Queensland Competition Authority

Final determination

Regulated retail electricity prices for 2018–19

May 2018

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Contents

EXECUTIVE SUMMARY

The Queensland Competition Authority (QCA) has made its final determination on the regulated retail electricity prices (notified prices) that will apply in regional Queensland from 1 July 2018 to 30 June 2019. In general, notified prices are paid by customers who have not entered into a negotiated or market contract with their retailer. The QCA was delegated the role of setting notified prices by the Minister for Natural Resources, Mines and Energy in April 2018 ('the April 2018 delegation', or just 'the delegation'),[1] and is required to set prices in accordance with that delegation and the Electricity Act.

There will be a fall in notified prices for most typical customers. The largest drivers of changes to regulated electricity prices for 2018–19 are network costs and renewable energy target (RET) related costs. For most tariffs and customers, network costs have declined. Wholesale energy costs have also declined. These decreases in network and wholesale energy costs have been partially offset by higher RET related costs.

The QCA appreciates the valuable contributions that stakeholders have made to our price determination process, especially those who made submissions. While we have not referred to all arguments or submissions in our final determination, we have carefully considered the issues raised in each submission.

How has the QCA set 2018–19 notified prices?

The QCA's approach to setting 2018–19 notified prices is largely consistent with the approach it took in the 2017–18 price determination. Under this approach notified prices are calculated using a network cost plus energy and retail costs (N+R) approach. We have also set price levels consistent with the Queensland Government's Uniform Tariff Policy (UTP)—residential and small business customer tariffs are based on the costs of supplying electricity in south east Queensland[2], and large business customer tariffs are based on the lowest costs of supply in regional Queensland.[3]

This UTP approach results in regional residential, small business and some large business customers paying electricity prices that are generally lower than the costs of supplying these customers. The Queensland Government expects to pay Ergon Retail approximately $490 million[4] in 2017–18 to subsidise regional electricity customers.

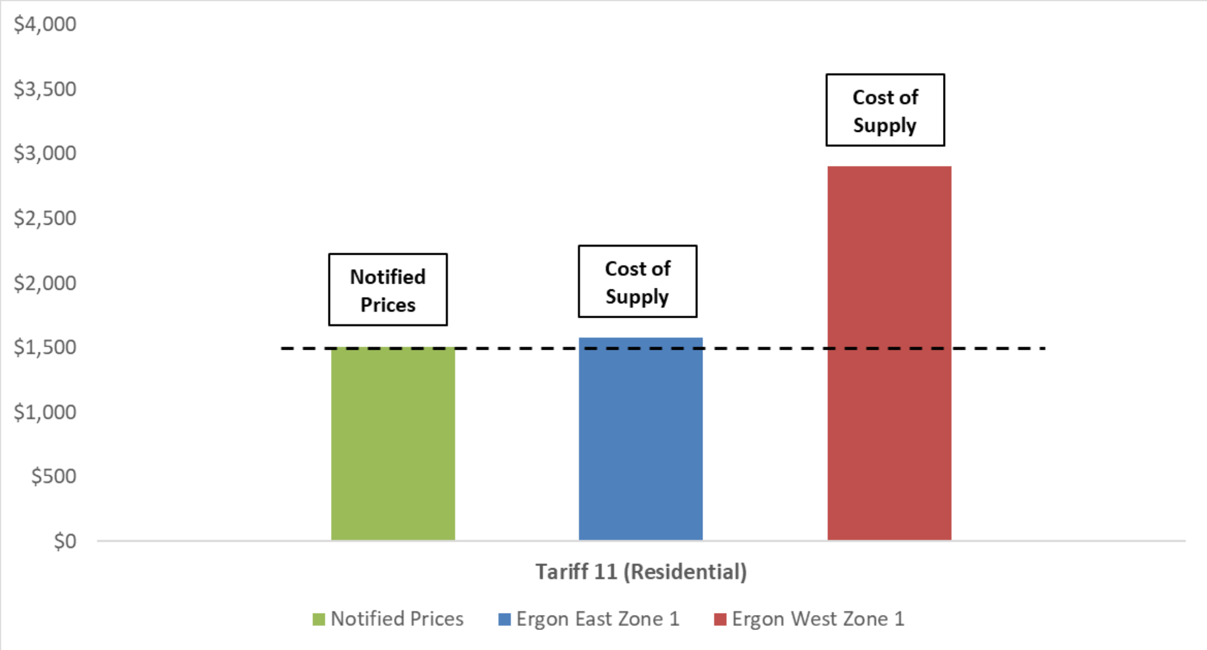
[1] The QCA commenced the 2018–19 price determination process under a delegation received on 22 December 2017 ('the December 2017 delegation'). However, our final determination is made under the Minister's revised delegation, issued on 26 April 2018.

[2] The Energex distribution area.

[3] Ergon Distribution's east pricing zone, transmission region one.

[4] Queensland Government, *State Budget 2017–18—Budget Strategy and Outlook*, June 2017, p. 195.

Figure 1 Notified electricity prices for typical residential customers, and actual costs of supply for regional Queensland (incl. GST)



Note: The cost of supply excludes any standing offer adjustment. Ergon East Zone 1 refers to Ergon Distribution's east pricing zone, transmission region 1. Ergon West Zone 1 refers to Ergon Distribution's west pricing zone, transmission region 1.

In broad terms, the N+R methodology produces estimates of efficient south east Queensland price levels for residential and small business customers on market contracts. To be consistent with the UTP, the QCA needs to set notified prices for small customers in regional Queensland that broadly reflect the expected level of standing offer prices in south east Queensland (see Chapter 2). To achieve this, we need to add an amount (referred to as the standing offer adjustment) to the estimated efficient costs of supply to account for the expected price differential between lowest offers and standing offers in south east Queensland. However, the cover letter to the delegation requires us to consider maintaining the standing offer adjustment at its current level (i.e. 5 per cent). For 2018–19, we have decided to maintain the standing offer adjustment at 5 per cent (see Chapter 6).

Consistent with our approach in previous price determinations, we have included an allowance for headroom in notified prices for large business customers only. The use of a headroom allowance is a generally accepted approach aimed at stimulating competition and customer engagement in emerging competitive markets. Given that competition in the large business customer segment in regional Queensland has the potential to develop further, particularly in areas where notified prices more closely reflect the actual costs of supply, we consider that including an allowance for headroom will support competition by encouraging customers to engage in the market and seek out better offers.

What impact does the QCA's price determination have on customer bills?

Figures 2–4 compare the annual amount typical customers[5] would be paying under 2017–18 notified prices, with the annual amount they will pay under 2018–19 notified prices. Customers will also incur metering charges in addition to the amounts shown in these figures. Customers' metering charges will vary depending on a range of factors, including the type of meter they have installed, the number of different tariffs they

[5] The typical customer for a given retail tariff is the median or middle customer in terms of consumption out of all customers on that tariff in regional Queensland. The typical customer consumption data is provided by Ergon Retail. More information appears in Appendix G.

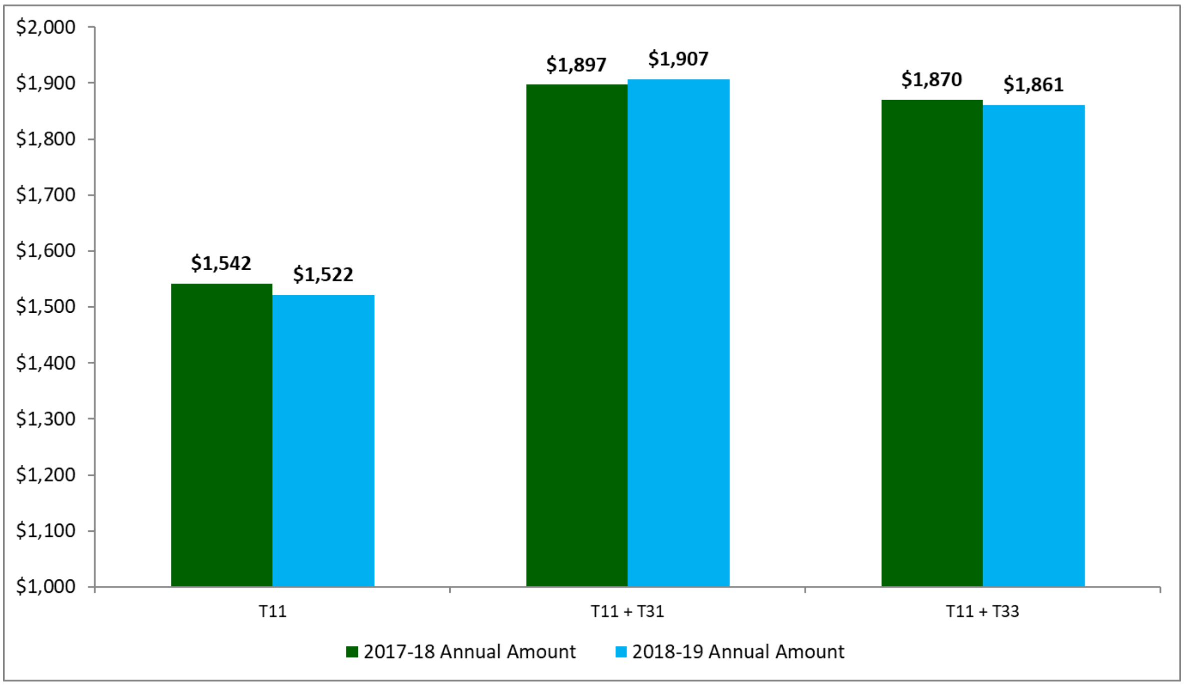
use and whether they have a solar photovoltaic (PV) system. As these charges vary from customer to customer, they have not been included in the customer impact analysis.

Residential customers

The main retail tariff for residential customers is tariff 11. Many customers on tariff 11 are also on one of the controlled load tariffs (tariffs 31 and 33).[6]

A typical residential customer on tariff 11 will pay $20 (1.3 per cent) less for their electricity usage and service fee in 2018–19, while a typical customer on a combination of tariffs 11 and 33 will pay $9 (or 0.5 per cent) less. A typical customer on a combination of tariffs 11 and 31 will see an increase of $11 (or 0.6 per cent) in their bill. However, the impact on each individual will vary according to their consumption.

Figure 2 Impact of the change in notified prices on typical residential customers (incl. GST), 2018–19



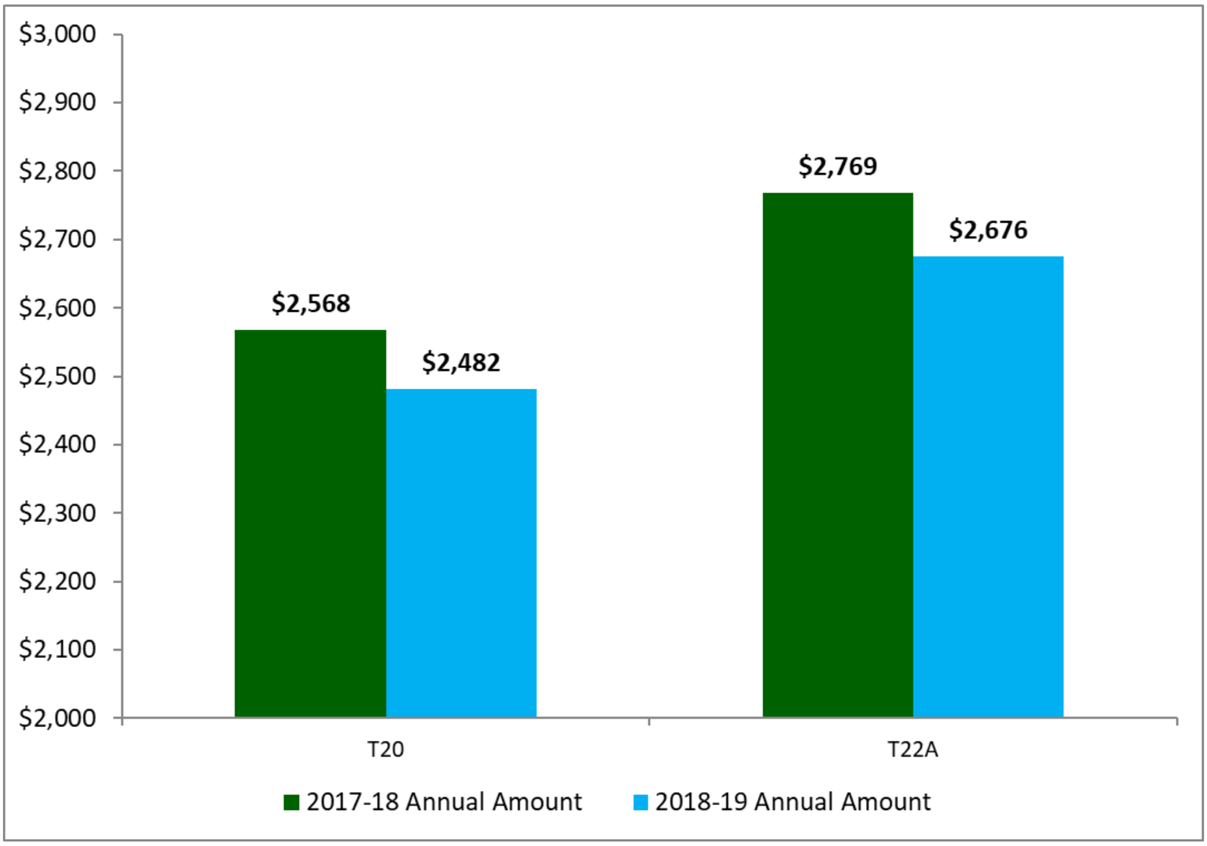
Note: Annual amounts have been rounded to the closest dollar.

Small business customers

A typical small business customer on tariff 20 will pay $86 (or 3.4 per cent) less for their electricity usage and service fee in 2018–19. A typical small business customer on tariff 22A would pay $93 (or 3.4 per cent) less for their electricity usage and service fee in 2018–19. However, the impact on each individual business will vary according to their consumption and, if the customer is on tariff 22A, the pattern of their consumption.

[6] Controlled load tariffs may be used for appliances such as water heaters and pool pumps. These tariffs are cheaper than tariff 11, as customers are only guaranteed supply for a set number of hours (tariff 31 guarantees supply for 8 hours per day and tariff 33 guarantees supply for 18 hours per day).

Figure 3 Impact of the change in notified prices on typical small business customers (incl. GST), 2018–19

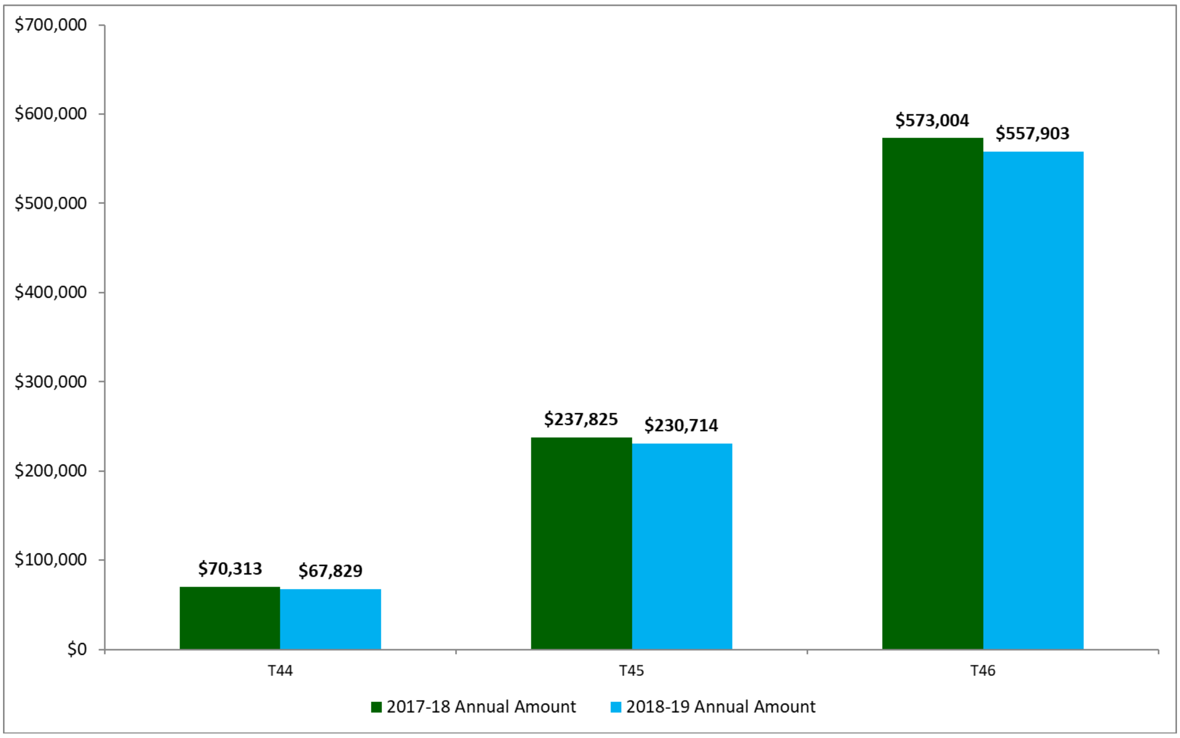


Note: Annual amounts have been rounded to the closest dollar.

Large business customers

A typical large business customer on tariff 44, 45 or 46 would pay between 2.6 per cent and 3.5 per cent less for their electricity usage and service fee in 2018–19. However, it is important to note that bill impacts for individual customers will vary depending on their level and pattern of consumption.

Figure 4 Impact of the change in notified prices on typical large business customers (incl. GST), 2018–19



Note: Annual amounts have been rounded to the closest dollar.

Transitional and obsolete tariff customers

Some business customers, including farmers and irrigators, are supplied under legacy retail tariffs. These transitional and obsolete tariffs have been made available for several years to allow customers to transition their businesses to standard business tariffs. The delegation requires that the QCA consider maintaining these arrangements.

The prices of these tariffs cannot be determined under the standard methodology, as there is no network tariff on which to base network costs. The QCA has maintained transitional and obsolete tariffs at their 2017–18 price levels. Given that standard business tariffs are forecast to decrease for typical customers, we consider increasing transitional prices, or applying escalation factors, is unnecessary, as the reduction in standard business tariffs will act to somewhat reduce the difference between transitional and standard business tariffs in dollar terms. This approach is consistent with our 2015–16 price determination, where standard business tariffs also decreased.

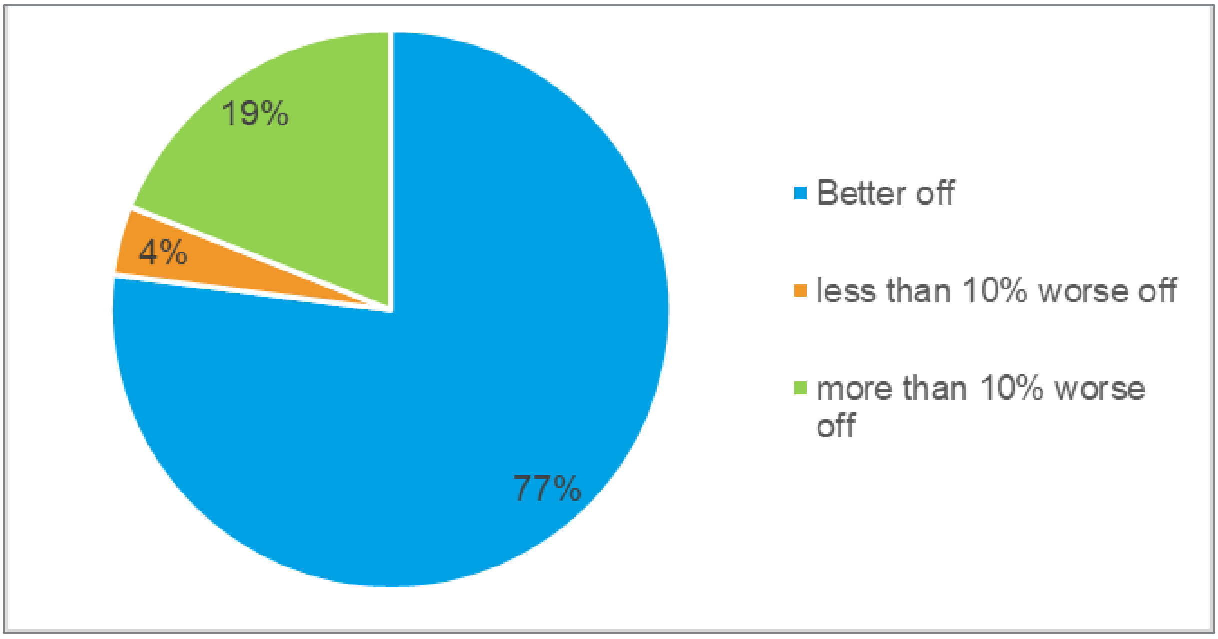
Given the transitional period for most transitional and obsolete tariffs expires in 2020, we encourage customers on these tariffs to contact their retailer for advice on the most appropriate tariffs for their business and the best way to adapt to standard business tariffs.

Affordability

A number of stakeholders have expressed concern over the high costs of electricity, and the impact it is having on businesses, economic activity, and employment, in regional Queensland. Affordability was of particular concern for customers on transitional and obsolete tariffs.

We urge all businesses to contact their retailer to ensure they are on the best tariff, as there are a number of customers on transitional and obsolete tariffs, including both small and large business customers, who could lower their electricity bills by switching to a flat rate standard business tariff without making any changes to their business practices. For example, data from Ergon Retail shows that 77 per cent of customers on tariff 20 (large) could pay less for their electricity if they switched to standard business tariffs (see Figure 5).

Figure 5 Bill impacts for customers moving from tariff 20 (large) to standard business tariffs



Source: Ergon Energy Queensland

Some stakeholders requested the QCA to consider the effect on economic activity when setting regional electricity prices. These stakeholders wanted to see significantly lower electricity prices. However, the legal framework under which the QCA sets electricity prices focuses on actual costs, competition and, through the Minister's delegation, the UTP. The UTP already acts to assist regional businesses by shielding most of them from the true cost of the electricity and network services they use.

On a more fundamental level, the QCA does not consider electricity prices to be the best mechanism for providing industry assistance. Charging electricity prices which do not reflect costs distorts investment decisions and leads to less efficient outcomes. For example, most transitional and obsolete tariffs do not charge customers based on their level of demand which, according to distributors, is a key driver of network costs. As a result, customers on these tariffs have made investment decisions without regard to this primary driver of network costs (i.e. demand), thereby imposing additional costs on networks and the wider community through increased community service obligation payments.

Metering charges

The majority of electricity customers pay metering charges, which reflect the capital cost and operation of their meter. Metering charges for most customers are regulated by the Australian Energy Regulator and are not part of notified prices.

While the draft determination proposed setting metering charges for type 1–4 ('smart' or 'interval') meters as part of notified prices, the April 2018 delegation excludes the setting of metering charges for residential and small business customers. The Minister has asked the QCA for separate advice relating to metering charges for these customers—see our website for more information.

The QCA has separated large customer metering costs that are not regulated by the Australian Energy Regulator (AER) out from retail operating costs, and published these metering charges separately. This removes a potential barrier to competition in the contestable market for large customer metering, and ensures only customers with advanced digital meters provided by a metering coordinator appointed by

Ergon Retail, will be required to pay Ergon Retail for non-AER regulated metering services.[7] Table 1 shows metering fees for large customers supplied via advanced digital meters.

Table 1 Metering charges for large and very large business customers

Customer type	***Metering charge (c/day)***
Standard asset customer (large)	141.078
Connection asset customer	328.542
Individually calculated customer	506.502

[7] See Chapter 5 for further information.

THE ROLE OF THE QCA—TASK, TIMING AND CONTACTS

The Queensland Competition Authority (QCA) is an independent statutory body which promotes competition as the basis for enhancing efficiency and growth in the Queensland economy.

The QCA's primary role with respect to electricity pricing is to set regulated retail electricity prices in accordance with the requirements of the delegation from the Minister for Natural Resources, Mines and Energy (Appendix A) and the *Electricity Act 1994* (the Electricity Act).

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1 INTRODUCTION

In April 2018, the Queensland Competition Authority (QCA) received a delegation ('the April 2018 delegation', or just 'the delegation') from the Minister for Natural Resources, Mines and Energy (the Minister) to determine regulated retail electricity prices (notified prices).[8] The delegation specified that the notified prices we determine would apply to small standard retail contract[9] customers and large standard contract[10] customers other than those in the Energex distribution area from 1 July 2018 to 30 June 2019.

This delegation, which excludes the setting of notified prices for residential and small business customer metering services, replaced the Minister's previous delegation issued in December 2017 ('the superseded delegation').[11] With the exception of metering services and a clarification on the application of the Ergon Energy Queensland Pty Ltd (Ergon Retail) EasyPay Reward scheme, the methodology, and matters the QCA must consider remain the same. The Minister specified that, because there were no methodology changes, the rounds of public consultation already conducted by the QCA are considered satisfactory, and further public consultation is not required.[12]

1.1 The review process

Interim consultation paper

On 22 December 2017, we released an interim consultation paper (ICP) advising interested parties of the commencement of our review. We received 16 submissions in response (Appendix B). The Minister's delegation specifies that the ICP, and resulting considerations by the QCA in accordance with the superseded delegation, remain relevant for the April 2018 delegation.

Draft determination

On 28 February 2018, we released our draft determination on 2018–19 notified prices, as well as ACIL Allen's draft report on estimated energy costs. In March 2018, we held workshops in eight locations (Mackay, Cloncurry, Mount Isa, Townsville, Cairns, Toowoomba, Bundaberg and Brisbane), and a webinar hosted by the Chamber of Commerce and Industry Queensland (CCIQ). We received 12 submissions on the draft determination (Appendix B). The Minister's delegation specifies that the draft determination (published by the QCA in accordance with the superseded delegation) as well as the workshops and additional consultation (conducted under the superseded delegation) remain relevant for the April 2018 delegation.

Final determination

This final determination publishes the regulated retail tariffs and prices for 2018–19 (see Chapter 8). In making this final determination, we have taken into account the requirements of the

[8] The April 2018 delegation appears in Appendix A.

[9] Schedule 1 of the National Energy Retail Rules.

[10] Large business customers supplied by Ergon Retail are classified as large standard contract customers. Large business customers supplied by other retailers in regional Queensland are classified as large 'market' customers.

[11] The superseded delegation appears in Appendix A.

[12] See clarifying comments in the Minister's cover letter to the delegation (dated 26 April 2018) in Appendix A.

Electricity Act and the Minister's delegation; matters raised in stakeholders' submissions; ACIL Allen's final report on the estimated energy costs; and our own analysis.

We appreciate the contribution that stakeholders have made to this review. While we may not necessarily reference all arguments or submissions in our determinations, we carefully consider each submission. Issues that have been raised, but are outside the scope of the review, are discussed in Appendix C. Non-confidential documents relating to this review are available on our website.[13]

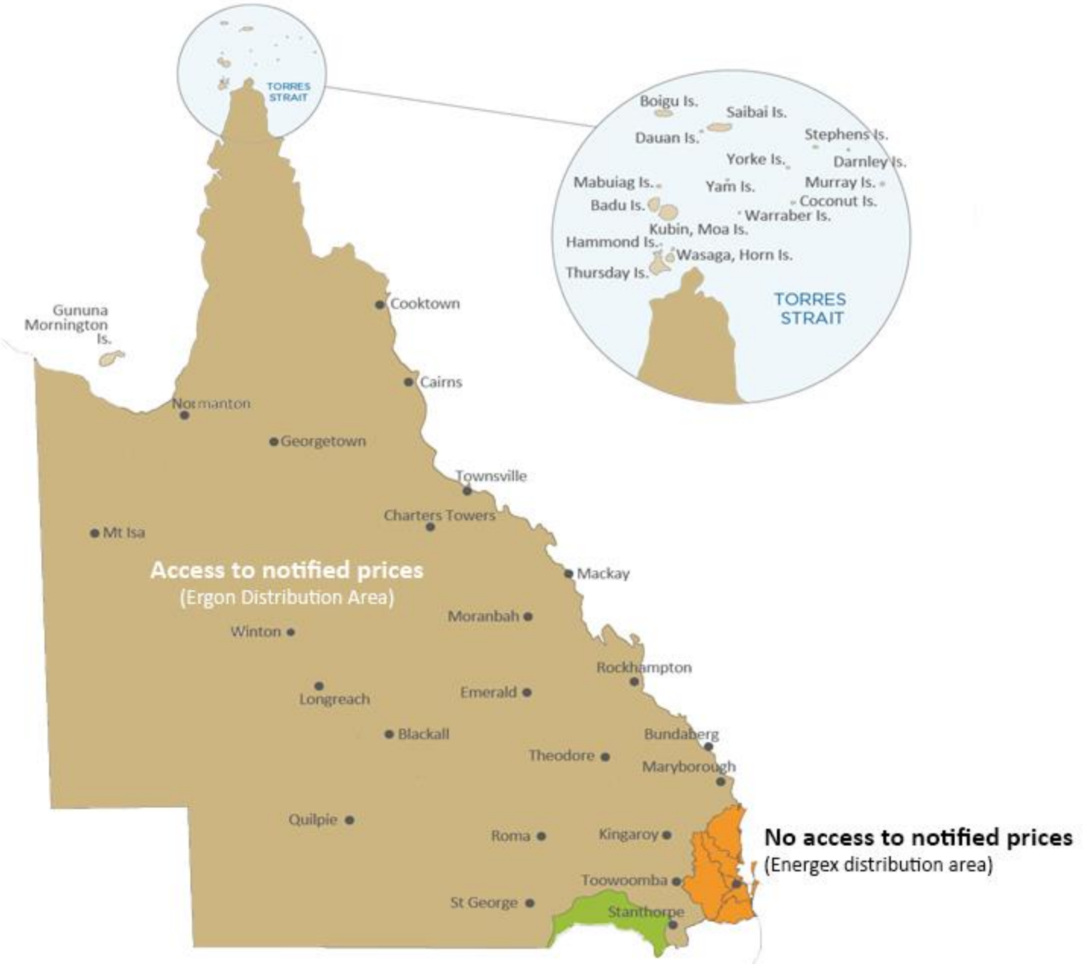
1.2 Access to notified prices

Notified prices are only available to residential, small business and standard contract large business customers who are not located in the Energex distribution area (south east Queensland).[14]

[13] http://www.qca.org.au/Electricity/Regional-consumers/Reg-Electricity-Prices/In-Progress/Regulated-Electricity-Prices-2018-19.

[14] Customers in Essential Energy's distribution area in southern Queensland (the area shaded green in Figure 6) do not *currently* have access to notified prices, but Origin Energy receives a subsidy to ensure that standard contract customers in that distribution area pay no more than similar customers that have access to notified prices. However, the Minister's delegation states that the QCA is to decide the prices that a retail entity may charge standard contract customers other than those in the Energex distribution area, where retail price regulation was removed on 1 July 2016. Implicitly, this means that notified prices for 2018–19 are intended to apply to customers in the Essential Energy distribution area.

Figure 6 Access to notified prices



1.3 Legislative framework—the Electricity Act

We must determine notified prices in accordance with our obligations under the Electricity Act. While the Act does not specify criteria or principles to be applied in making a price determination, it directs us to have regard to the following matters:

(a) the actual costs of making, producing or supplying the goods or services

(b) the effect of the price determination on competition in the Queensland retail electricity market

(c) any matter we are required by delegation to consider.[15]

The Electricity Act also provides that we may have regard to any other matter we consider relevant. A matter we consider to be relevant is the objects of the Electricity Act, and we therefore intend to have regard to those. These objects are to:

(a) set a framework for all electricity industry participants that promotes efficient, economical and environmentally sound supply and use

[15] Section 90(5)(a) of the Electricity Act.

(b) regulate the electricity industry and electricity use

(c) establish a competitive electricity market in line with the national electricity industry reform process

(d) ensure that the interests of customers are protected

(e) take into account national competition policy requirements.[16]

1.4 Matters we are required to consider by the Minister's delegation

The April 2018 delegation requires us to consider the matters outlined below when determining notified prices for 2018–19. The delegation also requires us to consider that notified prices do not apply to customers in the Energex distribution area, as discussed above.

The Uniform Tariff Policy

Consistent with previous price determinations, we are required to consider the Queensland Government's Uniform Tariff Policy (UTP). The UTP provides that:

> wherever possible, standard contract customers of the same class should pay no more for their electricity, regardless of their geographic location.[17]

The covering letter to the delegation further specifies that, for the purpose of setting notified prices, the Queensland Government's UTP is an important consideration.[18]

The government considers that under the UTP, notified prices for residential and small business customers in regional Queensland should broadly reflect the expected prices for similar customers on standing offers in south east Queensland. It also considers that notified prices for large business customers in regional Queensland should be based on the costs of supply in the Ergon Energy Corporation Limited (Ergon Distribution) east zone, transmission region one, rather than the actual costs of supply. This area has the highest number of large and very large customers, and is also the lowest cost area of the network.[19]

As the actual costs of supplying residential, small business and some large business customers in regional Queensland are generally higher than notified prices[20], the application of the UTP will benefit these customers.

The difference between the costs of supply in south east Queensland and regional Queensland is largely due to the higher network costs associated with supplying electricity over long distances to a low-density customer base. These additional costs are significant, with the Queensland Government expecting to pay a subsidy of approximately $490 million[21] in 2017–18 to give effect to the UTP.

'N+R' cost build-up methodology

Consistent with the approach in previous price determinations, we must consider using the network (N) plus retail (R) cost build-up methodology when determining notified prices for 2018–

[16] Section 3 of the Electricity Act.
[17] Clause 5(b) of the delegation (Appendix A).
[18] A copy of the Minister's covering letter (dated 26 April 2018) is provided in Appendix A.
[19] East zone, transmission region 1 has the lowest cost of supply among the Ergon Distribution pricing regions that are connected to the National Electricity Market (NEM).
[20] The differences in the costs of supply are largely due to the higher network costs associated with supplying electricity over long distances to a low-density customer base.
[21] Queensland Government, *State Budget 2017–18—Budget Strategy and Outlook*, June 2017, p. 195.

19. Under this methodology, the N costs (network costs) are generally treated as a pass-through and the R costs (energy and retail costs) are determined by the QCA.

The network cost (N) component

When calculating the N component for each regulated retail tariff, the delegation requires that the QCA consider continuing the general approach it has applied in previous price determinations. This means using the Energex network charges and tariff structures when we determine non-time-of-use retail tariffs[22] for residential and small business customers (tariffs 11, 20, 31, 33, 41 and 91[23]).

When we determine time-of-use[24] and time-of-use demand retail tariffs[25] for residential and small business customers (tariffs 12A, 14, 22A and 24), we must consider basing the N component on the price level of network charges to be levied by Energex and the network tariff structures of Ergon Distribution.

For large business customers, we must consider basing the N component on the Ergon Distribution network charges and tariff structures. We adopted this approach in previous price determinations.

Transitional arrangements

We are required to consider maintaining the transitional arrangements for tariffs classed as transitional or obsolete (for example, farming and irrigation tariffs). We are also required to consider allowing all customers, other than those in the Energex distribution area, to access tariffs designated as transitional in 2013–14.

Tariff trial

The delegation requires us to consider offering a voluntary trial tariff, based on the structure of any new cost-reflective residential network tariff submitted to the AER in Ergon Energy's 2018–19 pricing proposal. The delegation indicated that Ergon Energy would adjust rates to align with the UTP and long-run marginal cost pricing principles.

This is the first time we have been required to consider this issue.

Adjustments to the charges for standard contract customers

We are required to consider two adjustments to the charges for standard contract customers:

(a) allowing retailers to charge standard contract customers for amounts that are not included in the regulated retail tariff, in accordance with a program or scheme for the purchase of electricity from renewable or environmentally friendly sources

(b) allowing Ergon Energy Queensland Pty Ltd (Ergon Retail) to issue annual rewards to eligible customers that opt-in by agreeing to a series of requirements, consistent with Ergon Retail's EasyPay Reward scheme. The wording in the Minister's new delegation has been revised to clarify the application of the EasyPay Reward scheme.

[22] Non-time-of-use tariffs are retail tariffs with usage charge rates that do not vary with the time and/or level of consumption.
[23] Tariff 91 applies to unmetered supplies (except street lighting).
[24] Time-of-use tariffs are retail tariffs with usage charge rates that vary with the time of consumption.
[25] Time-of-use demand tariffs are retail tariffs with usage and demand charge rates that vary with the time of consumption and/or demand.

This is the first time we have been required to consider these adjustments. The details of these government policies are outlined in the delegation and discussed in Chapter 6.[26]

Metering charges

In the draft determination, we included proposed metering charges for residential and small business customers, in accordance with the superseded delegation and following introduction of the national 'Power of Choice' reforms in December 2017.

However, the Minister's April 2018 delegation requires the QCA to calculate notified prices *other than the notified prices associated with the provision of residential and small business customer retail metering services*. Thus, the QCA is no longer required to set metering charges for residential and small business customers. We understand these will now be set separately by the Queensland Government.

[26] The April 2018 delegation is included at Appendix A.

2 PRICING FRAMEWORK

The objects of the Electricity Act and the matters we are required to consider under the Electricity Act indicate that cost-reflective prices, and the promotion of retail competition, are important guiding principles in making a price determination. Cost reflectivity is important for efficiency and equity reasons. The promotion of retail competition in the large business customer segment in regional Queensland is also important for efficiency reasons, and has been an important consideration in the 2017–18 and previous price determinations.

Under the Minister's April 2018 delegation, we are also required to consider the UTP. The application of the UTP in previous price determinations has resulted in most notified prices being based on costs of supply which are below the actual costs of supply (see section 1.4).

Given there is a degree of conflict between the matters we are required to consider under the Electricity Act and those we are required to consider under the delegation, we have considered a broad range of pricing approaches for 2018–19, particularly for the residential and small business customers (small customers) outside of the Energex distribution area.

Our final decision is to base notified prices for residential and small business customers in regional Queensland on the expected costs of supply in south east Queensland, plus a standing offer adjustment, and to continue to base notified prices for large business customers in regional Queensland on the lowest costs of supply in regional Queensland, which is Ergon Distribution's east pricing zone, transmission region one.

2.1 Residential and small business customers

In order to take into account the requirements of the Electricity Act and the UTP, we have considered a range of pricing approaches to setting the pricing framework for determining notified prices for small customers.

Cost build-up approach

The Minister's April 2018 delegation requires us to consider an N+R cost build-up methodology when determining notified prices for 2018–19. Under this methodology, the N costs (network costs) are generally treated as a pass-through and the R costs (energy and retail costs) are determined by the QCA.

QCA position

Our final decision is to continue estimating the costs of supply for each retail tariff using 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. This is consistent with the delegation and previous determinations.

Cost base

We also need to consider the appropriate costs of supply on which to base the notified prices for small customers. Three approaches have been considered.

We could maintain the approach we took in the 2017–18 price determination and base the notified prices on the costs of supply in south east Queensland (that is, costs in Energex's distribution area). As the costs of supply in south east Queensland are generally lower than those in regional Queensland, adopting this approach would result in customers continuing to pay prices that do not reflect their actual costs of supply. This would in turn potentially encourage inefficient investment and consumption, and require the ongoing subsidisation of electricity prices by taxpayers.[27] However, this approach may be considered appropriate as it would be consistent with the Queensland Government's definition of the UTP for 2018–19.

Another approach would be to base the notified prices for small customers on the lowest costs of supply in regional Queensland (that is, the costs in Ergon Distribution's east pricing zone, transmission region one). We have used this approach in setting notified prices for large business customers in regional Queensland since 2012.[28] Adopting this approach for small customers would improve the cost reflectivity of the notified prices, relative to setting prices based on the costs of supply in south east Queensland. It would also reduce the amount that taxpayers would pay to subsidise electricity prices in regional Queensland. However, it would be inconsistent with the Queensland Government's definition of the UTP for 2018–19, and may result in substantial price increases for customers. For example, based on estimates for 2017–18, the costs of supplying residential customers in Ergon Distribution's east pricing zone, transmission region one are 10 per cent higher than the costs of supplying customers of the same class in south east Queensland.[29]

A third approach would be to set the notified prices in each of the pricing regions in Ergon Distribution's distribution area at cost-reflective levels. This approach would promote retail competition and remove the need to subsidise regional electricity prices. However, it would be inconsistent with the UTP, as some small standard retail contract customers would, based on their geographic location, pay more for their electricity than small standard retail contract customers of the same class in other areas of Queensland. Cost-reflective prices would also result in substantial price increases, particularly for customers in western Queensland and those supplied by isolated systems. For example, based on estimates for 2017–18, the costs of supplying residential customers in Ergon Distribution's west pricing zone, transmission region one are 105 per cent higher than the costs of supplying customers of the same class in south east Queensland.[30]

Canegrowers Isis, Energy Queensland, the Queensland Council of Social Service (QCOSS) and the Queensland Consumers' Association supported the approach of basing the notified prices on the costs of supply in south east Queensland. The Chamber of Commerce and Industry Queensland (CCIQ) supported the principle of not penalising regional customers based on their geographic location, but did not view the current size of the subsidy as sustainable in the long term.[31] Cloncurry Shire Council was of the view that notified prices should incorporate Ergon east zone costs, to create a slight buffer to actual costs in south east Queensland and reduce the overall cost of the CSO to the state government.[32] Some stakeholders suggested that the QCA should base some elements of the cost build-up approach on regional Queensland costs instead of on south east Queensland costs. Specifically, Canegrowers said that the QCA should adopt the Ergon

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[27] The cost of this subsidy was expected to be approximately $490 million in 2017–18 (as mentioned in section 1.4).

[28] We started using this approach for large business customers in regional Queensland when retail price regulation for large business customers in south east Queensland was discontinued.

[29] The cost estimates are based on a typical tariff 11 customer.

[30] The cost estimates are based on a typical tariff 11 customer.

