

20 April 2018



Mr Charles Millstead
Chief Executive Officer
Queensland Competition Authority
GPO Box 2257
Brisbane QLD 4001

Dear Mr Millstead

Regulated Retail Electricity Prices for 2018-19 Draft Determination

Energy Queensland Limited (Energy Queensland) welcomes the opportunity to provide comment to the Queensland Competition Authority, on its consultation on the *Regulated Retail Electricity Prices for 2018-19 – Draft Determination*. The attached submission is provided by Energy Queensland, on behalf of its related entities Energex Limited, Ergon Energy Corporation Limited and Ergon Energy Queensland.

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

A handwritten signature in black ink, appearing to read "Jenny Doyle".

Jenny Doyle
General Manager Regulation and Pricing

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Encl: Energy Queensland submission to the Interim Consultation Paper

Energy Queensland Submission on the Regulated Retail Electricity Prices for 2018-19

Draft Determination

Energy Queensland Limited
20 April 2018



About Energy Queensland

Energy Queensland Limited (Energy Queensland) is a Queensland Government Owned Corporation that operates a group of businesses providing energy services across Queensland, including:

- Distribution Network Service Providers, Energex Limited (Energex) and Ergon Energy Corporation Limited (Ergon Energy);
- a regional service delivery retailer, Ergon Energy Queensland Pty Ltd (Ergon Energy Retail); and
- affiliated contestable business, Yurika Pty Ltd.

Energy Queensland's purpose is to "safely deliver secure, affordable and sustainable energy solutions with our communities and customers" and is focussed on working across its portfolio of activities to deliver customers lower, more predictable power bills while maintaining a safe and reliable supply and a great customer service experience.

Our distribution businesses, Energex and Ergon Energy, cover 1.7 million km² and supply 37,208 GWh of energy to 2.1 million homes and businesses. Ergon Energy Retail sells electricity to 740,000 customers.

The Energy Queensland Group now includes Yurika, an energy services business creating innovative solutions and technologies. Yurika is a key pillar to ensure that Energy Queensland is able to meet and adapt to developments in the rapidly evolving energy market.

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1 Introduction

Energy Queensland Limited (Energy Queensland) welcomes the opportunity to provide comment to the Queensland Competition Authority (QCA) on its Draft Determination on Regulated Retail Electricity Prices for 2018-19 (Draft Determination). This submission is provided by Energy Queensland, on behalf of its related entities Energex Limited (Energex), Ergon Energy Corporation Limited (Ergon Energy) and Ergon Energy Queensland Limited (EEQ).

Energy Queensland broadly supports the approach adopted by the QCA to determine the Notified Prices for 2018-19. The next section provides some comments on the Lifestyle Tariff trial, Renewable Energy Target costs and metering charges. Energy Queensland is available to discuss this submission or provide further detail regarding the issues raised, should the QCA require.

2 Specific comments

2.1 Lifestyle Tariff trial

The QCA Draft Determination has based the proposed tariff 15 (T15) retail tariff on the Energex Lifestyle Package (LP) network tariff 6400. This differs from the guidance provided in the Delegation issued by the Minister to base the retail tariff on any new 2018-19 cost reflective residential network tariff submitted to the AER by Ergon Energy.

While the Ergon Energy and Energex LP tariffs are structurally the same, the LP tariffs are based on Long Run Marginal Cost (LRMC) and built up following LRMC pricing principles. However, the Draft Determination has replaced the Ergon Energy LRMC with the Energex LRMC, resulting in a significant change to the LRMC signal in the T15 structure and the rate and distribution of anticipated market adoption.

Analysis undertaken indicates that use of the Ergon Energy based network LP tariff option results in:

- the number of customers better off on T15 (compared to T11) increasing from 35% to 58%;

- the potentially addressable market expanding to all customers, in particular to include customers using less than 3,500 kWh per annum which includes many vulnerable customers;
- the network bill reduction associated with reducing the maximum summer peak window use of the network more than doubling;
- more scope for retailers to offer products to complement the tariff;
- a more economically efficient outcome as it passes on network usage signals specific to Ergon Energy's network and therefore better realises the benefits of network tariff reform; and
- avoiding the introduction of a new cross subsidy that benefits large consumption customers.

