to 5 (inclusive) apply to customers on a Standard Retail Contract in Ergon Energy Corporation Limited's distribution area and customers on a Standard Large Customer Retail Contract of Ergon Energy Queensland Pty Ltd.

Part 6 applies to eligible customers on a Standard Retail Contract of Ergon Energy Queensland Pty Ltd. Eligible customers on a Standard Retail Contract of other retail entities may apply directly to the Department of Energy and Water Supply for relief from electricity charges if a drought declaration is in force – see Part 6 for more detail.

**Note 4:** To ensure the correct application of the tariffs set out in this Tariff Schedule, the retail entity and the customer must have regard to Part 4 (Application of Tariffs for Customers on Notified Prices – General).

**Note 5:** Any reference in this Tariff Schedule to a time is a reference to Eastern Standard Time.

**Note 6:** "NMI" means the National Metering Identifier and is applicable to the point at which a premises is connected to a distribution entity's network.

**Note 7:** A primary tariff is the tariff that reflects the primary use of the premises or the majority of the load, and is capable of existing by itself against a NMI. A secondary tariff is any other tariff.

**Note 8:** Only days that supply is connected are to be counted for billing of charges.

**Note 9:** A service fee is a fixed amount charged daily to cover the costs of maintaining electricity supply to a premises, including the costs associated with the provision of equipment and general administration. Retailers may use different terms for this charge, including Service Charge, Daily Supply Charge and Service to Property Charge.

**Note 10**: From 1 July 2015, metering charges will no longer be included in notified prices. Metering charges will now be applied in addition to the retail tariffs contained in this gazette.

**Note 11:** Unless otherwise defined, the terminology used in this Tariff Schedule is intended to be consistent with the energy laws.

### Part 1

### TARIFFS FOR RESIDENTIAL, COMMERCIAL AND RURAL APPLICATIONS

***Tariff 11* – Residential (Lighting, Power and Continuous Water Heating) –**

This tariff is applicable to a customer who is classified as residential by the relevant retail entity and can be accessed by a small business customer providing it is in conjunction with a primary business tariff (Tariff 20, 21, 22, 22A, 41, 62, 65 or 66) at the same NMI.

This tariff is also applicable to electricity used in separately metered common sections of residential premises consisting of more than one flat or home unit.

This tariff cannot be used in conjunction with Tariff 12 (Residential) (Time-of-Use) at the same NMI.

Where a NMI has multiple meters, the consumption for all meters that record consumption for Tariff 11 will be aggregated for billing purposes.

No large business customers are eligible for this tariff.

| | |
|---|---|
| All Consumption | **23.135 c/kWh** |
| plus a Service Fee per metering point per day of | **107.483 c** |

Further applications of this tariff are described in Part 4 (Application of Tariffs for Customers on Notified Prices – General) and Part 5 (Concessional Applications of Tariffs 11 and 12 (Residential)).

***Tariff 12* – Residential (Lighting, Power and Continuous Water Heating) (Time-of-Use) –**

This tariff is applicable to a customer who is classified as residential by the relevant retail entity and can be accessed by a small business customer providing it is in conjunction with a primary business tariff (Tariff 20, 21, 22, 22A, 41, 62, 65 or 66) at the same NMI.

This tariff is also applicable to electricity used in separately metered common sections of residential premises consisting of more than one flat or home unit.

This tariff cannot be used in conjunction with Tariff 11 (Residential) at the same NMI.

Where a NMI has multiple meters, the consumption for all meters that record consumption for Tariff 12 will be aggregated for billing purposes.

No large business customers are eligible for this tariff.

Customers must have the appropriate metering installed in order to access this tariff.

Consumption during Summer (December, January and February):

Peak

| | |
|---|---|
| Weekdays 4:30pm to 9pm | **59.481 c/kWh** |

Shoulder
Weekdays 3:00pm to 4:30pm
Weekdays 9:00pm to 9:30pm
Weekends 3:00pm to 9:30pm **33.879 c/kWh**

Off-peak
All other times **17.943 c/kWh**

Non-summer consumption (March - November)
All Consumption **17.943 c/kWh**

plus a Service Fee per metering point per day of **107.483 c**

Further applications of this tariff are described in Part 4 (Application of Tariffs for Customers on Notified Prices – General) and Part 5 (Concessional Applications of Tariffs 11 and 12 (Residential)).

***Tariff 20* – Business General Supply –**

This tariff can not be accessed by large business customers. Refer Part 2 for transitional tariffs for existing large business customers.

Residential customers can access this tariff providing:
- the electricity is used in separately metered common sections of residential premises consisting of more than one flat or home unit; or
- it is in conjunction with a primary residential tariff at the same NMI.

All Consumption **23.913 c/kWh**

plus a Service Fee per metering point per day of **131.088 c**

***Tariff 22* – Business General Supply – Time-of-Use (Obsolescent) –**

This tariff will be phased out no later than 30 June 2017. No new customers will be supplied under this tariff.

This tariff can not be accessed by large business customers. Refer Part 2 for transitional tariffs for existing large business customers.

Residential customers can access this tariff providing:
- the electricity is used in separately metered common sections of residential premises consisting of more than one flat or home unit; or
- it is in conjunction with a primary residential tariff at the same NMI.

Customers must have the appropriate metering installed in order to access this tariff.