[31] CCIQ, Submission to the QCA draft determination, *Regulated Retail Electricity Prices for 2018–19*, 9 April 2018, p. 5.

[32] Cloncurry Shire Council, Submission to the QCA interim consultation paper, R*egulated Retail Electricity Prices for 2018–19*, 15 January 2018, p. 1.

load profiles rather than Energex load profiles when determining energy costs, as the costs would be lower and would represent costs that Ergon Energy actually faced.[33]

QCA position

The QCA considers that using a pricing approach where we select some elements of our cost build-up approach to be based on south east Queensland costs, and other elements to be based on lower regional Queensland costs would not be consistent with the UTP—as doing so would result in expected costs of supply which are lower than south east Queensland levels.

Our final decision is to continue basing notified prices for residential and small business customers on the costs of supply in south east Queensland. We consider this decision is appropriate because it is consistent with the Queensland Government's UTP. This avoids the potentially large price increases associated with other approaches.

Benchmark price level

To establish an appropriate benchmark price level for setting notified prices, based on the costs of supply in south east Queensland, we have considered the Queensland Government's definition of the UTP, which is that notified prices for small customers in regional Queensland should broadly reflect the expected prices for small customers on standing offers in south east Queensland.[34] We have also considered the Queensland Government's view that the favourable terms and conditions associated with a standing offer be represented by a standing offer adjustment, set to the level in the QCA's 2017–18 regional pricing determination.

Customers on standing offers are supplied on the standard retail contract under the National Energy Customer Framework (NECF).[35] This contract contains standard terms and conditions. Customers who do not, or cannot, opt for a market contract are supplied by a standing offer by default.

A retailer can also offer market contracts that have different terms and conditions to standard retail contracts (for example, discounts on the bill if the customer pays early or pays by direct debit). While prices under market contracts are generally lower than standing offer prices, their terms and conditions often mean they offer less protections to customers.

In response to the draft determination, CCIQ argued that:

> Due to recent directions by the Federal Government to retailers to move consumers onto market offers, or 'cheaper deals' to battle rising electricity prices, it would be inequitable to base notified prices on the standing offers in Queensland as a larger portion of consumers are on market offers.[36]

CCIQ recommended that instead of adopting the standing offer prices in south east Queensland as the benchmark price level, the QCA could set notified prices somewhere between the market contract prices and standing offer prices available in south east Queensland.[37]

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[33] Canegrowers, Submission to the QCA draft determination, *Regulated Retail Electricity Prices for 2018–19*, 12 April 2018, p. 2.
[34] Covering letter to the April 2018 delegation in Appendix A.
[35] See Schedule 1, National Energy Retail Rules.
[36] CCIQ, Submission to the QCA draft determination, *Regulated Retail Electricity Prices for 2018–19*, 10 April 2018, p. 4.
[37] CCIQ, Submission to the QCA draft determination, *Regulated Retail Electricity Prices for 2018–19*, 10 April 2018, p. 5.

QCOSS and the Queensland Consumers' Association were of the view that standing offer prices do not provide an accurate reflection of the efficient costs of supply. The Queensland Consumers' Association argued that the QCA should only use the efficient costs of supply in south east Queensland when determining notified prices[38], while QCOSS urged for a review of the current pricing approach and whether or not the setting of notified prices in regional Queensland should be based on standing offers in south east Queensland.[39]

The Queensland Electricity Users Network (QEUN) was of the view that regional customers on notified prices should receive price outcomes in line with customers on market contracts in south east Queensland.[40]

QCA position

The QCA agrees with stakeholders' views that the standing offer price does not provide an accurate reflection of the minimum possible costs of supply. However, the QCA regards the more favourable terms and conditions associated with standing offers compared to market offers as something that provides some level of value to customers, and may involve additional costs to retailers. In this regard, setting notified prices at the expected market offer price level would be providing benefits to regional customers in addition to benefits that are available to south east Queensland customers, and would also be inconsistent with the UTP. As a result, our final decision is to determine notified prices for small customers in regional Queensland based on the expected costs of supply in south east Queensland, plus a standing offer adjustment to account for the more favourable terms and conditions associated with standing offers. We consider the standing offer adjustment in further detail in Chapter 6.

2.2 Large business customers

As noted above, in previous price determinations we have based notified prices for large business customers on the costs of supply in the lowest-cost area of regional Queensland (Ergon Distribution's east pricing zone, transmission region one).[41] This approach has encouraged competition in the large business customer market in the east pricing zone, transmission region one. It is also consistent with the Queensland Government's definition of the UTP for 2018–19. However, this approach would not reflect the actual costs of supply in all regions, and would still require the Queensland Government to subsidise electricity prices.

Another approach would be to set fully cost-reflective notified prices. This would encourage competition in regional Queensland outside of the east pricing zone, transmission region one, and promote long-term efficient use of electricity services in regional Queensland in the large business customer market. However, it would introduce significant price increases for customers, especially customers in western Queensland and those supplied by isolated systems. We also consider this approach inconsistent with the Queensland Government's UTP for 2018–19.

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[38] Queensland Consumers' Association, Submission to the QCA interim consultation paper, *Regulated Retail Electricity Prices 2018–19*, 15 January 2018, p. 2.

[39] QCOSS, Submission to the QCA draft determination, *Regulated Retail Electricity Prices for 2018–19*, 9 April 2018, p. 5.

[40] QEUN, Submission to the QCA draft determination, *Regulated Retail Electricity Prices for 2018–19*, 13 April 2018, p. 8.

[41] East zone, transmission region 1 has the lowest cost of supply among the Ergon Distribution pricing regions that are connected to the National Electricity Market (NEM).

Cloncurry Shire Council and Energy Queensland supported basing notified prices for large business customers on the costs of supply in Ergon Distribution's east pricing zone, transmission region one.[42] Canegrowers Isis was of the view that:

> Large business customers in South-East Energex area should not have a competitive advantage over Ergon customers as this will negatively impact and effectively stifle regional development and regional growth.[43]

QCA position

Our final decision is to continue basing the notified prices for large business customers in regional Queensland on the area which has the largest number of customers and the lowest costs of supply in regional Queensland—that is, Ergon Distribution's east pricing zone, transmission region one.[44] We consider this approach appropriate as it is consistent with the UTP, and it will provide a platform to continue to promote competition in Ergon Distribution's east pricing zone, transmission region one. We have also decided to continue estimating the costs of supply for each retail tariff in accordance with an N+R cost build-up approach. This is consistent with our approach to setting notified prices for residential and small business customers, as discussed above. We consider the effect of our decisions on competition in the large business customer market in more detail in Chapter 6.

[42] Cloncurry Shire Council, Submission to the QCA interim consultation paper, *Regulated Retail Electricity Prices for 2018–19*, 12 January 2018, p. 2.

[43] Canegrowers Isis, Submission to the QCA interim consultation paper, *Regulated Retail Electricity Prices for 2018–19*, 15 January 2018, p. 2.

[44] East zone, transmission region one has the lowest cost of supply among the Ergon Distribution pricing regions that are connected to the NEM.

3 NETWORK COSTS

A retailer incurs network costs when supplying electricity to its customers. These costs are associated with transporting electricity through the transmission and distribution networks and account for approximately 38 per cent of the final cost of electricity for small customers.

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

This chapter sets out the QCA's decisions on the network charges used as the basis of notified prices for 2018–19. Our decisions are largely consistent with the 2017–18 price determination. In summary, we have decided to:

- *base the flat rate retail tariffs and controlled load retail tariffs (tariffs 11, 20, 31 and 33) for residential and small business customers on Energex network tariff structures and charges*
- *base the seasonal time-of-use retail tariffs for residential and small business customers (tariffs 12A and 22A) on Ergon Distribution network tariff structures and Energex price levels*
- *base the seasonal time-of-use demand retail tariffs for residential and small business customers (tariffs 14 and 24) on Ergon Distribution network tariff structures and Energex price levels*
- *base the low voltage demand and unmetered supply (excluding street lighting) retail tariffs (tariffs 41 and 91) on Energex network tariff structures and charges*
- *base all retail tariffs for large business customers on Ergon Distribution network tariff structures and charges*
- *introduce tariff 15, as a voluntary tariff, based on Energex network tariff structures and charges*
- *ensure that Queensland customers in Essential Energy's distribution area have access to notified prices.*

3.1 Introduction

A retailer incurs network costs when electricity is supplied to its customers. Network costs are the costs associated with transporting electricity through transmission and distribution networks.

Under the network plus retail (N+R) cost build-up approach that the QCA uses to set notified prices, the network cost component is treated as a pass-through. However, to determine the amount of the network cost to be passed through to retail customers, we need to decide:

(a) the level at which network charges should be set (Energex or Ergon Distribution levels)

(b) the network tariff structure on which the network cost component should be based (Energex or Ergon Distribution tariff structures).

Network tariff structures can include, for example, combinations of fixed, usage and demand charges. Consistent with our previous price determinations, the network cost components of regulated retail tariffs are based on the network tariff structures and pricing provided by Energex and Ergon Distribution (distributors).

Network tariff structures and charges are established by distributors and approved by the AER. The network cost components for the final determination are based on the network pricing that was approved by the AER on 18 May 2018.

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

This section discusses the QCA's approach to setting network cost components of retail tariffs for residential, small business and unmetered supply customers, excluding street lighting customers (see section 3.3 for information on the network cost components for large and very large businesses, as well as street lighting retail tariffs).

For the 2018–19 price determination, the delegation requires that we consider:

- for residential and small business retail tariffs (tariffs 11, 20, 31, 33, 41 and 91, but not tariffs 12A, 14, 22A and 24), basing the network cost component on Energex network charges and tariff structures
- for residential and small business seasonal time-of-use retail tariffs (tariffs 12A and 22A) and time-of-use demand retail tariffs (tariffs 14 and 24), basing the network cost component on Energex network charges, but using the relevant Ergon Distribution network tariff structures.

Adopting the approach proposed in the delegation would be consistent with our approach in the 2017–18 determination. Under this approach, the network cost component of retail tariffs for small customers[45] would broadly reflect the costs of supplying small customers in south east Queensland, and would therefore be consistent with the UTP.[46]

3.2.1 Energex or Ergon Distribution network price levels

In determining the network cost components of small customer and unmetered supply[47] retail tariffs, the first issue the QCA must consider is the level at which network cost components should be set (Energex or Ergon Distribution price levels).

QCA position

As discussed in Chapter 2, the QCA's decision is to base notified prices for residential, small business and unmetered supply (excluding street lighting) customers on the cost of supply in south east Queensland. Consistent with this decision, we will set network cost components to reflect Energex network price levels. Setting network cost components at Energex levels means that small customers in regional Queensland will generally pay the same for network services as small customers in south east Queensland.

3.2.2 Energex or Ergon Distribution network tariff structures

The second issue for the QCA to consider is whether to adopt the network tariff structures of Energex or Ergon Distribution for small customer and unmetered supply retail tariffs.

Energex and Ergon Distribution offer a variety of network tariffs with different tariff structures for small customers, such as flat rate, time-of-use and time-of-use demand tariffs. Flat rate tariffs have a structure where the usage charge rates do not vary with the time and/or level of

[45] Residential and small business customers.
[46] For more information on the Queensland Government's UTP, see Chapters 1 and 2.
[47] Unmetered supply retail tariff referred to in this chapter excludes street lighting–related services.

consumption. In contrast, time-of-use and time-of-use demand tariffs have a structure where the usage and demand charge rates vary with the time of use and/or demand.

Key differences between the Energex and Ergon Distribution network tariff structures for small customers include:

- the proportion of costs recovered through fixed charges
- the approach to usage charge rates (for example, flat usage rates versus three-part inclining block tariffs)
- the applicable time-of-use and demand charging periods (for example, different peak and off-peak periods)
- the methodology for calculating demand charges.

See Appendix D for further information on differences between the network tariff structures.

Flat rate and controlled load retail tariffs

The delegation directs us to consider adopting Energex network tariff structures for the residential and small business flat rate retail tariffs (tariffs 11 and 20) and controlled load tariffs (tariffs 31 and 33).

Energy Queensland noted that it recognised the requirement to calibrate network tariffs for notified prices to Energex's revenue metric under the UTP as contemplated for 2018–19, and supported the use of Energex's network tariff structures as the basis for flat rate tariffs for residential, small business and unmetered supply (excluding street lighting) customers.[48]

In its submission on the draft determination, QCOSS supported using the Energex network tariff structure as the basis for the main residential flat rate retail tariff (tariff 11), as it considered that a change in the tariff structure would create confusion among customers. It noted that any changes to the tariff structure of tariff 11 should be accompanied by an education and public awareness campaign.[49]

Canegrowers submitted that the application of the N+R framework in past determinations by the QCA is flawed. It said that 'many of the costs in the Energex area do not apply in the Ergon area'.[50] It considered energy costs to be an example of this, with Energex's 'peakier' load profile leading to higher prices than in Ergon Distribution's distribution area. Canegrowers also considered that previous decisions had loaded Ergon customers with costs that did not exist in Ergon Distribution's distribution area, in order to reduce the cost of the UTP to the government. It considered this did not promote competition in the Queensland retail electricity market or set a framework for the electricity industry that would promote efficient, economical and environmentally sound supply and use. Canegrowers implied that notified prices for customers in Ergon Distribution's distribution area should align more with Ergon Distribution's network costs.

CCIQ also considered the N+R methodology applied in past determinations by the QCA to be flawed. It noted that the consumer profile in the Energex distribution area is vastly different to the profile in Ergon Distribution's distribution area and has a different demand and supply ratio

[48] Energy Queensland, Submission on the QCA interim consultation paper, *Regulated electricity prices for 2018–19*, 31 January 2018.

[49] QCOSS, Submission on the QCA draft determination, *Regulated electricity prices for 2018–19*, 9 April 2018.

[50] Canegrowers, Submission on the QCA interim consultation paper, *Regulated electricity prices for 2018–19*, 19 January 2018, p. 1.

as well. However, the CCIQ also acknowledged 'the efforts QCA undertakes to mitigate these flaws where possible in the methodology calculations and the restraints due to the UTP'.[51] It encouraged the QCA to 'use a lowest cost model methodology to put downward pressure on regional electricity prices for all users'.[52]

While there may be region-specific differences between the costs in Energex and Ergon Distribution's distribution areas, the new delegation is specific in its intent for us to consider basing the N component of notified prices on the costs in the Energex distribution area. Adopting a completely cost-reflective approach to determining network costs, as proposed in Canegrowers' submission, would not achieve the objectives of the UTP or be consistent with the 2018–19 delegation.

We consider it appropriate to continue to base residential and small business flat rate retail tariffs and controlled load tariffs on Energex network tariff structures.

Seasonal time-of-use and time-of-use demand retail tariffs

For residential and small business seasonal time-of-use retail tariffs (tariffs 12A and 22A) and time-of-use demand retail tariffs (tariffs 14 and 24), we have been directed to consider adopting Ergon Distribution network tariff structures.

We consider it is important that the seasonal time-of-use and time-of-use demand retail tariffs reflect Ergon Distribution network tariff structures, as these retail tariffs send signals to customers about those network costs that retailers incur due to the time and/or level of electricity usage and demand. Using Ergon Distribution network tariff structures for the seasonal time-of-use and time-of-use demand retail tariffs would therefore be more cost-reflective than using Energex network tariff structures.

As noted by the AER, time-of-use and demand tariffs are generally more cost-reflective than flat rate and inclining block tariffs.[53] The delegation[54] also points out that using Ergon Distribution network tariff structures for seasonal time-of-use and time-of-use demand retail tariffs would enhance the underlying network price signals and therefore encourage customers to reduce usage during periods that are peak periods on Ergon Distribution's network.

CCIQ submitted that it is satisfied with the approach of adopting Ergon Distribution network tariff structures for retail tariff 22A, noting the challenges presented by the UTP and ministerial delegation.[55]

A number of stakeholders' comments above about flat rate and controlled load retail tariffs also apply to time-of-use and time-of-use demand retail tariffs.

Canegrowers Isis considered that Ergon's tariff structures would be more suitable, as it would encourage users to work towards cost reflectivity. It suggested that if Ergon's time-of-use network tariff structures are used as a basis for Energex's pricing, notified prices would deliver a viable solution for both regional irrigators and Ergon. Such a structure would accommodate different peak demand periods while sending the appropriate pricing signal via the tariff

[51] CCIQ, Submission on the QCA interim consultation paper, *Regulated electricity prices for 2018–19*, 16 January 2018, p. 2.
[52] CCIQ, Submission on the QCA interim consultation paper, *Regulated electricity prices for 2018–19*, 16 January 2018, p. 2.
[53] AER, *Tariff Structure Statement Proposal*: *Energex* & *Ergon Energy*, draft decision, August 2016.
[54] The 2018–19 delegation appears in Appendix A.
[55] Chamber of Commerce and Industry Queensland, Submission on the QCA draft determination, *Regulated electricity prices for 2018–19*, 9 April 2018.

structure. Energy Queensland supported the use of Ergon Energy's network tariff structures for tariffs 12A, 14, 22A and 24.[56]

Having considered all the relevant factors and all comments, we have decided to base residential and small business seasonal time-of-use and time-of-use demand retail tariffs on Ergon Distribution network tariff structures.

Trial tariff

The delegation raised a number of new matters for the QCA to consider. One of those is the introduction of a voluntary trial retail tariff based on the structure of any new cost-reflective residential network tariff that is submitted by Ergon Distribution in its 2018–19 pricing proposal.

In its pricing proposal to the AER, Ergon Distribution proposed the introduction of a new cost-reflective network tariff for residential customers in regional Queensland, known as the Lifestyle tariff. Similarly, Energex proposed to introduce a new cost-reflective network tariff for residential customers in south east Queensland—NTC 6400, Residential Lifestyle—which has the same tariff structure as the Ergon Lifestyle tariff.

As part of this determination, we considered the introduction of a voluntary trial retail tariff (tariff 15) based on the tariff structure of the Ergon Lifestyle network tariff. However, we have decided to use the Energex Lifestyle tariff network charges as the UTP-consistent network costs for retail tariff 15—noting that the Ergon and Energex Lifestyle network tariffs have the same tariff structure.

The Lifestyle network tariff consists of three charging components:

- a network access allowance (a fixed charge in $/month, which varies depending on the customer's nominated network access band for the summer peak window (SPW))
- a summer peak top-up charge (in $/kWh)
- a volume charge (in $/kWh, applied to all metered consumption for the billing period)

Network access allowance

The network access allowance is a monthly fixed charge ($/month) based on the customer's nominated access band. Each access band provides different network use allowance for the SPW. The SPW is defined as between 4 pm and 9 pm on any day during November to March. The network use allowances for each band are shown in the table below.

[56] Energy Queensland, Submission on the QCA interim consultation paper, *Regulated electricity prices for 2018–19,* 31 January 2018.

Table 2 Network access allowance for Ergon Lifestyle network tariff

Access band	***Network use allowance during the SPW (daily)***
Band 1	0 kWh
Band 2	Up to 5 kWh
Band 3	Up to 10 kWh
Band 4	Up to 15 kWh
Band 5	Up to 20 kWh

Source: Energy Queensland.

It is important to note that once the choice of access band is made, customers are not allowed to move to a lower band until they have been on the chosen band for at least 12 months. However, customers can choose to increase their network access allowance any time by moving to a higher band.

Summer peak top-up charge

The summer peak top-up charge ($/kWh) is applicable to the single maximum daily energy consumed above the limit of the customer's nominated access band during the month. This top-up charge is only applicable to network use during the SPW (between 4 pm and 9 pm on any day during November to March). In other words, no top-up charge is applicable for use of the network anytime outside of the SPW. The rate of the top-up charge is the same, regardless of a customer's chosen network access band.

Once the network access allowance for the chosen band has been exceeded, the exceeded amount (kWh) remains available to the customer for the rest of the month until the allowance is reset back to the original nominated allowance at the start of the incoming month.

Volume charge

The volume charge ($/kWh) is applicable to all metered consumption for periods both during and outside of the SPW. The rate of the volume charge is the same, regardless of a customer's chosen network access band.

Customer impact

Ergon Distribution considers the Lifestyle network tariff offers enhanced choice and control to customers. For example, customers can:

- choose Band 1 and pay for their network usage during the SPW entirely on a pay-as-you-use basis, or
- nominate Bands 2 to 5 and pay a higher monthly fixed charge that purchases the right to access the network up to an agreed allocation during the SPW. As the fixed charge is applicable throughout the entire year, nominating Bands 2 to 5 in effect smooths out the impacts of higher bills incurred during the SPW by choosing Band 1.

Ergon Distribution also noted that this network tariff has been designed to be easier for customers to understand than a traditional time-of-use demand tariff.[57]

To access this tariff, customers will require a smart/interval meter, which may incur installation and ongoing operational costs.

[57] Ergon Energy, *Annual pricing 2018–19*, 31 March 2018.

The impact of tariff 15 on customers, compared to tariff 11, will depend on:

- a customer's annual consumption
- a customer's consumption during the SPW
- whether a customer's consumption during the SPW remains within the nominated band limit
- a customer's use of controlled load tariffs.

Customers with low consumption during the SPW, but high overall consumption, will see the largest proportional reduction in their bill. Conversely, this tariff structure would be least attractive to customers with low total consumption but high, inelastic consumption during the SPW.

Table 3 shows the potential annual bill savings for customers on tariff 15, compared to tariff 11—if they stay within their nominated network allowance band limit. If consumption during the SPW exceeds the band limit, then customers could see less savings or even pay more than they would have paid on tariff 11.

Tariff 15 has the potential to benefit customers, provided they:

- understand when the SPW applies
- can monitor and manage their consumption during the SPW
- are aware of their total annual consumption.

Table 3 Potential annual bill savings for customers moving from tariff 11 to tariff 15

	Daily consumption during the SPW in kWh (Nominated access band)				
kWh/year	***2.5 kWh (Band 1)***	***5 kWh (Band 2)***	***10 kWh (Band 3)***	***15 kWh (Band 4)***	***20 kWh (Band 5)***
2,000	–5%	–9%	–19%	–30%	–40%
2,500	–1%	–4%	–13%	–22%	–31%
3,000	2%	–1%	–9%	–17%	–25%
3,500	5%	2%	–5%	–12%	–19%
4,000	7%	4%	–2%	–9%	–15%
4,500	9%	6%	0%	–6%	–11%
5,000	10%	8%	2%	–3%	–8%
5,500	11%	9%	4%	–1%	–6%
6,000	12%	10%	6%	1%	–4%
6,500	13%	11%	7%	3%	–2%
7,000	14%	12%	8%	4%	0%
7,500	15%	13%	9%	5%	1%
8,000	15%	14%	10%	6%	3%
8,500	16%	14%	11%	7%	4%
9,000	16%	15%	12%	8%	5%
9,500	17%	16%	12%	9%	6%
10,000	17%	16%	13%	10%	7%

Notes:

1. The SPW is defined as November to March, any day between 4 pm and 9 pm.

2. Except for customers on Band 1, customers are assumed to consume no more than their nominated network allowance band limit.

3. This analysis does not include metering related charges.

4. Green denotes a better outcome on tariff 15 and red denotes a worse outcome on tariff 15.

Submissions on the trial tariff

Energy Queensland supported the introduction of new voluntary trial tariffs, and for those trial tariffs to be gazetted and included in notified prices. It was of the view that:

> In setting the notified prices for the cost reflective trial tariffs, the integrity of Ergon Energy's long run marginal cost (LRMC) signal should be preserved and not be based on Energex's LRMC. By calibrating the tariff elements used to recover the residual costs, compliance with the UTP obligation would be achieved at an overall tariff level. Such an approach would ensure that the integrity of Ergon Energy's economically efficient tariffs would be preserved while meeting the UTP requirement.[58]

[58] Energy Queensland, Submission on the QCA interim consultation paper, *Regulated electricity prices for 2018–19*, 31 January 2017, p. 5.

In its submission on the draft determination[59], Energy Queensland suggested that:

- Instead of using the network charges of the Energex Lifestyle tariff as the UTP-consistent network costs for tariff 15, the QCA should use the recalibrated network charges that Energy Queensland submitted. Energy Queensland considered that using the Energex network charges will result in significant distortion to the long-run marginal cost (LRMC) signals of the Ergon Lifestyle tariff. It was of the view that the recalibrated network charges of the Ergon Lifestyle tariff are UTP-consistent, and retain the LRMC signals to the greatest extent possible.
- A variable retail margin should be applied to the fixed monthly charges of the network access bands 2 to 5—to recognise that charges of bands 2 to 5 incorporate the recovery of both the traditional fixed charge and a smoothed SPW usage charge.

The Queensland Consumers' Association also supported the introduction of new voluntary trial tariffs.[60]

QCOSS supported trials as an approach to the development of fair and equitable tariffs, but could not support the introduction of a particular voluntary trial tariff without knowing what the structure would be. It made several suggestions:

- To avoid bias, trials must include a broad cross-section of the community, rather than just early adopters.[61]
- Network businesses should share the results of trials so there is effective and efficient learning across Australia.
- Participants should not be worse off, and should be compensated for any detriment. This includes compensation for any new meter costs that may have to be paid upfront due to a tariff change.
- The trial should extend for at least a year to take seasonal effects into account.
- Trials should address consumer-specific criteria such as bill stability, and simplicity/ease of understanding.
- Ergon should consult on how its trial is to be designed, and on how it intends to recruit customers to participate in the trial.

QCOSS offered to assist Ergon in identifying and obtaining the relevant customer segments that should be included in a trial—for example, low-income, aged, disabled, indigenous, and culturally and linguistically diverse communities.[62]

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[59] Energy Queensland, Submission on the QCA draft determination, *Regulated electricity prices for 2018–19*, 20 April 2017.

[60] Queensland Consumers' Association, Submission on the QCA interim consultation paper, *Regulated electricity prices for 2018–19*, 31 January 2018, p. 5.

[61] Early adopters are likely to be households who understand well how the trial works. They will be aware either that their energy use profile is flat and that the tariff will benefit them, or that they are able to make the required behavioural changes to reduce their peak demand on the network. The trial is unlikely to include consumers who have low income or are at risk of vulnerability. It is important that a trial includes a broad cross-section of the community to ensure that findings reflect the impact that may be felt across the community, particularly for those who are most at risk of experiencing vulnerability in the energy market.

[62] QCOSS, Submission on the QCA interim consultation paper, *Regulated electricity prices for 2018–19*, 18 January 2018.

We note that QCOSS was unable to comment on the structure and level of tariff 15, as the information was not available when the ICP was released. A number of QCOSS's suggestions relate to Ergon Retail's implementation of a trial tariff (as opposed to the structure or level).

In its submission on the draft determination, QCOSS expressed concern about the structure of the proposed tariff 15. It considered that the proposed trial tariff is complicated and is unlikely to benefit many customers. Furthermore, QCOSS considered that Energy Queensland has not consulted properly with the public on the proposed tariff 15. It was also of the view that this trial tariff should be constructed in a manner such that participants should not be worse off and should be compensated for any detriment experienced.[63]

QCA position

We acknowledge that Energy Queensland's suggestions—that is, to adjust the Ergon Lifestyle network charges differently and apply a variable retail allowance to the network access charges—warrant further investigation.

However, noting that the suggested adjustments are inherently complex, we consider it would be prudent to undertake an in-depth investigation and consult publicly on these issues as part of the next determination. For this price determination, we have decided to use the Energex Lifestyle tariff network charges as the UTP-consistent network costs for tariff 15 but will reconsider our approach for 2019–20, if we receive a delegation to set notified prices.

Based on the information provided thus far, we do not oppose the voluntary trial of the proposed tariff 15. The pace of change and increasing uncertainty in the Australian electricity sector over the past 12 months has highlighted that all market participants, including consumers, need to engage differently in electricity markets. The tariff 15 trial will explore a different framework for recovering network costs, with an emphasis on managing peak demand. If successful, it could deliver network costs savings to all consumers in future network pricing proposals.

However, we caution consumers about the risk of 'trialling' any tariff without having a clear understanding of both how the cost components of the tariff work, and of consumers' individual exposure to increased costs. We note the risk of households' consumption being above the SPW band limit that they choose, and suggest that consumers inform themselves about their average and maximum consumption during the SPW, and think carefully about how flexible they can be when using electricity to make sure they stay within the limit of their SPW band, before committing to a trial.

Consistent with requirements of the delegation, we have decided to introduce a voluntary retail tariff (tariff 15):

- based on the tariff structure of the Ergon Lifestyle network tariff
- that uses the Energex Lifestyle tariff network charges as the UTP-consistent network costs for this tariff.

Unmetered supply (excluding street lighting) retail tariff

Consistent with the 2017–18 price determination, we have decided to base retail tariff 91 (unmetered supply) on the relevant Energex network tariff structures.

[63] QCOSS, Submission on the QCA draft determination, *Regulated electricity prices for 2018–19*, 9 April 2018.

Low voltage demand retail tariff

Tariff 41 is a low voltage demand retail tariff available to small business customers in regional Queensland. It has fixed, usage and demand charges and is based on an Energex network tariff (network tariff code: 8300). Ergon Distribution does not have an equivalent network tariff available for small customers.

While Energex designates network tariff 8300 as a large business customer network tariff, it is made available to small business customers on a voluntary basis. In the 2017–18 price determination, we decided to retain tariff 41, on the basis that small business customers in south east Queensland would have access to this Energex network tariff.

For the same reason, for 2018–19 we have decided to retain tariff 41 and continue basing it on the relevant Energex network tariff structure.

QCA position

The QCA's decision is to use:

- Energex network tariff structures as the basis for setting the network cost components of flat rate, controlled load, unmetered supply and low voltage demand retail tariffs (tariffs 11, 20, 31, 33, 41 and 91)
- Ergon Distribution network tariff structures as the basis for setting the network cost components of seasonal time-of-use and time-of-use demand retail tariffs (tariffs 12A, 22A, 14 and 24).

We have also decided to introduce a voluntary retail tariff (tariff 15) based on the tariff structure of the Ergon Lifestyle network tariff.

3.2.3 Adjusting network charges towards Energex price levels while retaining Ergon Distribution tariff structures

As discussed, the QCA's decision is to use Ergon Distribution network tariff structures as the basis for setting seasonal time-of-use and time-of-use demand retail tariffs for residential and small business customers, while reducing the network cost components to Energex price levels.

Consistent with the 2017–18 price determination, the QCA has adopted different adjustment approaches for the four tariffs (tariffs 12A, 22A, 14 and 24) to:

- prevent our adjustments from resulting in adjusted network prices that are higher than the levels that may be approved by the AER
- preserve the relativities between different pricing components within a network tariff, to the greatest extent possible.

To adjust the network cost components towards Energex price levels, we have decided to use the same adjustment approach as in the 2017–18 determination. This approach involves adjusting:

- the residential seasonal time-of-use retail tariff (tariff 12A) by adopting Ergon Distribution usage cost components, and reducing the Ergon Distribution fixed cost component towards Energex price levels. As a result, the overall level of network cost components has been reduced to a level where regional residential customers will, on average, pay the same as they would on a residential flat rate tariff in south east Queensland.
- the small business seasonal time-of-use retail tariff (tariff 22A) by adopting the Energex fixed cost component, and reducing Ergon Distribution usage cost components towards Energex price levels. As a result, the overall level of network cost components has been reduced to a

level where regional small business customers will, on average, pay the same as they would on a small business flat rate tariff in south east Queensland.

- the residential and small business seasonal time-of-use demand tariffs (tariffs 14 and 24) by uniformly decreasing the Ergon Distribution fixed, usage and demand cost components towards Energex price levels. As a result, the overall level of network cost components has been reduced to a level where regional residential or small business customers will, on average, pay the same as they would on a residential or small business flat rate tariff (respectively) in south east Queensland.

Appendix D provides more information on the adjustment approaches.

As the Energex and Ergon Lifestyle network tariffs have the same tariff structure, we considered using the Energex Lifestyle tariff network charges as the UTP-consistent network costs for retail tariff 15.

QCA position

The QCA's decision is to adjust:

- the residential seasonal time-of-use retail tariff (tariff 12A) by adopting Ergon Distribution usage cost components, and reducing the Ergon Distribution fixed cost component towards Energex price levels
- the small business seasonal time-of-use retail tariff (tariff 22A) by adopting the Energex fixed cost component, and reducing Ergon Distribution usage cost components towards Energex price levels
- the residential and small business seasonal time-of-use demand tariffs (tariffs 14 and 24) by uniformly decreasing the Ergon Distribution fixed, usage and demand cost components towards Energex price levels.

We have decided to use the Energex Lifestyle tariff network charges as the UTP-consistent network costs for retail tariff 15.

3.2.4 Essential Energy network customers

The cover letter to the superseded delegation requires us to consider:

> [c]larifying the arrangements for regional Queensland customers on Essential Energy's network to ensure they receive the same price protections as other regional customers under the UTP.[64]

Section 5(a) of the April 2018 delegation noted that notified prices do not apply to customers in the Energex distribution area. We consider that the policy intent of this requirement is to ensure that customers outside of the Energex distribution area, including customers in Essential Energy's distribution area in southern Queensland, have access to notified prices.

As noted in Chapter 1, customers in Essential Energy's distribution area in southern Queensland do not currently have access to notified prices. Origin Energy receives a subsidy to ensure that non-market customers in that distribution area pay no more than similar customers that have access to notified prices.

In the ICP, we noted the Minister had sought this clarification. Most stakeholders did not address this issue in their submissions.

[64] The April 2018 and the superseded (December 2017) delegations appear in Appendix A.

Origin Energy supported continuing the approach adopted by the QCA from the 2017–18 price determination, but did not mention the arrangements for Queensland customers on Essential Energy's network.[65]

QCA position

Consistent with the UTP and the delegation, we have determined that 2018–19 notified prices should be made available to Queensland customers in Essential Energy's distribution area.

3.2.5 Network cost components for 2018–19

The QCA's decision is to base regulated retail tariffs for residential, small business and unmetered supply customers on:

- Energex network tariff structures and cost components for retail tariffs 11, 20, 31, 33, 41 and 91
- Ergon Distribution network tariff structures and adjusted cost components for retail tariffs 12A, 22A, 14 and 24. To maintain consistency with the UTP, the level of network cost components has been adjusted to a level where regional customers will, on average, pay the same as they would pay on flat rate tariffs in south east Queensland.

We have decided to introduce a voluntary retail tariff (tariff 15) based on the tariff structure of the Ergon Lifestyle network tariff and use the Energex Lifestyle tariff network charges as the UTP-consistent network costs for this tariff.

Our decisions on the network tariff structures and charges to apply to each retail tariff are presented in the following tables.

Table 4 Energex network charges for 2018–19 for retail tariffs 11, 20, 31, 33, 41 and 91 (GST exclusive), final decision

Retail tariff	*Energex network tariff code*	*Fixed charge [a] c/day*	*Usage charge c/kWh*	*Demand charge $/kW/mth*
Tariff 11—Residential (flat rate)	8400	48.000	8.428	
Tariff 20—Business (flat rate)	8500	65.100	9.100	
Tariff 31—Night rate (super economy)	9000		5.715	
Tariff 33—Controlled supply (economy)	9100		6.963	
Tariff 41—Low voltage (demand) [b]	8300	451.900	0.392	20.017
Tariff 91—Unmetered	9600		7.275	

a *Charged per metering point.*

b *The kVA equivalent demand charge for tariff 41 is $18.169/kVA/month. A conversion factor of 0.9077 has been used, as advised by Energex.*

[65] Origin Energy, Submission on the QCA interim consultation paper, *Regulated electricity prices for 2018–19*, 15 January 2018.

Table 5 Calculated network charges for 2018–19 for retail tariffs 12A, 14, 22A and 24 (GST exclusive), final decision

Retail tariff	*Fixed charge [a]* *c/day*	*Usage charge* *(peak)* *c/kWh*	*Usage charge* *(off-peak or flat)* *c/kWh*	*Demand charge* *(peak)* *$/kW/mth*	*Demand charge* *(off-peak)* *$/kW/mth*
Tariff 12A—Residential (seasonal time-of-use)	37.219	40.412	5.155		
Tariff 22A—Business (seasonal time-of-use)	65.100	31.485	6.179		
Tariff 14—Residential (seasonal time-of-use demand)	7.497		1.833	53.732	7.909
Tariff 24—Business (seasonal time-of-use demand)	8.561		2.616	76.251	7.854

a *Charged per metering point.*

Table 6 Network charges for 2018–19 for retail tariff 15 (GST exclusive), final decision

Retail tariff	*Energex network tariff code*	*Fixed Charge (Band 1)[a] $/mth*	*Fixed Charge (Band 2)[b] $/mth*	*Fixed Charge (Band 3)[c] $/mth*	*Fixed Charge (Band 4)[d] $/mth*	*Fixed Charge (Band 5)[e] $/mth*	*Usage charge c/kWh*	*Summer peak top-up charge[f] $/kWh/mth*
Tariff 15—Residential lifestyle	6400	24.274	31.094	37.914	44.734	51.554	2.954	3.601

a *Band 1 (no network access allowance included during the summer peak window (SPW), where the SPW is defined as November to March, any day between 4 pm and 9 pm).*

b *Band 2 (up to 5 kWh network access allowance included during the SPW).*

c *Band 3 (up to 10 kWh network access allowance included during the SPW).*

d *Band 4 (up to 15 kWh network access allowance included during the SPW).*

e *Band 5 (up to 20 kWh network access allowance included during the SPW).*

f *The summer peak top-up charge is applicable to the single maximum daily energy consumed above the limit of the customer's nominated access band during the month. This top-up charge is only applicable to network use during the SPW, i.e. November to March, any day between 4 pm and 9 pm. Once the network access allowance for the chosen band has been exceeded, the exceeded amount (in kWh) remains available for the customer for the rest of the month until the allowance is reset back to the original nominated allowance at the start of the coming month.*

3.3 Network tariffs for large business, very large business and street lighting customers

For the 2017–18 price determination, the QCA based retail tariffs for large[66] and very large[67] business customers, as well as for street lighting customers, on the network tariffs and charges applicable in Ergon Distribution's east pricing zone, transmission region one. We have decided to continue with this approach for 2018–19, as it is consistent with our decision, discussed in Chapter 2, to set notified prices for these customers based on the lowest costs of supply in regional Queensland.[68]

3.3.1 High voltage retail tariffs

In our 2017–18 price determination, the QCA introduced seven high voltage retail tariffs for Connection Asset Customers (CACs) (tariffs 51A to 51D, 52A to 52C) and one high voltage retail tariff for Individually Calculated Customers (ICCs) (tariff 53). The CAC tariffs were underpinned by Ergon Distribution CAC standard network tariffs and CAC seasonal time-of-use demand (STOUD) network tariffs, and the ICC tariff by the Ergon Distribution CAC standard network tariff high voltage line (HVL).

The four CAC standard network tariffs have six charging components:[69]

- an actual demand charge ($/kVA/month), which applies to the customer's actual kVA monthly maximum demand
- an excess reactive power charge ($/excess kVAr/month), which applies to the kVAr used by a customer that exceeds the customer's permissible quantity[70]
- a capacity charge ($/kVA of authorised demand/month), which applies to the customer's individual kVA authorised demand or, if there is no authorised demand, the annual maximum demand in the previous full pricing period prior to the setting of prices
- a fixed charge ($/day)
- a connection unit charge ($/day/connection unit)
- an any time energy charge ($/kWh of total energy consumed).

The three CAC STOUD network tariffs have seven charging components:[71]

- a peak demand charge ($/kVA/month), which applies to the customer's maximum kVA demand recorded between 10 am and 8 pm during summer weekdays [72]

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[66] Large business customers are Standard Asset Customers (SACs) (large), typically consuming more than 100 MWh but less than 4 GWh per annum.

[67] Very large business customers consist of Connection Asset Customers (CACs), typically consuming more than 4 GWh but less than 40 GWh per annum and Individually Calculated Customers (ICCs), typically consuming more than 40 GWh per annum.

[68] East zone, transmission region one has the lowest cost of supply among the Ergon Distribution pricing regions that are connected to the NEM.

[69] The network charging components consist of both the distribution use of system charges and transmission use of system charges.

[70] A customer's permissible kVAr quantity is determined by the customer's authorised demand and the National Electricity Rules' compliant power factor.

[71] The network charging components consist of both the distribution use of system charges and transmission use of system charges.

[72] Summer months are December, January and February.

- an excess reactive power charge ($/excess kVAr/month), which applies to the kVAr used by a customer that exceeds the customer's permissible quantity[73]
- a capacity charge ($/kVA of authorised demand/month), which applies to the greater of either the customer's authorised demand or the actual monthly half hour maximum demand[74]
- a fixed charge ($/day)
- a connection unit charge ($/day/connection unit)
- peak energy charge ($/kWh of energy consumed), which applies to the total energy consumed during summer months[75]
- off-peak energy charge ($/kWh of energy consumed), which applies to the total energy consumed during non-summer months.[76]

The accessibility of these network tariffs is determined by the customer's connection voltage. More information on Ergon Distribution's network tariffs is available on the Ergon website.[77]

The delegation requires that we consider basing the network cost component for large and very large business customers (who consume above 100 MWh per annum) on the charges to be levied by Ergon Distribution.

In the ICP, we sought customer feedback as to whether we should use Ergon Distribution's network tariffs as the basis for retail tariffs for large and very large business customers and street lighting customers.