Based on the materially different outcomes between using the Energex and Ergon Energy LP tariffs, Energy Queensland's strong preference is for the QCA to use the recalibrated Ergon Energy Network East Lifestyle Package network tariff as the building block 'N' for T15 (noting that both the Energex and Ergon Energy Network Lifestyle Tariffs as provided by Energy Queensland to the QCA in early 2018 had been calibrated to recover the same amount of revenue).

With regard to the build-up of T15, Energy Queensland believes that a variable retail margin should be applied to the summer peak window (SPW) component of Bands 2 to 5. This proposed change recognises that Bands 2 to 5 incorporate the recovery of both the traditional fixed charge and a smoothed SPW usage charge. The proposed application of the variable margin to the SPW usage charge is effectively the same approach applied to the top-up charge in T15 and the peak demand charge in T14. All three of these charges relate to the customers usage during the SPW and recover costs associated with the customers use of the network during the SPW, albeit that the LP allows a customer to smooth the payment for their level of use over 12 months.

In the Draft Determination, the QCA outline very effectively the fundamental elements of the LP tariff structure and how it operates. As an innovative structure with several new and unique features Energy Queensland believes the gazette would benefit from replicating some of these quite specific details so that the tariff application and operation is transparent, unambiguous and codified to customers accessing the tariff. This would involve more detail and explanation than is in the current draft gazette. To support this clarity, Energy Queensland has provided the attached tariff information to consider for explicit incorporation in the gazette. Energy Queensland is happy to work with the QCA in terms of how this information may be effectively incorporated into the gazette.

Energy Queensland also notes the precision of the monthly band charges has been retained to three decimal points, the same as daily fixed charges. Given the tariff will be presented to the customer on a rate per month basis Energy Queensland proposes that the band charge be expressed as a whole dollar price with no cents, noting the small adjustment that this represents in percentage terms.

Section 3.2.2, page 15 – Energy Queensland considers the following wording of the Draft Determination to be inaccurate:

The top-up rate is applied on the maximum consumption above the daily SPW band limit within that month. The top-up rate is applied when customers consume beyond their SPW band limit (see below) on any day between November and March, or have selected the pay-as-you-go option (Band 1).

For a customer on Band 1, the top-up rate will only apply during the months of November to March. The current drafting implies that for customers not on Band 1, the top-up rate applies only during November to March, but for customers on Band 1, applies all year. Energy Queensland suggests the following amendments to the paragraph on page 15 of the Draft Determination, to more accurately reflect the application of the top-up charge:

The top-up rate is applied on the maximum consumption above the daily SPW band (see below) on any day between November and March⁵². The top-up rate only applies in the month in which maximum consumption is higher than the SPW band limit. The top-up chargeable quantity if applicable is derived from the day with the single highest consumption in the SPW in the month.

Energy Queensland notes that footnote 52 will also need to be amended to reflect the changes suggested above.

Section 3.2.2, page 15 – Energy Queensland considers the wording of footnote 52 to be inaccurate. Whilst it is correct that if the SPW allowance is 5kWh, and on only one day in December a customer exceeds that amount and uses 6kWh in the daily SPW, then a top-up charge is applicable. What is not mentioned is that it is the maximum exceedance in the month that attracts the top up charge and there is only one possible top up charge per month. In addition, Energy Queensland notes that the charge of \$7.713 in footnote 52 is not aligned with the top-up charge rate set out on page 129. Given that the highest monthly peak window usage in the QCA's example is 6kWh, on a 5kWh nominated band this would equate to an excess of 1kWh that is subject to the top up charge of \$4.206/kWh. Hence Energy Queensland suggests the charge in the footnote be changed to \$4.206.