For electricity consumed between the hours of 7.00 am and 9.00 pm, Monday to Friday inclusive -

All Consumption **25.700 c/kWh**

For electricity consumed at other times -

All Consumption **19.739 c/kWh**

plus a Service Fee per metering point per day of **131.088 c**

***Tariff 22A – Business General Supply – Time of Use***

This tariff can not be accessed by large business customers. Refer Part 2 for transitional tariffs for existing large business customers.

Customers must have the appropriate metering installed in order to access this tariff.

Consumption during Summer (December, January and February):

Peak
Weekdays 11:30am to 5:30pm **43.524 c/kWh**

Shoulder
Weekdays 10:00am to 11:30am
Weekdays 5:30pm to 8:00pm **34.791 c/kWh**

Off-peak
All other times **20.634 c/kWh**

Non-summer consumption (March - November)
All Consumption **20.634 c/kWh**

plus a Service Fee per metering point per day of **131.088 c**

***Tariff 31* – Night Rate (Super Economy) –**

Eligible customers can access this tariff providing it is in conjunction with a residential or business tariff at the same NMI at the discretion of the distribution entity.

This tariff is not available to large business customers in Ergon Energy Corporation Limited's distribution area.

This tariff is applicable when electricity supply is:
- permanently connected to apparatus; or
- connected to apparatus by means of a socket-outlet as approved by the distribution entity; or
- permanently connected to specified parts of apparatus;

as set out below (but not applicable, except as described in (c) below, if provision has been made to supply such apparatus or the specified part thereof under a different tariff during the restricted period) -

(a) Electric storage water heaters with thermostatically controlled or continuously operating heating units and which comply with the construction and performance requirements of Australian Standard 1361 or 1056 or previous Standards superseded by these two Standards or similar electric water heaters which are approved for connection by the distribution entity.

Where the heating unit rating exceeds 1,800 watts, it shall not exceed 13.5 watts per litre of heat storage volume for heat exchange type water heaters or 15.5 watts per litre of rated hot water delivery for other storage type water heaters.

The following conditions shall apply to any booster heating unit fitted -

(i) its rating shall not exceed that of the main heating unit;

(ii) it shall be connected so as to prevent it being energised simultaneously with the main heating unit;

(iii) electricity consumed by the booster heating unit shall be metered under and charged at the tariff applicable to general power usage at the premises concerned;

(iv) it shall be located in accordance with the provisions of the above Standards.

(b) Solar-heated water heaters. Where the electric heating unit rating exceeds 1,800 watts, it shall not exceed 13.5 watts per litre of storage tank capacity. If a circulating water pump is fitted to the system, continuous supply will be available to the pump, and electricity consumed shall be metered under and charged at the tariff applicable to general power usage at the premises concerned.

(c) One-shot boost for solar-heated water heaters with electric heating units as described in (b) above. A current held changeover relay may be fitted to the water heater to deliver, at the customer's convenience, a 'one-shot boost' supply to the electric heating element at times when supply is not available under this Tariff 31 (generally between the hours of 7.00 am and 10.00 pm). Such supply is subject to thermostatically controlled switchoff. Electricity consumed during operation of the one-shot boost shall be metered under and charged at the tariff applicable to general power usage at the premises concerned. Supply and installation of a current held changeover relay, including the cost of same, is the responsibility of the customer.

(Reference in this Tariff Schedule to a 'booster heating unit' does not mean a current held changeover relay which is capable of delivering a 'one-shot boost'.)

(d) Heat pump water heaters. Where the rated electrical input, as shown on the nameplate, exceeds 1,800 watts, it shall not exceed 13.5 watts per litre of storage tank capacity.

(e) Heatbanks. Booster heating units are permitted in heatbanks in which the main element rating is at least 2 kilowatts. The following conditions shall apply to any booster heating unit fitted –

(i) its rating shall not exceed 70 percent of the rating of the main heating unit;

(ii) it shall be connected so as to prevent it being energised simultaneously with the main heating unit;

(iii) electricity consumed by the booster heating unit shall be metered under and charged at the tariff applicable to general power usage at the premises concerned.

(f) Loads other than water heaters and heatbanks, but is not applicable -

(i) to arc or resistance welding plant;

(ii) where the apparatus is duplicated in order that supply may be obtained on a different tariff for the same purpose during the restricted period.

The distribution entity will provide and install the load control equipment at its cost. Additional charges may apply for other distribution services associated with the load control equipment, where the costs of the requested service are not included in the distribution entity's network charges.

Supply will be available for a minimum of 8 hours per day, but the times when supply is available is subject to variation at the absolute discretion of the distribution entity. In general, this supply will be between the hours of 10.00 pm and 7.00 am.

| | |
|---|---|
| All Consumption | **12.023 c/kWh** |

***Tariff 33* – Controlled Supply (Economy) –**

Eligible customers can access this tariff providing it is in conjunction with a residential or business tariff at the same NMI at the discretion of the distribution entity.

This tariff is not available to large business customers in Ergon Energy Corporation Limited's distribution area.

This tariff is applicable when electricity supply is:

(a) connected to apparatus (e.g. pool filtration system) by means of a socket-outlet as approved by the distribution entity; or

(b) permanently connected to apparatus as set out below (but not applicable if provision has been made to supply such apparatus under a different tariff in the periods during which supply is not available under this tariff) –

(i) Electric storage water heaters with thermostatically controlled or continuously operating heating units and which comply with the construction and performance requirements of Australian Standard 1361 or 1056 or previous Standards superseded by these two Standards or similar electric water heaters which are approved for connection by the distribution entity.