Energy Queensland considered that the 2017–18 approach of basing regulated retail tariffs for large business customers on Ergon Energy's network tariffs should be maintained.[78] Cloncurry Shire Council also supported this approach (basing the network charge on Ergon Eastern standard costs), and noted that it would create a slight buffer to actual costs in south east Queensland—reducing the overall cost of the CSO to the state government.[79]

Canegrowers Isis submitted that the QCA should use the Ergon tariff structure for large customers, but that Energex prices should be applied as per small customers.[80]

Considerations

Energy Queensland has advised that among the non-site specific network tariffs, the CAC standard network tariff HVL (HVL-22/kV line) is still the closest to cost reflectivity for ICCs on a

[73] A customer's permissible kVAr quantity is determined by the customer's authorised demand and the National Electricity Rules' compliant power factor.
[74] The monthly actual maximum demand is measured all year excluding summer peak demand window times (i.e. 10 am to 8 pm during summer weekdays).
[75] Summer months are December, January and February.
[76] Non-summer months are March to November.
[77] https://www.ergon.com.au/network/network-management.
[78] Energy Queensland, Submission on the QCA Interim Consultation Paper, *Regulated retail electricity prices for 2018–19*, 31 January 2018.
[79] Cloncurry Shire Council, Submission on the QCA Interim Consultation Paper, *Regulated retail electricity prices for 2018–19*, 15 January 2018.
[80] Canegrowers Isis, Submission on the QCA Interim Consultation Paper, *Regulated retail electricity prices for 2018–19*, 12 January 2018.

network level. Therefore, we should continue to base the ICC retail tariff on the CAC standard network tariff HVL.

We also note that applying Energex prices would be inconsistent with the 2018–19 delegation. Furthermore, an increasing number of large and very large customers in Ergon Distribution's distribution area have already transitioned from notified prices to market offers (see Chapter 6). Changing the baseline that has underpinned the electricity market in Ergon Distribution's distribution area could disadvantage businesses and retailers.

Continuing to base tariffs for large and very large customers on Ergon Distribution's east pricing zone, transmission region one network costs also means that market customers in the east pricing zone, transmission region one are on cost-reflective tariffs. This is consistent with the matters the QCA is required to consider under the Electricity Act, and also with the objects of the Electricity Act (see Chapter 1).

QCA position

On the basis of this analysis, and given the matters the QCA is required to consider, we have decided to maintain the tariffs introduced in 2017–18, underpinned by the Ergon Distribution CAC standard network tariffs, CAC seasonal time-of-use demand (STOUD) network tariffs and CAC standard network tariff HVL.

3.3.2 Network cost components for 2018–19

The QCA's decision is to continue to base retail tariffs for large and very large business customers and street lighting customers on the network tariffs applying to Ergon Distribution’s east pricing zone, transmission region one.

Our decision on the network tariff structures and charges to apply to each retail tariff is presented in the following tables.

Table 7 Ergon Distribution network charges for 2018–19 large business and street lighting customer retail tariffs (GST exclusive), final decision

Retail tariff	*Ergon Distribution network tariff code*	*Fixed charge[a] c/day*	*Usage charge (peak) c/kWh*	*Usage charge (off-peak/flat) c/kWh*	*Demand charge (peak) $/kW/mth*	*Demand charge (off-peak/flat) $/kW/mth*
Tariff 44—Over 100 MWh small (demand)	EDSTT1	3998.000		1.275		32.444
Tariff 45—Over 100 MWh medium (demand)	EDMTT1	13487.000		1.275		24.144
Tariff 46—Over 100 MWh large (demand)	EDLTT1	35425.400		1.265		19.786
Tariff 50—Seasonal time-of-use (demand)	ESTOUDCT1	3102.600	0.955	3.205	58.632	10.581
Tariff 71—Street lighting[b]	EVUT1	0.500		16.112		

a *Charged per metering point.*

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

Table 8 Ergon Distribution network charges for 2018–19 very large business customer retail tariffs (GST exclusive), final decision

Retail tariff	*Ergon Distribution network tariff code*	*Fixed charge c/day*	*Usage charge (peak) c/kWh*	*Usage charge (off-peak or flat) c/kWh*	*Connection unit charge $/day/unit*	*Capacity charge (off-peak/flat) $/kVA of authorised demand/mth*	*Demand charge (peak/flat) $/kVA/mth*	*Excess reactive power charge $/excess/kVAr/ mth*
Tariff 51A—Over 4 GWh high voltage (CAC 66kV)	EC66T1	21526.000		1.317	9.054	4.041	2.400	4.000
Tariff 51B—Over 4 GWh high voltage (CAC 33kV)	EC33T1	15026.000		1.317	9.054	4.941	2.474	4.000
Tariff 51C—Over 4 GWh high voltage (CAC 22/11kV Bus)	EC22BT1	13626.000		1.320	9.054	5.741	3.000	4.000
Tariff 51D—Over 4 GWh high voltage (CAC 22/11kV Line)	EC22LT1	12826.000		1.338	9.054	11.191	6.050	4.000
Tariff 52A—Over 4 GWh high voltage (CAC STOUD 33/66kV)	EC66TOUT1	9526.000	0.896	1.256	9.054	6.141	11.000	4.000
Tariff 52B—Over 4 GWh high voltage (CAC STOUD 22/11kV Bus)	EC22BTOUT1	9526.000	0.899	1.259	9.054	4.341	40.427	4.000
Tariff 52C—Over 4 GWh high voltage (CAC STOUD 22/11kV Line)	EC22LTOUT1	9526.000	0.917	1.277	9.054	7.941	72.333	4.000
Tariff 53—Over 40 GWh high voltage (ICC)[a]	EC22LT1	12826.000		1.338		11.191	6.050	4.000

a *Ergon Distribution advised that ICCs do not incur connection unit charges on a network level.*

4 ENERGY COSTS

A retailer incurs energy costs when purchasing electricity to meet the electricity demand of its customers. Energy costs can be separated into three general components:

- *wholesale energy costs*
- *other energy costs*
- *energy losses.*

As with previous price determinations, the QCA has determined energy costs based on advice from ACIL Allen, its consultant. Energy costs are estimated to:

- *decrease for customers on the Ergon net system load profiles*
- *increase for customers on the Energex net system and controlled load profiles.*

The increase in energy costs for the Energex profiles predominantly reflects higher costs related to the renewable energy target (RET). These costs are estimated to increase primarily because the Clean Energy Regulator has increased the number of renewable certificates that retailers are obliged to surrender per unit of electricity sold, so that retailers meet their RET obligations.

This chapter gives an overview of how each of the three energy cost components was estimated. A more detailed explanation is available in ACIL Allen's 2018–19 report.[81] *Issues about energy cost that were raised in submissions are addressed in chapter 3 of ACIL Allen's report.*

4.1 Wholesale energy costs

A retailer incurs wholesale energy costs when purchasing electricity from the National Electricity Market (NEM) to meet the electricity demand of its customers. The NEM is a volatile market where spot prices are settled every half an hour and currently can range from –$1000 per megawatt hour (MWh) to $14,200 per MWh.[82]

Retailers can, and do, adopt a range of strategies to reduce spot price volatility risk, including:

- pursuing a hedging strategy by purchasing financial derivatives[83]—such as futures, swaps, caps and options
- entering long-term power purchase agreements with generators
- investing in their own electricity generators.

Since the 2012–13 price determination, ACIL Allen has estimated wholesale energy costs for customers on notified prices using a market hedging approach, which takes into account retailers'

[81] ACIL Allen Consulting, *Estimated Energy Costs, 2018–19 Retail Tariffs*, prepared for the QCA, May 2018, available at http://www.qca.org.au/Electricity/Regional-consumers/Reg-Electricity-Prices.

[82] The minimum spot price (market floor price) and the maximum spot price (market price cap) are defined in chapter 3 of the National Electricity Rules. The market price cap is published by the AEMC every February and is effective from 1 July. For more information, see www.aemc.gov.au.

[83] Generally, purchasing financial derivatives enables retailers to lock in a price, or a maximum price (in the case of caps) at which electricity will be exchanged at a future date.

hedging strategies. Such an approach has also been adopted by other Australian regulators[84] to estimate energy costs and has been endorsed by the Australian Energy Market Commission (AEMC) in its 2013 advice on best practice retail regulation.[85]

For the 2018–19 price determination, we have again engaged ACIL Allen to estimate wholesale energy costs for customers on:

- the net system load profiles (NSLPs) in the Energex and Ergon distribution areas
- the controlled load profiles (CLPs) in the Energex distribution area.

The NSLP and CLP approximate how much electricity is consumed by customers on accumulation meters[86] in a region, for each half hour of the day. At this stage, the majority of customers in Queensland are on accumulation meters. There are currently two types of CLPs in the Energex distribution area—CLP 9000 and CLP 9100—which capture the consumption profiles of customers on retail tariffs 31 and 33 respectively.

In their submissions to the QCA, Energy Queensland[87] and QCOSS[88] supported using a market hedging approach to estimate wholesale energy costs. However, Energy Queensland noted that a long-run marginal cost (LRMC) approach should be considered in future determinations, as more retailers enter long-term power purchase agreements to finance new renewable energy projects.

As set out in its report on estimated energy costs for 2018–19 (2018–19 report), ACIL Allen has continued to estimate wholesale energy costs using a market hedging approach. This approach is designed to simulate the wholesale energy market from a retailer's perspective. It involves simulating expected spot prices, and a retailer that hedges spot price risk by purchasing financial derivatives with contract prices represented by the observable ASX Energy futures[89] market data. A detailed explanation of how wholesale energy costs were estimated is available in chapter 4 of ACIL Allen's 2018–19 report.

Compared to the estimates for the 2017–18 price determination, ACIL Allen estimated that wholesale energy costs for 2018–19 will:

- **decrease** for customers on the **Energex NSLP** and **Ergon NSLP**. This decrease reflects the projected decrease in spot price volatility in Queensland and other NEM regions resulting from the expected entry of approximately 5000 MW of utility-scale solar and wind generation into the NEM. Of the 5000 MW new capacity, 1800 MW is committed to enter the Queensland market. ACIL Allen also attributed the projected decrease in price volatility

[84] The Independent Competition and Regulatory Commission and the Office of the Tasmanian Economic Regulator.
[85] AEMC, *Advice on best practice retail price methodology*, final report, 27 September 2013.
[86] Unlike smart/interval meters, accumulation meters do not record when during the day electricity was consumed or how much was consumed at that time. To allow for half-hourly settlement within the NEM (with different spot prices and volume for each half hour), AEMO uses the NSLP to approximate the amount of electricity consumed by customers on accumulation meters in a region, for each half hour of the day.
[87] Energy Queensland, Submission on the QCA interim consultation paper, *Regulated electricity prices for 2018–19*, 31 Jan 2018.
[88] QCOSS, Submissions on the QCA draft determination, *Regulated electricity prices for 2018–19*, 9 April 2018.
[89] ASX energy futures are exchange-traded energy financial derivatives, which allow retailers to reduce the spot price volatility risk when purchasing electricity from the NEM. For more information, see https://www.asxenergy.com.au/.

to the Queensland Government's directive to Stanwell in June 2017, where Stanwell was directed to adjust its bidding behaviour to put downward pressure on spot prices.

- **increase** for customers on the **Energex CLPs**. This increase reflects an increase in base contract prices of 2018–19 relative to 2017–18 (see section 4.1.2). More electricity is consumed during off-peak periods under the CLPs than the NSLPs (see section 4.1.1) and, consequently, more base contracts were required to hedge the CLPs. This means that, all other things being equal, the increase in base contract prices has a more substantial impact on the CLPs than the NSLPs, leading to higher wholesale energy estimates for the CLPs.

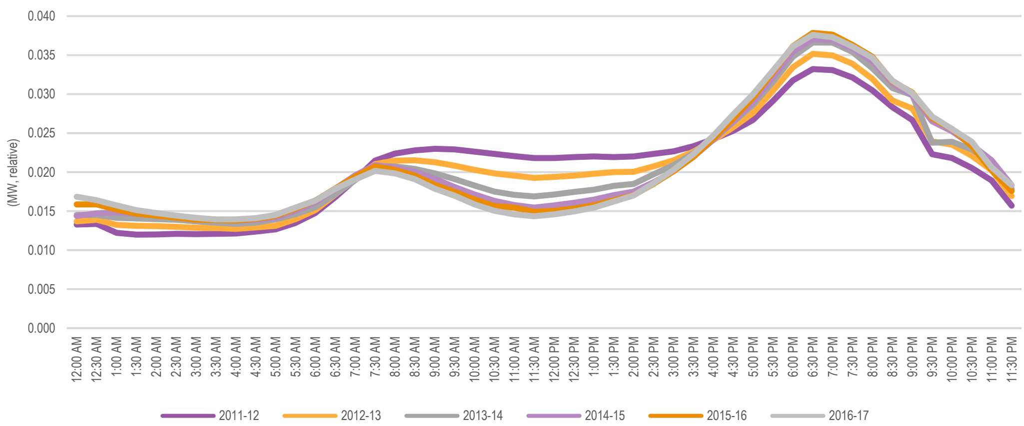
ACIL Allen estimated that wholesale energy costs in 2018–19 will:

- decrease by 3.9 per cent to $99.10 per MWh for the Energex NSLP
- decrease by 4.9 per cent to $88.18 per MWh for the Ergon NSLP
- increase by 7.9 per cent to $61.26 per MWh for the Energex CLP 9000 (retail tariff 31)
- increase by 4.4 per cent to $78.66 per MWh for the Energex CLP 9100 (retail tariff 33).

4.1.1 Demand profiles and historical energy cost levels

Over the past few years, the Energex and Ergon NSLPs have become 'peakier', due to increased penetration of rooftop solar photovoltaic, reducing daytime demand but having limited effect on the evening peak demand (Figures 7 and 8). On the Energex NSLP, more electricity from the grid is consumed during peak periods than on other demand profiles. Consequently, the Energex NSLP has the highest wholesale energy costs of the profiles analysed in Queensland. The Ergon NSLP is less peaky than the Energex NSLP and, consequently, has lower wholesale energy costs.

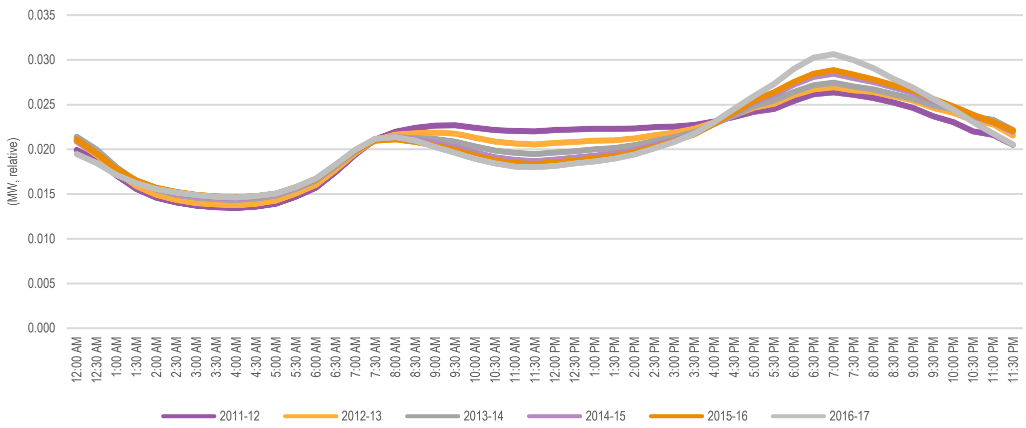
Figure 7 Energex NSLP



Note: The term 'relative MW' means the annual loads for each profile have been scaled so they sum to one. This removes differences in absolute scale between the different profiles and changes in absolute size over time.

Source: ACIL Allen, Estimated Energy Costs for 2018–19, May 2018, p. 11.

Figure 8 Ergon NSLP

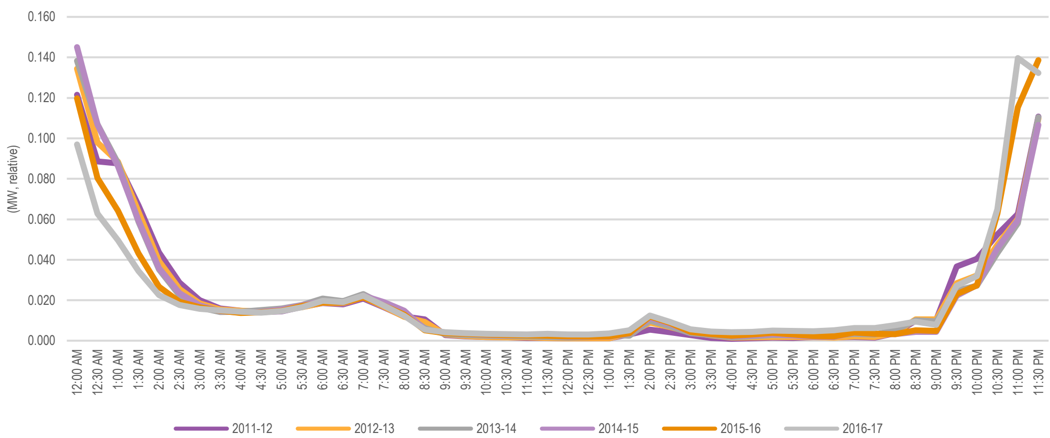


Note: The term 'relative MW' means the annual loads for each profile have been scaled so they sum to one. This removes differences in absolute scale between the different profiles and changes in absolute size over time.

Source: ACIL Allen, Estimated Energy Costs for 2018–19, May 2018, p. 11.

On the Energex CLPs, more electricity is generally consumed during off-peak periods and non-summer quarters (due to higher water heating loads in non-summer months) than on the Energex and Ergon NSLPs. Therefore, the Energex CLPs have lower wholesale energy costs relative to the NSLPs. The Energex CLP for retail tariff 33 typically has a higher wholesale energy cost than the Energex CLP for retail tariff 31. This is because the former generally has more electricity consumed during daylight hours and the evening peak than the latter. Figures 9 and 10 show the Energex CLPs.

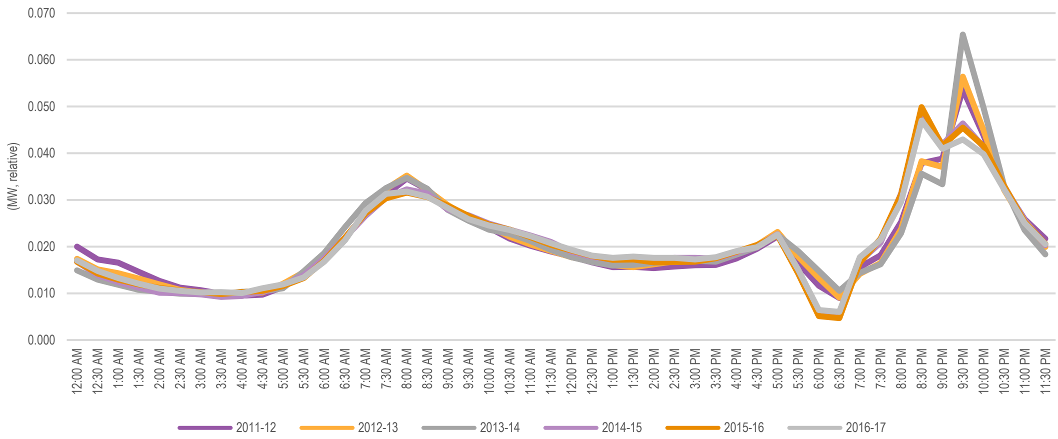
Figure 9 Energex CLP for retail tariff 31



Note: The term 'relative MW' means the annual loads for each profile have been scaled so they sum to one. This removes differences in absolute scale between the different profiles and changes in absolute size over time.

Source: ACIL Allen, Estimated Energy Costs for 2018–19, May 2018, p. 11.

Figure 10 Energex CLP for retail tariff 33



Note: The term 'relative MW' means the annual loads for each profile have been scaled so they sum to one. This removes differences in absolute scale between the different profiles and changes in absolute size over time.

Source: ACIL Allen, Estimated Energy Costs for 2018–19, May 2018, p. 11.

ACIL Allen advised that its wholesale energy market modelling aligns with the market's expectations of spot price outcomes for 2018–19. ASX futures contract prices for 2018–19 (on a trade-weighted basis) have increased for base contracts but declined for peak and cap contracts, compared to prices estimated for the 2017–18 price determination (see section 4.1.2). Generally, the purchase of ASX futures enables retailers to lock in a price, or a maximum price (in the case of caps), at which electricity will be exchanged at a future date. Therefore, futures contract prices incorporate market participants' expectations of future spot prices.

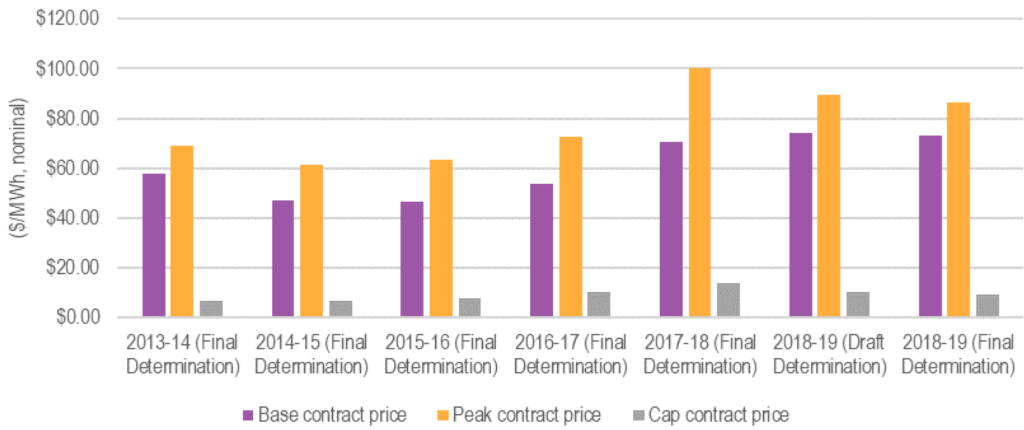
4.1.2 Estimating contract prices

Contract prices for financial derivatives were estimated using the trade-weighted average of ASX Energy daily settlement prices of base, peak and cap contracts for 2018–19. To calculate the trade-weighted futures contract prices, ACIL Allen has used the contract prices and volume of contracts traded up until 3 April 2018.

Compared to the contract prices estimated for the 2017–18 price determination, futures contract prices for 2018–19, on an annualised and trade-weighted basis, have:

- increased by about $3.00 per MWh for base contracts
- decreased by about $14.00 per MWh for peak contracts
- decreased by about $4.50 per MWh for cap contracts.

Figure 11 Annualised quarterly electricity futures contract prices ($/MWh), 2018–19 final determination and previous final determinations



Source: ACIL Allen, Estimated Energy Costs for 2018–19, May 2018, p. 13.

ACIL Allen advised that this is a reflection of market participants expecting some softening in spot price outcomes and lower price volatility, due to:

- the large amount of renewable generation expected to enter service in 2018–19 (approximately 5000 MW of utility-scale solar and wind generation into the NEM, with 1800 MW committed to enter the Queensland market)
- the Queensland Government's directive to Stanwell in June 2017, instructing Stanwell to adjust its bidding behaviour to put downward pressure on spot prices
- the potential change in the operation of the Wivenhoe pump storage facility due to the expected establishment of CleanCo.[90]

However, recent base contract prices have not fallen to the same extent as peak and cap contract prices and, on a trade-weighted basis, base contract prices are higher than those estimated for 2017–18. ACIL Allen advised that prolonged coal supply issues for some coal-fired generators in New South Wales and continuing strong gas prices have influenced the market's expectations and have therefore acted as a lower bound on base contract prices for 2018–19 to date.

4.1.3 Impact of CleanCo on wholesale energy costs

The Minister's cover letter to the April 2018 delegation specifies that the QCA should consider the impact of the establishment of CleanCo, where relevant, when determining notified prices for 2018–19.

It is expected that CleanCo would operate the Wivenhoe pumped storage hydroelectric plant. ACIL Allen advised that the key impact of CleanCo for 2018–19 would be the potential change in the operation of Wivenhoe. Historically, on an annual basis, Wivenhoe has operated only about one per cent of its generation capacity of 500 MW.

However, as part of a smaller generation portfolio, if Wivenhoe was to be operated more aggressively and ramped up during periods of high spot prices, then it would likely place downward pressure on peak price outcomes. Alternatively, Wivenhoe could be operated to

[90] The Queensland Government is currently investigating a restructure of government-owned generators and the establishment of a separate entity—CleanCo—to operate the government's existing renewable energy generation assets and develop new renewable energy projects.

complement the intermittent supply of other renewable generation, such as wind and solar, in which case the spot price impact would be less prominent. At this stage, it is unclear as to whether the Queensland Government or CleanCo envisages a change in role for Wivenhoe as part of a smaller generation portfolio.

Consequently, ACIL Allen has not included the potential impact of CleanCo as part of its energy market modelling for this determination. Consistent with the cover letter to the April 2018 delegation, we have considered the potential impact of the establishment of CleanCo, and we accept ACIL Allen's recommendation that, at this time, it is not possible to quantify any potential impacts for this determination.

4.1.4 Comparison with the AEMC price trend report

In December 2017, the AEMC, with the assistance of Frontier Economics (Frontier), released a report on residential electricity price trends.[91] In this report, it is suggested that between 2017–18 and 2018–19 wholesale energy costs will decrease by 15.7 per cent for a typical household in south east Queensland. This decrease is noticeably larger than the decreases estimated by ACIL Allen, which used a market hedging approach.

ACIL Allen advised that Frontier's approach appears to estimate contract prices by applying a 5.0 per cent premium to the modelled spot prices for 2018–19, and then using an undefined hedging strategy to estimate wholesale energy costs. In other words, this approach does not appear to consider a prudent hedging strategy in which retailers build up a portfolio of financial derivatives over a period of time ahead of 2018–19.

To manage spot price volatility risk, retailers generally purchase futures contracts in advance—to lock in the price (i.e. contract price) for an amount of electricity that they have to pay for in the future. Contract prices fluctuate due to the actual and anticipated changes in the supply–demand balance within the NEM and futures markets, at a particular point in time.

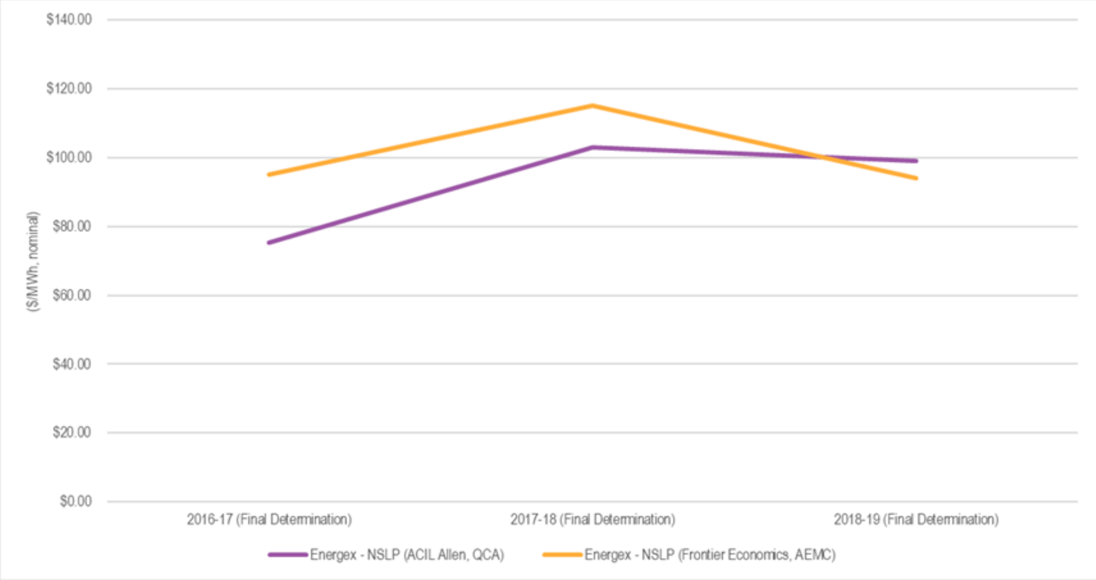
Past contract prices—reflecting the market's expectations of future spot prices at an earlier time—may have a significant impact on the wholesale energy costs incurred by retailers over a period of time, if the market's expectations change noticeably over time. This is because retailers would have locked in their future electricity prices in advance, based on the contract prices of that time. To account for this effect, ACIL Allen has:

- simulated a retailer that hedges spot price risk by purchasing financial derivatives in advance, through building up a portfolio of contracts to minimise any volatility in contract prices
- estimated contract prices using a trade-weighted approach, considering the contract prices and volume of contracts traded up until 3 April 2018.

As ACIL Allen noted in its 2018–19 draft report, while it may be appealing to adopt Frontier's methodology and derive lower wholesale energy cost estimates for this pricing year, there is a risk that such an approach may result in higher cost estimates in other years. This can be demonstrated by comparing the estimated wholesale energy costs of ACIL Allen's and Frontier's approaches between 2016–17 and 2018–19 (Figure 12).

[91] AEMC, *2017 Residential Electricity Price Trends*, final report, December 2017.

Figure 12 Wholesale energy costs ($/MWh) for the Energex NSLP—ACIL Allen and Frontier estimates, 2016–17 to 2018–19



Source: ACIL Allen.

The differences between ACIL Allen's and Frontier's estimates generally can be attributed to the effect of retailers hedging their spot price risk in advance. For the 2016–17 and 2017–18 price determinations, despite a substantial increase in contract prices during the summers of 2015 and 2016, ACIL Allen estimated lower wholesale energy costs than Frontier's approach. This is because, under ACIL Allen's approach, retailers locked in their future electricity prices for a proportion of electricity to be demanded in 2016–17 and 2017–18 before the spike in contract prices during the summers of 2015 and 2016.

Conversely, for the 2018–19 price determination, despite a recent decline in contract prices, ACIL Allen's estimated wholesale energy costs are higher than Frontier's. This is due to ACIL Allen's approach accounting for the fact that retailers had already locked in higher future electricity prices for a proportion of electricity to be demanded in 2018–19, before the recent decline in contract prices.

In practice, it is highly unlikely that retailers would not pursue some form of hedging strategy to manage their spot price risk in advance. Therefore, to produce robust cost estimates that reflect the actual costs retailers incur when purchasing electricity from the NEM, it is necessary to account for the effects of advanced (or before-the-event) hedging on wholesale energy costs.

QCA position

The QCA considers ACIL Allen's market hedging approach:

- adequately takes into account the issues raised in submissions
- is transparent and likely to produce reliable estimates that best reflect the actual costs retailers incur when purchasing electricity from the NEM.

The QCA notes that maintaining an approach for 2018–19 that is consistent with the approach adopted in previous determinations will also provide certainty to stakeholders.

The QCA's decision is to accept ACIL Allen's advice on this matter and its wholesale cost estimates, which are outlined in the table below.

To be consistent with the UTP, we have decided to use the wholesale energy cost estimates of the Energex NSLP and CLPs for residential, small business and unmetered supply (excluding street lighting) customers (see Chapter 2).

Table 9 Estimated wholesale energy costs at the Queensland regional reference node, 2018–19

Settlement class	*Retail tariff*	*Wholesale energy cost*	*Change from 2017–18*	
		$/MWh	*%*	*$/MWh*
Energex NSLP and unmetered supply	11, 12A, 14, 15, 20, 22A, 24, 41, 91	$99.10	–3.9	–$4.01
Energex CLP 9000	31	$61.26	7.9	$4.50
Energex CLP 9100	33	$78.66	4.4	$3.28
Ergon Energy NSLP—SAC demand and street lighting	44, 45, 46, 50, 71	$88.18	–4.9	–$4.57
Ergon Energy NSLP—high voltage— CAC and ICC	51A, 51B, 51C, 51D, 52A, 52B, 52C, 53	$88.18	–4.9	–$4.57

Source: ACIL Allen, Estimated Energy Costs for 2018–19, May 2018, p. 24.

4.2 Other energy costs

In addition to wholesale energy costs, the QCA must account for other energy costs that retailers incur when purchasing electricity from the NEM:

- renewable energy target (RET) costs
- NEM management fees[92] and ancillary services charges
- prudential capital costs.

4.2.1 Renewable energy target costs

The RET scheme, comprised of the large-scale renewable energy target (LRET) and small-scale renewable energy scheme (SRES), provides incentives for the electricity sector to increase generation from renewable sources and reduce greenhouse gas emissions. The costs of these incentives are paid by retailers through the purchase of large-scale generation certificates (LGCs) and small-scale technology certificates (STCs). Retailers surrender the purchased LGCs and STCs to the Clean Energy Regulator (CER) to meet their obligations under the RET scheme.

LRET costs

The LRET sets annual targets for the amount of electricity that must be sourced from large-scale renewable energy projects, such as utility-scale wind and solar generation. The mandated LRETs for 2018 and 2019 are 28,637 GWh and 31,244 GWh respectively.[93]

Retailers must purchase a set number of LGCs according to the:

[92] The NEM management fees were formerly referred to as the NEM participation fees.
[93] Section 40, *Renewable Energy (Electricity) Act 2000* (Cth).

- renewable power percentage (RPP) published by the CER
- amount of electricity they have sold to customers in the calendar year.

For its advice on the 2017–18 price determination, ACIL Allen estimated LRET costs using a market-based approach. Under this approach, LRET costs for the relevant calendar years were estimated by multiplying the expected average LGC prices and RPP values. The LRET cost for the financial year was derived by averaging the two calendar year estimates.

The expected average LGC prices were estimated using LGC forward prices published by the Australian Financial Markets Association (AFMA) and provided by TFS.[94] The implied RPP value was estimated by dividing the LRET target by the implied total electricity consumed (projected by the CER). To calculate the implied total electricity consumption, ACIL Allen used the SRES data published by the CER, which include the projected STCs required and non-binding, small-scale technology percentage (STP). The implied electricity consumed is estimated by dividing the projected STCs by the relevant non-binding STP.

In its submission on the ICP, Energy Queensland supported the use of TFS data to estimate LRET costs.

Canegrowers noted:

> The methodology relied on by QCA appears to assume Ergon retail is a marginal retailer with no long-term offtake contracts in place and no investments in renewable energy capacity. In the context of the Queensland government's policy push towards renewables it is likely that an efficient prudent retailer, such as Ergon Retail, with evergreen customer contracts would actively manage this exposure by being long on investment with respect to renewables.[95]

In the absence of confidential data showing the actual LGC contractual position of Ergon Energy or other retailers in south east Queensland, ACIL Allen is maintaining the view that transparent market prices provide a better indicator of actual LGC costs compared to any modelled estimates. A more detailed response by ACIL Allen is in chapter 3 of its draft 2018–19 report.

In its submission on the draft determination, Canegrowers suggested that:

> the QCA seeks from Energy Queensland, in-confidence, a report on the actual costs of LGCs as a basis for reviewing current calculation methodology.[96]

Under the current legislative framework, it may be possible for the QCA to obtain actual LRET costs incurred by Energy Queensland in regional Queensland. However, to set notified prices that are consistent with the UTP, we would need to estimate the LRET costs incurred by other retailers operating in south east Queensland.

Section 90A(1) of the Electricity Act only allows the QCA to request relevant information from a retailer for which it makes a pricing determination. As electricity prices in south east Queensland

[94] ACIL Allen used AFMA data up until September 2016. However, due to AFMA ceasing publication of this data at the end of September 2016, ACIL Allen has used TFS broker data from October 2016 through to January 2018. ACIL Allen examined the LGC forward prices—prior to September 2016—that TFS provided, and was satisfied they were consistent with AFMA data. Therefore, it concluded that the TFS data is suitable for the purpose of estimating LRET costs.

[95] Canegrowers, Submission on the QCA interim consultation paper, *Regulated electricity prices for 2018–19*, 19 Jan 2018.

[96] Canegrowers, Submission on the QCA draft determination, *Regulated electricity prices for 2018–19*, 11 April 2018.

have been deregulated, the QCA has no legal authority to compel retailers operating in this region to provide confidential information.

In its 2018–19 report, ACIL Allen estimated LRET costs using an approach consistent with the previous determination. ACIL Allen has provided a detailed explanation of its calculations in chapter 4 of its report, along with information on LGC forward prices and the assumptions underpinning the implied 2019 RPP used. Unlike the 2019 RPP, the 2018 RPP has been set by the CER and therefore does not need to be estimated.

ACIL Allen advised that LGC forward prices have softened slightly since they were last estimated for the 2017–18 final determination. This is primarily due to:

- a number of renewable energy projects reaching financial close in recent months, with most of these projects expected to be commissioned during 2018 and 2019
- the mix of near-term renewable energy projects having a higher proportion of solar projects than wind, with solar projects having a shorter lead time to commissioning.

However, the slight softening in LGC forward prices was offset by an increase in RPPs, as a higher RPP increases the number of LGCs that retailers have to surrender to the CER.

Using the expected average LGC prices, 2018 RPP and implied 2019 RPP, ACIL Allen estimated that the LRET cost for 2018–19 would be $13.72 per MWh for all retail tariffs, an increase of $1.75 per MWh compared to the 2017–18 final determination.

QCA position

The QCA considers that ACIL Allen's market-based approach, using the most up-to-date targets and price information published by AFMA, TFS and the CER, is likely to produce the most reliable estimate of LRET costs to be incurred by retailers in 2018–19. The QCA notes that maintaining an approach for 2018–19 that is consistent with the approach used in previous determinations will also provide certainty to stakeholders.

The QCA’s final decision is to accept ACIL Allen's advice on this matter and its LRET cost estimates (Tables 10 and 11).

SRES costs

The SRES provides an incentive for individuals and small businesses to install eligible small-scale renewable energy systems—such as solar panel systems, small-scale wind systems, small-scale hydro systems, solar hot water systems and heat pumps. Customers installing these systems create STCs, which retailers must purchase and surrender to the CER.

For its advice on the 2017–18 price determination, ACIL Allen estimated SRES costs by multiplying the expected STC price and the calendar year STP published by the CER. The SRES cost for the financial year was derived by averaging the two calendar year estimates. The expected STC price was based on the clearing house price.[97] The calendar year STPs were based on the final 2017 STP and the latest non-binding 2018 STP published by the CER.

In its 2018–19 report, ACIL Allen estimated SRES costs using the same approach as 2017–18. It estimated that the SRES cost for 2018–19 would be $5.84 per MWh for all retail tariffs, an increase

[97] The STC clearing house is operated by the CER, and the clearing house price is fixed at $40 per STC (or per MWh of electricity generated by eligible systems).

of $2.83 per MWh compared to the 2017–18 final determination. This SRES cost estimate is based on the latest final STP for 2018 and non-binding STP for 2019, published by the CER.

As anticipated by some stakeholders[98,99], SRES costs have increased significantly since the draft determination, by 87.2 per cent. This substantial increase is due to the CER increasing the 2018 STP from 8.06 per cent to 17.08 per cent and the 2019 non-binding STP from 7.52 per cent to 12.13 per cent. The higher STPs mean that retailers must now purchase a greater number of STCs to fulfil their obligations under the SRES. The CER advised that the increase in the STPs reflects a significant spike in the volume of STCs created—driven primarily by a higher than expected uptake of rooftop solar photovoltaic.

For the 2017–18 price determination, we used the non-binding STP for 2018 to determine the SRES costs for the second half of that financial year. As the CER has increased the STP for 2018, we need to apply a cost-pass through to allow for retailers to be compensated for the under-recovered SRES costs for 2017–18 (see Chapter 6).

QCA position

The QCA considers that ACIL Allen's approach is likely to produce the most reliable estimate of SRES costs to be incurred by retailers in 2018–19. The QCA also notes that maintaining a consistent approach for 2018–19 will also provide certainty to stakeholders.

Therefore, the QCA's decision is to accept ACIL Allen's advice on this matter and its SRES cost estimates, which are outlined in Tables 10 and 11.

4.2.2 NEM management fees and ancillary services charges

Retailers purchasing electricity from the NEM are required to pay NEM management fees and ancillary services charges to the Australian Energy Market Operator (AEMO). NEM management fees are levied by AEMO to cover the costs related to:

- operating the NEM
- performing its function as the National Transmission Planner
- full retail contestability
- funding Energy Consumers Australia.

Ancillary services charges cover the costs of services used by AEMO to manage power system safety, security and reliability.

For its advice on the 2017–18 price determination, ACIL Allen used AEMO's budget and fee projections to estimate the NEM management fees. Ancillary services charges were estimated by using the average ancillary service payments[100] observed over the preceding 52 weeks.

In its 2018–19 report, ACIL Allen estimated the NEM management fees and ancillary services charges using the same methodology as in 2017–18. It estimated the NEM management fees using the projected fees in AEMO's *Electricity Final Budget and Fees 2017–18* report.

[98] Energy Queensland, Submission on the QCA draft determination, *Regulated electricity prices for 2018–19*, 20 April 2018.

[99] Queensland Electricity Users Network, Submission on the QCA draft determination, *Regulated electricity prices for 2018–19*, 11 April 2018.

[100] AEMO provides data on weekly settlements, for ancillary service payments in each interconnected region within the NEM.

The ancillary services charge was estimated based on the average costs observed over the preceding 52 weeks. The costs of providing ancillary services have increased since the 2017–18 final determination due to a number of large ancillary service payments made during September and October 2017. More details on ACIL Allen's approach are available in chapter 4 of its 2018–19 report.

ACIL Allen estimated that for 2018–19, NEM management fees would be $0.53 per MWh and ancillary services costs would be $0.43 per MWh.

QCA position

The QCA considers that ACIL Allen's approach is likely to produce the most reliable estimate of NEM management and ancillary services costs to be incurred by retailers in 2018–19. The QCA notes that maintaining an approach for 2018–19 that is consistent with the approach in previous years will also provide certainty to stakeholders.

The QCA’s decision is to accept ACIL Allen's advice on this matter and its cost estimates (Tables 10 and 11).

4.2.3 Prudential capital costs

Prudential capital costs are the costs that a retailer incurs to provide financial guarantees to AEMO and to lodge initial margins with the ASX in order to trade in futures contracts. These costs must be accounted for, as futures contracts are relied upon to derive the wholesale energy costs estimates. For the 2017–18 price determination, ACIL Allen estimated prudential capital costs in line with the latest published AEMO requirements and margin requirements for trading in the ASX futures market.