Section 3.2.2, page 16, top of page – Energy Queensland suggests the following amendments to the paragraph on page 16 of the Draft Determination:

As in previous situations, access to the T15 trial will be at the discretion of Ergon Retail and Ergon Distribution. To participate, customers will require a smart meter, which may incur installation and ongoing operational costs.

Section 3.2.2, page 16 – load control tariffs – at the network level, Energy Queensland does not see there being any barriers to the load control tariffs being offered in conjunction with the residential Lifestyle Tariff trial.

Section 3.2.3, page 20 – As discussed above, Energy Queensland notes that the following statement is incorrect:

Ergon Retail's proposed T15 is built on network costs that are identical in both Energex and Ergon Distribution's distribution areas. As a result, no adjustments to the cost components are required.

2.2 Renewable Energy Target costs

The QCA has stated in the Draft Determination that it expects that ACIL Allen will update the estimate of Small-scale Renewable Energy Scheme (SRES) costs in its Final Determination using the final small-scale technology percentage (STP) for 2018. The Clean Energy Regulator has now published the 2018 STP of 17.08%, a significant and material increase on the non-binding value of 8.06% used in the draft. Energy Queensland recommends that the SRES costs are updated in the Final Determination to reflect the updated STP.

2.3 Digital Meter pricing for small and large customers

Energy Queensland has a number of issues for consideration in relation to the drafting of digital metering prices for both large and small customers.

2.3.1 Legacy customer arrangements

Energy Queensland notes that the determination of the digital metering prices for large and small customers encompasses both a 'capital' and 'operational' cost.

Energy Queensland is concerned that by determining a price that aggregates both of these elements into a single price it may result in situations where customers who have had a capital cost of their digital metering already funded (either by the customer or another party), will incur an ongoing charge that has a

capital cost built in, effectively paying the capital costs twice. This applies to both large and small customers.

By determining a cost in this way it may also create challenges in scenarios where a retailer or other party may choose to fund the capital costs of a digital meter as part of a tariff trial, retailer-led deployment or similar program. This also has immediate consequences for small and large customers with existing digital meters.

Energy Queensland would encourage the QCA to consider a charging structure that provides flexibility in the annual charges to accommodate for the separate recovery of the capital and non-capital components.

Energy Queensland also encourages the QCA to consider alternative approaches for the recovery of digital meters in regional Queensland.

2.3.2 Approach to setting prices for digital meters

Energy Queensland supports consideration of a digital metering cost application that has best possible customer benefits. One option among others is the establishment of an upfront capital charge for digital meters, similar to the Alternative Control Services (ACS) mechanism that was previously in place for type 6 meters i.e. an upfront capital charge for the meter and an ongoing 'non-capital' (operational) charge. As with type 6 metering previously, Energy Queensland proposes that the upfront capital charge is levied as a one-off charge, rather than as an ongoing daily charge applied to customer's bills.

Firstly, it would address the issues raised above relating to legacy metering and provide greater future flexibility for parties other than the customer to fund the capital costs of the meter in the future. This approach has greater alignment with the drive for more innovative products and solutions that was envisioned as part of the *Power of Choice* (PoC) reform program.

Further, it would also mean that the cost of a digital meter/s would be borne by the party requiring the meter, both in new connection and meter replacement scenarios. Such as, in replacement scenarios where a customer requests a meter to support a retail tariff offering, the addition of a controlled load tariff (31/33) or solar. This approach would negate the outcome where a future owner or tenant of a premise is paying the capital costs for a meter they did not request to be installed.

Energy Queensland believes that such a charging structure (upfront capital charge for the meter and an ongoing operational charge) should apply to both new connections and replacement metering due to age or failure of the meter. Further commentary on aged/failed meters is provided in the following section.

2.3.3 Costs separate to the meter

Energy Queensland notes that there is a breadth of costs potentially involved in the replacement of aged or failed meters, or the installation of digital meters at older properties compared to new connections.