Where the heating unit rating exceeds 1,800 watts, it shall not exceed 13.5 watts per litre of heat storage volume for heat exchange type water heaters or 15.5 watts per litre of rated hot water delivery for other storage type water heaters.

(ii) Solar-heated water heaters. Where the electric heating unit rating exceeds 1,800 watts, it shall not exceed 13.5 watts per litre of storage tank capacity.

(iii) Heat pump water heaters. Where the rated electrical input, as shown on the nameplate, exceeds 1,800 watts, it shall not exceed 13.5 watts per litre of storage tank capacity.

(iv) As a sole supply tariff at the absolute discretion of the distribution entity.

(v) Other individual loads in domestic installations, but is not applicable –

- to arc or resistance welding plant;
- where the apparatus is duplicated in order that supply may be obtained on a different tariff for the same purpose during the restricted period.

The distribution entity will provide and install the load control equipment at its cost. Additional charges may apply for other distribution services associated with the load control equipment, where the costs of the requested service are not included in the distribution entity's network charges.

Supply will be available for a minimum of 18 hours per day, but the times when supply is available is subject to variation at the absolute discretion of the distribution entity.

| | |
|---|---|
| All Consumption | **18.474 c/kWh** |

***Tariff 37* – Non-Domestic Heating – Time-of-Use (Obsolescent) –**

This tariff will be phased out no later than 30 June 2020. No new customers will be supplied under this tariff. It is available only to customers taking supply under Tariff 37 at 30 June 2007.

Applicable to permanently connected –

(a) Electric storage water heaters in non-domestic installations with thermostatically controlled or continuously operating heating units and which comply with the construction and performance requirements of Australian Standard 1361 or 1056 or previous Standards superseded by these two Standards or similar electric water heaters which are approved for connection by the distribution entity.

The heating unit rating shall not exceed 40.5 watts per litre of heat storage volume for heat exchange type water heaters or 46.5 watts per litre of rated hot water delivery for other storage type water heaters.

(b) Apparatus for the production of steam.

(c) Heating loads other than (a) and (b) above. The minimum total connected load under this section of this tariff is 4 kilowatts. Supplementary load that is permanently connected as an integral part of the installation may be supplied under this section provided that the aggregated rating of such supplementary load does not exceed 10 percent of the heating load.

| | |
|---|---|
| For electricity consumed between the hours of 4.30 pm and 10.30 pm | **47.019 c/kWh** |
| For electricity consumed between the hours of 10.30 pm and 4.30 pm | **18.799 c/kWh** |
| Minimum Payment per day of | **26.398 c** |

***Tariff 41* – Business Low Voltage General Supply (Demand) –**

This tariff can not be accessed by large business customers. Refer Part 2 for transitional tariffs for large business customers.

**Demand Charge –**

**$27.396** per kilowatt per month of chargeable demand.

**Energy Charge –**

| | |
|---|---|
| All Consumption | **10.537 c/kWh** |
| plus a Service Fee per metering point per day of | **865.087 c** |

The chargeable demand in any month shall be the maximum demand recorded in that month.

'Demand' shall mean the average demand in kilowatts over a period of 30 minutes, as measured on the distribution entity's meters.

Customers must have the appropriate metering installed in order to access this tariff.

***Tariff 44* – Business Over 100MWh per annum (Demand Small)**

This tariff can be accessed by business customers classified as SAC >100MWh per annum by the distribution entity. The tariff is based on the Ergon Energy Corporation Limited network tariff of Demand Small.

A Standard Asset Customer - Large (SAC - Large) is a business customer in Ergon Energy Corporation Limited's distribution area whose annual energy consumption generally exceeds 100MWh.

This tariff cannot be used in conjunction with any other tariff at that NMI.

**Demand Charge –**

**$33.393** per kilowatt per month of chargeable demand.

**Energy Charge –**

| | |
|---|---|
| All Consumption | **10.511 c/kWh** |
| plus a Service Fee per metering point per day of | **5,144.754 c** |

The chargeable demand charge in any month will be the kW amount by which a customer's metered monthly maximum demand is greater than the demand threshold applicable to this tariff which is 30 kW.

Where the monthly metered maximum demand is less than the demand threshold, the chargeable demand is set to zero and no demand charge is payable for that month.

'Demand' shall mean the average demand in kilowatts over a period of 30 minutes, as measured on the meters at that NMI.

Customers must have the appropriate metering installed in order to access this tariff.

***Tariff 45* – Business Over 100MWh per annum (Demand Medium)**

This tariff can be accessed by business customers classified as SAC >100MWh per annum by the distribution entity. The tariff is based on the Ergon Energy Corporation Limited network tariff of Demand Medium.

A Standard Asset Customer - Large (SAC - Large) is a business customer in Ergon Energy Corporation Limited's distribution area whose annual energy consumption generally exceeds 100MWh.

This tariff cannot be used in conjunction with any other tariff at that NMI

**Demand Charge –**

**$32.057** per kilowatt per month of chargeable demand.

**Energy Charge –**

| | |
|---|---|
| All Consumption | **10.511 c/kWh** |
| plus a Service Fee per metering point per day of | **15,150.842 c** |

The chargeable demand charge in any month will be the kW amount by which a customer's metered monthly maximum demand is greater than the demand threshold applicable to this tariff which is 120kW.

Where the monthly metered maximum demand is less than the demand threshold, the chargeable demand is set to zero and no demand charge is payable for that month.