In its submission on the ICP, Canegrowers proposed that the Ergon NSLP be used to calculate prudential costs. We agree with Canegrowers that using the consumption profile of the Ergon NSLP to calculate prudential costs (for customers on the same profile) will improve the accuracy of the cost estimates. Consequently, we have instructed ACIL Allen to refine its methodology and use:

- the Ergon NSLP to estimate the prudential costs for customers on the Ergon NSLP
- the Energex NSLP to estimate the prudential costs for customers on the Energex NSLP and CLPs.

Note that, to be consistent with the UTP[101], we need to use the energy cost estimates of:

- the Energex NSLP for residential, small business and unmetered supply (excluding street lighting) customers
- the Ergon NSLP for large business and street lighting customers.

In its 2018–19 report, ACIL Allen estimated prudential costs using an approach that is largely consistent with its 2017–18 approach. Consistent with previous determinations, prudential costs for customers on the Energex NSLP were estimated using the consumption profile of the Energex NSLP. These costs were also used as a proxy for the prudential costs of customers on the Energex CLPs. However, as previously noted, ACIL Allen has refined its approach in estimating the prudential costs for customers on the Ergon NSLP by using the consumption profile of the Ergon NSLP. More details on ACIL Allen's approach are available in chapter 4 of its 2018–19 report.

[101] See Chapters 1 and 2 for further detail.

Prudential costs have risen since the 2017–18 final determination, largely driven by higher hedge prudential costs—including a higher initial margin required by the ASX due to higher expected price volatility. ACIL Allen estimated that prudential costs for the Energex and Ergon NSLPs for 2018–19 would be $2.95 per MWh and $2.09 per MWh respectively.

QCA position

The QCA considers that ACIL Allen's approach is likely to produce the most reliable estimate of prudential capital costs to be incurred by retailers in 2018–19. Therefore, the QCA's decision is to accept ACIL Allen's advice on this matter and its prudential capital cost estimates, which are in Tables 10 and 11.

4.2.4 Summary of other energy costs for 2018–19

Tables 10 and 11 set out the estimates of other energy costs for 2018–19, which will form part of the total energy cost allowances for retail tariffs.

Table 10 Other energy costs (excluding losses)—Energex NSLP and CLPs

Cost component	*\$/MWh*	*Change from 2017–18*	
		%	*\$/MWh*
LRET	$13.72	14.6	$1.75
SRES	$5.84	94.0	$2.83
NEM fees	$0.53	0.0	$0.00
Ancillary services	$0.43	26.5	$0.09
Prudential capital	$2.95	16.6	$0.42
Total	**$23.47**	**27.7**	**$5.09**

Note: Totals may not add due to rounding.

Source: ACIL Allen, Estimated Energy Costs for 2018–19, May 2018, pp. 28, 32.

Table 11 Other energy costs (excluding losses)—Ergon NSLP

Cost component	*\$/MWh*	*Change from 2017–18*	
		%	*\$/MWh*
LRET	$13.72	14.6	$1.75
SRES	$5.84	94.0	$2.83
NEM fees	$0.53	0.0	$0.0
Ancillary services	$0.43	26.5	$0.09
Prudential capital	$2.09	–*	–*
Total	**$22.61**	**–**	**–**

**As noted in section 4.2.3, prudential capital costs for the Ergon NSLP were first estimated for 2018–19.*

Note: Totals may not add due to rounding.

Source: ACIL Allen, Estimated Energy Costs for 2018–19, May 2018, pp. 28, 32.

4.3 Energy losses

Some electricity is lost when it is transported over transmission and distribution networks to customers. As a result, retailers must purchase additional electricity to allow for these losses when supplying customers.

Consistent with its approach in 2017–18, ACIL Allen has accounted for energy losses by applying the 2018–19 transmission and distribution loss factors published by AEMO in a manner that aligns with AEMO's settlement process. These loss factors are:

- the average energy-weighted transmission loss factor—estimated by ACIL Allen, using the loss factors and energy consumed at each of the Transmission Node Identities (TNI) provided by AEMO
- the distribution loss factor published by AEMO.

QCA position

The QCA's decision is to accept ACIL Allen's advice on this matter and its loss factor calculations (Table 12).

4.4 Total energy cost allowances for 2018–19

Table 12 summarises the QCA's decision on energy cost allowances for each retail tariff for 2018–19. To be consistent with the UTP[102], we have decided to use the cost estimates of:

- the Energex NSLP and CLPs for residential, small business and unmetered supply (excluding street lighting) customers
- the Ergon NSLP for large business and street lighting customers.

Table 12 Total energy cost allowances for 2018–19, final decision

Settlement class	*Retail tariff*	*Wholesale energy costs*	*Other energy costs*	*Energy losses*	*Total energy cost allowance*		*Change from 2017–18*
		$/MWh		*%*	*$/MWh*	*c/kWh*	*%*
Energex NSLP and unmetered supply	11, 12A, 14, 15, 20, 22A, 24, 41, 91	$99.10	$23.47	6.2	$130.17	13.017	0.6
Energex CLP 9000	31	$61.26	$23.47	6.2	$89.98	8.998	12.5
Energex CLP 9100	33	$78.66	$23.47	6.2	$108.46	10.846	8.6
Ergon Energy NSLP—SAC demand and street lighting	44, 45, 46, 50, 71	$88.18	$22.61	5.1	$116.44	11.644	–2.9
Ergon Energy NSLP, high voltage—CAC and ICC	51A, 51B, 51C, 51D, 52A, 52B, 52C, 53	$88.18	$22.61	0.2	$111.01	11.101	–1.5

Note: Totals may not add due to rounding.

Source: ACIL Allen, Estimated Energy Costs for 2018–19, May 2018, p. 33.

[102] See Chapters 1 and 2 for further detail.

5 RETAIL COSTS

The second element of the R component is retail costs, which include all retail operating costs, and a retail margin. The QCA has adjusted fixed retail cost allowances by forecast CPI, and maintained variable retail cost allocators. Metering services costs have been removed from existing retail operating cost allowances for large and very large business customers and are presented as separate charges in order to better facilitate contestability in the market for large customer metering services.

5.1 Retail cost allowance

The retail cost allowance includes retail operating costs (ROC) and a retail margin. ROC are the costs associated with a retailer providing customer retail services to its customers. The retail margin represents the return to investors for retailers' exposure to systematic risks associated with providing retail electricity services. The margin can also include other costs incurred by retailers—such as depreciation, amortisation, interest payments and tax expenses.

For our 2017–18 price determination, we maintained the fixed retail cost allowances established in our 2016–17 final price determination in real terms, and maintained variable retail cost percentage allocators as the same proportion of other variable costs established in the 2016–17 final price determination.[103] The 2017–18 decision was in line with our 2016–17 determination, which noted that the thorough review of retail costs that was conducted for the 2016–17 determination should produce robust estimates that could then be updated annually, using a defined escalation method.

Submissions

Canegrowers considered that the QCA's retail cost estimates were excessive, as they included competition costs that, it argued, were not incurred by Ergon Retail. Canegrowers also considered that the retail allowances incorporated 'excess margins' and did not reflect efficient retailer costs.

Canegrowers Isis considered that retail cost allowances should be fixed for a period of up to five years, to encourage greater retailer efficiency. The Queensland Consumers' Association and QCOSS considered that retail costs should not be increased by the change in CPI unless there is evidence that costs have increased by this amount, and noted that retailers were seeking to reduce costs by encouraging electronic billing, payment, and contact methods. QCOSS also pointed out that its submission to the 2017–18 draft determination had provided evidence that major retailers had become more efficient, and as a result, costs were falling.

Origin Energy considered that the level of competition for new customers in south east Queensland had led to upward pressure on the cost to service customers. Energy Queensland considered that the national 'Power of Choice' project had impacted costs for all participants in the NEM, which needed to be recovered, but it supported the approach taken by the QCA in 2017–18 and considered it reasonable to again index retail cost allowances by CPI.

[103] More information on retail cost allowances can be found in our 2016–17 final price determination and ACIL Allen's associated reports, which are available on our website.

QCA position

The QCA has adjusted fixed retail cost allowances by forecast CPI, and has maintained variable retail cost percentage allocators as the same proportion of other variable costs established in the 2016–17 and 2017–18 final price determinations.

We consider the retail cost allowances established in 2017–18 are an appropriate starting point for establishing the 2018–19 retail cost allowances.

Under the UTP, the QCA must consider setting notified prices for residential and small business customers based on standing offer prices in south east Queensland (discussed in Chapter 2). In order to do this, the QCA must estimate the overall level of retail costs (including competition costs and retail margin) charged in the south east Queensland market in 2018–19. While it is unlikely that Ergon Retail will incur the same level of customer acquisition and retention costs (CARC) for residential and small business customers as a retailer in south east Queensland, the actual competition costs incurred by Ergon Retail are irrelevant to setting prices that reflect the government's chosen UTP benchmark. Removing competition costs from retail costs would result in notified prices that are inconsistent with the UTP.

We note comments from consumer groups who considered that retail allowances should be reduced in real terms, either by freezing them at 2017–18 levels or by reducing them further to reflect increased retailer efficiency. While measures such as electronic billing, payment and communication may reduce retailer costs, these practices have been widespread in south east Queensland for many years. As such, efficiencies from electronic billing, payment and contact systems will already be present in the retail cost benchmarks established in 2016–17. The QCA considered the information previously provided by QCOSS, which showed that public statements by AGL and Origin Energy indicated a slightly lower cost to serve per customer account figures across Australia, but also showed increases in the cost of acquiring customers. As retailers serve a varying mixture of new and existing customers, it is not clear this data establishes that overall retail costs are likely to fall in Queensland in 2018–19.

For the QCA to freeze retail cost allowances, it would need material evidence that ROC borne by retailers for residential and small business customers in south east Queensland, and large customers in regional Queensland, were likely to fall in real terms in 2018–19.

Adjusting fixed retail cost allowances by forecast CPI is consistent with our previous approaches to setting retail prices, as well as with the UTP.

Residential and small business customers

For residential and small business customers, we have maintained retail cost allowances in real terms by:

- adjusting the fixed retail cost allowances (that were estimated for 2017–18) by the Reserve Bank of Australia's forecast of the change in the CPI for 2018–19[104]—to maintain them in real terms
- maintaining the variable retail cost percentage allocators at 11.27 per cent for residential customers and 12.8 per cent for small business customers—the same proportions of other variable costs first established in the 2016–17 final price determination.

[104] We adopted a CPI of 2.125 per cent, equal to the average of forecast inflation at 30 June 2018 and 30 June 2019. See Reserve Bank of Australia, Statement on Monetary Policy, February 2018, table 6.1, p. 63.

In the draft determination, the QCA estimated metering costs for residential and small business customers, in accordance with the superseded (December 2017) delegation. Under the April 2018 delegation, the QCA is not required to set metering costs for residential and small business customers. We understand these will be set by the Queensland Government.

Tables 13 to 15 set out our final decision on retail cost allowances for regulated small customer tariffs in 2018–19.

Table 13 Retail costs for residential customers for 2018–19 (GST exclusive)

Retail tariff	*Pricing component*				
	Fixed retail component (c/day)	*Usage (c/kWh)*		*Demand ($/kW/month)*	
		Peak	*Off-peak/flat*	*Peak*	*Off-peak/flat*
T11	36.713		2.417		
T12A	36.713	6.021	2.048		
T14	36.713		1.674	6.056	0.891
T31			1.658		
T33			2.007		

Table 14 Retail costs for small business customers for 2018–19 (GST exclusive)

Retail tariff	*Pricing component*				
	Fixed retail component (c/day)	*Usage (c/kWh)*		*Demand ($/kW/month)*	
		Peak	*Off-peak/flat*	*Peak*	*Off-peak/flat*
T20	52.008		2.831		
T22A	52.008	5.696	2.457		
T24	52.008		2.001	9.760	1.005
T41	52.008		1.716		2.562
T91			2.597		

Table 15 Retail costs for residential tariff 15 customers for 2018–19 (GST exclusive)

Retail tariff	*Fixed charge (Band 1) $/mth*	*Fixed charge (Band 2) $/mth*	*Fixed charge (Band 3) $/mth*	*Fixed charge (Band 4) $/mth*	*Fixed charge (Band 5) $/mth*	*Usage charge c/kWh*	*Summer peak top-up charge $/kWh/mth*
T15	11.174	11.174	11.174	11.174	11.174	1.800	0.406

Large business customers

In the draft determination, the QCA proposed introducing separate metering charges for large customers with advanced digital (type 1–4) meters. The large customer charges for meters of this type are not regulated by the AER (these are referred to in this draft decision as non-AER regulated metering charges), but instead these metering charges form part of the notified prices determined by the QCA.

The QCA agrees with Origin Energy that non-AER regulated metering charges should be presented separately to other parts of the retail tariffs. Large customers are able to choose their own metering service provider, and a contestable market for large customer metering is developing. Publishing metering charges provides greater transparency around these charges and therefore promotes this competition. Only customers with advanced digital meters provided by a metering coordinator appointed by Ergon Retail will be required to pay Ergon Retail for non-AER regulated metering services.

However, as explained below, metering charges have formed part of large customer retail charges in previous QCA price determinations. Therefore, in introducing separate large customer non-AER regulated metering charges for 2018–19, the QCA has reduced the retail charges for those customers by an equivalent amount to avoid double counting.

As discussed in Chapter 1, the QCA calculates notified prices that a retailer may charge its standard contract customers for customer retail services in Queensland using an N+R approach. That is, for a given retail tariff the QCA uses the network tariff approved by the AER, and energy cost estimates calculated by ACIL Allen—and then all remaining costs associated with retailers providing customer retail services, including margin, are included in the retail cost allowance.

The QCA has used aggregated retail cost allowances in previous pricing determinations. The values of large customer retail cost allowances used in the 2016–17 and 2017–18 determinations were based on aggregated benchmarks first established in the QCA's 2012–13 final determination.[105] These benchmarks were based on estimates calculated by Frontier Economics for a new entrant retailer serving large customers. The QCA consulted with stakeholders on this approach during the 2012–13 and subsequent determinations, including during the review of retail costs in 2016–17. The QCA has adjusted large customer retail cost allowances each year in order to maintain their value. Retailers have not raised concerns about the QCA's approach.

In setting notified prices in these prior price determinations, there was no utility in disaggregating the overall retail benchmarks to identify all individual components, such as metering, and the QCA made no attempt to do so.

However, the QCA considers that metering services have always been intrinsically linked to the sale of energy by a retailer to large business customers—and are a cost incurred by a retailer in providing customer retail services. As noted by the QCA in 2007:

> [R]etail operating costs include customer administration (including call centres); billing and revenue collection; IT systems; and regulatory compliance. Costs associated with metering and data services may also be included in retail operating costs if not already included in distribution charges."[106]

[105] Retail cost allowances established in 2016–17 combined retail cost and retail margin. Retail margin was considered separately to the original 2012–13 retail cost benchmarks.
[106] QCA, *Benchmark Retail Cost Index for Electricity: 2006-07 and 2007-08*, draft decision, May 2007, p. 19.
At the time of making that draft decision, regulated metering charges were included within network tariffs.

The QCA considers that metering services for large customers, where they are not classified as distribution-non network charges[107], have been accounted for as part of the aggregated benchmarks used by the QCA to estimate retail operating costs in each of the QCA's past price determinations.[108]

Therefore, in separating metering charges from other parts of the retail tariffs, the QCA has subtracted an equivalent amount from the aggregated retail cost allowances (and the retail charges based on those cost allowances) in order to avoid double counting these costs.[109]

We consider the combined retail and metering charges proposed in this price determination will allow Ergon Retail to recover its legitimate costs in providing customer retail services to large customers. For customers with non-AER regulated meters, the combined retail and metering charges proposed for 2018–19 are equivalent to the fixed retail cost allowances set in our 2017–18 final price determination, in real terms. Customers with accumulation meters will see a slight reduction, as they will no longer be paying for the non-AER regulated metering costs which were previously incorporated in the retail operating cost allowance. These customers will pay metering charges regulated by the AER separately from notified prices.

Calculating metering charges

As proposed in the draft determination, the QCA has based advanced digital metering charges for large customers on information obtained from five retailers in response to a formal information request prior to the draft determination.[110] This is a relatively small dataset, which is to be expected, as there is a relatively small number of large business customers, and only one retailer (Ergon Retail) is legally obliged to provide the QCA with information.

Energy Queensland noted that individual metering costs vary from customer to customer, and that setting a charge for metering services based on customer classification, as proposed by the QCA in the draft determination, would result in cross-subsidies between customers. This could potentially lead to customers choosing another metering coordinator than the one appointed by Energy Queensland/Ergon Retail. However, this situation is a result of the UTP and no different to large customer notified prices in general.

However, Energy Queensland did not propose a workable alternative approach to setting metering charges which would avoid the issues identified. Ergon Retail also did not provide the QCA with any further or alternative data that the QCA might consider using. In response to the QCA's original information request, Ergon Retail—the only retailer required to supply large

[107] Under section 90(7) of the Electricity Act, distribution non-network charges are defined as charges of a distribution entity that are approved by the jurisdictional regulator under the National Electricity Law and which are referable to a specific customer or request, other than network charges.

[108] Residential and small business customer retail operating cost allowances were calculated differently to large and very large business customer retail cost allowances in that residential and small business customer allowances were calculated exclusive of metering charges.

[109] The QCA is currently investigating Ergon Retail for breaching the NERLQ by charging large customers for non-AER regulated metering services in its standard offer (http://www.qca.org.au/Media-Centre/Media-Releases/Media-Releases/2018/May/Ergon-Energy-Queensland-overcharging-large-regiona). During the course of this investigation, the QCA was made aware of references in previous determinations relating to metering charges for residential and small business customers that were framed in a manner that was ambiguous and may have led to confusion as to whether the references also extended to non-AER regulated metering for large customers. The QCA has therefore taken the opportunity provided by this final determination to resolve any ambiguity by making clear the position and treatment of large customer metering.

[110] The information request was issued under section 90A of the Electricity Act.

business customers at notified prices, and the only retailer legally obliged to provide information—only provided the QCA with a broad range of potential metering costs for large customers. Energy Queensland argued that Ergon Retail should be allowed to continue with its existing approach of charging large customers on an unregulated basis—a practice which the QCA considers a contravention of section 64D of the *National Energy Retail Law Queensland Act 2014* (NERLQ).

The data provided by retailers was independently reviewed by ACIL Allen, who considered all but one of the charges provided by retailers for standard asset customers to be reasonable. All charges considered reasonable by ACIL Allen were included in the QCA's analysis.

ACIL Allen found that there was insufficient information to judge the reasonableness of metering charge data for connection asset customers and individually calculated customers. However, ACIL Allen noted that the metering charges proposed were likely to be immaterial, relative to the total electricity bill for those customers.

Nevertheless, the QCA considers the information provided by retailers for all customers consuming more than 100 MWh per annum to be sufficient for the purpose of determining notified prices, notwithstanding the limitations above. Given that the QCA is legally required to set a notified price for large customer meters, its decision will be binding on Ergon Retail. Large customers will continue to have the ability to select their own metering coordinator.

We understand that retailers treat metering charges as a pass-through to customers. Accordingly, the QCA has not applied a retail margin or headroom allowance to metering costs.

Tables 16 to 18 show large customer retail cost allowances and metering fees respectively. Consistent with the 2017–18 price determination, we have adjusted fixed retail cost allowances for large and very large business customers by forecast CPI[111], and maintained variable retail cost allocators at 6.0445 per cent.

Should the QCA be delegated the task of setting 2019–20 notified prices, it will consider completing a new retail cost analysis.

Table 16 Retail costs for large business and street lighting customers

Retail tariff	***Pricing component***				
	Fixed (c/day)	Usage (c/kWh)		Demand ($/kW/month)	
		Peak	Off-peak/flat	Peak	Off-peak/flat
T44	371.922		0.781		1.961
T45	1022.746		0.781		1.459
T46	2601.590		0.780		1.196
T50	334.955	0.762	0.898	3.544	0.640
T71			1.678		

111 We adopted a CPI of 2.125 per cent, equal to the average of forecast inflation at 30 June 2018 and 30 June 2019. See Reserve Bank of Australia, Statement on Monetary Policy, February 2018, table 6.1, p. 63.

Table 17 Retail costs for very large business customers

Retail tariff	***Pricing component***						
	Fixed (c/day)	Usage (c/kWh)		Connection unit ($/day/unit)	Capacity (flat/off-peak) ($/kVA of AD/mth)	Demand (flat/peak) ($/kVA/mth)	Excess reactive power ($/excess kvar/mth)
		Peak	Off-peak/flat				
T51A	2575.292		0.751	0.547	0.244	0.145	0.242
T51B	2575.292		0.751	0.547	0.299	0.150	0.242
T51C	2575.292		0.751	0.547	0.347	0.181	0.242
T51D	2575.292		0.752	0.547	0.676	0.366	0.242
T52A	2575.292	0.725	0.747	0.547	0.371	0.665	0.242
T52B	2575.292	0.725	0.747	0.547	0.262	2.444	0.242
T52C	2575.292	0.726	0.748	0.547	0.480	4.372	0.242
T53	2397.332		0.752		0.676	0.366	0.242

Table 18 Metering charges for large and very large business customers

Customer type	***Metering charge (c/day)***
Standard asset customer (large)	141.078
Connection asset customer	328.542
Individually calculated customer	506.502

6 OTHER ISSUES

This chapter sets out our final decisions on a range of other issues. Our final decisions are to:

- *include a 5 per cent allowance above the estimated efficient costs of supply in south east Queensland for all residential and small business customer tariffs (consistent with the 2017–18 price determination and the Minister's cover letter to the April 2018 delegation) to reflect the value of the preferential terms and conditions that apply to customers on standard contracts*
- *include an allowance for headroom of 5 per cent above the estimated efficient costs of supply for all large and very large business customer tariffs in 2018–19 (consistent with the 2017–18 price determination)*
- *provide for the pass-through of over- or under-recovered SRES costs incurred during 2017–18*
- *enable retailers to charge standard contract customers for renewable or environmentally friendly customer retail services, as described in the delegation*
- *continue to allow Ergon Retail to implement the EasyPay Reward scheme, as described in the delegation.*

6.1 Standing offer adjustment—residential and small business customer tariffs

Retail competition in the residential and small business market segment is very limited in regional Queensland. This is largely because of the Uniform Tariff Policy (UTP), which delivers a subsidy to Ergon Retail to supply electricity at notified prices. These prices are, in most cases, below the cost of supply. As other retailers do not have access to this subsidy, they typically cannot compete with Ergon Retail's subsidised notified prices.

The QCA uses an N+R approach to derive the estimated efficient costs of supplying small customers[112] in south east Queensland, which serves as a basis to set notified prices. This produces price levels that we would expect, on average, to reflect the lowest prices offered by an efficient representative retailer.[113]

To be consistent with the UTP, the QCA needs to set notified prices for small customers in regional Queensland that broadly reflect the expected level of standing offer prices in south east Queensland (see Chapter 2). To achieve this, we need to add an amount to the estimated efficient costs of supply to account for the expected price differential between lowest offers and standing offers in south east Queensland. This adjustment is referred to as a standing offer adjustment. In the 2017–18 price determination, we set the standing offer adjustment at 5 per cent of the total estimated efficient cost of supply in south east Queensland.

[112] Small customers are residential and small business customers, as well as customers accessing the unmetered supply (excluding street lighting) retail tariff.

[113] An efficient representative retailer which does not adopt a loss-leading pricing strategy whereby electricity is supplied below cost to attract new customers, and/or other products and services are sold to those customers.

For the 2018–19 price determination, the cover letter to the April 2018 delegation requires us to consider maintaining the standing offer adjustment at the current level (5 per cent).[114] Energy Queensland considered the current level to be appropriate.[115]

Retail electricity prices observed in south east Queensland reveal that most retailers' standing offer prices are generally higher than their lowest-priced offers, albeit by varying amounts. The lowest-priced offers of retailers are usually market offers, but can be standing offers.

As part of its submission on the ICP, Canegrowers Isis noted that, while it would prefer not to have the standing offer adjustment applied:

> [c]ompetitive prices should be applied to ensure the … [standing offer adjustment] … is restricted to within a commercially competitive range. This application would ensure regional areas are not disadvantaged in comparison to SEQ urban customers and, importantly, the spirit of the UTP is upheld.[116]

Canegrowers recommended the QCA take account of the Queensland Government endorsed retail price offerings in south east Queensland, and apply the UTP to deliver the same retail price outcome across the Ergon distribution area. It highlighted that the government had endorsed CS Energy and Alinta Energy's joint venture to supply electricity to residential and small business customers within the Energex distribution area. The arrangement is expected to lower retail electricity prices in south east Queensland by stimulating competition.

Canegrowers reported that Alinta Energy and CS Energy have built a significant customer base from the new arrangement and, with other retailers responding to the competition, the venture is delivering retail prices up to 25 per cent below the standing offer price to customers across the Energex network. It noted that, as CS Energy and Alinta Energy continue to be profitable under the two-year deal, it demonstrates that the generation and retail costs the QCA uses to set Ergon prices are too high, and significantly overstate efficient costs.[117]

The Queensland Council of Social Service (QCOSS) submitted that it was disappointed the government continued to direct the QCA to use a notional standing offer price as the basis for setting regional electricity prices. It highlighted a number of concerns with this approach:

- There is considerable evidence emerging from other NEM jurisdictions that in the longer term, after standing offer price regulation is removed, the standing offer prices no longer reflect efficient costs of supply.
- Retailers in south east Queensland compete primarily on the basis of market offers, not standing offers.
- Retailers are at liberty to raise their standing offer prices without it having a detrimental effect on their competitive positioning in the market.
- A notional standing offer price for south east Queensland no longer represents the typical price paid by electricity customers in south east Queensland, or an appropriate benchmark on which to gauge efficient, competitive market prices.

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[114] The cover letter to the April 2018 delegation is included in Appendix A.
[115] Energy Queensland, Submission on the QCA interim consultation paper, *Regulated electricity prices for 2018–19*, 31 January 2018.
[116] Canegrowers Isis, Submission on the QCA interim consultation paper, *Regulated electricity prices for 2018–19*, 12 January 2018.
[117] Canegrowers, Submission on the QCA interim consultation paper, *Regulated electricity prices for 2018–19*, 19 January 2018.

- Standing offer customers in SEQ are not representative of customers in regional Queensland.

QCOSS acknowledged that the QCA is required to consider the issues identified in the delegation, and appreciated that the QCA would have to comply with the intent of the Minister's delegation for 2018–19. However, QCOSS also noted that:

> as standing offers prices are likely to continue to deviate from market offers, it would advance the broader methodological question if you considered in your Draft Determination other approaches for setting notified prices in regional Queensland. Consultation on these approaches at this stage would also be informative to future Government decisions regarding an appropriate benchmark for regional prices.[118]

In response to the draft determination, QCOSS provided a simple analysis of differences between standing and market offer terms and conditions. Its analysis highlighted the following differences, and questioned the extent to which there are measurable benefits to standing offers over market offers:

> - **Changes to tariffs and charges**: While standing offer prices can be varied only once every six months, market offer prices are subject to change at any time (subject to notice requirements of ten days for price change and 20 days for benefit change). Although market offers can be varied more frequently than standing offer prices, in practice they are not.
> - **Late payment fees:** In Queensland there are no late fees on standing offers and they are capped at $12 for market offers.
> - **Charges for paper bills:** Market offers attract a charge for paper bills of around $1.75 (including GST) for each bill. If the bills are quarterly, the charge amounts to $7 per year. Standing offers typically do not attract charges for paper bills.
> - **Charges for payment at Australia Post:** Our research shows that market offers may attract a charge of around $2.00 for each bill paid at Australia Post. If the bills are quarterly, the charge amounts to $10 per year. Standing offers typically do not attract charges for payments at Australia Post.
> - **Exit fees:** these are capped at $20 for market offers, noting that in practice some retailers (and especially the larger ones) do not charge them. There are no exit fees for standing offers.[119]

The Queensland Consumers' Association was not in favour of using the price differential between standing and market offers in the south east Queensland market as the standing offer adjustment to apply to notified prices. The Queensland Consumers' Association was concerned that standing offers in south east Queensland do not reflect the efficient costs of supply. It considered that:

- Many customers on standing offers are less price-sensitive and more loyal to their existing retailer than market customers, and this is likely to be reflected in standing offer prices.
- As standing offers are used by many retailers as the base from which discounts are offered for market contracts, there is an incentive for retailers to set the highest possible standing offer price in order to advertise high percentage discounts and other incentives.
- The delegation's assumption that standing offers provide additional value for consumers compared to market offers may not be correct.

[118] QCOSS, Submission on the QCA interim consultation paper, *Regulated electricity prices for 2018–19*, 18 January 2018, p. 2.
[119] QCOSS, Submission on the QCA draft determination, *Regulated electricity prices for 2018–19*, 9 April 2018, p. 6.

The Queensland Consumers' Association considered that if a standing offer adjustment is applied, it should not be greater than 5 per cent, and would preferably be lower.[120]

CCIQ considered the application of the standing offer adjustment to be 'flawed'. It submitted that the recent direction from the Australian Government to retailers to, 'move consumers onto market offers, or "cheaper deals"', meant that a larger proportion of consumers in south east Queensland would now be on market offers. CCIQ considered it would be inequitable to base notified prices on standing offers, as a larger proportion of consumers are on market offers. To correct the methodology, CCIQ proposed that the QCA should:

> determine the median between the standing offer and average market offer to determine the notified price.

CCIQ noted that under this methodology:

> Ergon's customers will be paying higher prices for electricity than would be available in a competitive market. [121]

The Queensland Electricity Users Network (QEUN) submitted that the standing offer adjustment should be removed from all residential and small business tariffs.[122]

Origin Energy did not comment on the standing offer adjustment explicitly, but noted that the emergence of new market entrants in 2017–18 had created more competitive tensions in the market. It considered that:

> This has driven retailers to be more aggressive with their discounts which has put upward pressure on the cost to serve.[123]

As discussed at the beginning of this section, to determine notified prices consistent with the definition of the UTP, we need to consider adjusting the estimated efficient costs of supply in south east Queensland to account for the expected price differential between lowest-priced and standing offers. To calculate this price differential, we are required to take into account both market and standing offer prices.

6.1.1 Types of electricity offers

Standing offer prices are the prices that retailers charge under standard retail contracts. These are basic contracts with terms and conditions specified by the National Energy Retail Rules (NERR).[124] In south east Queensland, where prices have been deregulated, standing offer prices are set by retailers. Standard retail contracts are referred to in this report as 'standing offers'.

In contrast, market prices are set by retailers and offered under the terms and conditions of a market retail contract and referred to as 'market offers'. Market retail contracts contain a minimum set of terms and conditions (specified in the NERR[125]). These contracts can also include other terms and conditions that are agreed between the retailer and customer. For example, a

[120] Queensland Consumers' Association, Submission on the QCA interim consultation paper, *Regulated electricity prices for 2018–19*, 15 January 2018, p. 2.
[121] CCIQ, Submission on the QCA interim consultation paper, *Regulated electricity prices for 2018–19*, 16 January 2018, p. 2.
[122] QEUN, Submission on the QCA interim consultation paper, *Regulated electricity prices for 2018–19*, 17 January 2018.
[123] Origin Energy, Submission on the QCA interim consultation paper, *Regulated electricity prices for 2018–19*, 16 January 2017.
[124] NERR, rule 12, schedule 1.
[125] NERR, rule 14.

market retail contract might offer customers additional discounts based on their billing and payment methods.

6.1.2 Why is there a difference between market and standing offer prices?

There are a number of possible reasons why standing offer prices tend to be higher than market offer prices. Some of the variation may reflect that standing offers often provide terms and conditions that are more favourable to the customer. The premium included in standing offer prices could include compensation to the retailer for accepting the additional costs and risks associated with providing better terms and conditions to customers.

Through market offers, retailers are able to adopt different terms and conditions designed to reduce their costs or risks. This may be what enables retailers to offer lower prices or other incentives to encourage customers to take up market offers. For example:

- Incentivising customers to pay on time can reduce a retailer's bad debt risk, improve its cash flow position and reduce costs.
- Requiring customers to use direct debit payment methods achieves a similar outcome, and many retailers will offer discounts to customers who use it, to reflect the lower risk of default and bad debts.
- Requiring customers to subscribe to online-only (paperless) billing allows retailers to save on printing and postage costs.

The difference between market and standing offer prices may also be an indication of different pricing strategies whereby retailers target customer segments, according to their preferences, loyalty and sensitivity to price changes.

For example, retailers focusing on a customer segment that is environmentally conscious may incorporate and promote GreenPower Programs[126], for an additional charge, as a feature of their market offers. Retailers may also adopt different pricing strategies in response to the behaviour of their competitors, such as providing loyalty credit that is available to customers only after they have remained with the retailer for a specific period, in order to retain customers.[127]

It is also plausible that, as suggested in some stakeholders' submissions, the standing offer adjustment reflects marketing strategies designed to inflate the discounts offered to customers on market offers, without materially changing the bills customers face.

6.1.3 What is an appropriate price differential to apply to efficient costs?

We have considered the following matters when estimating the standing offer adjustment:

- the experience in other jurisdictions with deregulated retail electricity prices
- observed price differentials in the recently deregulated south east Queensland retail electricity market
- the direction in the cover letter to the April 2018 delegation that the QCA should consider maintaining the standing offer adjustment at the current level.[128]

[126] GreenPower is a voluntary government accredited program that enables a retailer to purchase renewable energy (via the purchase of large-scale generation certificates (LGCs)) on the customer's behalf.
[127] AEMC, *2016 Retail Competition Review*, June 2016.
[128] The cover letter to the April 2018 delegation is included in Appendix A.

To simplify the discussion, we refer to markets with deregulated retail electricity prices as 'deregulated markets'.

Experience in other deregulated jurisdictions

We have investigated the jurisdictional experience of three deregulated retail electricity markets in the NEM, namely Victoria, South Australia (SA) and New South Wales (NSW)—but not the experience of Tasmania and the Australian Capital Territory, as retail price regulation remains in place in these jurisdictions.[129]

Victoria

In a mature market such as Victoria, deregulated since 2009, market offers are priced at a discount to standing offers. At the end of 2017, the AEMC reported that consumers could save between 24 and 30 per cent by switching from a standing to market offer.[130]

In a separate report, the Victorian Essential Services Commission (ESC) noted that:

> Retailers' headline discounts are getting bigger, but the relationship between advertised discounts and the bill a customer can expect to pay is getting weaker. In other words, bigger discounts don't necessarily mean cheaper bills.[131]

The ESC highlighted that customers need a range of additional information (in addition to the headline discount) in order to determine whether a market offer could deliver their household the advertised savings.

The ESC also found that a number of different advertised discount offers resulted in the same bill outcome for consumers.[132]

South Australia

When the SA retail market was deregulated in February 2013, the SA Government reached an agreement with AGL (the incumbent first tier retailer) to lower its residential standing offer prices by 9.1 per cent and small business tariffs by 4.5 per cent following deregulation, and to cap increases in the retail component of standing offers for two years.[133]

Since the removal of those restrictions in February 2015, the Essential Services Commission of South Australia (ESCOSA) has reported that market offers are generally priced at a discount to standing offers.

At 30 June 2017, the average price differential between standing and market offers was 10.7 per cent for residential customers and 13.3 per cent for small business customers. These are increases from the observed differential of 9.6 per cent for both residential and small business customers at 30 June 2016.

The range for standing offer price differentials for residential customers at 30 June 2017 was between 2.0 and 22 per cent, and for small business customers it was between 4.0 and 24 per cent.[134]

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[129] AEMC, *2017 AEMC Retail Energy Competition Review*, July 2017.
[130] AEMC, 2017, p. 268.
[131] Essential Services Commission, *Energy Market Report*, 2017, p. 5.
[132] ESC, 2017, p. 37.
[133] Weatherill, J & Koutsantonis, T, *Lower prices for South Australia*, media release, Government of South Australia, 18 December 2012, accessed December 2016, http://archives.premier.sa.gov.au/images/news_releases/12_12Dec/energyprice.pdf.
[134] ESCOSA, *Energy Retail Offers Comparison Report 2016–17*, August 2017.

New South Wales

When the NSW retail market was deregulated in July 2014, small customers on a regulated contract were moved to a 'transitional tariff' for up to two years, after which they would be required to move to a standing or market offer. In the first year of deregulation, the NSW Government approved arrangements that would see the transitional tariff decrease by at least 1.5 per cent from existing standing offer prices. In the second year, average increases in the retail component of the transitional tariff were capped at CPI. As at June 2015, around 20 per cent of electricity customers in NSW remained on transitional tariffs, with the remaining 80 per cent on either standing or market offers.[135]

In a 2017 review on the competitiveness of the retail market in NSW, the Independent Pricing and Regulatory Tribunal (IPART) reported that the annual increase in standing offer prices for residential customers (15 per cent) was more than the cumulative rise in standing offer prices since price deregulation. The average difference between the standing offer and the lowest market offer for residential customers was 10 per cent to 15 per cent for a typical customer[136] in 2013. In 2017, this had increased to an average difference of around 23 per cent.[137]

Observed price differentials in south east Queensland

In the 2015–16 price determination, prior to deregulation in south east Queensland, we included Figure 13 to illustrate the range of discounts offered to residential customers in previous years. The largest generally-available effective discount in 2015–16 was 17.4 per cent and the smallest was 5.02 per cent. The median discount in May 2015 was 8.6 per cent, which was consistent with May 2014, but higher than April 2013 (7.3 per cent).

In our analysis of competition in the market, we determined that our historical approach to determining a headroom allowance (5 per cent) for south east Queensland[138] had succeeded in facilitating the development and maintenance of competition.

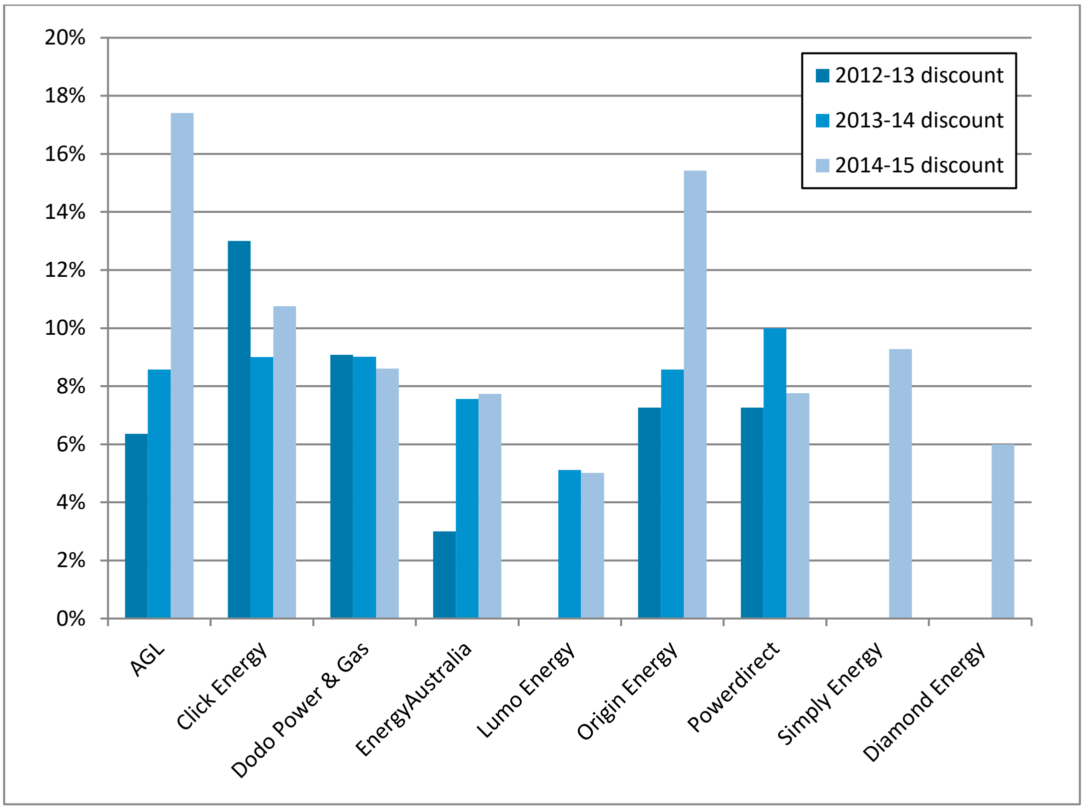
[135] Department of Industry, Resources and Energy, FAQs about electricity price deregulation, New South Wales Government, accessed December 2016, http://www.resourcesandenergy.nsw.gov.au/energy-consumers/energy-sources/electricity/removal-of-electricity-price-regulation-faqs#_why-did-the-_n_s_w-_government-remove-retail-electricity-price-regulation__003f.

[136] Consuming 6,500 kWh.

[137] IPART, *Review of the performance and competitiveness of the retail electricity market in NSW from 1 July 2016 to 30 June 2017*, final report, November 2017, pp. 35–36.

[138] Based on our analysis of discounts offered to residential customers, customer participation and engagement, active retailers and market concentration, and switching rates.

Figure 13 Effective discounts offered to residential customers (percentage off total bill)



Note: Simply Energy commenced making offers in south east Queensland in 2014–15; however, discounts are available to members of RACQ only. Diamond Energy did not offer discounts prior to 2014–15. In 2012–13, Lumo Energy offered 'Frequent Flyer' points instead of discounts.

Source: QCA price comparator, retrieved; April 2013, May 2014 and May 2015. Discounts are relative to an annual customer bill based on annual consumption of 4,100 kWh per year at notified tariff 11 prices. Excludes offers available only to solar PV customers. Origin Energy and AGL effective discounts based on inclusion of 'first month free' offer. AGL effective discount includes $50 signup credit.

Since 1 July 2016, retail electricity prices have been deregulated in south east Queensland and retailers have been setting their own standing offer prices. During the first year of deregulation, retailers were not allowed to vary these prices once they had been set, unless the variation was to reduce prices.[139]

In 2016–17, we observed standing offer price differentials (defined as the difference between a retailer's standing and the lowest offers) of approximately 5 to 7 per cent. At the end of the March 2018 quarter, the standing offer price differential had increased to 13.5 per cent[140] for both residential and small business customers.

