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Mr John Hindmarsh
Chief Executive Officer
Queensland Competition Authority
GPO Box 2257
BRISBANE QLD 4001

Dear Mr Hindmarsh

REGULATED RETAIL ELECTRICITY PRICES FOR 2016-17 – DRAFT DETERMINATION

Ergon Energy Corporation Limited (Ergon Energy), in its capacity as a Distribution Network Service Provider in Queensland, welcomes the opportunity to provide a submission to the Queensland Competition Authority (QCA) on its *Regulated Retail Electricity Prices for 2016-17 – Draft Determination* (the Draft Determination).

Ergon Energy broadly supports the approach adopted by the QCA to determine the Notified Prices for 2016-17. Below are a few general comments in relation to the Draft Determination.

Network tariff structures

As noted in our submission to the Consultation Paper on Regulated Retail Electricity Prices for 2016-17, Ergon Energy's ultimate preference is that the network component of all regulated retail tariffs (except transitional tariffs) be based on the cost to supply customers across regional Queensland. Our network tariffs have been specifically tailored to reflect our network conditions and cost drivers. As such, they should be reflected in retail prices.

However, we recognise the limitations faced by the QCA in determining regulated retail prices – namely, the current Uniform Tariff Policy. Further, we are conscious of the impacts on residential and business customers from passing through real costs. Ergon Energy welcomes the QCA's decision to continue to base time-of-use, and seasonal time-of-use retail tariffs for residential and small business customers on Ergon Energy Distribution's network tariff structures and adjusted to Energex's price levels. However, Ergon Energy recommends that all residential and small business tariffs should be based on our network tariff structures to improve cost reflectivity. Notwithstanding this, we

acknowledge there would be a need to implement appropriate transitional arrangements to enable this to occur in an efficient manner and suggest the QCA consider this approach in the 2017-18 retail prices consultation process.

Fixed charges

Ergon Energy notes the QCA's amended approach to the calculation of retail costs has resulted in a decrease to the fixed charge component of Tariffs 11 and 20. The current Tariff 11 fixed charge (N plus R) remains well below the Ergon Energy Distribution fixed rate, therefore the QCA's decision further increases the gap to cost reflective pricing. This reduces the possibility of moving towards the use of Ergon Energy Distribution's network tariff structures in the near future. While we recognise the QCA is operating under a one year delegation, we recommend the QCA consider the longer term tariff pathway in preparing its Final Decision and its consultation on 2017-18 prices to ensure an appropriate transition to cost reflective pricing over time.

Further consultation on changes to tariffs for large customers

In our submission to the Interim Consultation Paper, Ergon Energy made the following recommendations in relation to large customers:

- amend the eligibility requirements for Tariff 47 so that it is not available to new customers from 1 July 2016; and
- adopt one of our Connection Asset Customer (CAC) any time demand tariffs to establish prices for Tariff 48, or introduce regulated retail tariffs for each of our four any time demand tariffs. These tariffs include an excess kVAr charge for kVAr supplied beyond a permissible quantity.

In its Draft Determination, the QCA indicated that these changes should be subject to more extensive consultation. However, Ergon Energy notes the Draft Determination does not mention our proposal in relation to introducing corresponding regulated retail tariffs for each of our three CAC Seasonal Time-of-Use Demand Tariffs.

Ergon Energy's ultimate preference is that the network component of all regulated retail tariffs be based on the cost to supply customers across regional Queensland. This includes applying the most appropriate network tariff structures and conditions for each customer group. However, we recognise the need to consult with stakeholders and to consider the impacts on customers of these changes.

Ergon Energy therefore supports the QCA's position to consult more extensively. Ideally, we would like the outcomes of this consultation process to inform the setting of the 2017-18 regulated retail tariffs.

Network Tariff Codes

To enable the billing of the Alternative Control Service (ACS) regulated metering charges, Ergon Energy has developed an additional set of Network Tariff Codes for some of our network tariffs. This means some network tariffs have a 'base', 'C' or 'X' variant. The standard network tariff rates apply for each variant, however:

- the 'base' code applies the relevant ACS regulated metering capital and non-capital charges;

- the 'X' code applies the relevant ACS regulated metering capital charge; and
- the 'C' code does not apply any ACS regulated metering charges.

Ergon Energy notes the QCA have referenced the 'base' codes only in the Draft Determination. To avoid possible confusion for stakeholders, Ergon Energy suggests referencing the 'C' and 'X' variants as well.

Drafting corrections

In addition to the issues mentioned above, Ergon Energy has identified a number of small corrections for the Final Determination and Gazette.

- In the draft Gazette the description for Tariff 50 in relation to the application of chargeable demand mentions 'shoulder periods'. Ergon Energy notes there is no shoulder period for this tariff; therefore this reference should be deleted.
- Ergon Energy recommends that the note against Tariff 14 in Table 15 on page 51 of the Draft Determination should highlight that the usage charge is flat (i.e. the same rate applies throughout the year). The note currently references peak and off-peak times which are relevant for the demand charges only. Similarly, the note against Tariff 24 in Table 16 on page 52 should be amended.

Should you require additional information or wish to discuss any aspect of this submission, please do not hesitate to contact either myself on (07) 3851 6416 or Trudy Fraser on (07) 3851 6787.

Yours sincerely



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