'Demand' shall mean the average demand in kilowatts over a period of 30 minutes, as measured on the meters at that NMI.

Customers must have the appropriate metering installed in order to access this tariff.

***Tariff 46* – Business Over 100MWh per annum (Demand Large)**

This tariff can be accessed by business customers classified as SAC >100MWh per annum by the distribution entity. The tariff is based on the Ergon Energy Corporation Limited network tariff of Demand Large.

A Standard Asset Customer - Large (SAC - Large) is a business customer in Ergon Energy Corporation Limited's distribution area whose annual energy consumption generally exceeds 100MWh.

This tariff cannot be used in conjunction with any other tariff at that NMI

**Demand Charge –**

**$29.496** per kilowatt per month of chargeable demand.

**Energy Charge –**

| | |
|---|---|
| All Consumption | **10.511 c/kWh** |
| plus a Service Fee per metering point per day of | **44,096.517 c** |

The chargeable demand charge in any month will be applied to the kW amount by which a customer's metered monthly maximum demand is greater than the demand threshold applicable to this tariff which is 400 kW.

Where the monthly metered maximum demand is less than the demand threshold, the chargeable demand is set to zero and no demand charge is payable for that month.

'Demand' shall mean the average demand in kilowatts over a period of 30 minutes, as measured on the meters at that NMI.

Customers must have the appropriate metering installed in order to access this tariff.

**Tariff 47 – Business - High Voltage General Supply (Demand)**

This tariff can be accessed by business customers classified as SAC >100MWh per annum by the distribution entity. The tariff is based on the Ergon Energy Corporation Limited network tariff of Demand High Voltage.

A Standard Asset Customer - Large (SAC - Large) is a business customer in Ergon Energy Corporation Limited's distribution area whose annual energy consumption generally exceeds 100MWh.

This tariff cannot be used in conjunction with any other tariff at that NMI.

This tariff cannot be accessed by business customers who are classified as Connection Asset Customers or Individually Calculated Customers by the distribution entity.

**Demand Charge –**

**$21.145** per kilowatt per month of chargeable demand.

**Energy Charge –**

| | |
|---|---|
| All Consumption | **9.968 c/kWh** |
| plus a Service Fee per metering point per day of | **38,737.668 c** |

The chargeable demand charge in any month will be applied to the kW amount by which a customer's metered monthly maximum demand is greater than the demand threshold applicable to this tariff which is 400 kW.

Where the monthly metered maximum demand is less than the demand threshold, the chargeable demand is set to zero and no demand charge is payable for that month.

'Demand' shall mean the average demand in kilowatts over a period of 30 minutes, as measured on the meters at that NMI.

Supply under this tariff will be at a standard high voltage, the level of which shall be prescribed by the distribution entity. Credits for high voltage supply are not applicable to this tariff.

Customers must have the appropriate metering installed in order to access this tariff.

***Tariff 48* – Business - General Supply (>4 Gigawatt Hours (GWh)) (Demand)**

This tariff can only be accessed by business customers who are classified as Connection Asset Customers or Individually Calculated Customers by the distribution entity. The tariff is based on the Ergon Energy Corporation Limited network tariff of Demand High Voltage.

A Connection Asset Customer is a large business customer in Ergon Energy Corporation Limited's distribution area whose annual energy consumption generally exceeds 4GWh.

An Individually Calculated Customer is a large business customer in Ergon Energy Corporation Limited's distribution area whose annual energy consumption generally exceeds 40GWh.

**Demand Charge –**

**$21.145** per kilowatt per month of chargeable demand.

**Energy Charge –**

| | |
|---|---|
| All Consumption | **9.968 c/kWh** |
| plus a Service Fee per metering point per day of | **39,163.400 c** |

The chargeable demand charge in any month will be applied to the kW amount by which a customer's metered monthly maximum demand is greater than the demand threshold applicable to this tariff which is 400 kW.

Where the monthly metered maximum demand is less than the demand threshold, the chargeable demand is set to zero and no demand charge is payable for that month.

'Demand' shall mean the average demand in kilowatts over a period of 30 minutes, as measured on the meters at that NMI. Credits for high voltage supply are not applicable to this tariff.

Customers must have the appropriate metering installed in order to access this tariff.

***Tariff 50* – *Business - Seasonal Time of Use Demand (over 100MWh per annum)***

This tariff can be accessed by business customers classified as SAC Small >100MWh per annum by the distribution entity. The tariff is based on the Ergon Energy Corporation Limited network tariff of Seasonal Time of Use Demand for SAC Large.

A SAC - Large customer is a business customer in Ergon Energy Corporation Limited's distribution area whose annual energy consumption generally exceeds 100MWh.

This tariff cannot be used in conjunction with any other tariff at that NMI.

Customers must have the appropriate metering installed in order to access this tariff.

The chargeable demand charge for peak and shoulder periods in any summer month (December, January or February) will be applied to the kW amount by which a customer's metered monthly maximum demand is greater than the demand threshold of 15 kW.

The chargeable demand charge for all other months (ie from March through to November) will be applied to the kW amount by which a customer's metered monthly maximum demand is greater than the demand threshold of 40 kW.

Where the monthly metered maximum demand is less than the demand threshold, the chargeable demand is set to zero and no demand charge is payable for that time period of that month.

'Demand' shall mean the average demand in kilowatts over a period of 30 minutes, as measured on the meters at that NMI.