We observed that some retailers are continuing to pursue a pricing strategy of providing only one electricity offer in a particular market segment. As retailers are required[141] to provide a standing offer as the default offer (and in addition to any market offers), in these cases the single offer

[139] National Energy Retail Law (NERL), section 23, as per section 16 of the schedule to the Queensland NERL Act.

[140] Calculated based on data available on the Energy Made Easy electricity offer comparator for tariffs 11 and 20, as at 31 March 2017, and includes all offers published at this time. It includes retailers with a standing offer price differential of zero.

[141] NERL (SA) Act 2011, part 2, division 3, section 22.

would be both the standing and lowest offer. The standing offer price differential for these retailers is zero.[142]

Considerations

As the south east Queensland standing offer price differential has increased significantly, we are not confident that it reflects only the premium required to provide customers with more favourable terms and conditions. Based on the experiences in other jurisdictions, it would appear that as the market matures the standing offer price differential increases substantially. Furthermore, as differentials in other jurisdictions have remained consistently high, it is unlikely that the large differential currently observed in south east Queensland is transitory in nature. While the current differential observed in south east Queensland may reflect the more favourable terms and conditions customers benefit from on standing offers, it is likely that it also reflects a range of other factors, such as retailer loyalty, customer inelasticity and marketing strategies.

We have also considered the comments in the cover letter to the April 2018 delegation:

> The Government retains its view that a Standing Offer adjustment continues to be an important component of notified prices ensuring that regulated prices for small customers in regional Queensland should broadly reflect the expected prices for small customers on Standing Offers in SEQ.[143]

The delegation cover letter then provides further explanation of why the standing offer adjustment is 'an important component' of notified prices:

> The Government considers that a Standing Offer contract provides additional value for consumers compared to a Market Offer, for example through additional protections to consumers contained in the terms and conditions in a Standing Offer contract, as well as providing a signal for retail competition in regional Queensland. Therefore, the QCA should continue to give consideration to maintaining the Standing Offer adjustment at the current level.

To summarise, the government has recommended the QCA consider the following matters in determining the standing offer adjustment:

- Notified prices for residential and small business customers should continue to reflect the prices paid by customers on standing offers in south east Queensland.
- The standing offer contract provides additional value for consumers compared to market offers, through additional protections.
- The pricing differential between standing and market offers reflects the value of those additional protections.
- The current level of the standing offer adjustment reflects the differential between standing and market offers in south east Queensland, and the value of those additional protections.
- The current level of the standing offer adjustment should be maintained.

We note the value of additional protections cannot be both the current level allowed in 2017–18 notified prices (5 per cent), and the level observed in the market (13.5 per cent). Therefore, we are required to exercise our judgement in determining how to reconcile these matters, and what the appropriate standing offer adjustment should be.

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[142] The following retailers had standing offer price differentials of zero on 31 March 2018: Diamond Energy, Lumo Energy, Momentum Energy, People Energy and Sanctuary Energy.

[143] The cover letter to the April 2018 delegation is included in Appendix A.

QCA position

The experience in other deregulated jurisdictions, and the observed price differentials in the south east Queensland retail market, demonstrate that a price differential exists—with market offers generally priced at a discount to standing offers.

While the UTP is clear that notified prices should reflect the prices paid by customers on standing offers in south east Queensland, we have given significant weight to the clarification provided by the Minister in the cover letter to the April 2018 delegation, as to the intent of using standing offers as a benchmark in this manner.

The cover letter explains that the intent of using standing offers as the benchmark for notified prices is that the government perceives that customers on standing offers benefit from the preferential terms and conditions provided under a standing offer.

We consider that the Minister's comments expand on the government's definition and explanation of the UTP. The reason that, 'wherever possible, Standard Contract Customers of the same class should pay no more for their electricity, regardless of their geographic location'[144], is because the government considers that a standing offer contract[145] provides additional value for consumers compared to a market offer.

Therefore, the standing offer adjustment should reflect an appropriate value of the cost retailers bear for providing more favourable terms and conditions, and result in notified prices somewhat higher than the efficient costs of supply. Although this does not meet the literal definition of the UTP, it will fulfil the Minister's intent in requiring us to consider applying the UTP.

In response to stakeholders' concerns about the measurable benefits of the favourable terms and conditions of standing offers, we note the list of some of the differences between standing and market offer contract terms and conditions, included within QCOSS's submission to the draft determination. The list demonstrates that for some customers, there would be quantifiable benefits associated with the standing offer terms and conditions, as it would mean they would not incur fees for failing to comply with certain requirements. We note however that the value for each individual customer will vary, as some customers may be more likely to incur these fees than others.

Adopting a standing offer adjustment that reflects an appropriate value of more favourable terms and conditions creates an additional complication, as we do not know the cost to retailers of providing standing offer terms and conditions. We consider it would be more than the efficient costs of supply in south east Queensland, but less than standing offers in south east Queensland.

Given the potential complexity and uncertainty of estimating how much it costs retailers to provide the preferential terms and conditions in south east Queensland, the relatively short timeframes associated with this 2018–19 notified price determination, and the weight we consider appropriate to give the view of the Minister, we consider it reasonable to maintain the standing offer adjustment at the current level (5 per cent of total estimated efficient costs)—as per the Minister's April 2018 cover letter.

While we have not adopted the alternative methodologies proposed by stakeholders, we note that the final decision on the standing offer adjustment delivers an outcome that is not dissimilar to what may have resulted from the approaches they put forward—that is, a standing offer adjustment that is more than the efficient costs of supplying market customers in south east

[144] The April 2018 delegation is included at Appendix A.
[145] The only terms and conditions Ergon Retail is allowed to offer.

Queensland, but less than standing offers in south east Queensland. The small customer tariffs in this final determination account for the additional value that the terms and conditions of standing offers provide customers compared to market offers.

We also note that, while the QCA is accustomed to exercising its judgement in considering how decisions will affect stakeholders, the government could improve the transparency and certainty of the price determination process by addressing the misalignment between the literal definition of the UTP and the intent of the standing offer adjustment, in any future delegations.

6.2 Headroom for large and very large business customer tariffs

Where it is effective, competition generally provides the best means of delivering the goods and services that customers demand at prices that reflect efficient costs.

Under section 90(5)(a) of the Electricity Act, we are required to have regard to the effect of our price determination on competition in the Queensland retail electricity market. We intend to also have regard to the objects of the Electricity Act, which include:

(a) establishing a competitive electricity market in line with the national electricity industry reform process

(b) taking into account national competition policy requirements.

In retail markets where competition is considered feasible, the AEMC recommends that some form of 'headroom' allowance be included as part of regulated retail prices to facilitate competition.[146] The headroom allowance is an amount, in addition to the estimated efficient cost of providing customer retail services, included in regulated prices for the purpose of encouraging customers to engage in the market and seek out more attractive market offers.

While there is very limited competition in the small customer segment of the retail electricity market in regional Queensland, the large customer segment[147] has developed a degree of effective competition, particularly in areas where notified prices more closely reflect the actual costs of supply (i.e. Ergon Distribution east pricing zone, transmission region one).

Retail competition in this market segment can be supported through the inclusion of an appropriate level of headroom as part of notified prices, with the aim of encouraging customers to seek out better market offers. Since the 2012–13 price determination, we have included a headroom allowance of 5 per cent of total estimated efficient costs to facilitate and encourage competition in the large customer market segment in regional Queensland. Energy Queensland supported competition for regional customers and the continued allocation of a headroom component in notified prices.[148]

Canegrowers ISIS submitted that headroom was 'a theoretical consideration which is not reasonably applicable in the instance and scale of a public utility'.[149] It considered that the government should improve the efficiency of Ergon if it wished to reduce the subsidy it pays to uphold the UTP. Canegrowers was of the view that headroom is contributing to retail margins for

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[146] AEMC, *Advice on best practice retail price methodology*, final report, 27 September 2013.

[147] The large customer market segment consists of Standard Asset Customers (SACs) (Large), Connection Asset Customers (CACs) and Individually Calculated Customers (ICCs).

[148] Energy Queensland, Submission on the QCA interim consultation paper, *Regulated electricity prices for 2018–19*, 31 January 2018.

[149] Canegrowers ISIS, Submission on the QCA interim consultation paper, *Regulated electricity prices for 2018–19,* 12 January 2018, p. 3.

Ergon Energy that are too high.[150] In its submission on the draft determination, Cotton Australia said headroom should be removed, on the basis that[151]:

> (1) The provision of a "headroom" charge is to allow retailers room to offer discounts, to help develop an atmosphere of competition. In the Ergon Network area there is no effective competition for the vast majority of users. Therefore, making the "headroom" charge redundant.
>
> (2) Competition should be funded by innovation and efficiency, not by artificial inflation of the price. The application of a 5% headroom charge is no different to a retailer increasing prices by 5% one day, so it can offer a 5% discount the next.

QEUN also advocated for the headroom allowance to be removed from notified prices.[152]

6.2.1 Considerations

It is difficult to assess the impact of more cost-reflective notified prices and the inclusion of headroom in facilitating retail competition. In the large customer market segment in regional Queensland, where notified prices more closely reflect the actual costs of supply in some areas but are well below cost in other areas, there has been an increase in the number of large and very large customers on market contracts in recent years. The majority of this increase has occurred in the Ergon Distribution east pricing zone, transmission region one (where notified prices most closely reflect the actual cost of supply). This region has also seen a large increase in the total number of large customers since last year.

Despite these developments, some barriers to the development of widespread competition in the large customer market segment remain:

- Setting uniform retail tariffs means that customers in higher-cost areas of regional Queensland are not paying cost-reflective notified prices and some very large customers (specifically Individually Calculated Customers) are paying notified prices based on network charges of Connection Asset Customers, rather than cost-reflective network charges.
- A number of large and very large customers in regional Queensland are still accessing obsolete and transitional tariffs, which are generally not cost-reflective.
- Once large or very large customers accept a market contract, they are not allowed to return to Ergon Retail, which may discourage them from accepting a market offer.[153]

Even if headroom is set at a reasonable level, these barriers are likely to continue to limit the extent to which competition develops throughout regional Queensland in the foreseeable future. However, we consider it is appropriate to continue to include an allowance for headroom so the level of notified prices does not create a barrier to competition (to the extent possible) and to encourage customers to engage in the market and actively seek out better offers.

[150] Canegrowers, Submission on the QCA draft determination, *Regulated electricity prices for 2018–19*, 12 April 2018, p. 2.
[151] Cotton Australia, Submission on the QCA draft determination, *Regulated electricity prices for 2018–19*, 9 April 2018, p. 5.
[152] Queensland Electricity Users Network, Submission on the QCA draft determination, *Regulated electricity prices for 2018–19*, 13 April 2018, p. 13.
[153] This restriction also applies to any future occupants of the premises (e.g. if the premises are sold or occupied by a new tenant).

QCA position

We consider it reasonable to conclude that the previous approach of including a headroom allowance for large and very large business customers at 5 per cent of total costs has encouraged competition in the large customer market segment in regional Queensland, especially in areas where notified prices most closely reflect the actual cost of supply. In addition, given the substantial increase in the number of customers in Ergon east pricing zone, transmission region one, we consider it is important to continue to provide customers the opportunity to move from notified prices to market offers.

In the absence of any further information or compelling reasons to change the level of headroom, our final decision is to continue to include an allowance for headroom in notified prices for large and very large business customers, and to maintain the allowance at 5 per cent of total estimated efficient costs.

6.3 Cost pass-through mechanism

Cost pass-through mechanisms are used by regulators to mitigate the risk that the costs allowed for in regulated prices are higher or lower than the actual efficient costs of supply. Cost pass-through mechanisms are usually restricted to events that are outside the control of the regulated entity.

For the 2014–15 price determination, we applied a cost pass-through mechanism for the first time to pass through an under-recovery of costs in 2013–14 associated with the SRES.[154] The SRES costs incurred by retailers are determined by the binding small-scale technology percentages (STPs) set by the Australian Clean Energy Regulator.

We continued with this approach for the 2015–16, 2016–17 and 2017–18 price determinations. For the 2017–18 price determination, we applied a negative pass-through of a small over-recovery of SRES costs in 2016–17 into 2017–18 notified prices.

We also previously proposed that the cost pass-through 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, a pass-through for network charges has not been needed to date.

In previous price determinations, we considered that not allowing a 'true-up' of costs resulting from particular events that are outside retailers' control may result in notified prices being out of alignment with the estimated benchmark costs of supply[155], which could deviate from the intent of the UTP.

Canegrowers ISIS supported the inclusion of the cost pass-through mechanism.[156]

6.3.1 Pass-through of SRES costs incurred in 2017–18

As discussed in section 4.2.1, the STP determines the number of small-scale technology certificates (STCs) a retailer must surrender to discharge its SRES liabilities.

[154] See Chapter 4 for details on how SRES costs are estimated.

[155] In the 2017–18 price determination, notified prices for residential and small business customers were based on the costs of supply in south east Queensland, and notified prices for large and very large business customers were based on the costs of supply in Ergon Distribution east pricing zone, transmission region one.

[156] Canegrowers ISIS, Submission on the QCA interim consultation paper, *Regulated electricity prices for 2018–19*, 12 January 2018.

Retailers incur SRES liabilities for each calendar year, but notified prices are determined for each financial year. While the final STP for the first and second quarters of the prospective financial year is known when setting notified prices, the final STP for the third and fourth quarters is not. To overcome this, ACIL estimates the SRES costs using the average of the final STP (for the first two quarters of the financial year). Where the final STP for the last two quarters turns out to be different from the non-binding STP, the SRES allowance in notified prices may under- or over-compensate retailers for their actual SRES liabilities.

Based on the final STP for 2018, retailers have under-recovered the costs of complying with the SRES in 2017–18. This is because the final STP for the second half of 2017–18 is 17.08 per cent, which is higher than the non-binding STP of 8.06 per cent used for setting the SRES component of notified prices in 2017–18. As explained in section 4.2.1, the substantial difference between the two rates is largely due to a greater than forecast number of STCs created in 2017, as a result of increased uptake of solar PV.

Accounting for these under-recovered SRES costs to retailers increases the usage charge by approximately 0.2429 c/kWh for residential tariffs and by 0.2462 c/kWh for small business tariffs. The comparatively large SRES cost pass-through value relative to values in previous years (as seen in Figure 14) can be attributed to the considerable difference between the binding and non-binding STP for 2018. Greater detail of the SRES cost pass-through calculation is displayed in Appendix J. The figure below presents our assessment of the 2017–18 under-recovered amounts.

Figure 14: Historical size of the SRES cost pass-through, residential customers

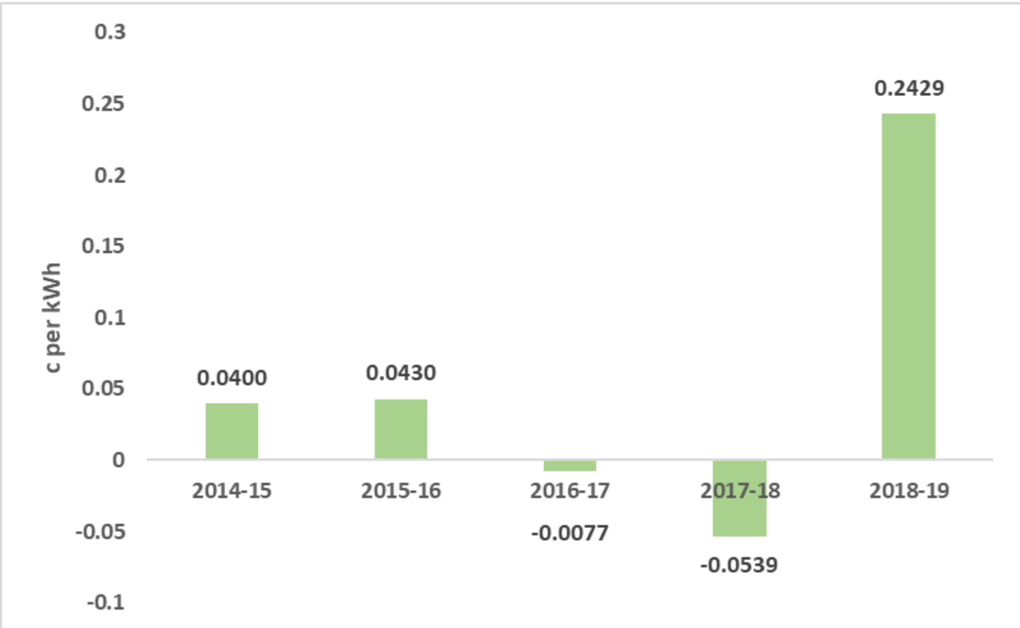


Table 19 SRES under-recoveries in 2017–18

Settlement class	*Retail tariff*	*SRES under-recovery*
		c/kWh
Energex NSLP–residential and controlled loads	11, 12A, 14, 31, 33	0.2429
Energex NSLP–small business and unmetered supply	20, 22A, 24, 41, 91	0.2462
Ergon Energy NSLP–small, medium, large (SAC) demand and streetlights	44, 45, 46, 50, 71	0.2345
Ergon Energy NSLP—high voltage—CAC & ICC	51A , 51B, 51C, 51D, 52A, 52B, 52C, 53	0.2204

Note: SRES under-recovery includes allowances for energy losses, variable retail costs, standing offer adjustment/ headroom and the time value of money.

QCA position

Our final decision is to require a positive pass-through of an under recovery of 2017–18 SRES costs into 2018–19 notified prices, as set out in the table above.

We consider this pass-through appropriate, given the QCA's intent for the pass-through mechanism has always been for it to operate symmetrically. It also ensures that notified prices are aligned with the costs of supply in south east Queensland, which is consistent with the intent of the UTP. This approach is largely consistent with the approach adopted in the 2017–18 price determination.

We have previously considered that the cost pass-through mechanism could be used to account for material differences in network charges. However, as the final 2017–18 network charges billed to retailers did not differ from those used to set 2017–18 notified prices, no adjustment for this cost component is required.

Depending on the regulatory framework that will apply to future price determinations and on whether any changes are made to the UTP or the subsidy arrangements underpinning it, the pass-through provisions discussed here may, or may not, remain appropriate in the future. Therefore, we cannot commit to the continued availability of a cost pass-through mechanism beyond this price determination.

6.4 Enabling additional retailer services and execution of government policy

Under section 91A of the Electricity Act, a retailer must charge standard contract customers the notified price for providing customer retail services, if notified prices apply. This means that retailers operating anywhere other than Energex's distribution area, must offer notified prices.

An assigned retailer (which includes Ergon Retail)[157] may only provide customer retail services if it is the local area retailer for the relevant geographical area (no existing connection) or both the local area retailer and the financially responsible retailer (existing connection).[158] Customer retail

[157] Assigned retailer means a government-owned corporation declared, under section 64C of the *National Energy Retail Law (Qld)* (NERLQ), to be an assigned retailer for subdivision 2 of division 12A of part 2 of the NERLQ. See NERLQ, part 3, section 9.
[158] NERLQ, section 19C(1).

services may only be provided under a standard retail contract (small customers) or under the retailer's large customer standard retail contract (large customers).[159]

This means that as the assigned retailer[160], in order for Ergon Retail to charge customers for additional customer retail services, or to enact its EasyPay Reward scheme, these variations to the standard retail contract for small customers must be included in notified prices.

This is why the delegation requires us to consider matters that are effectively government policy decisions in determining notified prices—for those government policies to have effect for standard contract customers, they must be incorporated into notified prices.

Additional retailer services

The delegation seeks for the QCA to consider enabling retailers to charge standard contract customers for amounts in accordance with a program or scheme for the purchase of electricity from renewable or environmentally friendly sources[161], if the:

- customer voluntarily participates in the program or scheme
- additional amount is payable under the program or scheme
- retailer gives the customer prior written notice of any change to the additional amount payable under the program or scheme.

EasyPay Reward

The delegation also asks the QCA to consider continuing to include the EasyPay Reward scheme in notified prices.

The government announced Ergon Retail's EasyPay Reward scheme in October 2017, and amended notified prices to give effect to the scheme from 1 December 2017. As described in the delegation, eligible customers are entitled to an annual reward of $75 (residential) or $120 (small business).

To be eligible, customers must agree to three conditions, namely to:

- receive bills electronically
- pay bills either weekly, fortnightly or monthly (as agreed) by direct debit or CentrePay by the due date
- accept bill smoothing.

The EasyPay Reward scheme will end on 30 June 2020.

This is the first time the QCA has been asked to consider both the additional renewable or environmentally friendly retailer services, and the EasyPay Reward scheme.

Both Queensland Farmers' Federation (QFF)[162] and the QEUN noted that the annual reward for small businesses was of extremely limited value. QEUN calculated that it was less than one per

[159] NERLQ, section 19C(4).
[160] *National Energy Retail Law (*Qld*) Regulation 2014*, section 5(1)b.
[161] Whether or not those additional amounts are calculated on the basis of the customer's electricity usage.
[162] QFF, Submission on the QCA interim consultation paper, *Regulated electricity prices for 2018–19*, 15 January 2018.

cent of the electricity bill for an average small business, or 2.8 per cent for a median regional small business.[163]

QEUN also proposed a number of changes to the eligibility requirements of the scheme.

QCA position

No stakeholder feedback was received with regard to the additional customer retail service activities (and charges). We note the proposed changes will not affect customers' rights to standard contract terms and conditions or notified prices. We consider that as the government has overall responsibility for Ergon Retail's business, there is no reason for the QCA to refuse to enable the changes proposed with regard to renewable or environmentally friendly retailer services.

We note that while stakeholders provided feedback on the EasyPay Reward scheme, comments were focused on policy aspects of the scheme, which are outside the scope of this determination. We have included stakeholders' comments in Appendix C, noting they are out of scope.

The EasyPay Reward scheme is a government policy initiative, and does not affect customer rights to standard contract terms and conditions or notified prices, if customers would prefer not to access the scheme. On this basis, we do not consider there is any reason for the QCA to oppose the continued application of the scheme, if Ergon Retail's customers have requested access to the scheme.

[163] QEUN, Submission on the QCA interim consultation paper, *Regulated electricity prices for 2018–19*, 17 January 2018.

7 TRANSITIONAL ARRANGEMENTS

The April 2018 delegation requires that the QCA consider maintaining transitional arrangements for tariffs classed as transitional or obsolete, which include farming and irrigation tariffs.

The QCA has decided to:

- *maintain existing transitional arrangements for tariffs 20 (large), 21, 22 (small and large), 37, 47, 48, 62, 65, and 66*
- *maintain existing transitional periods for tariffs 20 (large), 21, 22 (small and large), 37, 47, 48, 62, 65 and 66*
- *allow all customers access to transitional tariffs 20 (large), 21, 22 (small and large), 62, 65, and 66*[164]
- *maintain transitional and obsolete tariffs at their 2017–18 price levels.*

7.1 Transitional arrangements for transitional and obsolete tariffs

Existing transitional and obsolete tariffs

Some business customers, including farmers and irrigators, are currently supplied under transitional or obsolete tariffs. These are legacy retail tariffs for which there is no corresponding network tariff, and which as a result cannot be determined under an N+R approach.

In previous price determinations, the QCA decided that most of these existing transitional and obsolete tariffs[165] should continue to be available for a transitional period, because some customers would face significant financial impacts if they were moved to a standard business tariff.

The delegation requires that we consider maintaining these transitional arrangements and continuing to allow all customers access to transitional tariffs.

Submissions

Canegrowers and Energy Queensland supported the continuation of transitional tariffs.

QCA position

The QCA has maintained transitional arrangements for existing transitional and obsolete tariffs.

Data from Ergon Retail[166] shows that while a number of customers would be better off on standard business tariffs, some customers on existing transitional and obsolete tariffs are paying electricity bills below standard business tariffs and below the cost of supplying them with electricity. We consider it appropriate to maintain transitional arrangements, as some customers would face price impacts if they were immediately moved to the standard business tariffs, which all other businesses in regional Queensland must pay.

[164] Tariffs 37, 47, and 48 are obsolete and are not accessible to new customers.
[165] Tariffs 20 (large), 21, 22 (small and large), 37, 47, 48, 62, 65 and 66.
[166] See Appendix E.

7.1.1 Transitional periods

In previous price determinations, the QCA determined that transitional and obsolete tariffs should be maintained for a transitional period to allow time for businesses to prepare for the transition to standard business tariffs, and recoup some of the value of investments made to suit the level and structure of transitional and obsolete tariffs. In the 2013–14 price determination, we determined that tariffs 20 (large), 21, 22 (small and large), 37, 62, 65 and 66 would be made available until 30 June 2020. In the 2017–18 price determination, we determined that tariffs 47 and 48 would be made available until 30 June 2022.

Submissions

The Queensland Farmers' Federation (QFF) supported maintaining transitional arrangements and extending them beyond 2020, arguing that businesses need more time to make the transition to standard tariffs. Cotton Australia supported extending transitional and obsolete tariffs indefinitely for current customers.

Energy Queensland supported maintaining the current transitional periods, to provide customers with certainty and allow them to make appropriate investment decisions.

QCA position

The QCA has maintained the existing transitional periods established in previous pricing determinations for transitional and obsolete tariffs. We have considered suggestions that transitional periods be extended. The QCA remains of the view that the current transitional periods are appropriate. Businesses will have had up to seven years to prepare for the transition when these tariffs ultimately expire, which the QCA considers to be an adequate period for businesses to adapt their operations to the standard business tariff structures which other regional businesses already face.

The length of transitional periods was also considered by the Queensland Productivity Commission (QPC) in its electricity price inquiry, and by the Queensland Government. The government did not support extending any transitional period[167], and has announced a $10 million regional business customer support package to assist regional businesses on transitional and obsolete tariffs, including farmers and irrigators, to understand their electricity use, minimise their electricity costs and make informed choices about future tariff options.[168]

Given the transitional period for most transitional and obsolete tariffs expires in 2020, we encourage customers on these tariffs to contact their retailer for advice on what the most appropriate tariffs will be for their business, and how best to adapt to standard business tariffs.

7.1.2 Access to transitional tariffs

In the 2013–14 price determination, the QCA decided that all business customers should have access to tariffs 20 (large), 21, 22 (small and large), 62, 65, and 66 throughout the transitional period, subject to individual tariff terms and conditions.[169] We made this decision so that all businesses eligible for these tariffs are treated equitably. In subsequent determinations we noted that we would consider closing access to transitional tariffs to new customers if there was a

[167] Queensland Government, *Queensland Government response to the Queensland Productivity Commission Electricity Pricing Inquiry*, November 2016, p. 11.
[168] See https://www.dews.qld.gov.au/__data/assets/pdf_file/0018/940032/regional-business.pdf.
[169] Tariff 37 cannot be accessed by new customers, as it was classified as obsolete on 1 July 2007.

significant increase in the number of customers accessing transitional tariffs, and thereby an increase in the subsidy paid by taxpayers.

In the 2017–18 price determination, we continued to allow open access to transitional tariffs.

Submissions

Cotton Australia and the QFF supported continued access to transitional tariffs. Canegrowers Isis did not support transitional tariffs being made obsolete in 2018–19, and Energy Queensland supported maintaining the existing transitional periods. Canegrowers Isis noted that while many irrigators had moved to tariff 66 in the past year, this was due to concessions offered in response to the drought declaration.

QCA position

The QCA has decided to continue to allow all business customers access to transitional tariffs 20 (large), 21, 22 (small and large), 62, 65, and 66. While data from Ergon Retail shows a number of customers are switching between transitional tariffs, the data does not demonstrate that this behaviour is significantly increasing the subsidy paid by taxpayers beyond the levels already paid for transitional and obsolete tariffs. In addition, data from Ergon Retail was consistent with the observation by Canegrowers Isis that a significant number of customers were moving between tariffs in response to specific concessions offered by Ergon Retail in response to the drought declaration.

7.1.3 Escalation of transitional and obsolete tariffs

Transitional and obsolete tariff charges are not determined using an N+R approach like for other tariffs. In past price determinations, the QCA's general approach[170] to setting charges for each transitional and obsolete tariff was to adjust the charges based on the percentage change in the charges in the standard business tariff that customers would otherwise pay. We then applied additional escalation factors to these increases to limit charges for transitional and obsolete tariffs falling further below cost in dollar terms.[171] Escalation factors of 1.1, 1.25 or 1.5 were applied, depending on the gap between customer bills under transitional and obsolete tariffs and corresponding standard business tariffs. Where the largest proportion of customer bills would likely be impacted by 10 per cent or less, an escalation factor of 1.1 was applied; where impacts were between 10 per cent and 100 per cent, an escalation factor of 1.25 was applied; and where impacts exceeded 100 per cent, an escalation factor of 1.5 was applied. Transitional and obsolete tariffs were escalated on this basis in 2017–18.

Submissions

Canegrowers Isis and the QFF highlighted concerns about the level of electricity prices, especially the impact that electricity prices had on the international competitiveness of irrigation businesses on transitional tariffs.

Cotton Australia recommended that transitional and obsolete tariffs should be reduced in line with standard business tariffs, or to apply inverse escalation factors where there is a decrease.

[170] In the 2015–16 determination, charges in standard business tariffs fell slightly. We determined that maintaining charges in transitional and obsolete tariffs at their 2014–15 levels would be sufficient to limit these charges from falling further below cost in dollar terms.

[171] As any given percentage increase in a higher bill (such as for a standard business tariff) will be greater, expressed in dollar terms, than the same percentage increase in a smaller bill (such as for a transitional or obsolete tariff). For example, if two bills of $1,000 and $2,000 each increased by 10 per cent to $1,100 and $2,200 respectively, the dollar difference between them would increase from $1,000 to $1,100.

Cotton Australia argued that as the QCA had applied escalation factors in the past, in the interests of consistency, escalation factors should be applied in reverse when price decreases occur. Energy Queensland supported applying an appropriate escalation factor to reduce the attractiveness of these tariffs over time, while avoiding significant price impacts on customers. Energy Queensland noted that applying an appropriate escalation factor would also put downward pressure on the level of subsidy customers receive over time.

QCA position

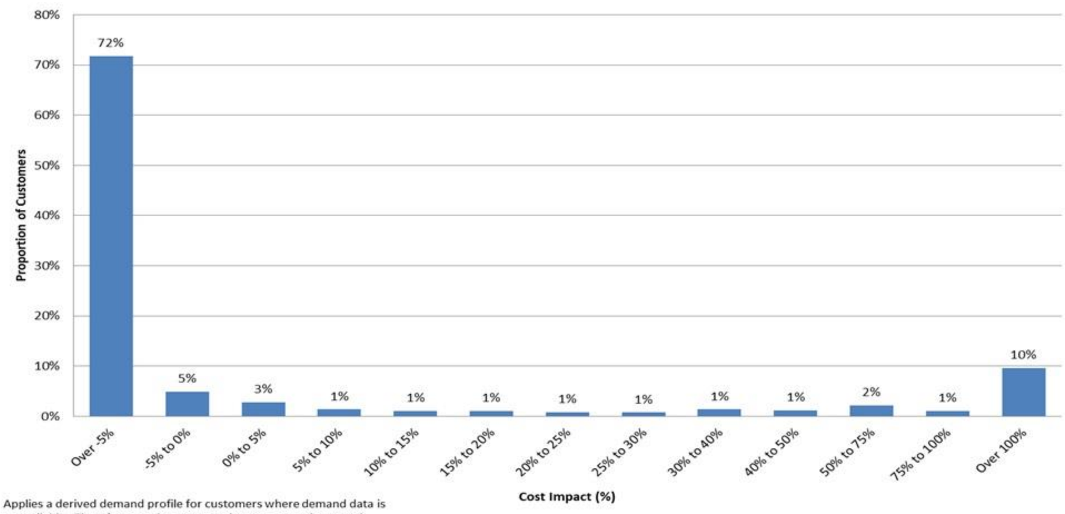
The QCA has maintained transitional and obsolete tariffs at their existing price levels. Given that standard business tariffs are forecast to decrease, we consider it is unnecessary to increase transitional prices or apply escalation factors—as the reduction in standard business tariffs will act to somewhat reduce the difference between transitional and standard business tariffs in dollar terms. This approach is consistent with our 2015–16 price determination, where standard business tariffs also decreased.

The QCA has considered submissions suggesting that prices for transitional and obsolete tariffs should fall, including Cotton Australia's suggestion that escalation factors be applied albeit in 'reverse'. However, the QCA is concerned about the impact this may have on the transition process.

The QCA introduced transitional arrangements to allow time for businesses facing large bill increases when moving to standard business tariffs to prepare for the transition to standard business tariffs. The QCA has maintained these arrangements for 2018–19, as some remaining transitional tariff customers are likely to face large bill increases when their transitional period expires. However, the QCA is increasingly concerned about the number of customers that have not made the transition to standard business tariffs, despite the fact they would save money immediately by doing so.

For example, while 10 per cent of customers on tariff 20 (large) would have seen more than a 100 per cent bill increase in 2017–18, 77 per cent of these customers could have paid less for their electricity in 2017–18 if they had moved to standard business tariffs (Figure 15).

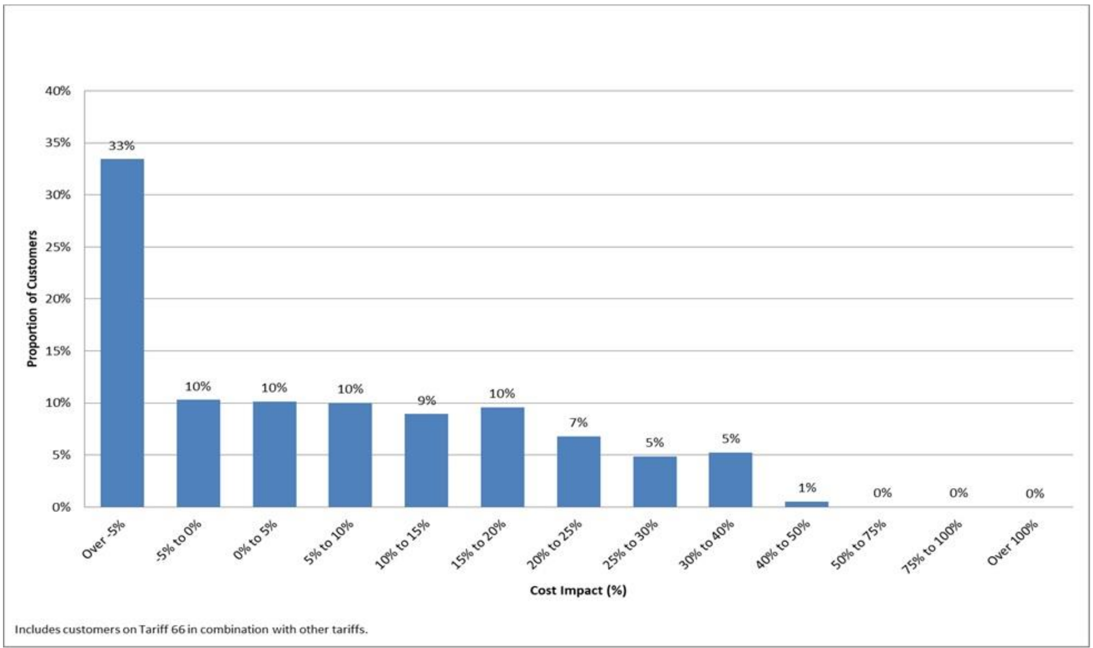
Figure 15 Impact on electricity bills of customers on tariff 20 (large) moving to standard business tariffs



Applies a derived demand profile for customers where demand data is unavailable. Therefore cost impacts may be over- or under-stated.
Includes customers on Tariff 20 (Large) in combination with other tariffs.

The QCA acknowledges the comments made by stakeholders, and in particular irrigators, about the impact of prices on their businesses. However, data from Ergon Retail shows a significant number of customers on irrigation tariffs could have paid less for their electricity in 2017–18 by moving to standard business tariffs. Almost half of small customers on irrigation tariff 66 would have paid less for their electricity in 2017–18 by simply moving to standard business tariff 20 (Figure 16).

Figure 16 Impact on electricity bills of small customers on tariff 66 moving to tariff 20



The QCA considers Cotton Australia's suggestion that customers currently on transitional and obsolete tariffs should receive clear tariff comparisons from their retailer has merit. We acknowledge that comparisons may be difficult for some large customers due to metering limitations, but this is not the case for tariffs such as tariff 20—which can easily be calculated using existing metering data. The QCA considers this would positively impact a significant number of business customers, and better facilitate the transition to standard business tariffs.

While we consider the suggestion from Cotton Australia to apply escalation factors in reverse also has some merit, we are concerned that lowering transitional and obsolete tariffs at this time will lead to a greater impact on customers facing bill increases at the end of the transition period. It would also likely lead to customers, who should have already made the transition, choosing to remain on transitional and obsolete tariffs—when they would pay lower electricity bills by making the transition to standard business tariffs more quickly.

7.2 Conclusion on transitional arrangements

Table 20 outlines our final determination on transitional arrangements for 2018–19.

Table 20 Transitional arrangements for 2018–19

Obsolete or transitional tariff	*Years to be retained*	*2018–19 price change (%)*
Tariff 20 (large)—transitional	2	0
Tariff 21—transitional	2	0
Tariff 22 (small and large)—transitional	2	0
Tariff 37—obsolete	2	0
Tariff 47—obsolete	4	0
Tariff 48—obsolete	4	0
Tariff 62—transitional	2	0
Tariff 65—transitional	2	0
Tariff 66—transitional	2	0

8 FINAL DETERMINATION

This chapter sets out our final determination of regulated retail electricity prices (notified prices) to apply from 1 July 2018 to 30 June 2019, as well as draft customer impacts.

Under the network plus retail (N+R) costs approach, retail tariffs are aligned with network tariffs regulated by the AER. The network tariffs used to develop retail tariffs are discussed in Chapter 3.

Chapters 4, 5 and 6 set out our decisions on energy costs; retail costs, which comprise the R component of the retail tariff calculation; and other issues.

Chapter 7 sets out our decisions on notified prices and transitional arrangements for retail tariffs that have been declared transitional or obsolete.

The tariff schedule for 2018–19 is provided in Appendix F. The regulated retail tariffs and notified prices are published in a tariff schedule, which includes other information, such as the eligibility criteria and terms and conditions for each tariff.

The tables in section 8.1 set out regulated retail tariffs and prices for 2018–19. All tariffs in section 8.1 exclude goods and services tax (GST).

8.1 Notified prices

Table 21 Regulated retail tariffs and prices for residential customers (excl. GST), 2018–19

Retail tariff	*Fixed charge[a]*	*Usage charge (peak)*	*Usage charge (flat/off-peak)*	*Demand charge (peak)*	*Demand charge (off-peak)*
	c/day	*c/kWh*	*c/kWh*	*$/kW/mth*	*$/kW/mth*
Tariff 11—residential (flat rate)	88.948		25.298		
Tariff 12A—residential (time-of-use)[b]	77.628	62.666	21.474		
Tariff 14—residential (time-of-use demand)[c]	46.420		17.593	62.777	9.241
Tariff 31—night rate (super economy)			17.433		
Tariff 33—controlled supply (economy)			21.050		

a *Charged per metering point.*

b *Peak—3 pm to 9.30 pm (December, January and February); off- peak—all other times.*

c *Peak demand—3 pm to 9.30 pm (December, January and February); off-peak demand—3 pm to 9.30 pm (March to November).*

Table 22 Regulated retail trial tariffs and prices for residential customers (excl. GST), 2018–19

Retail tariff	*Fixed charge (Band 1)*[a]	*Fixed charge (Band 2)*[b]	*Fixed charge (Band 3)*[c]	*Fixed Charge (Band 4)*[d]	*Fixed charge (Band 5)*[e]	*Usage charge*	*Top-up charge*[f]
	$/mth	*$/mth*	*$/mth*	*$/mth*	*$/mth*	*c/kWh*	*$/kWh/ mth*
Tariff 15—residential	37.221	44.382	51.543	58.704	65.865	18.659	4.207

a *Band 1 (no network access allowance included during the summer peak window (SPW), where the SPW is defined as November to March, any day between 4 pm and 9 pm).*

b *Band 2 (up to 5 kWh network access allowance included during the SPW).*

c *Band 3 (up to 10 kWh network access allowance included during the SPW).*

d *Band 4 (up to 15 kWh network access allowance included during the SPW).*

e *Band 5 (up to 20 kWh network access allowance included during the SPW).*

f *The summer peak top-up charge is applicable to the single maximum daily energy consumed above the limit of the customer's nominated access band during the month. This top-up charge is only applicable to network use during the SPW, i.e. November to March, any day between 4 pm and 9 pm. Once the network access allowance for the chosen band has been exceeded, the exceeded amount (in kWh) remains available for the customer for the rest of the month until the allowance is reset back to the original nominated allowance at the start of the coming month.*

Table 23 Regulated retail tariffs and prices for small business and unmetered supply customers, other than street lighting (excl. GST), 2018–19

Retail tariff	*Fixed charge*[a]	*Usage charge (peak)*	*Usage charge (flat/off-peak)*	*Demand charge (peak)*	*Demand charge (off-peak/flat)*
	c/day	*c/kWh*	*c/kWh*	*$/kW/mth*	*$/kW/mth*
Tariff 20—business (flat rate)	122.963		26.442		
Tariff 22A—business (time-of-use)[b]	122.963	52.954	22.982		
Tariff 24—business (time-of-use demand)[c]	63.597		18.762	90.312	9.302
Tariff 41—low voltage (demand)	529.103		16.128		23.708
Tariff 91—unmetered			24.280		

a *Charged per metering point.*

b *Peak—10 am to 8 pm on weekdays (December, January and February); off-peak—all other times.*

c *Peak demand—10 am to 8 pm on weekdays (December, January and February); off-peak demand—10 am to 8 pm on weekdays (March to November).*

Table 24 Regulated retail tariffs and prices for large business and street lighting customers (excl. GST), 2018–19

Retail tariff	***Fixed charge***	***Usage charge (peak)***	***Usage charge (flat/off-peak)***	***Demand charge (peak)***	***Demand charge (off-peak/flat)***
	c/day	***c/kWh***	***c/kWh***	***$/kW/mth***	***$/kW/mth***
Tariff 44—over 100 MWh small (demand)	4588.419		14.620		36.125
Tariff 45—over 100 MWh medium (demand)	15235.233		14.620		26.884
Tariff 46—over 100 MWh large (demand)	39928.340		14.608		22.031
Tariff 50—over 100 MWh seasonal time-of-use (demand)[a]	3609.432	14.264	16.769	65.285	11.782
Tariff 71—street lighting[b]	0.525		31.140		

a *Peak demand is charged on maximum metered demand exceeding 20 kW on weekdays between 10 am and 8 pm in summer months (December, January and February). Off-peak demand is charged on maximum metered demand exceeding 40 kW during non-summer months (March to November). Peak usage is charged on all usage in summer months (December, January and February). Off-peak usage is charged on all usage during non-summer months (March to November).*

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

Table 25 Regulated retail tariffs and prices for very large business customers (excl. GST), 2018–19

Retail tariff	***Fixed charge***	***Usage charge (peak)***	***Usage charge (flat/off-peak)***	***Connection unit***	***Capacity (flat/off-peak)***	***Demand charge (flat/peak)***	***Excess reactive power charge***
	c/day	***c/kWh***	***c/kWh***	***$/day/unit***	***$/kVA of AD/mth***	***$/kVA/mth***	***$/excess kVAr/mth***
Tariff 51A—over 4 GWh high voltage (CAC 66kV)	25306.357		14.047	10.081	4.500	2.672	4.454
Tariff 51B—over 4 GWh high voltage (CAC 33kV)	18481.357		14.047	10.081	5.502	2.755	4.454
Tariff 51C—over 4 GWh high voltage (CAC 22/11kV Bus)	17011.357		14.051	10.081	6.392	3.340	4.454
Tariff 51D—over 4 GWh high voltage (CAC 22/11kV Line)	16171.357		14.071	10.081	12.461	6.736	4.454
Tariff 52A—over 4 GWh high voltage (CAC STOUD 33/66kV)[a]	12706.357	13.578	13.979	10.081	6.838	12.248	4.454
Tariff 52B—over 4 GWh high voltage (CAC STOUD 22/11kV Bus)[a]	12706.357	13.582	13.983	10.081	4.834	45.014	4.454
Tariff 52C—over 4 GWh high voltage (CAC STOUD 22/11kV Line)[a]	12706.357	13.602	14.003	10.081	8.842	80.540	4.454
Tariff 53—over 40 GWh high voltage (ICC)[b]	15984.499		14.071		12.461	6.736	4.454

a Peak demand is charged on maximum kVA demand during summer peak demand window times (weekdays between 10 am and 8 pm in December, January and February). Off-peak capacity is charged on the greater of either the customer's kVA authorised demand (AD) or the actual monthly half-hour maximum kVA demand. The actual monthly maximum demand is measured all year excluding summer peak demand window times (all year excluding weekdays between 10 am and 8 pm in December, January and February). Peak usage is charged on all usage in summer months (December, January and February). Off-peak usage is charged on all usage during non-summer months (March to November).

b Ergon Distribution advised that ICCs do not incur connection unit charges on a network level.