For replacement metering, driven either by aged/failed meters or customer-driven replacements (for example, for solar or controlled load installation), there are a wider range of potential works that may be required, dependent on the age and condition of the customers' existing metering installation.

The costs associated with these works are levied to EEQ by its Metering Coordinator (MC), and are invoiced once the new or replacement metering installation has been completed. Often these costs cannot be determined until the Metering Provider (MP) is at site and can determine the additional works that may be required. For example, a digital meter is unable to be installed on a switchboard that does not have fire-retardant backing plate. Many older sites have metering boards with timber and asbestos backing meaning these switchboards will all need additional works.

Further, where a single meter on a meter board requires replacing and a customer has more than one meter, all accumulation meters will need to be replaced. Metrology procedures do not enable a mix of type 5/6 and type 1-4 or 4a metering. This necessarily adds additional costs in relation to the potential works required to achieve compliance.

Energy Queensland anticipates that the replacement of meters due to age or failure will outweigh new connections/installations by a ratio of 3 to 1 and we urge the QCA to consider these costs as part of the Final Determination so as not to potentially limit EEQ's ability to recover these costs.

Energy Queensland is happy to provide further commercial-in-confidence information on these costs to the QCA for deliberation to assist in its Final Determination.

2.3.4 Capital costs of removed meters

On page 82 of the Draft Determination, the QCA have noted that customers who request that a working accumulation meter be replaced with an advanced digital meter may need to pay a metering services charge for the capital component of the working meter that was removed. This charging arrangement also applies when a failed meter is replaced.

2.3.5 Treatment of type 4A metering

Energy Queensland supports the QCA's identification of the additional costs associated with type 4A meters (meters with no telecommunications) due to the requirement to continue with physical meter reading and other services, and the pass-through of this price signal for customers who 'refuse' (choose not) to have the telecommunications within the digital meters enabled.

However, for customers where their premise is located in a telecommunications blackspot, Energy Queensland does not support the pass-through of these additional charges. In this instance, Energy Queensland is of the view that the retailer should not pass through these charges as a 'good faith' arrangement until telecommunications become available in that geographical location.

Energy Queensland notes that it is likely to have the most significant number of telecommunication blackspots in the National Electricity Market due to the vastness of its retail region and retailers should be actively seeking to offer customers in telecommunication blackspots alternative products which may assist them to derive some benefits from their digital meter.

Energy Queensland proposes that for customers in telecommunication blackspots the same charges for customers with type 4 digital meters are applied.

2.3.6 Recovery of costs incurred in provision of metering

Previously small customer regulated metering was considered a non-network distribution charge, and as such passed through to customers with no retail margin. This was because retailers had no role in provision of metering. However, under the competition in metering legislative framework, retailers now have a number of significant functions to undertake including:

- Development and performance management of Retailer – MC contracts;
- Initiation of new and additional market transactions;
- Interactions with customers in relation to their metering needs; and
- Issuing of Planned Interruption Notices and additional bill printing costs.

These additional responsibilities have required significant billing system changes and additional retail resources to provide these new functions. Energy Queensland is also aware of a number of pending rule changes relating to the existing competition in metering legislation, including a proposed change from the installation of digital meters. Given these potential rule changes, there remains

considerable regulatory risk relating to competition in metering and further regulatory obligations / costs that may be incurred over the next several months.

On this basis, the recovery of costs incurred as a result of the provision of metering services would be considered reasonable. We consider the appropriate method for accounting for these costs is through adjustment of the Retail Operating Costs in tariffs.

2.3.7 Large customer digital meter pricing

The QCA has indicated that large customer metering was a pass-through to retailers. However, because large customer metering has been unregulated for a considerable period of time, metering for large customers was not classified as a non-network distribution charge as it is for small customers. For this reason, the EEQ Large Customer Standard Retail Contract has an existing provision for the billing of digital metering costs to its large customers. The QCA does not need to determine metering prices for large customers. This is expanded further below.