**Demand Charges –**

Summer Demand (December, January and February)
Weekdays 10:00am to 8:00pm

**$61.230** per kilowatt per month of maximum metered demand exceeding 15 kilowatts.

Non-summer demand (March - November)

**$12.616** per kilowatt per month of maximum metered demand exceeding 40 kilowatts.

**Energy Charge –**

| | |
|---|---|
| All consumption | **12.069 c/kWh** |
| plus a Service Fee per metering point per day of | **5,215.624 c** |

**Part 2**

**TRANSITIONAL TARIFFS FOR NEW AND EXISTING CUSTOMERS**

The following tariffs are available as a transitional measure to assist new and existing customers in moving to standard business tariffs in the future. Transitional tariffs will be phased out no later than 30 June 2020.

***Tariff 20 (Large)* – Business General Supply (Transitional)**

This transitional tariff will be phased out no later than 30 June 2020.

This tariff cannot be accessed by small business or residential customers.

| | |
|---|---|
| All Consumption | **32.409 c/kWh** |
| plus a Service Fee per metering point per day of | **66.255 c** |

***Tariff 21* – Business General Supply (Transitional)**

This transitional tariff will be phased out no later than 30 June 2020.

This tariff can only be accessed by a residential customer if it is in conjunction with a primary residential tariff at the same NMI.

This tariff shall not apply in conjunction with Tariff 20, 22, 22A or 62.

| | |
|---|---|
| First 100 kilowatt hours per month | **43.909 c/kWh** |
| Next 9,900 kilowatt hours per month | **41.256 c/kWh** |
| Remaining kilowatt hours per month | **31.407 c/kWh** |
| plus a Minimum Payment per day of | **64.615 c** |

***Tariff 22 - (Small and Large)* – Business General Supply – Time-of-Use (Transitional)**

This transitional tariff will be phased out no later than 30 June 2020.

This tariff can only be accessed by a residential customer if it is in conjunction with a primary residential tariff at the same NMI.

Customers must have the appropriate metering installed in order to access this tariff.

For electricity consumed between the hours of 7.00 am and 9.00 pm, Monday to Friday inclusive -

| | |
|---|---|
| All Consumption | **42.947 c/kWh** |

For electricity consumed at other times -

| | |
|---|---|
| All Consumption | **15.123 c/kWh** |
| plus a Service Fee per metering point per day of | **159.235 c** |

***Tariff 62* - Farm - Time-of-Use (Transitional)**

This transitional tariff will be phased out no later than 30 June 2020.

This tariff can only be accessed by a residential customer if it is in conjunction with a primary residential tariff at the same NMI.

This tariff shall not apply in conjunction with Tariff 20, 21, 22 or 22A at the same NMI.

For electricity consumed between the hours of 7.00 am and 9.00 pm, Monday to Friday inclusive –

| | |
|---|---|
| First 10,000 kilowatt hours per month | **41.382 c/kWh** |
| Remaining kilowatt hours | **34.994 c/kWh** |

For electricity consumed at other times -

| | |
|---|---|
| All Consumption | **14.633 c/kWh** |
| plus a Service Fee per metering point per day of | **69.791 c** |

***Tariff 65* - Irrigation - Time-of-Use (Transitional)**

This transitional tariff will be phased out no later than 30 June 2020.

This tariff can only be accessed by a residential customer if it is in conjunction with a primary residential tariff at the same NMI.

For electricity consumed in a fixed 12 hour daily pricing period (as agreed between the retail entity and the customer from the range 7.00 am to 7.00 pm; 7.30 am to 7.30 pm; or 8.00 am to 8.00 pm) Monday to Sunday inclusive -

| | |
|---|---|
| All Consumption | **33.010 c/kWh** |

For electricity consumed at other times –

| | |
|---|---|
| All Consumption | **18.182 c/kWh** |
| plus a Service Fee per metering point per day of | **69.791 c** |

No alteration to the selected daily pricing period shall be permitted until a period of twelve months has elapsed from the previous selection.

***Tariff 66* – Irrigation (Transitional)**

This transitional tariff will be phased out no later than 30 June 2020.

This tariff can only be accessed by a residential customer if it is in conjunction with a primary residential tariff at the same NMI.

**Annual Fixed Charge** (in respect of each point of supply) - per kilowatt of connected motor capacity used for irrigation pumping –

| | |
|---|---|
| First 7.5 kilowatts | **$33.555 per kW** |
| Remaining kilowatts | **$100.889 per kW** |

**Energy Charge** –

| | |
|---|---|
| All Consumption | **17.302 c/kWh** |

plus a Service Fee per metering point

| | |
|---|---|
| per day of | **153.818 c** |

Minimum Annual Fixed Charge - As calculated for 7.5 kW (Note – 7.5 kW is equivalent to 10.05 h.p.)

Any customer taking supply under this tariff who requests a temporary disconnection will not be reconnected unless the outstanding balance of the Annual Fixed Charge for part of the year corresponding to the period of disconnection has been paid.

## Part 3

## TARIFFS FOR UNMETERED SUPPLY INCLUDING STREET LIGHTS, TRAFFIC SIGNALS, WATCHMAN LIGHTING AND TEMPORARY SERVICES - Ergon Energy Corporation Limited distribution area ONLY

***Tariff 71* – Street Lights –**

Notified prices for Tariff 71, published in accordance with section 90 of the Electricity Act, will only apply in Ergon Energy Corporation Limited's distribution area.