Table 26 Transitional and obsolete regulated retail tariffs and prices (excl. GST), 2018–19

Retail tariff	*Fixed charge*	*Minimum charge*	*Usage rate 1[a]*	*Usage rate 2[b]*	*Usage rate 3[c]*	*Usage 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 20 (large)—transitional	76.858					37.595		
Tariff 21—transitional		72.631	49.357	46.374	35.303			
Tariff 22 (small and large)—transitional	184.717		49.820		17.543			
Tariff 37[d]—obsolete		30.623	21.807		54.544			
Tariff 62—transitional	78.451		46.516	39.336	16.448			
Tariff 65—transitional	78.003		36.894		20.321			
Tariff 66—transitional	171.915					19.338	37.503	112.759

a *Tariff 21—first 100 kWh; tariff 22—7 am to 9 pm Mon. to Fri.; tariff 37—10.30 pm to 4.30 pm; tariff 62—7 am to 9 pm Mon. to Fri., first 10,000kWh; tariff 65—12hr peak.*

b *Tariff 21—101 to 10,000 kWh; tariff 62—7 am to 9 pm Mon. to Fri., over 10,000 kWh.*

c *Tariff 21—over 10,000 kWh; tariff 22—all other times; tariff 37—4.30 pm to 10.30 pm; tariffs 62 & 65—all other times.*

d *Tariff 37 became obsolete on 1 July 2007. It is only available to customers taking continuous supply under tariff 37 from 30 June 2007.*

Table 27 Obsolete high voltage regulated retail tariffs and prices (excl. GST), 2018–19

Retail tariff	*Fixed charge*	*Usage charge (flat/off-peak)*	*Demand charge (off-peak/flat)*
	c/day	*c/kWh*	*$/kW/mth*
Tariff 47—obsolete	44689.726	12.446	27.864
Tariff 48—obsolete	46712.140	12.874	28.822

8.2 Customer impacts

What impact does the QCA's price determination have on customer bills?

Figures 17–19 compare the annual amount typical customers[172] would have paid under 2017–18 notified prices, with the annual amount they would pay under 2018–19 notified prices. Customers will also incur metering charges in addition to the amounts shown in these figures. Customers' metering charges will vary depending on a range of factors, including the type of meter they have installed, the number of different tariffs they use and whether they have a solar photovoltaic (PV) system. As these charges vary from customer to customer, they have not been included in the customer impact analysis.

Residential customers

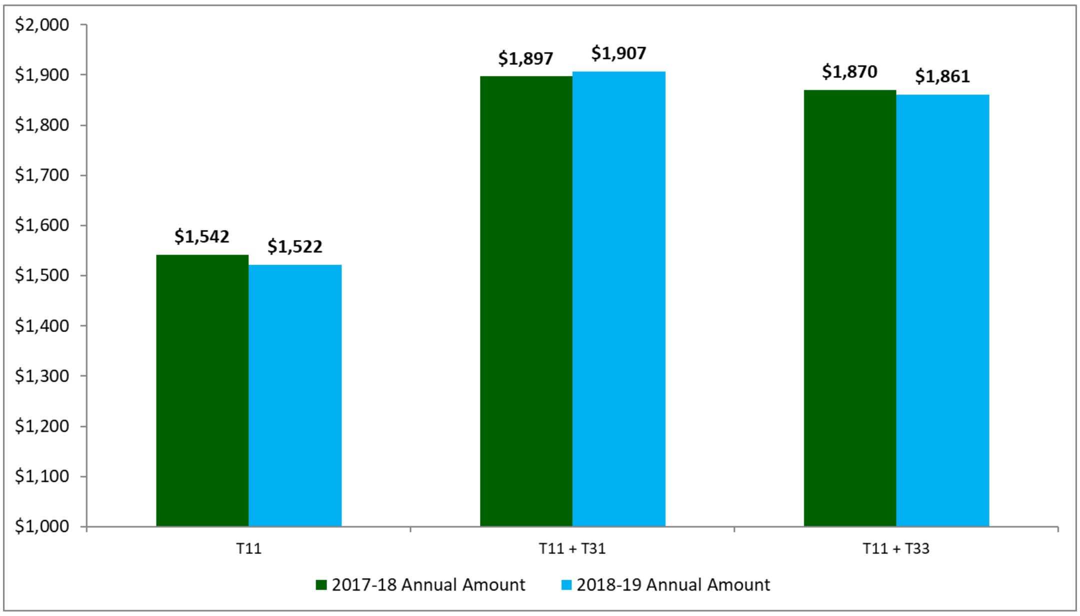
The main retail tariff for residential customers is tariff 11. Many customers on tariff 11 are also on one of the controlled load tariffs (tariffs 31 and 33).[173]

A typical residential customer on tariff 11 would pay $20 (1.3 per cent) less for their electricity usage and service fee in 2018–19, while a typical customer on a combination of tariffs 11 and 33 would pay $9 (0.5 per cent) less. A typical customer on a combination of tariffs 11 and 31 would see an increase of $11 (0.6 per cent) in their bill. However, the impact on each individual will vary according to their consumption.

[172] The typical customer for a given retail tariff is the median or middle customer in terms of consumption out of all customers on that tariff in regional Queensland. The typical customer consumption data is provided by Ergon Retail. More information appears in Appendix G.

[173] Controlled load tariffs may be used for appliances such as water heaters and pool pumps. These tariffs are cheaper than tariff 11, as customers are only guaranteed supply for a set number of hours (tariff 31 guarantees supply for 8 hours per day and tariff 33 guarantees supply for 18 hours per day).

Figure 17 Impact of the change in notified prices on typical residential customers (incl. GST), 2018–19

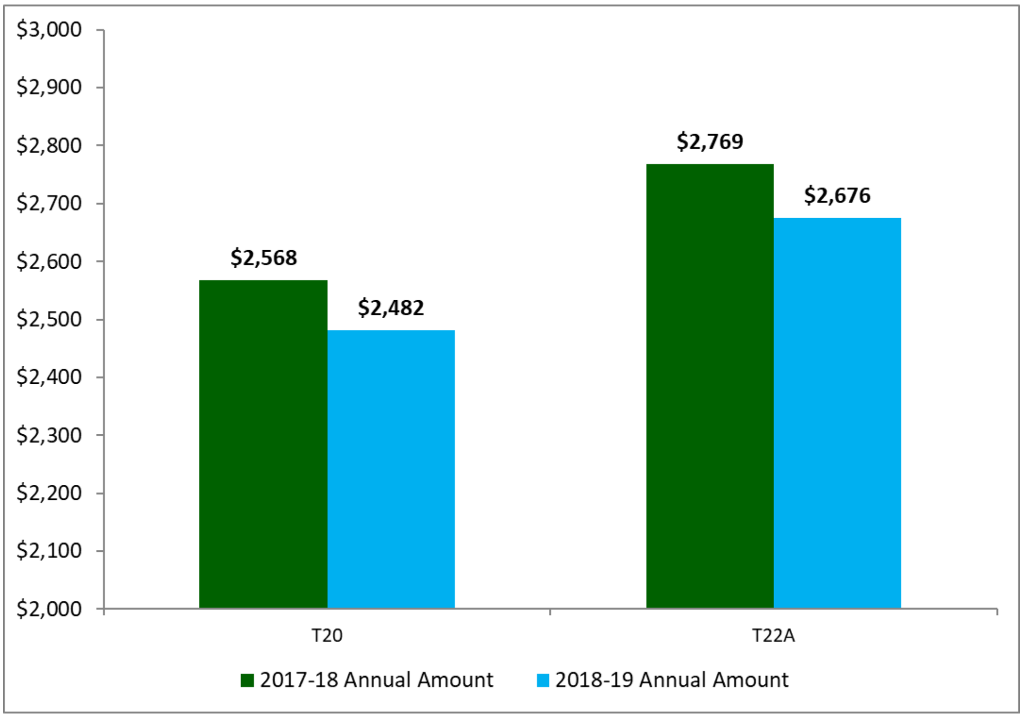


Note: Annual amounts have been rounded to the closest dollar.

Small business customers

A typical small business customer on tariff 20 would pay $86 (3.4 per cent) less for their electricity usage and service fee in 2018–19. A typical small business customer on tariff 22A would pay $93 (3.4 per cent) less for their electricity usage and service fee in 2018–19. However, the impact on each individual business will vary according to their consumption and, if the customer is on tariff 22A, the pattern of their consumption.

Figure 18 Impact of the change in notified prices on typical small business customers (incl. GST), 2018–19

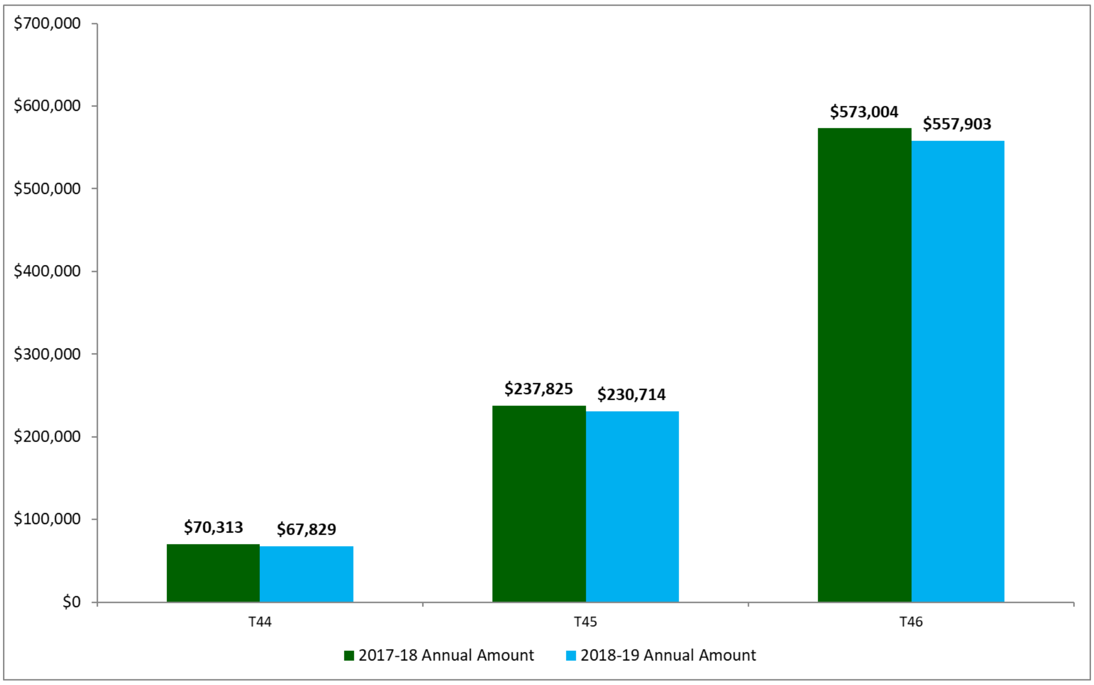


Note: Annual amounts have been rounded to the closest dollar.

Large business customers

A typical large business customer on one of tariffs 44, 45 or 46 would pay between 2.6 per cent and 3.5 per cent less for their electricity usage and service fee in 2018–19. However, it is important to note that bill impacts for individual customers will vary depending on their level and pattern of consumption.

Figure 18 Impact of the change in notified prices on typical large business customers (incl. GST), 2018–19



Note: Annual amounts have been rounded to the closest dollar.

Transitional and obsolete tariff customers

Some business customers, including farmers and irrigators, are supplied under legacy retail tariffs. These transitional and obsolete tariffs have been made available for several years to allow customers to transition their businesses to standard business tariffs. The delegation requires that the QCA consider maintaining these arrangements.

The prices of these tariffs cannot be determined under the standard methodology, as there is no network tariff on which to base network costs. The QCA has maintained transitional and obsolete tariffs at their 2017–18 price levels. Given that standard business tariffs are forecast to decrease for typical customers, we consider increasing transitional prices, or applying escalation factors, is unnecessary, as the reduction in standard business tariffs will act to somewhat reduce the difference between transitional and standard business tariffs in dollar terms. This approach is consistent with our 2015–16 price determination, where standard business tariffs also decreased.

Given the transitional period for most transitional and obsolete tariffs expires in 2020, we encourage customers on these tariffs to contact their retailer for advice on the most appropriate tariffs for their business, and the best way to adapt to standard business tariffs.

Table 28 Transitional arrangements for 2018–19

Obsolete or transitional tariff	*Period to be retained (years)*	*Proposed 2018–19 price increase (%)*
Tariff 20 (large)—transitional	2	0
Tariff 21—transitional	2	0
Tariff 22 (small and large)—transitional	2	0
Tariff 37—obsolete	2	0
Tariff 47—obsolete	4	0
Tariff 48—obsolete	4	0
Tariff 62—transitional	2	0
Tariff 65—transitional	2	0
Tariff 66—transitional	2	0

8.3 Metering charges

The majority of electricity customers pay metering charges that reflect the capital cost and operation of their meter. Metering charges for most customers are regulated by the Australian Energy Regulator (AER) and are not part of notified prices.

While the draft determination proposed setting metering charges for type 1–4 ('smart' or 'interval') meters as part of notified prices, the April 2018 delegation excludes the setting of metering charges for residential and small business customers. The Minister has asked the QCA for separate advice relating to metering charges for these customers—see our website for more information.

The QCA has separated large customer non-AER regulated metering costs from retail operating costs, and has published these metering charges separately. This removes a potential barrier to competition in the contestable market for large customer metering, and ensures only customers with advanced digital meters provided by a metering coordinator appointed by Ergon Retail will be required to pay Ergon Retail for non-AER regulated metering services.[174] Table 29 shows metering fees for large customers supplied via advanced digital meters.

Table 29 Metering charges for large and very large business customers

Customer type	*Metering charge (c/day)*
Standard asset customer (large)	141.078
Connection asset customer	328.542
Individually calculated customer	506.502

[174] See Chapter 5 for further information.

GLOSSARY

AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
AFMA	Australian Financial Markets Association
CAC	Connection Asset Customer
CARC	Customer acquisition and retention costs
CCIQ	Chamber of Commerce and Industry Queensland
CER	Clean Energy Regulator
CLP	Controlled load profile
CPI	Consumer price index
CSO	Community service obligation
c/day	Cents per day
Delegation	The delegation issued by the Minister for Natural Resources, Mines and Energy on 26 April 2018 (see Appendix A).
Energex	Energex Distribution
Ergon Distribution	Ergon Energy Corporation Limited (electricity distribution arm)
Ergon Retail	Ergon Energy Queensland Pty Ltd (electricity retail arm)
Electricity Act	Electricity Act 1994 (Qld)
ESC	Essential Services Commission (Victoria)
ESCOSA	Essential Services Commission of South Australia
GST	Goods and services tax
GWh	Gigawatt hour
HVL	High voltage line
ICC	Individually Calculated Customer
ICP	Interim consultation paper
IPART	Independent Pricing and Regulatory Tribunal
kWh	Kilowatt hour
kVA	Kilovolt Ampere
kVr	Kilovolt reactive
LGC	Large-scale generation certificate
LHS	Left hand side
LRET	Large-scale renewable energy target
LRMC	Long-run marginal cost

MWh	Megawatt hour
N	Network costs
NECF	National Energy Customer Framework
NEM	National Electricity Market
NERL	National Energy Retail Law
NERR	National Energy Retail Rules
Notified prices	Regulated retail electricity prices
NSLP	Net system load profile
N+R	Network + Retail cost build-up methodology
NSW	New South Wales
PSW	Peak summer window
PV	Photovoltaic
QCA	Queensland Competition Authority
QCA Act	Queensland Competition Authority Act 1997
QCOSS	Queensland Council of Social Service
QEUN	Queensland Electricity Users Network
QFF	Queensland Farmers' Federation
QPC	Queensland Productivity Commission
R	Energy and retail costs
RET	Renewable energy target
RHS	Right hand side
ROC	Retail operating costs
RPP	Renewable power percentage
SA	South Australia
SAC	Standard Asset Customer
SPW	Summer Peak Window
SRES	Small-scale renewable energy scheme
STC	Small-scale technology certificate
STOUD	Seasonal time-of-use demand
STP	Small-scale technology percentage
Superseded delegation	The delegation issued by the Minister for Natural Resources, Mines and Energy on 18 December 2017 (see Appendix A).
UTP	Uniform Tariff Policy

APPENDIX A: DELEGATION

The Honourable Dr Anthony Lynham MP
Minister for Natural Resources, Mines and Energy

Queensland Government

Ref: CTS 10959/18

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26 APR 2018

Professor Roy Green
Chair
Queensland Competition Authority
Level 27
45 Ann Street
BRISBANE QLD 4000

Dear Professor Green

I write to you to issue a Delegation and Terms of Reference (ToR) to the Queensland Competition Authority (QCA) for the determination of regulated retail electricity prices in regional Queensland for 2018–19 under section 90AA(1) of the *Electricity Act 1994* (the Act).

While recognising that the prices outlined in the 2018–19 Draft Determination on 28 February 2018 were developed in accordance with the requirements under the Act and result from the recent national Power of Choice reforms, the Government is very concerned about the impact on small consumers that will result from the advanced digital meter prices. As such, I am issuing a new Delegation, attached to this letter excluding the setting of notified prices for residential and small business customer retail metering services.

The new Delegation retains the previously specified methodology used to calculate the regulated retail electricity prices for 2018–19 and the matters the QCA must consider with a revision clarifying the application of the Ergon Energy Queensland Pty Ltd EasyPay Reward scheme.

Because there are no methodology changes, I consider the existing rounds of public consultation already undertaken by the QCA to be satisfactory. In accordance with section 90AA(3)(e) of the Act, further public consultation is not required.

The Government's Uniform Tariff Policy and promoting greater levels of retail competition remain important considerations when setting regulated retail electricity prices in regional Queensland.

The deregulation of retail electricity prices for small customers in south east Queensland (SEQ) on 1 July 2016 removed a reference point for the determination of prices in regional Queensland. The Government retains its view that a Standing Offer adjustment continues to be an important component of notified prices ensuring that regulated prices for small customers in regional Queensland should broadly reflect the expected prices for small customers on Standing Offers in SEQ. The Government considers that a Standing Offer contract provides additional value for consumers compared to a Market Offer, for example through additional protections to consumers contained in the terms and conditions in a Standing Offer contract, as well as providing a signal for retail competition in regional Queensland. Therefore, the QCA should continue to give consideration to maintaining the Standing Offer adjustment at the current level. The QCA should also consider the impact of CleanCo, where relevant, when determining regulated retail electricity prices for 2018–19.

My department will separately forward some suggestions for minor changes to the Tariff Schedule for the QCA's consideration. These are predominantly administrative in nature.

The new Delegation requires that the QCA issue its Final Determination by 31 May 2018.

If you have any questions please contact, Mr Ben Barr, Deputy Director-General, Energy, Department of Natural Resources, Mines and Energy who will be pleased to assist you and can be contacted on telephone 3199 4977.

Yours sincerely

Dr Anthony Lynham MP
Minister for Natural Resources, Mines and Energy

ELECTRICITY ACT 1994
Section 90AA(1)

DELEGATION

I, Honourable Dr Anthony Lynham, Minister for Natural Resources, Mines and Energy, 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 Standard Contract Customers for customer retail services in Queensland, other than those in the Energex distribution area, for the tariff year 1 July 2018 to 30 June 2019.

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 2018 to 30 June 2019.

2. The QCA is to calculate the notified prices, other than the notified prices associated with the provision of residential and small business customer retail metering services, 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 the 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, the QCA may have regard to any other matter that the QCA considers relevant.

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

   (a) On 1 July 2016, price regulation in the Energex distribution area was removed for small customers. This means that notified prices do not apply to customers in the Energex distribution area;

   (b) Uniform Tariff Policy - QCA must consider the Government's Uniform Tariff Policy, which provides that, wherever possible, Standard Contract Customers of the same class should pay no more for their electricity, regardless of their geographic location;

   (c) Framework – use of 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 the QCA;

(d) When determining the N components for each regulated retail tariff:

(i) For residential and small business customer tariffs (with the exception of Tariffs 12A, 14, 22A and 24) - basing the network cost component on the network charges to be levied by Energex and the relevant Energex tariff structures;

(ii) For Tariff 12A (residential time-of-use), Tariff 14 (residential seasonal time-of-use); Tariff 22A (small business time-of-use) and Tariff 24 (business seasonal time-of-use demand) - basing the network cost component on the price level of 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 and demand tariffs and reduce their energy consumption during peak times; and

(iii) For large business customers who consume 100MWh or more per annum - basing the network cost component on the network charges to be levied by EECL;

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

(f) Tariff trial - to offer a voluntary trial tariff, based on the structure of any new cost reflective residential network tariff that is submitted to the Australian Energy Regulator (AER) in the 2018-19 Ergon Energy Pricing Proposal. Ergon Energy will adjust the rates to align with the Uniform Tariff Policy and Long-Run Marginal Cost (LRMC) pricing principles.

(g) Enabling retailers to also charge Standard Contract Customers for the following customer retail service that is not included in regulated retail tariffs:

Amounts in accordance with a program or scheme for the purchase of electricity from renewable or environmentally-friendly sources (whether or not those additional amounts are calculated on the basis of the customer's electricity usage), but only if:

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

(b) the additional amount is payable under the program or scheme; and

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

(h) Continuing Ergon Energy Queensland Pty Ltd's Easy Pay Reward scheme to give the following effect:

Easy Pay Reward

From 1 December 2017 until 30 June 2020, small customers of Ergon Energy who participate in the Easy Pay Reward Scheme will receive annual reward amounts in the form of deferred payments.

The Easy Pay Reward Scheme will operate as follows:

1. An eligible customer opts-in to the Easy Pay Reward Scheme, and becomes a participating customer, by notifying Ergon Energy that it agrees to comply with all the participation requirements.
2. Subject to paragraph 3, if Ergon Energy receives a notice mentioned in paragraph 1 it must include the relevant annual amount for the participating customer in:
   (a) the first bill it issues to the customer after receiving the notice under paragraph 1, or otherwise, as soon as reasonably practicable thereafter; and
   (b) thereafter until the Easy Pay Reward Scheme ends on 30 June 2020—the bill Ergon Energy issues to the customer after each anniversary of the date the customer became a participating customer.

The following table illustrates how the scheme is intended to operate for participating customers other than small, non-reversionary customers:

	Customers who opt in on or before 30.06.18	Customers who opt in after 30.06.18 but before 01.01.19	Customers who opt in before 01.01.20
Number of relevant annual amounts invoiced	3	2	1

3. However, Ergon Energy must ensure that any small non-reversionary customer who becomes a participating customer within six months after a relevant NERL amendment comes into force, receives three relevant annual amounts.
4. Subject to paragraph 5, a participating customer's obligation to pay each relevant annual amount:
   (a) is deferred for the initial period; and

(b) ceases to exist when the initial period ends.

5. However, the relevant annual amount may become payable to Ergon Energy if, on or before the end of the initial period:

    a) the participating customer opts out of having opted in;

    b) the participating customer does not maintain payment of bills by direct debit or CentrePay (as relevant); or

    c) the participating customer no longer agrees to comply with 1 or more of the participation requirements.

    Ergon Energy reserves the right to recover the deferred amount from the customer on their next bill.

Definitions for Easy Pay Reward Scheme

eligible customer means a small customer who has a new or existing account with Ergon Energy under a standard retail contract and who is up to date with their bill payments. A customer with an arrears component or any overdue amount is not eligible for the Scheme.

Ergon Energy means Ergon Energy Queensland Pty Ltd (ABN 11 121 177 802)

initial period means for a period of six months from the date that Ergon Energy issues the bill that includes the first relevant annual amount.

participating customer means a small customer under a standard retail contract with Ergon Energy who has opted in to the Scheme.

participation requirements means each of the following:

a) agreeing to the receive relevant annual amount in the form of a deferred payment;

b) agreeing to receive, and receiving, only electronic bills;

c) agreeing to pay, and paying, bills by direct debit or CentrePay;

d) agreeing to make, and making, weekly, fortnightly or monthly payments (as agreed) under a *smoothpay* arrangement.

non-reversionary customer means a person to whom an assigned retailer, prior to the commencement of a relevant amendment, could not provide customer retail services because of section 19C(1)(b(ii) of the *National Energy Retail Law (Queensland)*.

relevant NERL amendment means an amendment to section 19C(1)(b)(ii) of the *National Energy Retail Law (Queensland)* that inserts the words 'if the customer is a large customer' before the words 'the financially responsible retailer for the premises' in section 19C(1)(b)(ii).

relevant annual amount, for a participating customer, means:

a) if the participating customer is a residential customer—$75; or

b) if the participating customer is a business customer—$120.

Interim Consultation Paper

6. The Interim Consultation Paper published 22 December 2017, and resulting considerations by the QCA in accordance with the original delegation for 2018-19 remain relevant for this delegation. In accordance with section 90AA(3)(e) of the Act, a new Interim Consultation Paper is not required.

Consultation Timetable

7. As the methodology to determine retail tariffs is the same as that contained in the original delegation for 2018-19, the consultations and considerations by the QCA in accordance with the original delegation remain relevant for this delegation. In accordance with section 90AA(3)(e) of the Act, a new consultation timetable is not required.

Workshops and additional consultation

8. The workshops and additional consultation conducted under the original delegation for 2018-19 and resulting considerations by the QCA in accordance with the original delegation remain relevant for this delegation. In accordance with section 90AA(3)(e) of the Act, a new round of workshops and additional consultation is not required.

Draft Price Determination

9. The draft determination published 28 February 2018 by the QCA in accordance with the original delegation for 2018-19 remains relevant for this delegation. In accordance with section 90AA(3)(b) of the Act, the QCA is not required to publish a draft determination based on this delegation.

Final Price Determination

10. The QCA must investigate and publish its final price determination on regulated retail electricity tariffs, with each tariff presented as bundled prices appropriate to the retail tariff structure, and gazette the retail tariffs.

Timing

11. The QCA must publish the final price determination on regulated retail electricity tariffs for the 2018–19 tariff year, and have the retail tariffs gazetted, no later than 31 May 2018.

12. This Delegation supersedes the previous Delegation issued on 18 December 2017.

DATED this 26th day of Apr. 2018.

SIGNED by the Hon Dr Anthony Lynham,)
Minister for Natural Resources, Mines and Energy) ....
) *(signature)*

Superseded delegation

ELECTRICITY ACT 1994
Section 90AA(1)

DELEGATION

I, Honourable Dr Anthony Lynham, Minister for Natural Resources, Mines and Energy, 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 Standard Contract Customers for customer retail services in Queensland, other than those in the Energex distribution area, for the tariff year 1 July 2018 to 30 June 2019.

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 2018 to 30 June 2019.

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 the 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, the QCA may have regard to any other matter that the QCA considers relevant.

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

   (a) On 1 July 2016, price regulation in the Energex distribution area was removed for small customers. This means that notified prices do not apply to customers in the Energex distribution area;

   (b) Uniform Tariff Policy - QCA must consider the Government's Uniform Tariff Policy, which provides that, wherever possible, Standard Contract Customers of the same class should pay no more for their electricity, regardless of their geographic location;

   (c) Framework – use of 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 the QCA;

(d) When determining the N components for each regulated retail tariff:

(i) For residential and small business customer tariffs (with the exception of Tariffs 12A, 14, 22A and 24) - basing the network cost component on the network charges to be levied by Energex and the relevant Energex tariff structures;

(ii) For Tariff 12A (residential time-of-use), Tariff 14 (residential seasonal time-of-use), Tariff 22A (small business time-of-use) and Tariff 24 (business seasonal time-of-use demand) - basing the network cost component on the price level of 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 and demand tariffs and reduce their energy consumption during peak times; and

(iii) For large business customers who consume 100MWh or more per annum - basing the network cost component on the network charges to be levied by EECL;

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

(f) Tariff trial - to offer a voluntary trial tariff, based on the structure of any new cost reflective residential network tariff that is submitted to the Australian Energy Regulator (AER) in the 2018-19 Ergon Energy Pricing Proposal. Ergon Energy will adjust the rates to align with the Uniform Tariff Policy and Long-Run Marginal Cost (LRMC) pricing principles.

(g) Enabling retailers to also charge Standard Contract Customers for the following customer retail service that is not included in regulated retail tariffs:

Amounts in accordance with a program or scheme for the purchase of electricity from renewable or environmentally-friendly sources (whether or not those additional amounts are calculated on the basis of the customer's electricity usage), but only if:

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

(b) the additional amount is payable under the program or scheme; and

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

(h) Continuing Ergon Energy Queensland Pty Ltd's Easy Pay Rewards scheme to give the following effect:

Easy Pay Rewards

From 1 December 2017, Ergon Energy Queensland Pty Ltd may allow Standard Contract Customers an annual reward of:

- for an eligible residential customer— $75; or
- for an eligible non-residential small customer—$120,

(each, an *annual reward amount*).

To be an eligible customer, a residential or a non-residential small customer must 'opt-in' by agreeing to each of the following (*eligibility requirements*):

- to receive bills electronically (i.e. no paper bills);
- to pay bills either weekly, fortnightly or monthly (as agreed) by direct debit or CentrePay by the due date; and
- to accept bill smoothing.

An eligible customer 'opts-out' if, at any time:

- the customer notifies Ergon Energy Queensland Pty Ltd the customer wants to opt-out; or
- the customer stops agreeing to 1 or more of the eligibility requirements.

The reward scheme will operate as follows:

(a) Ergon Energy Queensland Pty Ltd must allow an eligible customer who has opted in under a Standard Contract to defer payment of the annual reward amount as to that Standard Contract.

(b) The deferred annual reward amount for a Year becomes payable if, within 6 months of opting in, the eligible customer:

(i) opts out; or

(ii) does not maintain payment of bills by direct debit or CentrePay (as relevant).

(c) For an eligible customer, any deferred annual reward amount for a Year ceases to be payable (and not just deferred) on the first anniversary of the commencement of that Year.

(d) An eligible customer, having opted out, may subsequently opt in under the same Standard Contract, provided that:

(i) any deferred annual reward amount payable for that Standard Contract under paragraph (b) has been paid; and

(ii) if no amount is payable under paragraph (b), the customer has not received a deferred annual reward amount within the 12 months before the day the customer opts back into the scheme

(e) The 'Year' for the purposes of the annual reward for an eligible customer commences on the day the customer pays the bill issued after:

(i) The customer opts-in;
(ii) A meter reading is taken with respect to that Standard Contract; and
(iii) A bill is issued with respect to that Standard Contract.

(f) Key Easy Pay Reward dates:

Commencement of Easy Pay Reward: **1 December 2017**
Closure of Easy Pay Reward (final bill credits to be applied by this date): **31 December 2019**

Interim Consultation Paper

6. The QCA must publish an interim consultation paper identifying key issues to be considered when making the price determination.

7. The 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 the QCA about issues relevant to the price determination.

8. The 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. The QCA must publish an annual consultation timetable within two weeks after submissions on the interim consultation paper are due, which the QCA can revise at its discretion, detailing any proposed additional public papers and workshops that the 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. The QCA must investigate and publish its draft price determination on regulated retail electricity tariffs, with each tariff presented as bundled prices appropriate to the retail tariff structure.

12. The 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 the QCA about issues relevant to the draft price determination.

13. The 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. The QCA must investigate and publish its final price determination on regulated retail electricity tariffs, with each tariff presented as bundled prices appropriate to the retail tariff structure, and gazette the retail tariffs.

Timing

15. The 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. The QCA must publish the interim consultation paper for the 2018–19 tariff year no later than one month after the date of this Delegation.

17. The QCA must publish the draft price determination on regulated retail electricity tariffs in February 2018.

18. The QCA must publish the final price determination on regulated retail electricity tariffs for the 2018–19 tariff year, and have the retail tariffs gazetted, no later than 31 May 2018.

DATED this 18th day of DEC 2017.

SIGNED by the Hon Dr Anthony Lynham,)
Minister for Natural Resources, Mines and Energy) ....
) *(signature)*

APPENDIX B: SUBMISSIONS

Submissions to the interim consultation paper

- Canegrowers
- Canegrowers Isis
- Caravanning Queensland
- Chamber of Commerce and Industry Queensland (CCIQ)
- Cloncurry Shire Council
- Energy Queensland
- Ensby Farming
- Mackay Conservation Group
- Mason, B
- Origin Energy
- Queensland Consumers' Association
- Queensland Council of Social Service (QCOSS)
- Queensland Electricity Users Network (QEUN)
- Queensland Farmers' Federation (QFF)
- Snee, J
- One confidential submission.

Submissions to the draft determination

- Canegrowers
- Canegrowers Isis
- Chamber of Commerce and Industry Queensland (CCIQ)
- Carter, D
- Cotton Australia
- Energy Queensland
- Kalamia Cane Growers Organisation
- Queensland Council of Social Service (QCOSS)
- Queensland Electricity Users Network (QEUN)
- Queensland Farmers' Federation (QFF)
- Queensland Consumers' Association
- One confidential submission.

APPENDIX C: RESPONSES TO ADDITIONAL ISSUES RAISED IN SUBMISSIONS RECEIVED

This section outlines responses we have provided to additional issues raised in submissions received, and which have not been otherwise addressed in this final determination.

Stakeholder comment	***Stakeholder***	***QCA response***
The QCA should consider the international competitiveness of electricity network costs. Export industries are price takers, all increases must be absorbed which will lead to business closures.	Canegrowers Isis	The QCA must set notified prices in accordance with the requirements of the Electricity Act and the Queensland Government's delegation. Chapter 1 outlines legal requirements that apply to the QCA when it determines notified prices.
Caravan Parks operating embedded networks should be excluded from the large customer tariffs.	Caravanning Queensland	Eligibility criteria for large and small customer tariffs are outside the scope of this report.
Businesses that go on Market and sign a contract with a retailer (other than Ergon) should have the ability to return to Ergon where competitive offers are not available from other retailers.	Caravanning Queensland QEUN	On 24 October 2017, the Queensland Government announced that Ergon Energy's non-reversion policy would be removed as part of the 'Affordable Energy Plan'.[175] When implemented, this would allow small customers to return to Ergon Retail.
The QCA should encourage Ergon to support new mining and large commercial projects by having a 'honeymoon' period, where network charges are reduced to create an incentive for these projects to start in regional areas.	Cloncurry Shire Council	Network charges are a matter for Ergon Distribution and the Australian Energy Regulator.
Large users currently able to access transitional volume-based tariffs, should be allowed ongoing access to volume-based tariffs rather than being forced to migrate to demand-based tariffs.	Cotton Australia	The QCA has decided to maintain transitional and obsolete tariffs for their original transition period. Whether customers currently on transitional or obsolete tariffs will face demand charges at the end of the transitional period will depend on the standard business tariffs available to them.
The Government should extend its three-year commitment to remove the cost of the Solar Feed-in tariff from the regulated price and fund it from general revenue.	Cotton Australia QEUN	This matter is outside the scope of this report, which concerns notified prices for the 2018–19 tariff year. Whether costs for the solar bonus scheme are recovered as a jurisdictional levy or from general revenue is a matter for the Queensland Government, Ergon Distribution and the Australian Energy Regulator.
All customers currently on transitional and obsolete tariffs should receive clear tariff comparisons on each bill. Each bill should provide three alternative tariff comparisons.	Cotton Australia	While the QCA supports customers having access to appropriate information to decide the most appropriate tariff, this is outside the scope of this report.

[175] https://www.dews.qld.gov.au/electricity/affordable-energy-plan.

Stakeholder comment	*Stakeholder*	*QCA response*
Depreciated optimised replacement cost (DORC) should be removed from network pricing.	Mackay Conservation Group Snee, J	The approval of network charges and the cost methodologies used in calculating them are a matter for Ergon Distribution and the Australian Energy Regulator.
It should be compulsory to supply a full itemised account of credits and debits on the summary of accounts, not bundled into one. In particular, each metering charge should be presented separately.	Mason, B	This matter is outside the scope of this report, which concerns notified prices for the 2018–19 tariff year. The way metering charges are presented on customer bills is regulated by the Australian Energy Regulator.
The QCA should review retail cost allowances as part of the 2019–20 pricing process.	Queensland Consumers' Association QCOSS	This matter is outside the scope of this report, which concerns notified prices for 2018–19. However, as noted in our 2016–17 determination, the QCA will consider a further detailed review in future, particularly if there are material changes in retail cost drivers.
QCOSS seeks advice and guidance on the current legal and administrative basis for Ergon to charge for metering services (in respect of both smart meters and standard meters).	QCOSS	The basis on which Ergon Retail charges its customers for metering in the 2017–18 tariff year is outside the scope of this report, which concerns notified prices for 2018–19.
The Solar Bonus Scheme must not be added to 2018–19 regulated retail electricity prices/tariffs	QEUN	The Queensland Government has already announced that costs for the solar bonus scheme will be removed from network tariffs for 2018–19—and Ergon Distribution has removed solar bonus scheme costs from the network tariffs used in this determination. The QCA has not added, and has never proposed to add, solar bonus scheme costs to 2018–19 notified prices.
The Queensland Government should inform the AER that the Solar Bonus Scheme will no longer be collected as a jurisdictional levy and charged to electricity customers.	QEUN	This matter is outside the scope of this report, which concerns notified prices for the 2018–19 tariff year. Whether costs for the solar bonus scheme are recovered as a jurisdictional levy or paid for out of the budget is a matter for the Queensland Government, Ergon Distribution, and the Australian Energy Regulator.
The Queensland Government should reduce Ergon Energy Network charges by reforming network tariffs, in particular increasing the small business customer threshold from 100 MWh per year to 160 MWh per year.	QEUN	This matter is outside the scope of this report, which concerns notified prices for 2018–19. Network tariff reform and the small business customer threshold is a matter for the Queensland Government, Ergon Distribution and the Australian Energy Regulator.
The Queensland Government should reduce wholesale prices in Queensland by charging no more than necessary to efficiently operate its 100% Queensland Government owned generators.	QEUN	While government decisions on this matter will impact wholesale prices observed in the market, what operating instructions the government should give to government-owned generators is outside the scope of this report.