In the Draft Determination (page 47), the QCA has indicated that EEQ charged large business customers an upfront metering charge of between \$331.61 and \$653.97 (excluding GST) and \$1.97 to \$9.54 per day for ongoing metering charges. The EEQ webpage where this information was sourced from has since been updated to make clearer the differentiation of metering charges for large and small customers. The up-front metering charges as quoted by the QCA apply only to small customers, whilst only the on-going daily metering charges described in the Draft Determination are applicable to large customers.

Further, these daily on-going metering charges reflect legacy (existing) large customer meter costs rather than for new large customers connected since 1 December 2017. These legacy charges reflect a previous charging mechanism by Ergon Energy for large customer metering based on a regulated asset base. For new large customer metering, EEQ was intending to charge large customers based on the actual metering at their premises. There are considerable differences in costs between different large customers. For example, high voltage metering (types 1, 2 or 3) compared with a large business customer with low/high voltage type 4 meters.

The approach proposed by the QCA is to charge large business customers for metering based on their customer classification, rather than based on the metering installed at their premises. This will result in either an undercharge or overcharge in metering for large customers. For customers where the QCA determination represents a charge higher than a price which it could directly negotiate with an MC, then these customers may churn their MC or MP away from EEQ. This will have the impact of leaving EEQ with large customers where

the daily charge represents an under recovery of costs resulting in a negative impact on EEQ.

The Draft Determination also does not take into consideration the significant additional costs for large customers with meters that have high voltage current transformers. There is also a mandatory requirement to undertake testing every 10 years for these transformers, with costs in the order of \$20 000 - \$30 000. Energy Queensland is of a view that these costs should be borne by the very limited number of large customers for whom these charges apply.

As advocated by Energy Queensland in its previous submission, and as noted by the QCA in the Draft Determination, there is an existing contestable market for large customer metering and costs associated with metering make up only a very small part of their overall bill. For these reasons, and to avoid the cross subsidising of large customer metering costs between sites, Energy Queensland contends that large customer metering should not be set by the QCA in its determination.

2.4 Accumulation metering costs

2.4.1 Mount Isa and Isolated Networks

Energy Queensland notes that the QCA has not included upfront charges for accumulation meters, presumably because DNSPs do not install meters under the PoC reforms. However, Ergon Energy continues to install regulated type 6 meters in Mount Isa and the isolated networks (as they are exempt from the PoC reforms) and charge retailers, for Mount Isa at least, at prices that are approved by the Australian Energy Regulator. EEQ notes it will continue to pass these charges through to customers in these isolated areas.

EEQ will seek to continue to recover these upfront costs from customers. However, in the absence of gazetted prices for the upfront charges of accumulation meters there may be a risk EEQ will be unable to recover these costs from customers in Mount Isa and isolated networks.

2.4.2 Application of charges for accumulation meters

Energy Queensland notes that the QCA have structured the application of residential and small business metering charges for accumulation meters on a 'per tariff' basis. This implies that a customer with multiple primary tariffs only, such as a customer with tariff 11 and 20 only on the same account, will pay multiple 'primary tariff' meter charges. The application of 'primary' meter charges is based on the Network Tariff Code at the connection, not the number of primary retail tariffs that are on the account.

Consequently the primary meter charge is only charged once on any account. It is not subject to a 'per tariff' arrangement as it is based on the primary network tariff at the national metering identifier. Given Ergon Energy only applies one primary network tariff to each connection it only attracts one primary tariff meter charge.

However, in regards to the tariff 31 and 33 meter charges, they are charged on a per tariff basis as an account can have multiple controlled load tariffs and will have multiple network tariffs assigned, one for tariff 31 and one for tariff 33.

Energy Queensland also notes that the table does not include charges for customers who have solar installed. While we recognise that this gazette does not include the determination of the Feed in Tariff, for completeness we feel it prudent to capture the metering charges associated with solar installations in the one gazette (or both) so as customers do not need to seek out different source documents for gazetted accumulation meter charges.