Street lighting customers are as defined in Queensland legislative instruments, being State or local government agencies for street lighting loads.

Street lights are deemed to illuminate roads. In Queensland, there are two main types of roads, being:

- **Local government roads** – roads for which a local government has control. These roads comprise land that is:
  - dedicated to public use as a road; or
  - developed for (or has as one of its main uses) the driving or riding of motor vehicles and is open to, or used by, the public; or
  - a footpath or bicycle path; or
  - a bridge, culvert, ford, tunnel or viaduct,

  and excludes State-controlled roads and public thoroughfare easements; and
- **State-controlled roads** – roads that are declared under the *Transport Infrastructure Act 1994* (Qld) to be a State-controlled road, for which the relevant Minister for that Act has control (i.e. of the Department of Transport and Main Roads).

All consumption will be determined in accordance with the metrology procedure issued by the Australian Energy Market Operator.

| | |
|---|---|
| All Consumption | **26.783 c/kWh** |
| plus a Service Fee per lamp per day of | **4.565 c** |

***Tariff 91* - Other Unmetered Supply –**

Unmetered electricity supply is available to other small loads, as approved by the distribution entity Ergon Energy Corporation Limited ONLY.

Unmetered Supply applies where:

1. the load pattern is predictable;
2. for the purposes of settlements, the load pattern (including load and on/off time) can be reasonably calculated by a relevant method set out in the metrology procedure; and
3. it would not be cost effective to meter the connection point taking into account:
   (i) the small magnitude of the load;
   (ii) the connection arrangements; and
   (iii) the geographical and physical location.

Charges are based on consumption determined by the distribution entity.

| | |
|---|---|
| All Consumption | **20.221 c/kWh** |

Charges for installation, maintenance and removal of supply to an unmetered installation may apply in addition to the above charge for electricity supplied. These charges are unregulated.

## Part 4

## APPLICATION OF TARIFFS FOR CUSTOMERS ON NOTIFIED PRICES – GENERAL - Ergon Energy Corporation Limited distribution area ONLY

Customers on a Standard Retail Contract may choose to be charged on any of the tariffs that the retail entity agrees are applicable to the customer's installation and provided that appropriate metering is in place.

Tariffs are applied to the electricity consumed at a connection point (as identified by a National Metering Identifier or NMI), as measured by the meter or meters at that connection point. The distribution entity is responsible for the establishment of connection points. Whilst customers have the ability to, at their expense if applicable, request additional meters at their connection point to enable particular tariff arrangements, the distribution entity will only create a new connection point where they have a legislative right or obligation to do so.

If there has been a material change of use at the customer's premises, such that the tariff on which the customer is being charged is no longer applicable, the retail entity may require the customer to transfer to a tariff applicable to the changed use.

If a change to the customer's meter is required to support the applicability of a tariff, other than Tariff 12, to a customer, the customer may request the retail entity to arrange for the required meter to be installed at the customer's cost.

For all tariffs, excluding Tariffs 11 and 12, customers have the option, on application in writing or another form acceptable to the retail entity, of changing to any other tariff that the retail entity agrees is applicable to the customer's installation. Customers shall not be entitled to a further option of changing to another tariff until a period of twelve months has elapsed from a previous exercise of option. However, a retail entity at the request of a customer may permit a change to another tariff within a period of twelve months if –

(i) a tariff that was not previously in force is offered and such tariff is applicable to the customer's installation; or
(ii) the customer meets certain costs associated with changing to another tariff.

Customers previously supplied under tariffs which have now been discontinued or redesignated (whether by number, letter or name) will be supplied under other tariffs appropriate to their installations.

Residential customers have the option, on application in writing or another form acceptable to the retail entity, of switching from Tariff 11 to Tariff 12, provided they have the appropriate metering installed. Prior to 30 June 2016, customers will also be entitled to a further option of switching back to Tariff 11 within 12 months following a switch to Tariff 12. Additional charges may apply should a customer wish to switch tariffs again prior to 30 June 2016.

The date of effect of a tariff change will be:
- the date of the last meter read (provided it is an actual meter read, not an estimated meter read); or
- if field work is required to support the change in tariff (e.g. a new meter is required to be installed), the date the field work is completed.

**Billing information for application of monthly or annually based charges**

The monthly or annual charges shall be calculated pro rata having regard to the number of days in the billing cycle that supply was connected (days) and one-twelfth of 365.25 days (to allow for leap years). That is:

$$Pa = \frac{P \times 12}{365.25} \text{ x days, for monthly charges}$$

$$Pa = \frac{P1}{365.25} \text{ x days, for annual charges}$$

Where
Pa is the amount to be billed
P is the monthly charge
P1 is the annual charge
days is the number of days in the billing cycle that supply was connected

**Supply Voltage**

**(a) Low Voltage**

Except where otherwise stated, the tariffs in Parts 1 and 2 will apply to supply taken at low voltage (480/240 volts or 415/240 volts, 50 Hertz A.C., as required by the distribution entity).

**(b) High Voltage**

**(i) Customer plant requirements**

By agreement between the customer and the distribution entity, supply may be given and metered at a standard high voltage, the level of which shall be prescribed by the distribution entity.

Where high voltage supply is given, a customer shall supply and maintain all equipment including transformers and high voltage automatic circuit breakers but excepting meters and control apparatus beyond the customer's terminals.