Stakeholder comment	***Stakeholder***	***QCA response***
The Queensland Government instructs Ergon Energy to work with consumer advocates on the development of a trial battery tariff for customers with and without solar systems.	QEUN	This matter is outside the scope of this report, which concerns notified prices for 2018–19. Consultation on the development of new network tariff types, which could underpin new retail tariffs in future years, is a matter for Ergon Distribution.
An independent review of the UTP should be conducted by an entity other than the Queensland Competition Authority.	QEUN	This matter is outside the scope of this report, which concerns notified prices for 2018–19. The UTP is a Queensland Government policy implemented by the QCA. Any review or change to the UTP is a matter for the Queensland Government. We note the UTP was independently reviewed by the Queensland Productivity Commission as part of its Electricity Inquiry in 2016.
The Queensland Government modifies the EasyPay Reward scheme to share the benefits Ergon Energy Retail receives from customers agreeing to SmoothPay, Direct Debit and e-Bill—and for the benefits to appear as three credits on each power bill, rather than being paid annually.	QEUN	This matter is outside the scope of this report, which concerns notified prices for 2018–19. Any change to the EasyPay Reward scheme is a matter for the Queensland Government and Ergon Retail.
The process for electricity price reform is flawed and needs a complete review.	QFF	This matter is outside the scope of this report, which concerns notified prices for 2018–19 The Queensland Productivity Commission recently completed a comprehensive review on electricity pricing in Queensland, and made recommendations to the Queensland Government. Any further review of electricity price reform is a matter for the Queensland Government.
Irrigation electricity tariffs have increased 136 per cent over the past decade, and electricity prices in Australia are higher than overseas jurisdictions. The impacts of rising electricity prices are clearly eroding Queensland's irrigation sector, and Queensland is experiencing a steady decline in the number of irrigation businesses as well as reducing productivity across the sector.	QFF	The QCA must set notified prices in accordance with the requirements of the Electricity Act and the Queensland Government's delegation. Chapter 1 outlines legal requirements that apply to the QCA when it determines notified prices. The Queensland Government has implemented the UTP, which results in a subsidy paid to customers of Ergon Energy Retail to improve affordability and business competitiveness. We have set prices in accordance with the UTP. See Chapter 2. The QCA has also considered affordability by implementing transitional arrangements for legacy tariffs, which smooths the bill impact for regional customers transitioning to standard business tariffs.

APPENDIX D: NETWORK TARIFF STRUCTURES

This appendix provides further information on the decisions in Chapter 3. Energex and Ergon Distribution network tariff structures are compared, and the way tariffs have been adjusted to make them consistent with the UTP is outlined.

Comparison of Energex and Ergon Energy's tariff structures

Table 30 Energex and Ergon Distribution residential and small business customer time-of-use and demand tariffs

Distributor		***Peak***	***Shoulder***	***Off-peak***
Residential (time-of-use)				
Energex	Usage	4 pm–8 pm weekdays (weekdays include government specified public holidays)	7 am–4 pm, 8 pm–10 pm weekdays (weekdays include government specified public holidays) 7 am–10 pm weekends	10 pm–7 am every day
Ergon Distribution (retail tariff 12A)	Usage	3 pm–9.30 pm any day of the week, summer[a] months only		All other times
Residential (time-of-use demand)				
Energex (introduced on 1 July 2016)	Usage	Flat usage charge		
	Demand	4 pm–8 pm workdays (workdays are weekdays but exclude government-specified public holidays)		
Ergon Distribution (retail tariff 14)	Usage	Flat usage charge		
	Demand	3 pm–9.30 pm any day of the week, summer[a] months only		3 pm–9.30 pm any day of the week, non-summer[a] months
Small business (time-of-use)				
Energex	Usage	7 am–9 pm weekdays (weekdays include government-specified public holidays)		All other times
Ergon Distribution (retail tariff 22A)	Usage	10 am–8 pm on summer[a] weekdays		All other times

Distributor		***Peak***	***Shoulder***	***Off-peak***
Small business (time-of-use demand)				
Energex (introduced on 1 July 2017)	Usage	Flat usage charge		
	Demand	9 am–9 pm workdays (workdays are weekdays but exclude government-specified public holidays)		
Ergon Distribution (retail tariff 24)	Usage	Flat usage charge		
	Demand	10 am–8 pm on summer[a] weekdays		10 am–8 pm weekdays in non-summer[a] months

a. *Summer months are December, January and February.*

Table 31 Energex and Ergon Distribution non–time-of-use tariffs

Type	***Distributor***	***Fixed***	***Usage***		
Residential (tariff 11)	Energex	c/day	Flat rate c/kWh		
	Ergon Distribution	c/day	c/kWh 1st 1,000 kWh/year	c/kWh next 5,000 kWh/year	c/kWh >6,000 kWh/year
Small business (tariff 20)	Energex	c/day	Flat rate c/kWh		
	Ergon Distribution	c/day	c/kWh 1st 1,000 kWh/year	c/kWh next 19,000 kWh/year	c/kWh >20,000 kWh/year
Small business demand (tariff 41)	Energex	c/day	Flat rate c/kWh	$/kVA/month	
	Ergon Distribution	No equivalent network tariff			
Night controlled load (tariff 31)	Energex	n/a	Flat rate c/kWh		
	Ergon Distribution	c/day	Flat rate c/kWh		
Controlled load (tariff 33)	Energex	n/a	Flat rate c/kWh		
	Ergon Distribution	c/day	Flat rate c/kWh		
Unmetered (tariff 91)	Energex	n/a	Flat rate c/kWh		
	Ergon Distribution	c/day	Flat rate c/kWh		

Adjusting Ergon Distribution network tariffs

This section outlines the methodology used in section 3.2.3 to adjust Ergon Distribution network charges to reflect Energex price levels, while retaining Ergon Distribution tariff structures. This approach is consistent with the approach we adopted in the 2017–18 determination.

Establishing network prices

To calculate network prices that reflect Ergon Distribution tariff structures and Energex price levels, we used information on network charges provided by the distributors[176], and customer usage data provided by Ergon Distribution and Ergon Retail. Using the above mentioned data, we lowered charges under the relevant Ergon Distribution network tariff[177] to a level where the average customer pays the same as they would under the equivalent Energex network tariff.

This calculated network tariff has then been used as the basis of a retail tariff.

Seasonal time-of-use tariffs

Ergon Distribution has seasonal time-of-use network tariffs for residential and small business customers. These network tariffs form the basis of retail tariffs 12A (residential) and 22A (small business). To create retail tariffs that reflect Ergon Distribution network tariff structures, while broadly reflecting Energex price levels, we adjusted all charges under the Ergon Distribution network tariff so that the average customer will pay the same total network cost as they would under the equivalent Energex flat rate network tariff.

The results are shown in tables 32 and 33.

Table 32 Network price options for tariff 12A

	Fixed c/day	***Peak/flat c/kWh***	***Off-peak c/kWh***
Energex 8400	48.000	8.428	–
Ergon Distribution ERTOUT1	135.900	40.412	5.155
QCA-adjusted Ergon Distribution ERTOUT1	37.219	40.412	5.155

Note: Based on data provided by Ergon Distribution and Ergon Retail, annual usage is taken as 5,074 kWh, with 11.48% peak usage and 88.52% off-peak usage.

Table 33 Network price options for tariff 22A

	Fixed c/day	***Peak/flat c/kWh***	***Off-peak c/kWh***
Energex 8500	65.100	9.100	–
Ergon Distribution EBTOUT1	135.900	45.627	8.954
QCA-adjusted Ergon Distribution EBTOUT1	65.100	31.485	6.179

Note: Based on data provided by Ergon Distribution and Ergon Retail, annual usage is taken as 14,560 kWh, with 11.54% peak usage and 88.46% off-peak usage.

[176] Energex and Ergon Distribution.
[177] Network tariffs applying to Ergon Distribution's east pricing zone, transmission region one.

Time-of-use demand tariffs

Ergon Distribution has time-of-use demand network tariffs for residential and small business customers. These network tariffs form the basis of retail tariffs 14 (residential) and 24 (small business). To calculate network prices for these retail tariffs, we uniformly reduced all charges of the relevant Ergon Distribution network tariff to equalise the average customer's network bill with the bill they would face on the equivalent Energex flat rate network tariff.

The resulting network prices are shown in tables 34 and 35.

Table 34 Network price options for tariff 14

	Fixed c/day	*Usage c/kWh*	*Peak demand $/kW/month*	*Off-peak demand $/kW/month*
Energex 8400	48.000	8.428	–	–
Ergon Distribution ERTOUDCT1	10.900	2.665	78.125	11.500
QCA-adjusted Ergon Distribution ERTOUDCT1	7.497	1.833	53.732	7.909

Note: Based on data provided by Ergon Distribution and Ergon Retail, annual usage is taken as 5,074 kWh with a peak demand of 1.45 kW per month and an off-peak demand of 3.51 kW per month.

Table 35 Network price options for tariff 24

	Fixed c/day	*Usage c/kWh*	*Peak demand $/kW/month*	*Off-peak demand $/kW/month*
Energex 8500	65.100	9.100	–	–
Ergon Distribution EBTOUDCT1	10.900	3.330	97.088	10.000
QCA-adjusted Ergon Distribution EBTOUDCT1	8.561	2.616	76.251	7.854

Note: Based on data provided by Ergon Distribution and Ergon Retail, annual usage is taken as 14,560 kWh with a peak demand of 2.91 kW per month with an off-peak demand of 6.86 kW per month.

Non–time-of-use tariffs

As discussed in Chapter 3, we examined the impact of using Ergon Distribution's inclining block tariff structure as the basis for flat-rate retail tariffs 11 (residential) and 20 (small business). For the purposes of this assessment, we calculated network prices by uniformly reducing all charges of the relevant Ergon Distribution network tariff to equalise the total network revenue recovered by Ergon Distribution under an inclining block tariff with the network revenue it would have otherwise recovered under an Energex flat rate tariff. Network prices calculated using this approach are consistent with the UTP.

The resulting network prices and charts demonstrating the impact on customers are shown below.

Table 36 Network price options for tariff 11

	Fixed c/day	Usage c/kWh		
		Flat/first block [a]	*Second block* [b]	*Third block* [c]
Energex 8400	48.000	8.428	-	-
Ergon Distribution ERIBT1	135.900	3.127	6.087	9.748
QCA-adjusted Ergon Distribution ERIBT1[d]	100.568	2.314	4.505	7.214

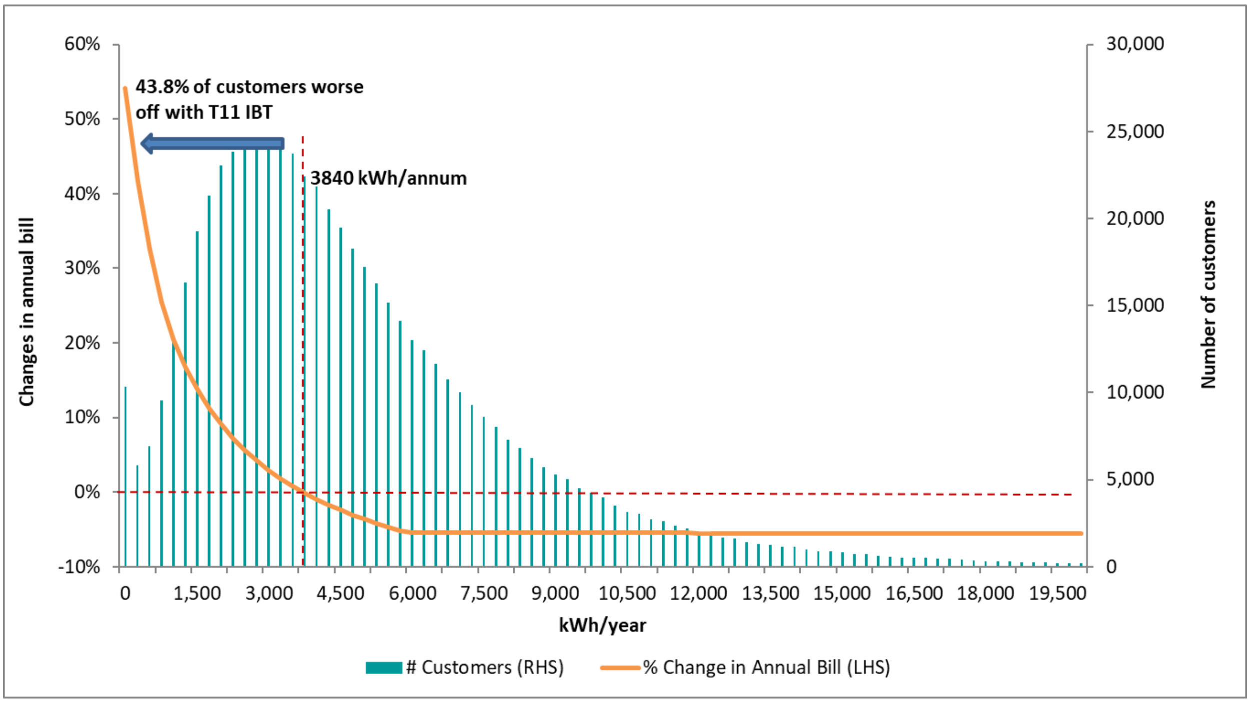
a *Usage charge applies to all usage under an Energex network tariff (row 1). Usage charge applies to the average usage of less than 2.74 kWh per day under an Ergon Distribution network tariff (rows 2 and 3)*

b *Usage charge applies to the average usage greater than 2.74 kWh per day and less than 16.43 kWh per day under an Ergon Distribution network tariff (rows 2 and 3)*

c *Usage charge applies to the average usage above 16.43 kWh per day under an Ergon Distribution network tariff (rows 2 and 3).*

d *Network prices were adjusted in a manner such that the relativities between the different pricing components within the tariff are preserved.*

Figure 19 Impact on tariff 11 customers adopting Ergon Distribution inclining block tariff structure



a *IBT stands for inclining block tariffs.*

b *RHS stands for right hand side. LHS stands for left hand side.*

c *43.8% of customers (consuming below 3840 kWh/annum) on average will be worse off moving from a residential flat tariff (tariff 11) to Ergon Distribution inclining block tariff structure.*

Table 37 Network price options for tariff 20

	Fixed c/day	*Usage c/kWh*		
		Flat/first block [a]	*Second block [b]*	*Third block [c]*
Energex 8500	65.100	9.100	–	–
Ergon Distribution EBIBT1	135.900	3.480	8.630	12.552
QCA-adjusted Ergon Distribution EBIBT1[d]	110.915	2.841	7.044	10.245

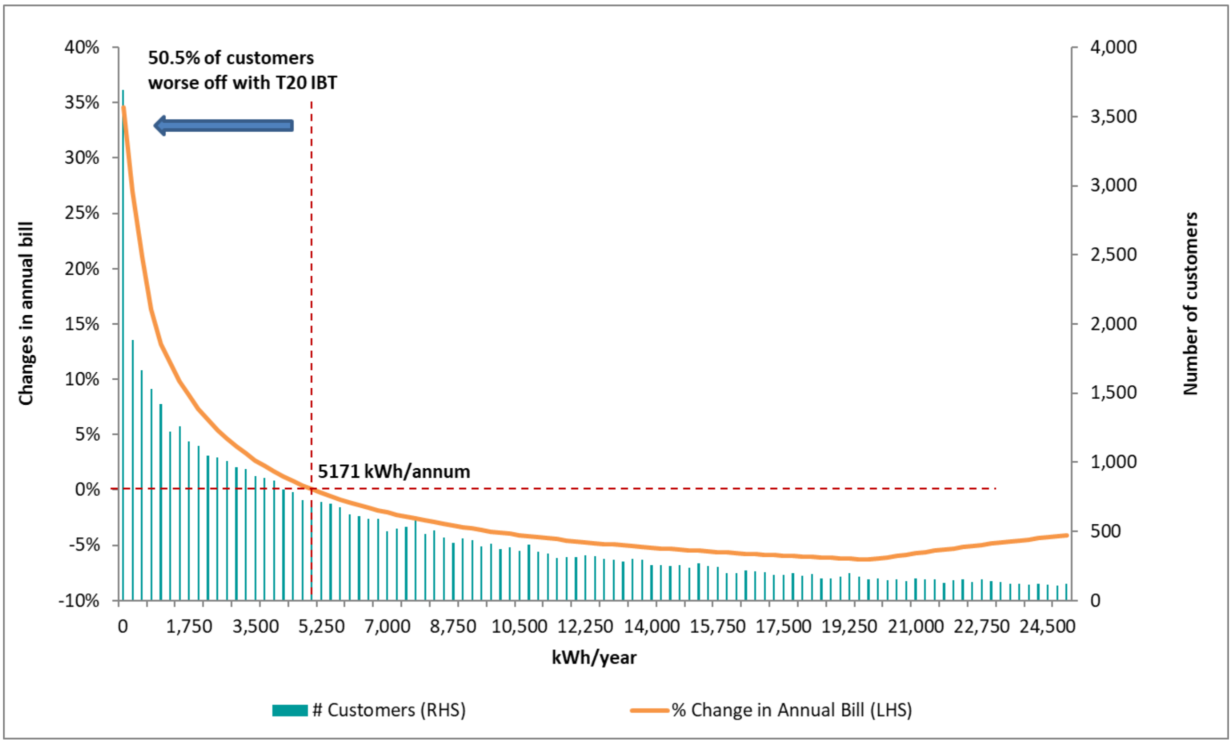
a *Usage charge applies to all usage under an Energex network tariff (row 1). Usage charge applies to the average usage of less than 2.74 kWh per day under an Ergon Distribution network tariff (rows 2 and 3).*

b *Usage charge applies to the average usage greater than 2.74 kWh per day and less than 54.76 kWh per day under an Ergon Distribution network tariff (rows 2 and 3).*

c *Usage charge applies to the average usage above 54.76 kWh per day under an Ergon Distribution network tariff (rows 2 and 3).*

d *Network prices were adjusted in a manner such that the relativities between the different pricing components within the tariff are preserved.*

Figure 20 Impact on tariff 20 customers adopting Ergon Distribution inclining block tariff structure



a *IBT stands for inclining block tariffs.*

b *RHS stands for right hand side. LHS stands for left hand side.*

c *50.5% of customers (consuming below 5171 kWh/annum) on average will be worse off moving from a small business flat tariff (tariff 20) to Ergon Distribution inclining block tariff structure.*

APPENDIX E: TRANSITIONAL AND OBSOLETE TARIFFS—CUSTOMER IMPACTS

In Chapter 7, we discuss arrangements for customers on transitional and obsolete retail tariffs. This decision is based on data provided by Ergon Retail.

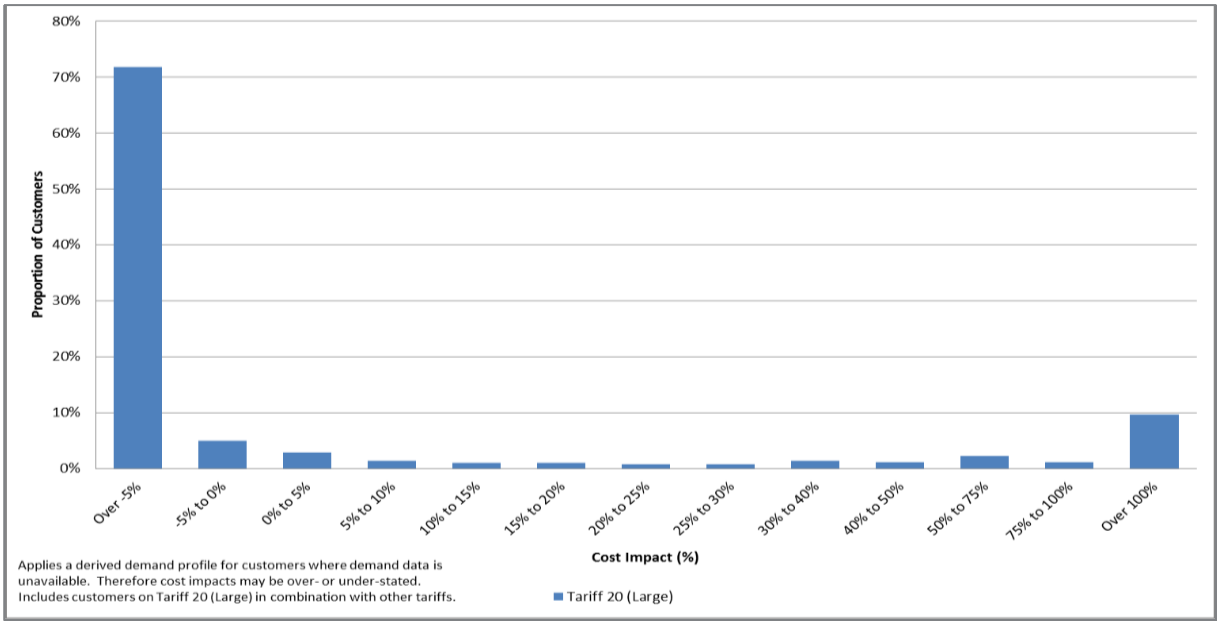
This appendix contains the analysis of bill impacts for customers moving from a transitional or obsolete 2016–17 tariff to an alternative 2016–17 standard business tariff.

The customer impacts are calculated on an individual tariff basis. As some customers are supplied under multiple tariffs, the overall impact to an individual customer may be a combination of the impacts shown below.

Tariff 20 (large)

Transitional tariff 20 (large) aligns with tariffs 44 to 53, which are based on Ergon Energy network tariffs and charges. Figure 21 shows the likely impacts for large business customers moving from this transitional tariff to the most appropriate of the standard large business customer tariffs.

Figure 21 Change in electricity bills for business customers on tariff 20 (large) moving to large customer standard business tariffs

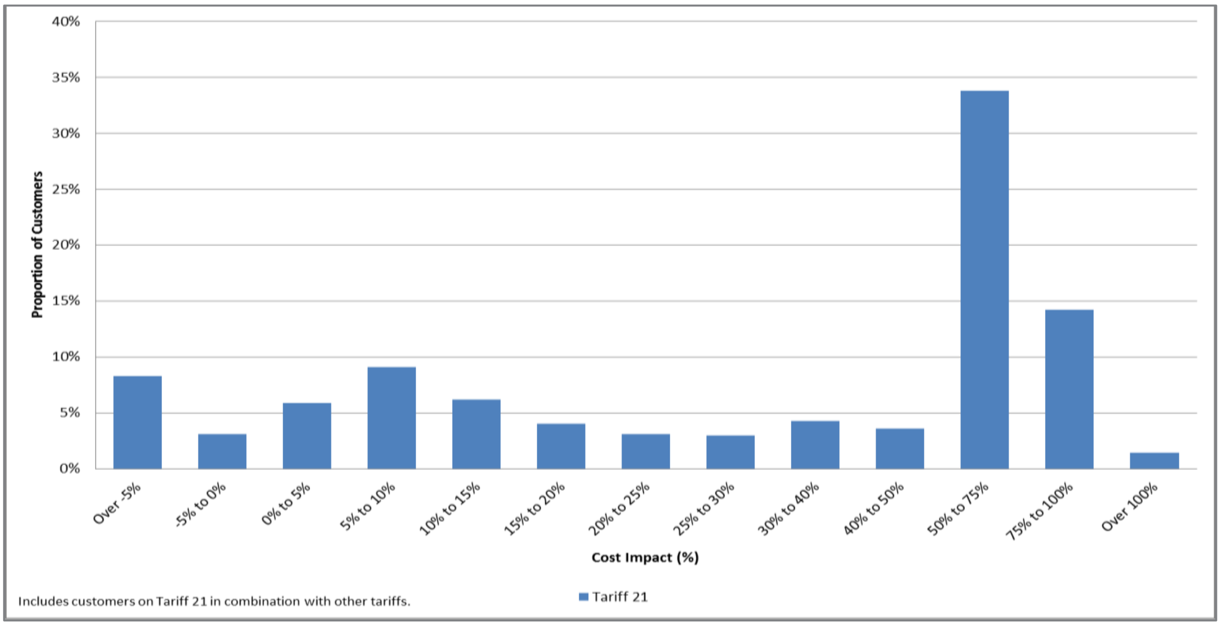


Source: Ergon Retail.

Tariff 21

Tariff 21 is a declining block tariff that aligns with tariff 20 for small business customers. Figures 22 to 23 show the distribution of potential impacts for existing customers moving to standard business tariffs.

Figure 22 Change in electricity bills for small business customers on tariff 21 moving to tariff 20

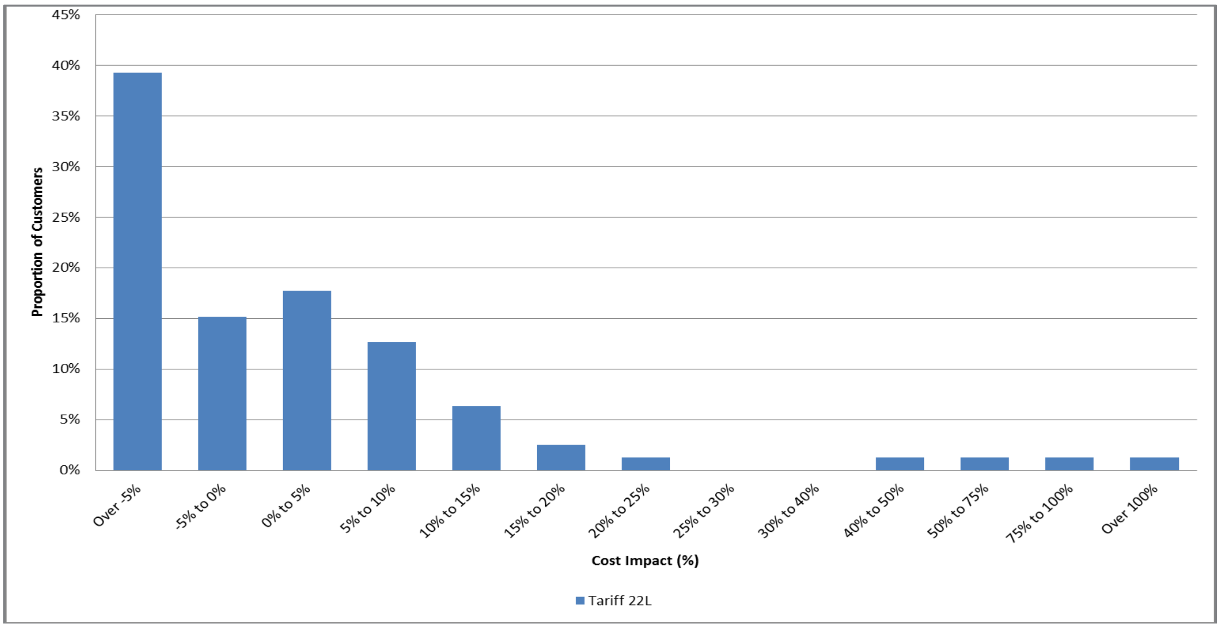


Source: Ergon Retail.

Tariff 22 (small and large)

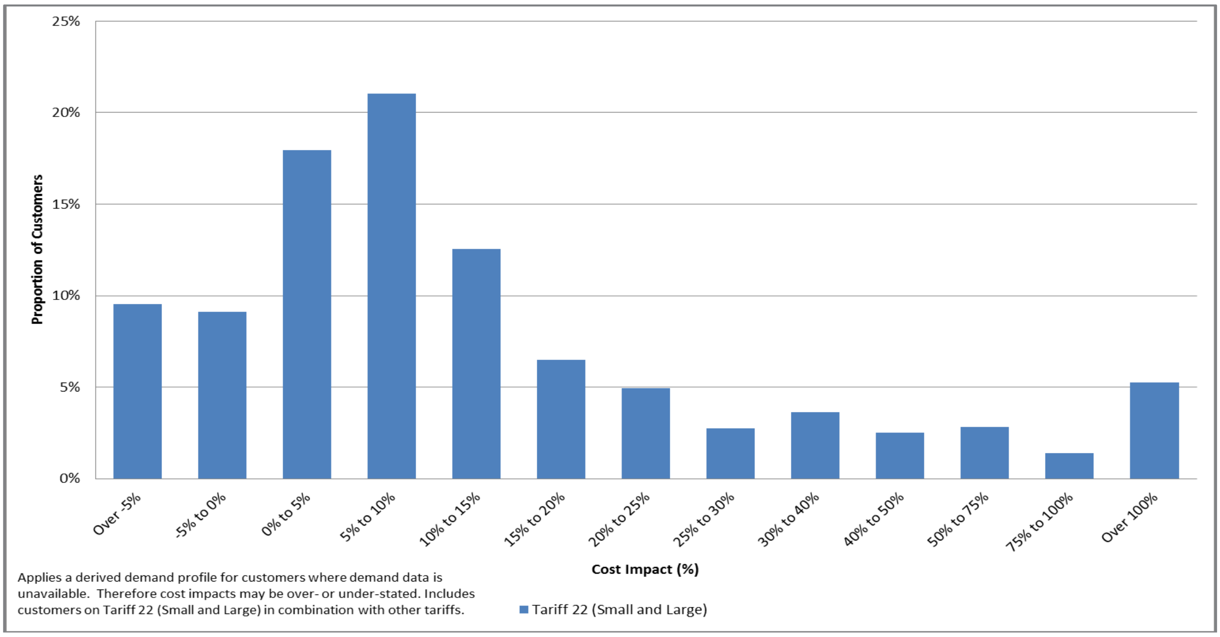
Transitional tariff 22 (small and large) aligns with tariffs 20 for small business customers and 44 to 53 for large business customers, which are based on Ergon Energy network tariffs and charges. Figure 23 shows the likely impacts for business customers moving from these transitional tariffs to the most appropriate of the standard business customer tariffs.

Figure 23 Change in electricity bills for large business customers on tariff 22 (small and large) moving to small customer standard tariffs



Source: Ergon Retail.

Figure 24 Change in electricity bills for large business customers on tariff 22 (small and large) moving to large customer standard tariffs

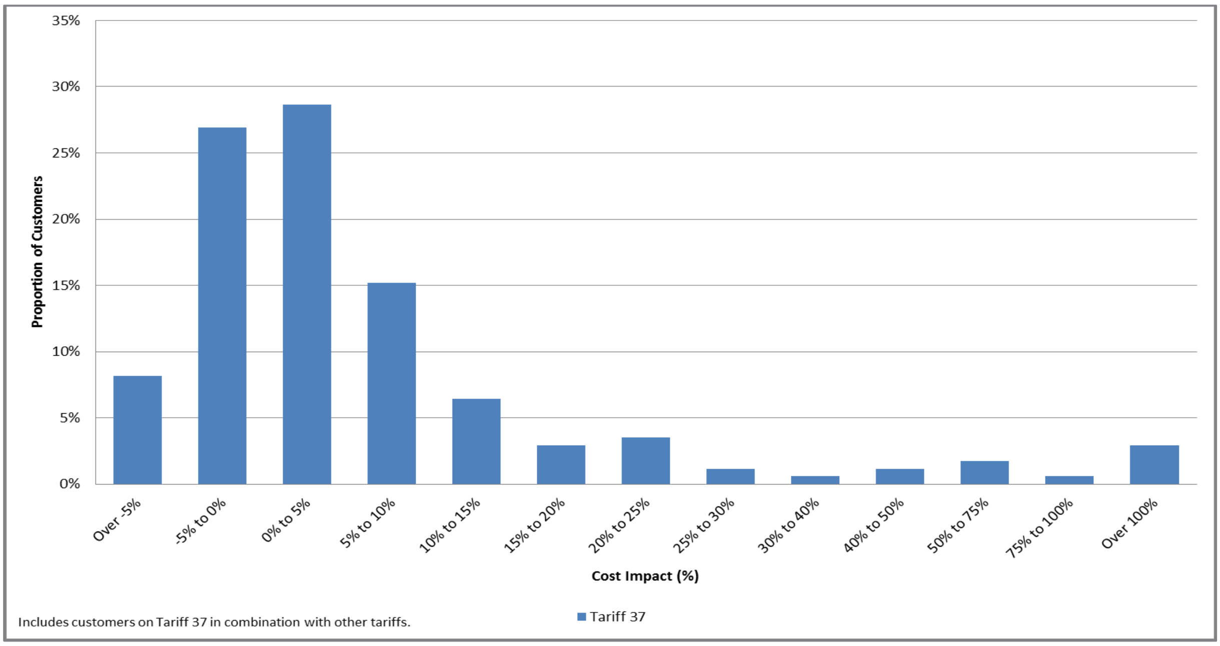


Source: Ergon Retail.

Tariff 37

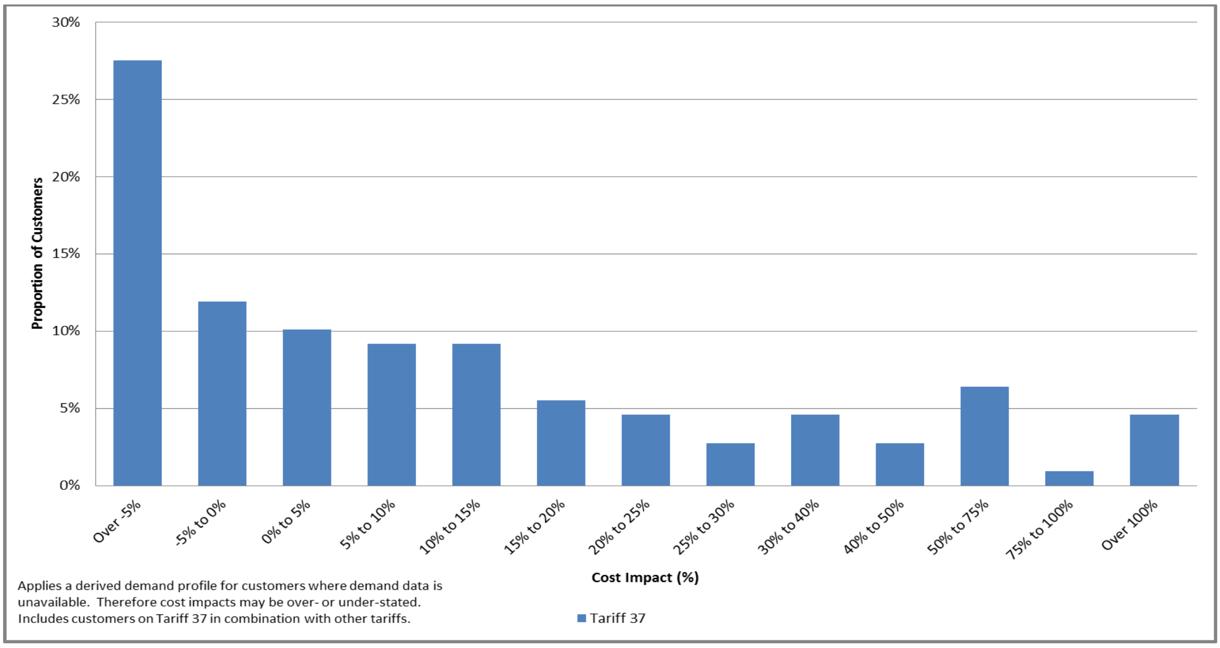
Tariff 37 is a business time-of-use tariff that aligns with tariffs 20 or 22A for small business customers and one of tariffs 44 to 53 for large business customers. Figures 25 and 26 show the distribution of potential impacts for existing customers moving to these standard business tariffs.

Figure 25 Change in electricity bills for small business customers on tariff 37 moving to tariff 20



Source: Ergon Retail.

Figure 26 Change in electricity bills for large business customers on tariff 37 moving to large customer standard business tariffs

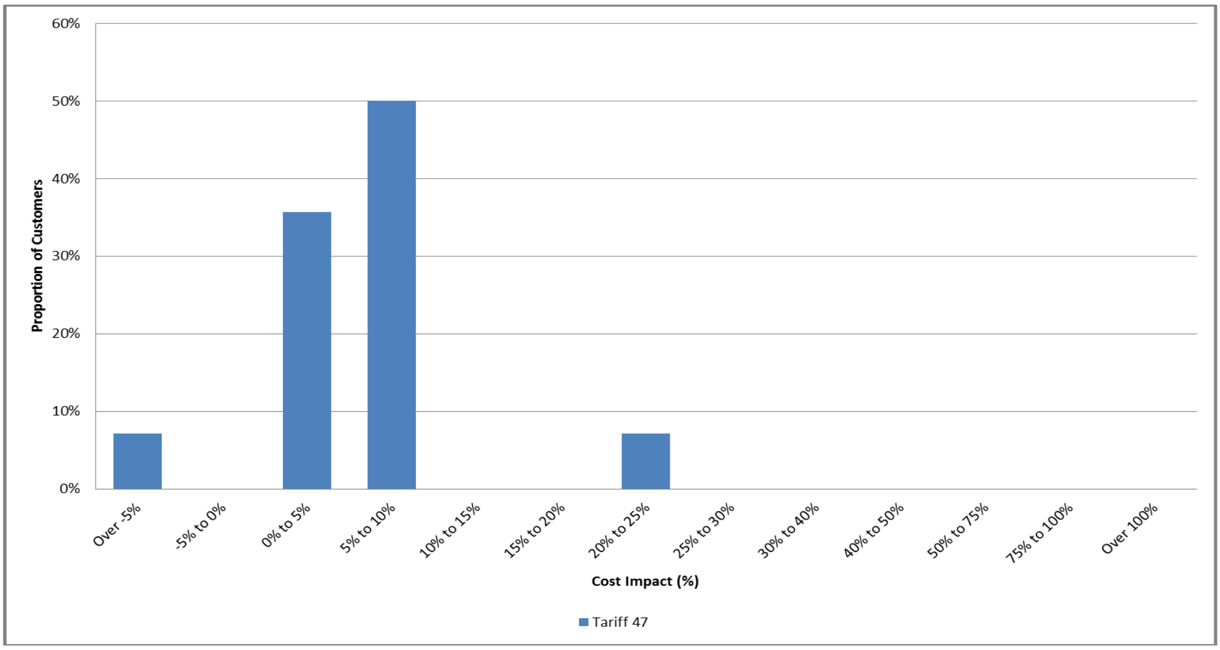


Source: Ergon Retail.

Tariffs 47 and 48

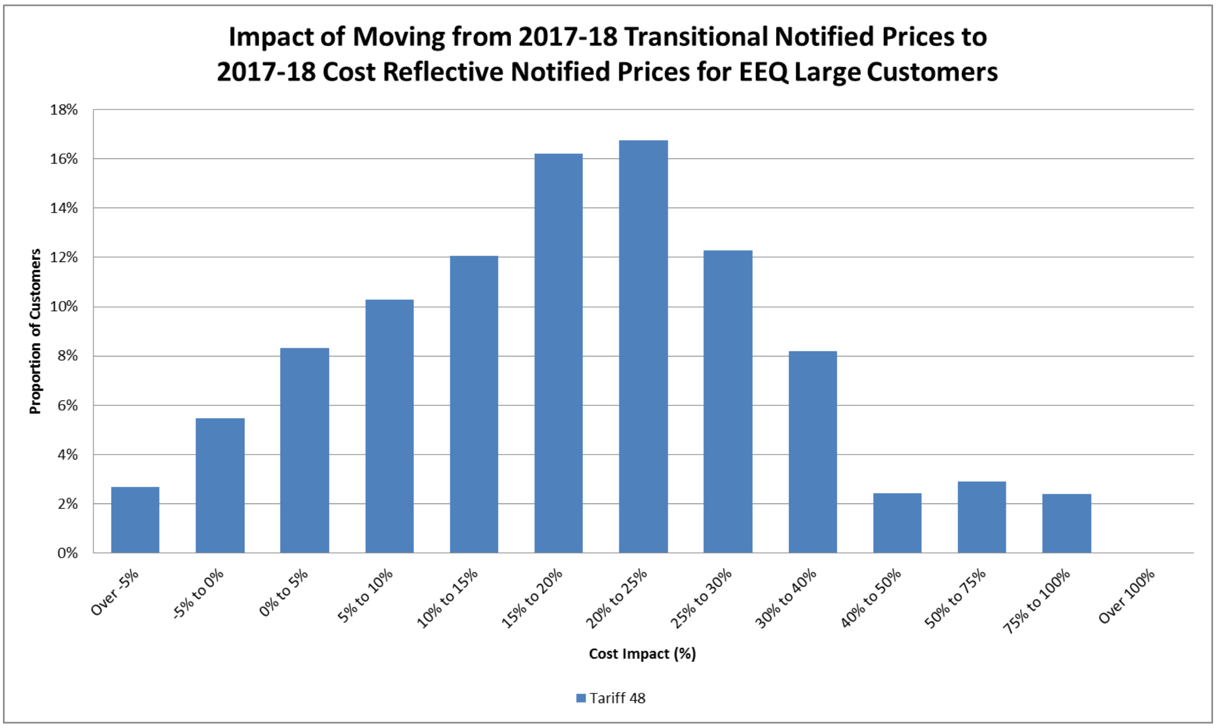
Transitional very large tariffs 47 and 48 align with tariffs 51A–D, 52A–C and 53, which are based on Ergon Energy network tariffs and charges. Figures 27 and 28 shows the likely impacts for large business customers moving from transitional tariffs 47 and 48 to the most appropriate standard business tariffs.