**(ii) Credits where L.V. tariff is metered at H.V.**

Where supply is given in accordance with (i) above and metered at high voltage then, except in cases where high voltage tariffs are determined or provided by agreement to meet special circumstances, the tariffs applied will be those pertaining to supply at low voltage ("the relevant tariff"), EXCEPT THAT, after billing the energy and demand components of the tariff, a credit will be allowed of –

- 5 percent of the calculated tariff charge where supply is given at voltages of 11kV to 33 kV; and
- 8 percent of the calculated tariff charge where supply is given at voltages of 66 kV and above,

(provided that the calculated tariff charge after application of the credit must not be less than the Minimum Payment or other minimum charge calculated by applying the provisions of the relevant tariff.)

**Card-operated Meters in Remote Communities**

If a customer is a small excluded customer for a premises (as defined in section 23 of the Electricity Act), the distribution entity may at its absolute discretion agree with:
(a) the relevant local government authority on behalf of the customer; and
(b) the customer's retail entity, that the electricity consumed by the customer is to be measured and charged by means of a card-operated meter.

If, immediately prior to 1 July 2007, electricity being consumed by a customer at a premises is being measured and charged by means of a card-operated meter, the electricity consumed at the premises may continue to be measured or charged by means of a card-operated meter.

The methodology for applying the appropriate tariffs to customers subject to card-operated meters is as follows:
(a) If electricity supplied to a residential customer is measured and charged by means of a card-operated meter:
  (i) for Tariff 11 (Residential – Lighting, Power and Continuous Water Heating), all consumption shall be charged at the 'All Consumption' rate (**23.135 cents/kWh**), plus a Service Fee of **107.483 cents** per day shall apply;
  (ii) for Tariff 31 (Night Rate – Super Economy), all consumption shall be charged at the 'All Consumption' rate (**12.023 cents/kWh**); and
  (iii) for Tariff 33 (Controlled Supply – Economy), all consumption shall be charged at the 'All Consumption' rate (**18.474 cents/kWh**).
(b) If electricity supplied to a business customer is measured and charged by means of a card operated meter, all consumption shall be charged at the 'All Consumption' rate under Tariff 20 (General Supply) (**23.913 cents/kWh**), plus a Service Fee of **131.088 cents** per day shall apply.

**Other Retail Fees and Charges**

A retail entity may charge its non-market customers the following:

(a) if, at a customer's request, the retail entity provides historical billing data which is more than two years old – a maximum of **$30**;
(b) retail entity's administration fee for a dishonoured payment – a maximum of **$15**; and
(c) financial institution fee for a dishonoured payment – no more than the **fee incurred** by the retail entity.

**Part 5**

**CONCESSIONAL APPLICATIONS OF TARIFFS 11 and 12 (RESIDENTIAL)**

***Tariff 11* – Residential (Lighting, Power and Continuous Water Heating), and *Tariff 12* – Residential (Lighting, Power and Continuous Water Heating) (Time-of-Use), are available to customers satisfying the criteria set out in any one of A, B or C, as follows:**

**A. Those separately metered installations where all electricity consumed is used in connection with the provision of a Meals on Wheels service or for the preparation and serving of meals to the needy and for no other purpose.**

**B. Charitable residential institutions which comply with all the following requirements—**

(a) Domestic Residential in Nature. The total installation, or that part supplied and separately metered, must be domestic residential (i.e. it must include the electricity usage of the cooking, eating, sleeping and bathing areas which are associated with the residential usage). Medical facilities, e.g. an infirmary, which are part of the complex may be included as part of the total installation; and

(b) Charitable and Non-Profit. The organisation must be:
  (i) a deductible gift recipient under section 30-227(2) of the *Income Tax Assessment Act 1997* to which donations of $2.00 and upwards are tax deductible; and
  (ii) a non-profit organisation that:
    A. imposes no scheduled charge on the residents for the services or accommodation that is provided (i.e. organisations that provide emergency accommodation facilities for the needy); or
    B. if scheduled charges are made for the services or accommodation provided, then all residents must be pensioners or, if not pensioners, persons eligible for subsidised care under the *Aged Care Act 1997* or the *National Health Act 1953*.

**C. Organisations providing support and crisis accommodation which comply with the following requirements—**

The organisation must:
(a) meet the eligibility criteria of the Specialist Homelessness Services (formerly known as Supported Accommodation Assistance Program) administered by the State Department of Housing and Public Works and is therefore eligible to be considered for funding under this program. (Funding provided to organisations under the Specialist Homelessness Services is subject to Part 3, Sections 10 to 13 inclusive, of the *Family Services Act 1987*); and
(b) be a deductible gift recipient under section 30-227(2) of the *Income Tax Assessment Act 1997* to which donations of $2.00 and upwards are tax deductible.

**Part 6**

**RELIEF FROM ELECTRICITY CHARGES WHERE DROUGHT DECLARATION IN FORCE**

**Customers of Ergon Energy Queensland Pty Ltd**

A customer of Ergon Energy Queensland Pty Ltd who is a farmer in a drought declared area or whose property is individually drought declared under Queensland Government administrative processes may be eligible for one or more of the following forms of relief from electricity charges:

**(A) Waiving or Reimbursing of Fixed Charge Components of Electricity Charges**

If a customer of Ergon Energy Queensland Pty Ltd who is a farmer in a drought declared area or whose property is individually drought declared, does not have access to, or has severely restricted access to, farm or irrigation water, the fixed components of the customer's electricity charges shall be waived or reimbursed. These fixed charge components include annual fixed charges under Tariff 66, service fees, and minimum payments, but exclude minimum demand charges.

Provided the drought declaration remains operative, the waiver or reimbursement applies to all eligible fixed charges applicable to any account being used for pumping water for farm or irrigation purposes. The waiver or reimbursement shall continue to apply until the drought declaration is revoked.

**(B) Deferral of Payment**

If a customer of Ergon Energy Queensland Pty Ltd who is a farmer in a drought declared area or whose property is individually drought declared cites financial difficulties as a result of the drought, the customer is entitled to defer payment of the customer's electricity accounts relating to farm consumption.

Ergon Energy Queensland Pty Ltd may charge interest on deferred accounts. However, the rate of any interest charged must not be more than the Bank Bill reference rate for 90 days, as published on the first business day of each quarter.

Subject to the maximum rate of interest that may be charged, the terms of the deferred payment and the repayment of deferred amounts following revocation of the drought declaration will be as agreed between Ergon Energy Queensland Pty Ltd and the customer concerned.

**Eligibility for Relief**

A customer of Ergon Energy Queensland Pty Ltd seeking relief from electricity charges on the basis that the customer is a farmer who is in a drought declared area or whose property is individually drought declared, must apply in writing to Ergon Energy Queensland Pty Ltd.

If required by Ergon Energy Queensland Pty Ltd, the customer must provide:

(a) evidence that the customer's property is in a drought declared area or is individually drought declared, including the effective date of such drought declaration;

(b) evidence of the water pumping restrictions applicable to the customer's property; and

(c) for tariffs other than Tariffs 62, 65 and 66, a Statutory Declaration stating the specific account(s), and that the connection is being used primarily for pumping water for farm or irrigation purposes; and/or

(d) a Statutory Declaration stating that the customer is experiencing financial difficulties as a result of the drought, the specific account(s) and that the connection is being used primarily for farm purposes.

**Customers of other retail entities**

Customers of retail entities other than Ergon Energy Queensland Pty Ltd who are farmers in drought declared areas or who have a property which is individually drought declared under Queensland Government administrative processes can apply directly to the Department of Energy and Water Supply for relief from electricity fixed charge components as outlined in (A) above.

# APPENDIX I: ASSUMPTIONS USED TO DETERMINE CUSTOMER IMPACTS

| ***Retail tariff*** | ***Median Consumption*** | ***Demand threshold*** | ***Demand*** | ***Peak*** | ***Shoulder*** | ***Off-peak*** |
|---|---|---|---|---|---|---|
| | ***kWh/year*** | ***kW/month*** | ***kW/month*** | ***%*** | ***%*** | ***%*** |
| Tariff 11 | 4,053 | | | | | |
| Tariff 12 | 9,462 | | | 5% | 4% | 91% |
| Tariff 31 | 1,802 | | | | | |
| Tariff 33 | 1,722 | | | | | |
| Tariff 20 | 5,923 | | | | | |
| Tariff 22[a] | 29,401 | | | 49% | | 51% |
| Tariff 22A | 29,401 | | | 6% | 4 % | 90% |
| Tariff 44 | 204,324 | 30 | 58 | | | |
| Tariff 45 | 880,150 | 120 | 229 | | | |
| Tariff 46 | 2,304,038 | 400 | 453 | | | |

*Source: Ergon Energy*

*a. Obsolete tariff.*

# APPENDIX J: SUMMARY OF CONCESSIONAL ARRANGEMENTS FOR ENERGY IN QUEENSLAND

| *Concession Name* | *Eligibility Criteria* | *Annual Amount* |
|---|---|---|
| Electricity Rebate | Customers with a Pensioner Concession Card issued by either Centrelink or Department of Veterans' Affairs, a Department of Veterans' Affairs Gold Card (and recipient of the War Widow Pension or special rate TPI Pension) or a Queensland Government Seniors Card. | $320.97 |
| Reticulated Natural Gas Rebate | As for Electricity Rebate. | $67.61 |
| Medical Cooling and Heating Electricity Concession Scheme | Queensland residents with a qualifying medical condition requiring cooling or heating to prevent the decline of symptoms, who reside at their principal place of residence which has an air-conditioning unit. | $320.97 |
| Home Energy Emergency Assistance Scheme | Customers must either hold a current, eligible concession card, or have a base income of no more than the Commonwealth Government's maximum income rate for part-age pensioners, or be on their retailer's hardship program or payment plan. | Up to $720 per household per year for a maximum of two consecutive years. |
| Electricity Life Support Concession Scheme | Customers must be medically assessed in accordance with the eligibility criteria determined by Queensland Health. In addition, oxygen concentrators must be provided rent-free by Queensland Health to persons who hold an eligible concession card and meet the eligibility criteria of the Medical Aids Subsidy Scheme. Kidney dialysis machines must be provided rent-free by Queensland Health to persons based on clinical needs and supplied through Queensland hospitals. | Up to $653.72 per year for each oxygen concentrator;<br>Up to $437.76 for each kidney dialysis machine. |
| Drought relief | Certain farmers who use electricity for irrigation pumping during periods of very low or no water availability. | The fixed electricity charge is waived for Ergon Energy customers, and is reimbursed by the Department of Energy and Water Supply for other retail entities. |

*Note: Information provided is a guide only. Full details are available from: http://www.dews.qld.gov.au/energy-water-home/electricity/rebates and https://www.dews.qld.gov.au/energy-water-home/electricity/rebates/drought-relief-from-electricity-charges-scheme*