Figure 27 Estimated bill impact for customers moving from tariff 47 to standard business tariffs



Source: Ergon Retail

Figure 28 Estimated bill impact for customers moving from tariff 48 to standard business tariffs

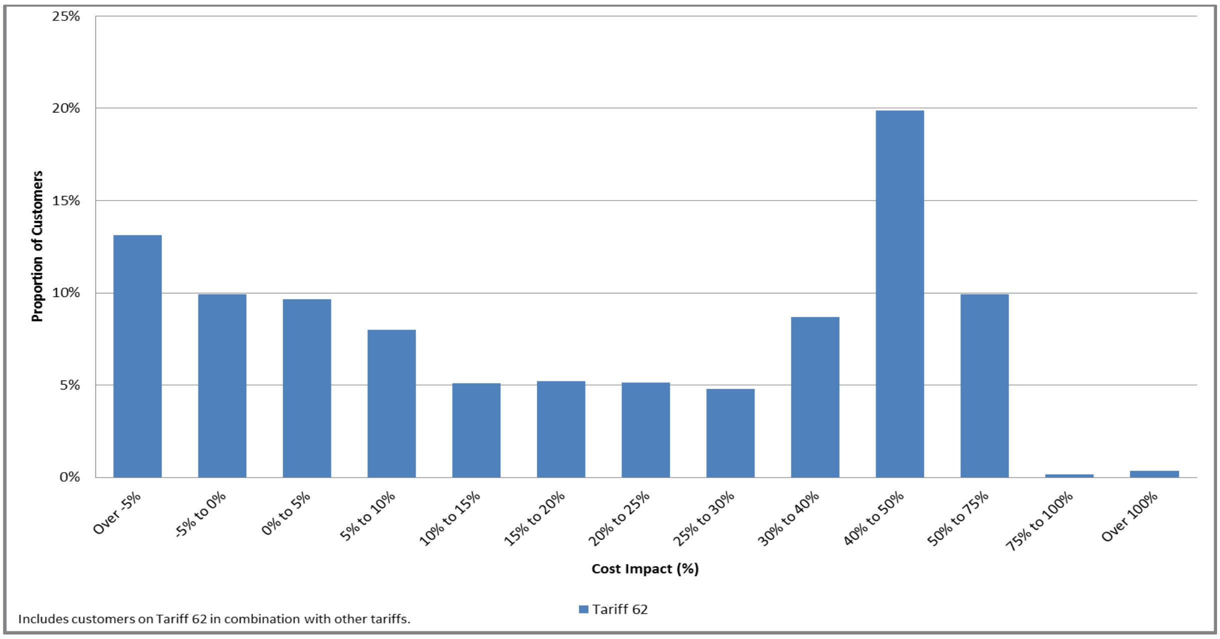


Source: Ergon Retail

Tariffs 62 and 65

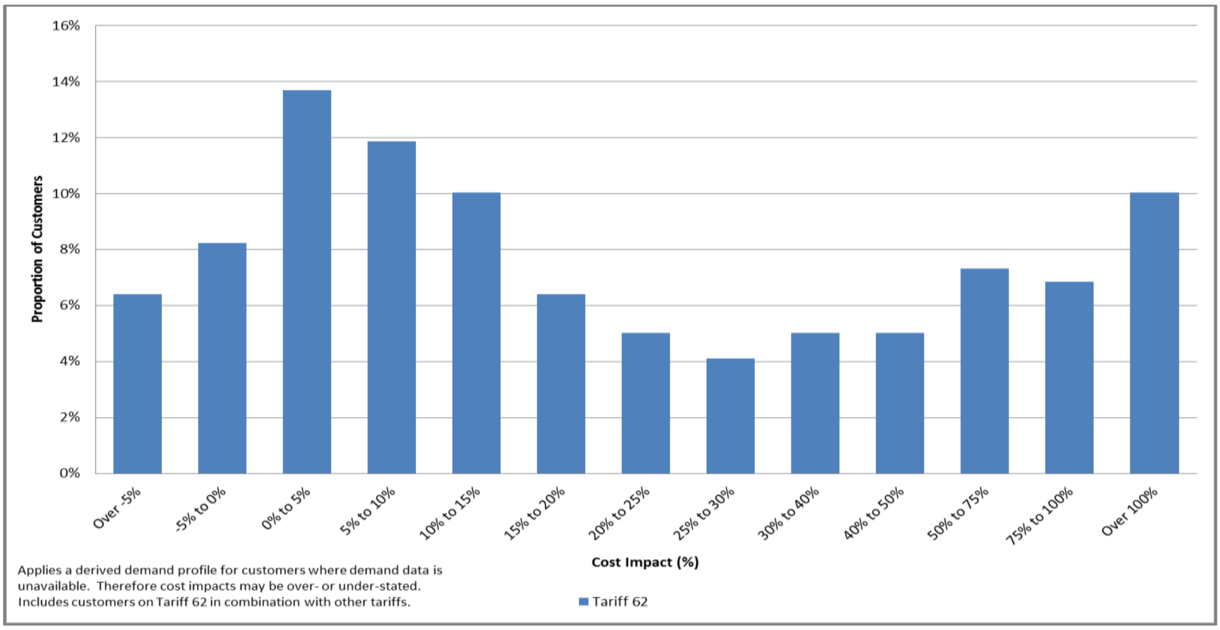
Tariffs 62 and 65 are time-of-use tariffs for farming and irrigation customers. These tariffs align with tariffs 20 or 22A for small business customers and tariffs 44 and 45 for large business customers. Figures 29 to 32 show the distribution of potential impacts for existing customers moving to these standard business tariffs.

Figure 29 Change in electricity bills for small business customers on tariff 62 moving to tariff 20



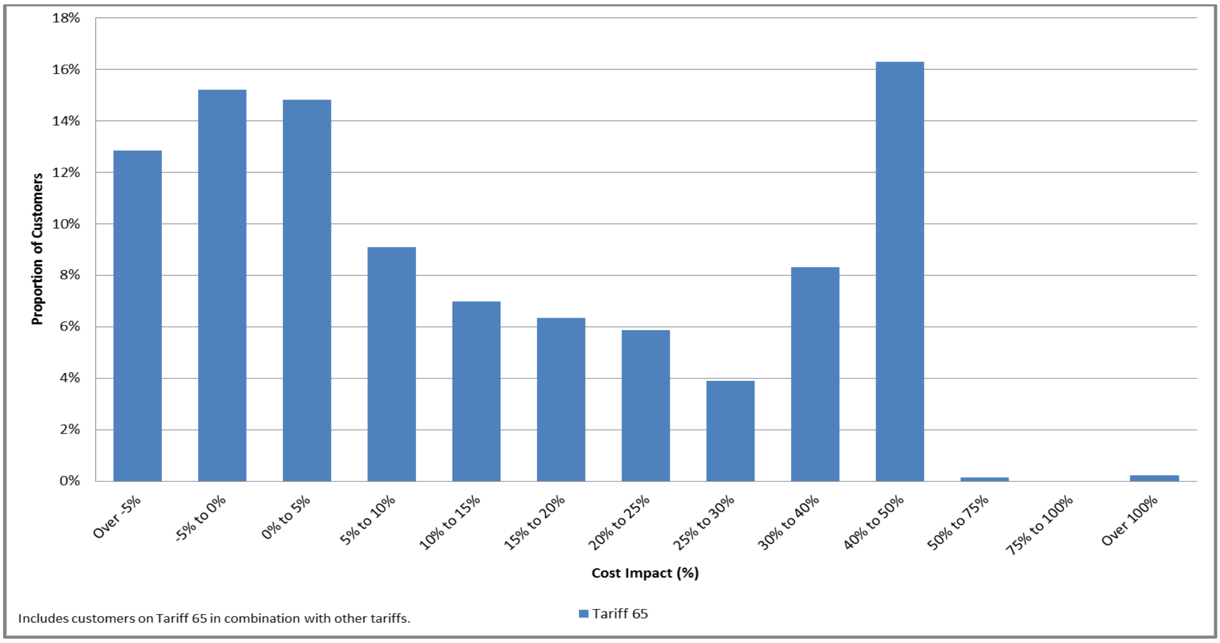
Source: Ergon Retail.

Figure 30 Change in electricity bills for large business customers on tariff 62 moving to large customer standard business tariffs



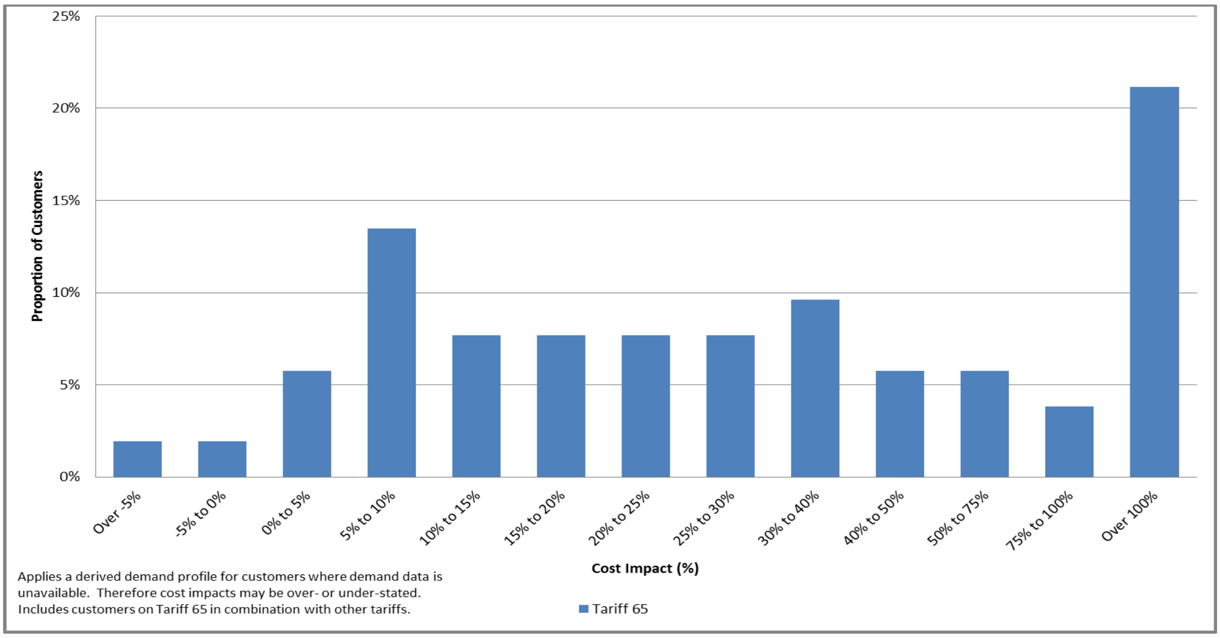
Source: Ergon Retail.

Figure 31 Change in electricity bills for small business customers on tariff 65 moving to tariff 20



Source: Ergon Retail.

Figure 32 Change in electricity bills for large business customers on tariff 65 moving to large customer standard business tariffs

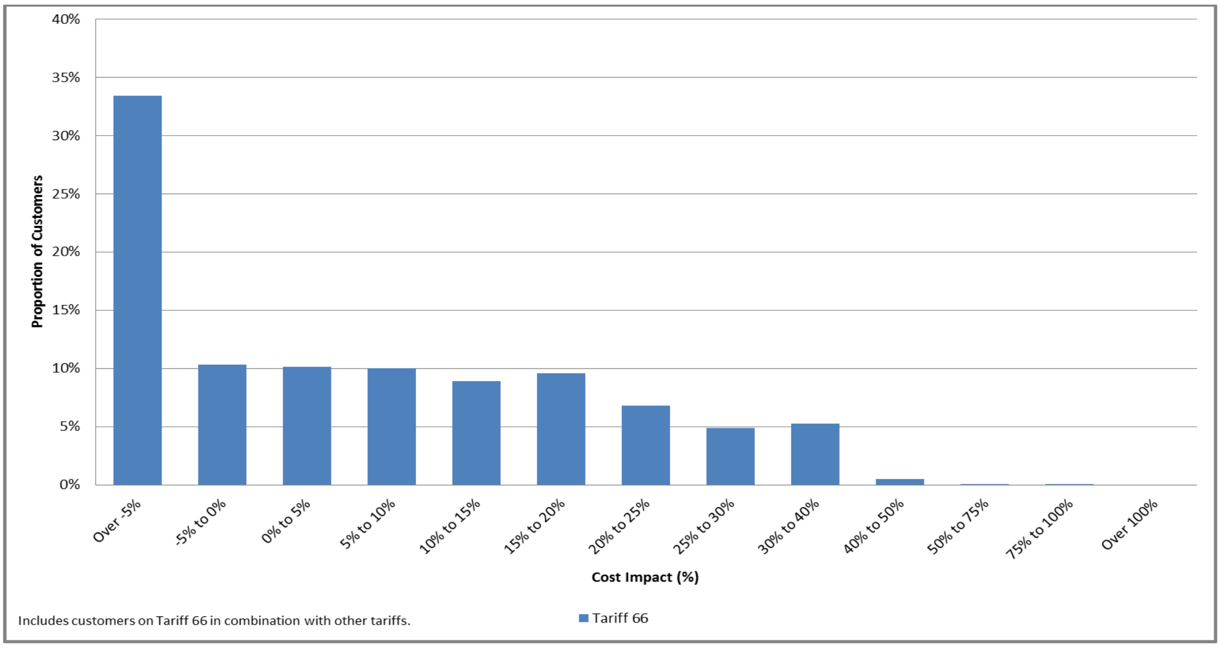


Source: Ergon Retail.

Tariff 66

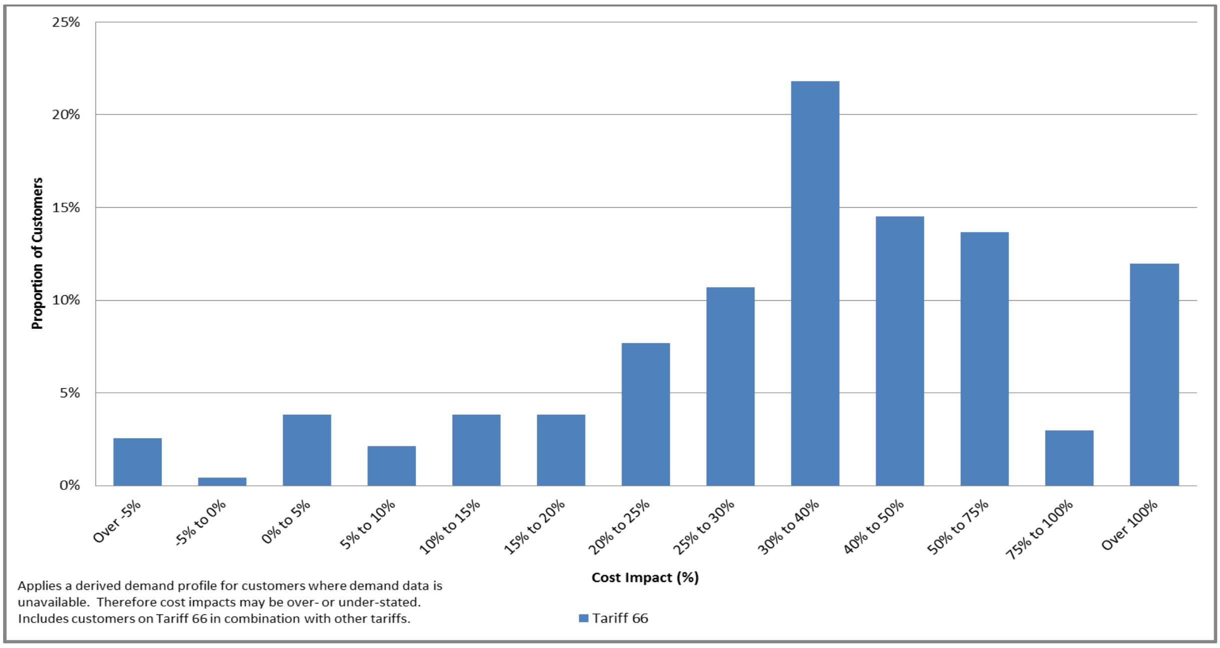
Tariff 66 is a flat-rate tariff for irrigation customers. This tariff aligns with tariffs 20 or 22A for small business customers and tariffs 44 and 45 for large business customers. Figures 33 and 34 show the distribution of potential impacts for existing customers moving to these standard business tariffs.

Figure 33 Change in electricity bills for small business customers on tariff 66 moving to tariff 20



Source: Ergon Retail.

Figure 34 Change in electricity bills for large business customers on tariff 66 moving to large customer standard business tariffs



Source: Ergon Retail.

APPENDIX F: GAZETTE NOTICE

This is the gazette notice for 2018–19, which reflects the QCA's final determination. Matters in part 1 of the gazette notice have been supplied by the Queensland Government, as they reflect government policy decisions.

Queensland Government Gazette

RETAIL ELECTRICITY PRICES FOR STANDARD CONTRACT CUSTOMERS

Electricity Act 1994

The notified prices are the prices decided under section 90(1) of the *Electricity Act 1994* (the Electricity Act).

A retailer must charge its Standard Contract Customers, as defined in the Electricity Act, the notified prices subject to the provisions of sections 91, 91A and 91AA of the Electricity Act and section 22A, Division 12A of Part 2 of the National Energy Retail Law (Queensland) (the NERL (Qld)).

Pursuant to the Certificate of Delegation from the Minister for Natural Resources, Mines and Energy and sections 90 and 90AB of the Electricity Act, I hereby state that the Queensland Competition Authority decided that, on and from 1 July 2018, the notified prices are the applicable prices set out in the attached Tariff Schedule.

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).

Dated this 31st day of May 2018.

Roy Green, Chair
Queensland Competition Authority

TARIFF SCHEDULE

Part 1 — Application

A) APPLICATION OF THIS SCHEDULE – GENERAL

This Tariff Schedule applies to all Standard Contract Customers in Queensland other than those in the Energex distribution area.

Definitions of customers and their types are those set out in the Electricity Act and the NERL(Qld). Unless otherwise defined, the terminology used in this Tariff Schedule is intended to be consistent with the energy laws.

B) APPLICATION OF TARIFFS

General

Distribution entities may have specific eligibility criteria in addition to retail tariff eligibility requirements set out in the Tariff Schedule, e.g. the types of loads and how they are connected to interruptible supply tariffs. Retailers will advise customers of any applicable distribution entity requirements upon tariff assignment or customer request.

Additional customer descriptions:

- *Farming* is the undertaking of agricultural or associated business activities for the primary purpose of profit. The primary use of electricity supplied under a farming tariff should be for farming.
- *Irrigation* is the undertaking of pumping water for farming. The primary use of electricity supplied under an irrigation tariff should be for irrigation.
- A *Connection Asset Customer (CAC)* is a large business customer whose required capacity generally exceeds 1500 kVA and annual energy usage generally exceeds 4GWh as classified by the distribution entity.
- An *Individually Calculated Customer (ICC)* is a large business customer whose annual energy usage generally exceeds 40GWh as classified by the distribution entity.

CAC or ICC customers can only access tariffs where specifically stated in the tariff description, or as agreed by the retailer.

MI means the unique identification number applicable to the point at which a premises is connected to a distribution entity's network. For premises connected to the National Electricity Market this is the National Metering Identifier (NMI), and for other premises is the unique identifier allocated by the distribution entity.

An *MI exclusive* tariff cannot be used in conjunction with any other tariff at that MI. All large customer continuous supply tariffs are MI exclusive tariffs unless otherwise stated.

A *primary* tariff is the tariff that reflects the principal purpose of use of electricity at the premises or the majority of the load, and is capable of existing by itself against a MI.

Small business customers can access primary residential tariffs providing the nature of all use on the tariff is consistent with the tariff requirements (refer below for *concessional application* of primary residential tariffs), and is in conjunction with a primary business tariff (Tariff 20, 21, 22, 22A, 24, 41, 62, 65 or 66) at the same MI.

Primary residential tariffs are also applicable to electricity used in separately metered common sections of residential premises consisting of more than one living unit, but cannot be used in conjunction with another primary residential tariff at the same MI.

A *secondary* tariff is any tariff that is not a primary tariff, and can be accessed only when it is in conjunction with a primary tariff at the same MI unless otherwise stated.

A *seasonal* tariff is any tariff for which charges vary depending on the month the charge applies. Seasonal tariffs can also include time-of –use based charges.

A *time-of-use* tariff is any tariff for which charges vary depending on the time of day.

A *transitional* tariff can be accessed by eligible customers for a limited period of time.

An *obsolete* tariff can only be accessed by customers who:

(a) are on the tariff at the date it becomes obsolete; and

(b) continuously take supply under it.

Transitional and obsolete tariffs will be discontinued no later than the *scheduled phase-out date*. Customers on these tariffs may opt to transfer at any time to applicable standard tariffs.

Any reference in this Tariff Schedule to a time is a reference to Eastern Standard Time.

Weekdays mean Monday to Friday including public holidays.

Summer is the months of December to February inclusive.

Summer peak window is from 4:00pm to 9:00pm on any day within months November to March.

A *daily supply charge* is a fixed amount charged to cover the costs of maintaining electricity supply to a premises, including the costs associated with the provision of equipment (excluding metering and associated services) and general administration. Retailers may use different terms for this charge, for example: Service Charge, Service Fee, Service to Property Charge etc.

A *minimum daily payment* only applies when usage charges for the billing period are less than the total of the minimum daily payment multiplied by the number of days in the billing period. Where the total minimum daily payment is charged, usage charges will not apply.

A connection charge reflects the value of the customer's dedicated connection assets and whether these assets were paid for upfront by the customer. The number of connection units allocated to an MI is as advised by the distribution entity.

Demand is the average rate of use of electricity over a 30-minute period as recorded in kilowatts (kW) on the associated metering, or as calculated in kilovolt-amperes (kVA) using data recorded on the associated metering. No adjustment to import demand is made for export to the distribution network.

Maximum demand is highest demand during the charging period of the particular tariff as identified by the tariff description. Unless otherwise stated, the maximum demand is the value on which demand charges are based.

A *demand threshold* is the demand value below which demand charges do not apply for billing purposes. Where a demand threshold applies, the chargeable demand is the greater of the maximum demand less the demand threshold, or zero.

Authorised demand is the maximum demand permitted to be imported from, or exported to the network, and is specific to each MI. The value is generally established by agreement between the customer and distribution entity.

Capacity is a demand-based measure of the network supply capability reserved for a customer. Unless otherwise stated, the capacity charge is the greater of the authorised demand, or actual maximum demand.

Reactive demand is the average rate of use of electricity over a 30-minute period as recorded in kilovolt-amperes reactive (kvar) on the associated metering.

Permissible reactive demand for an MI is determined by applying its compliant power factor (as set out by the National Energy Rules) to its authorised demand.

Excess reactive demand (also known as excess reactive power) charges are the greater of the reactive demand occurring at the time of the maximum demand, less the permissible reactive demand, or zero.

Bus customers are those taking supply via direct connection to the distribution entity's zone substation or similar as advised by the distribution entity.

Line customers are those taking supply via direct connection to the distribution entity's high voltage electrical wires, cabling, or similar as advised by the distribution entity.

Revenue metering is metering used for billing purposes. Appropriate revenue metering must be in place for each tariff at a MI. If a change to the customer's revenue metering is required to support the applicability of a tariff to a customer, the customer may request the retailer to install the required metering at the customer's cost.

Charges for metering and associated services levied by Ergon Energy Corporation Limited and regulated by the Australian Energy Regulator are not included in notified prices. These will be applied in addition to the notified prices contained in this Tariff Schedule.

The *metrology procedure* is issued by the Australian Energy Market Operator as varied by the Electricity Distribution Network Code.

Standard tariffs

Tariff 15

Customers must nominate the Band to be applied to the customer's account. Customers cannot change to a lower Band less than one year from the application of the nominated Band to the customer's account without the retailer's agreement unless expressly allowed or permitted by energy law. Customers can switch to a higher Band at any time.

Each band sets the amount of electricity that can be used each day during the summer peak window without incurring top-up charges.

Usage charges apply to all metered use in addition to the monthly band charges, including usage in the summer peak window.

If any daily amount of electricity used during the summer peak window exceeds the allowance included in the chosen band, the top-up fee applies. If applicable, the top-up fee applies to the highest daily exceedance in the month it occurs.

Customers must provide explicit informed consent to monthly billing in order to access this tariff.

Interruptible supply tariffs

General:

These tariffs are applicable when electricity supply is:

(a) connected to approved apparatus (e.g. pool pump) via a socket-outlet as approved by the retailer; or

(b) permanently connected to approved apparatus (e.g. electric hot water system) as approved by the retailer (but not applicable if provision has been made to supply the apparatus under a different tariff during the supply interruption period).

The retailer will arrange the provision of load control equipment on a similar basis to provision of the required revenue metering.

Tariff 31

In addition to the general requirements above, this tariff is also applicable when electricity supply is permanently connected to approved specified parts of apparatus (e.g. hot water system booster heating unit), as approved by the retailer, but not applicable if provision has been made to supply the specified part under a different tariff during the supply interruption period except as agreed by the retailer (e.g. for a one-shot booster for a solar hot water system), in which case it must be metered under and charged at the primary tariff of the premises concerned, or if more than one primary tariff exists, the tariff applicable to general power usage at the premises.

Tariff 33

In addition to the general requirements above, this tariff is also applicable as a primary tariff at the absolute discretion of the retailer.

This tariff shall not apply in conjunction with Tariff 24.

Transitional and obsolete tariffs

Tariff 20 (large)

This tariff cannot be accessed by small customers.

Tariff 21

This tariff shall not apply in conjunction with Tariff 20, 22, 22A, 24 or 62.

Tariff 37

This tariff is applicable when electricity supply is permanently connected to approved apparatus (e.g. electric storage hot water system, apparatus for the production of steam) as approved by the retailer.

Tariff 47

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.

Tariff 62

This tariff shall not apply in conjunction with Tariff 20, 21, 22, 22A or 24.

Tariff 65

The *daily pricing period* is a fixed 12-hour period as agreed between the retailer and the customer from the range 7.00am to 7.00pm; 7.30am to 7.30pm; or 8.00am to 8.00pm Monday to Sunday inclusive.

No alteration to the agreed daily pricing period is permitted until a period of twelve months has elapsed from the previous selection.

Tariff 66
The annual fixed charge is determined by the larger of the connected motor capacity used for irrigation pumping, or 7.5 kW.

Any customer taking supply under this tariff who requests a temporary disconnection will not be reconnected unless an amount equivalent to the fixed charge that would have otherwise applied corresponding to the period of disconnection, has been paid.

Unmetered supply tariffs
Tariff 71
Street lighting customers as defined in Queensland legislative instruments, are State or local government agencies for street lighting loads.

Street lights are deemed to illuminate the following types of roads:

- *Local government* controlled roads comprising land that is:
  - (a) dedicated to public use as a road; or
  - (b) 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
  - (c) a footpath or bicycle path; or
  - (d) a bridge, culvert, ford, tunnel or viaduct,

  and excludes State-controlled roads and public thoroughfare easements; and
- *State-controlled roads* declared as such under the *Transport Infrastructure Act 1994* (Qld).

All usage will be determined in accordance with the metrology procedure.

Tariff 91
It is available only to customers with small loads other than street lights as approved by the retailer, and applies where:
(a) the load pattern is predictable;
(b) 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
(c) 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 usage determined by the retailer.

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

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

Customers on seasonal and/or transitional time-of-use tariffs cannot change to another tariff less than one year from the application of the tariff to the customer's account without the retailer's agreement unless expressly allowed or permitted by energy law.

Prorating of charges on bills
Where appropriate, charges on bills will be calculated on a pro rata basis having regard to the number of days in the billing cycle that supply was connected as expressly allowed or permitted by energy law. Retailers can advise customers of which charges on their bills are subject to prorating, and the methodology used.

Supply voltage
Tariffs in this Schedule can only be accessed by customers taking supply at *low voltage* as set out in the *Electricity Regulation 2006* unless it is a designated high voltage tariff, or otherwise agreed with the retailer.

Where supply is given and metered at high voltage and the tariff applied is not a designated high voltage tariff, 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 33kV; or
- 8 percent of the calculated tariff charge where supply is given at voltages of 66kV and above,

provided that the calculated tariff charge after application of the credit is not less than the Minimum Payment or other minimum charge calculated by applying the provisions of the applied tariff.

Card-operated meter customers
If a customer is an excluded customer (as defined in section 23 of the Electricity Act), the distribution entity may at its absolute discretion agree with the relevant local government authority on behalf of the customer, and the customer's retailer, that the electricity used 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 used by a customer at premises is being measured and charged by means of a card-operated meter, the electricity used at the premises may continue to be measured or charged by means of a card-operated meter.

Residential customers with card-operated meters can access Tariff 11 as their primary tariff, and Tariffs 31 and 33 as secondary tariffs.

Small business customers with card-operated meters can access Tariff 20 as their primary tariff.

Charges will be those as set out in Part 2 for the particular tariff.

EasyPay Reward
From 1 December 2017 until 30 June 2020, small customers of Ergon Energy who participate in the EasyPay Reward Scheme will receive annual reward amounts in the form of deferred payments.

The EasyPay Reward Scheme will operate as follows:

1. An eligible customer opts-in to the EasyPay Reward Scheme, and becomes a participating customer, by notifying Ergon Energy that it agrees to comply with all the participation requirements.
2. Subject to paragraph 3, if Ergon Energy receives a notice mentioned in paragraph 1 it must include the relevant annual amount for the participating customer in:
   (a) the first bill it issues to the customer after receiving the notice under paragraph 1, or otherwise, as soon as reasonably practicable thereafter; and

(b) thereafter until the EasyPay Reward Scheme ends on 30 June 2020—the bill Ergon Energy issues to the customer after each anniversary of the date the customer became a participating customer.

The following table illustrates how the scheme is intended to operate for participating customers other than small, non-reversionary customers:

	Customers who opt in on or before 30.06.18	Customers who opt in after 30.06.18 but before 01.01.19	Customers who opt in before 01.01.20
No. of relevant annual amounts invoiced	3	2	1

3. However, Ergon Energy must ensure that any small non-reversionary customer who becomes a participating customer within six months after a relevant NERL amendment comes into force, receives three relevant annual amounts.

4. Subject to paragraph 5, a participating customer's obligation to pay each relevant annual amount:
   (a) is deferred for the initial period; and
   (b) ceases to exist when the initial period ends.

5. However, the relevant annual amount may become payable to Ergon Energy if, on or before the end of the initial period:
   a) the participating customer opts out of having opted in;
   b) the participating customer does not maintain payment of bills by direct debit or CentrePay (as relevant); or
   c) the participating customer no longer agrees to comply with 1 or more of the participation requirements.

Ergon Energy reserves the right to recover the deferred amount from the customer on their next bill.

Definitions for EasyPay Reward Scheme

Eligible customer means a small customer who has a new or existing account with Ergon Energy under a standard retail contract and who is up to date with their bill payments. A customer with an arrears component or any overdue amount is not eligible for the Scheme.

Ergon Energy means Ergon Energy Queensland Pty Ltd (ABN 11 121 177 802)

Initial period means for a period of six months from the date that Ergon Energy issues the bill that includes the first relevant annual amount.

Participating customer means a small customer under a standard retail contract with Ergon Energy who has opted in to the Scheme.

Participation requirements means each of the following:

a) agreeing to the receive the relevant annual amount in the form of a deferred payment;

b) agreeing to receive, and receiving, only electronic bills;

c) agreeing to pay, and paying, bills by direct debit or CentrePay;

d) agreeing to make, and making, weekly, fortnightly or monthly payments (as agreed) under a *smoothpay* arrangement.

Non-reversionary customer means a person to whom an assigned retailer, prior to the commencement of a relevant amendment, could not provide customer retail services because of section 19C(1)(b(ii) of the *National Energy Retail Law (Queensland)*.

Relevant NERL amendment means an amendment to section 19C(1)(b)(ii) of the *National Energy Retail Law (Queensland)* that inserts the words 'if the customer is a large customer' before the words 'the financially responsible retailer for the premises' in section 19C(1)(b)(ii).

Relevant annual amount, for a participating customer, means:

a) if the participating customer is a residential customer—$75; or

b) if the participating customer is a business customer—$120.

Other retail fees and charges

A retailer may charge its Standard Contract Customers the following:

(a) if, at a customer's request, the retailer provides historical billing data which is more than two years old:
– a maximum of **$30**

(b) retailer's administration fee for a dishonoured payment:
– a maximum of **$15**

(c) financial institution fee for a dishonoured payment:
– a maximum of **the fee incurred by the retailer**

(d) in addition to the applicable tariff, 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 usage), but only if:
   (i) the customer voluntarily participates in such program or scheme;
   (ii) the additional amount is payable under the program or scheme; and
   (iii) the retailer gives the customer prior written notice of any change to the additional amount payable under the program or scheme.

Concessional application

Tariff 11, Tariff 12A and Tariff 14 are also available to customers where they satisfy the additional criteria set out in any one of **1**, **2** or **3**, below:

1. Separately metered installations where all electricity used is 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.

2. Residential institutions:

(a) where 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; and

(b) that are:

(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*.

3. Organisations providing support and crisis accommodation which:

(a) meet the eligibility criteria of the Specialist Homelessness Services administered by the State Department of Housing and Public Works; and

(b) are 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 2—Standard tariffs

These tariffs are applicable subject to the matters set out in part 1.

Small customer tariffs

Tariff	Description	Charge type	Rate	Unit
11	Residential flat-rate primary tariff	Usage	25.298	c/kWh
		Daily supply charge	88.948	c
12A	Residential seasonal time-of-use primary tariff	Summer usage – Peak (3pm–9:30pm)	62.666	c/kWh
		Summer usage – All other times	21.474	c/kWh
		Usage – All other times	21.474	c/kWh
		Daily supply charge	77.628	c
14	Residential seasonal time-of-use monthly demand primary tariff. Daily demand is the average of the 13 half-hourly demand recordings for each day from 3:00pm to 9:30pm for the Peak period (Summer) and the Off-peak period (all other times). Peak chargeable demand is the average of the four highest peak daily demands in the month. Off-peak chargeable demand is the greater of the average of the four highest off-peak daily demands in the month, or 3kW.	Chargeable demand – Peak	62.777	$/kW
		Chargeable Demand – Off peak	9.241	$/kW
		Usage	17.593	c/kWh
		Daily supply charge	46.420	c
15	Residential primary tariff	Top up charge	4.207	$/kWh/month
	Top up charge applies to any consumption that exceeds the summer peak window consumption cap for the account's nominated band.	Usage	18.659	c/kWh
	-Band 1 has a 0 kWh cap during the summer peak window	Fixed charge - band 1	37.221	$/month
	-Band 2 has a 5 kWh cap during the summer peak window	Fixed charge - band 2	44.382	$/month
	-Band 3 has a 10 kWh cap during the summer peak window	Fixed charge - band 3	51.543	$/month
	-Band 4 has a 15 kWh cap during the summer peak window	Fixed charge - band 4	58.704	$/month
	-Band 5 has a 20 kWh cap during the summer peak window	Fixed charge - band 5	65.865	$/month
20	Small business flat-rate primary tariff.	Usage	26.442	c/kWh
		Daily supply charge	122.963	c

Tariff	Description	Charge type	Rate	Unit
22A	Small business seasonal time-of-use primary tariff.	Summer usage – Peak (10am–8pm)	52.954	c/kWh
		Summer usage – All other times	22.982	c/kWh
		Usage – All other times	22.982	c/kWh
		Daily supply charge	122.963	c
24	Small business seasonal time-of-use monthly demand primary tariff. Daily demand is the average of the 20 half-hourly demand recordings for each weekday from 10:00am to 8:00pm for the Peak period (Summer) and the Off-peak period (all other times). Peak chargeable demand is the average of the four highest peak daily demands in the month. Off-peak chargeable demand is the greater of the average of the four highest off-peak daily demands in the month, or 3kW.	Chargeable demand – Peak	90.312	$/kW
		Chargeable Demand – Off peak	9.302	$/kW
		Usage	18.762	c/kWh
		Daily supply charge	63.597	c
31	Small customer flat-rate secondary tariff with interruptible supply. Supply will be available for a minimum of 8 hours per day, but 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.	Usage	17.433	c/kWh
33	Small customer flat-rate secondary tariff with interruptible supply. Supply will be available for a minimum of 18 hours per day, but times when supply is available is subject to variation at the absolute discretion of the distribution entity.	Usage	21.050	c/kWh
41	Small business monthly demand primary tariff.	Demand	23.708	$/kW
		Usage	16.128	c/kWh
		Daily supply charge	529.103	c

Large customer tariffs

Tariff	Description	Charge type		Unit
44	Large business monthly demand primary tariff Demand threshold 30 kW.	Chargeable demand	36.125	$/kW
		Usage	14.620	c/kWh
		Daily supply charge	4588.419	c

Tariff	Description	Charge type	Rate	Unit
45	Large business monthly demand primary tariff Demand threshold 120 kW.	Chargeable demand	26.884	$/kW
		Usage	14.620	c/kWh
		Daily supply charge	15235.233	c
46	Large business monthly demand primary tariff Demand threshold 400 kW.	Chargeable demand	22.031	$/kW
		Usage	14.608	c/kWh
		Daily supply charge	39928.340	c
50	Large business seasonal time-of-use monthly demand primary tariff. Peak is Summer, being 10:00am to 8:00pm on Summer weekdays for determining chargeable demand, and all day each day for usage. Off-peak is all times in non-summer months for determining chargeable demand and usage. Peak demand threshold 20 kW. Off peak demand threshold 40 kW.	Peak chargeable demand	65.285	$/kW
		Peak usage	14.264	c/kWh
		Off-peak chargeable demand	11.782	$/kW
		Off-peak usage	16.769	c/kWh
		Daily supply charge	3609.432	c
51A	Large business high-voltage monthly demand primary tariffs only for customers classified as CAC and supplied at 66kV.	Demand	2.672	$/kVA
		Capacity	4.500	$/kVA
		Excess reactive demand	4.454	$/kvar
		Usage	14.047	c/kWh
		Daily connection charge	10.081	$/unit
		Daily supply charge	25306.357	c
51B	Large business high-voltage monthly demand primary tariffs only for customers classified as CAC and supplied at 33kV.	Demand	2.755	$/kVA
		Capacity	5.502	$/kVA
		Excess reactive demand	4.454	$/kvar
		Usage	14.047	c/kWh
		Daily connection charge	10.081	$/unit
		Daily supply charge	18481.357	c

Tariff	Description	Charge type	Rate	Unit
51C	Large business high-voltage monthly demand primary tariffs only for customers classified as CAC and supplied on an 11 or 22kV bus.	Demand	3.340	$/kVA
		Capacity	6.392	$/kVA
		Excess reactive demand	4.454	$/kvar
		Usage	14.051	c/kWh
		Daily connection charge	10.081	$/unit
		Daily supply charge	17011.357	c
51D	Large business high-voltage monthly demand primary tariffs only for customers classified as CAC and supplied on an 11 or 22kV line.	Demand	6.736	$/kVA
		Capacity	12.461	$/kVA
		Excess reactive demand	4.454	$/kvar
		Usage	14.071	c/kWh
		Daily connection charge	10.081	$/unit
		Daily supply charge	16171.357	c
52A	Large business high-voltage seasonal time-of-use monthly demand primary tariffs only for customers classified as CAC and supplied at 33 or 66kV. Chargeable demand is the maximum demand between 10:00am and 8:00pm Summer weekdays. Chargeable capacity excludes all demands occurring during the chargeable demand periods.	Chargeable demand	12.248	$/kVA
		Chargeable capacity	6.838	$/kVA
		Excess reactive demand	4.454	$/kvar
		Usage – Summer	13.578	c/kWh
		Usage – All other times	13.979	c/kWh
		Daily connection charge	10.081	$/unit
		Daily supply charge	12706.357	c

Tariff	Description	Charge type	Rate	Unit
52B	Large business high-voltage seasonal time-of-use monthly demand primary tariffs only for customers classified as CAC and supplied on an 11 or 22kV bus. Chargeable demand is the maximum demand between 10:00am and 8:00pm Summer weekdays. Chargeable capacity excludes all demands occurring during the chargeable demand periods.	Chargeable demand	45.014	$/kVA
		Chargeable capacity	4.834	$/kVA
		Excess reactive demand	4.454	$/kvar
		Usage – Summer	13.582	c/kWh
		Usage – All other times	13.983	c/kWh
		Daily connection charge	10.081	$/unit
		Daily supply charge	12706.357	c
52C	Large business high-voltage seasonal time-of-use monthly demand primary tariffs only for customers classified as CAC and supplied on an 11 or 22kV line. Chargeable demand is the maximum demand between 10:00am and 8:00pm Summer weekdays. Chargeable capacity excludes all demands occurring during the chargeable demand periods.	Chargeable demand	80.540	$/kVA
		Chargeable capacity	8.842	$/kVA
		Excess reactive demand	4.454	$/kvar
		Usage – Summer	13.602	c/kWh
		Usage – All other times	14.003	c/kWh
		Daily connection charge	10.081	$/unit
		Daily supply charge	12706.357	c
53	Large business high-voltage primary tariff only for customers classified as ICC.	Demand	6.736	$/kVA
		Capacity	12.461	$/kVA
		Excess reactive demand	4.454	$/kvar
		Usage	14.071	c/kWh
		Daily supply charge	15984.499	c

Part 3—Transitional and obsolete tariffs.

These tariffs are applicable subject to the matters set out in part 1.

Tariff	Description	Charge type	*Rate*	Unit
20 (large)	Transitional large business flat-rate primary tariff. Scheduled phase-out date: 1 July 2020	Usage	37.595	c/kWh
		Daily supply charge	76.858	c

Tariff	Description	Charge type	Rate	Unit
21	Transitional business declining-block primary tariff. Scheduled phase-out date: 1 July 2020	Usage – first 100 kWh/month	49.357	c/kWh
		Usage – next 9,900 kWh/month	46.374	c/kWh
		Usage – all remaining usage	35.303	c/kWh
		Minimum daily payment	72.631	c
22 (small and large)	Transitional business time-of-use primary tariff. Scheduled phase-out date: 1 July 2020	Usage – 7am to 9pm weekdays	49.820	c/kWh
		Usage – all other times	17.543	c/kWh
		Daily supply charge	184.717	c
37	Obsolete business time-of-use primary tariff. Scheduled phase-out date: 1 July 2020	Usage – 4:30pm–10:30pm	54.544	c/kWh
		Usage – all other times	21.807	c/kWh
		Minimum daily payment	30.623	c
47	Obsolete large business high voltage monthly demand primary tariff. Demand threshold 400 kW Scheduled phase-out date: 1 July 2022	Chargeable demand	27.864	$/kW
		Usage	12.446	c/kWh
		Daily supply charge	44689.726	c
48	Obsolete large business high voltage monthly demand primary tariff only for customers classified as CAC or ICC. Demand threshold 400 kW Scheduled phase-out date: 1 July 2022	Chargeable demand	28.822	$/kW
		Usage	12.874	c/kWh
		Daily supply charge	46712.140	c
62	Transitional farming business time-of-use declining-block primary tariff. Scheduled phase-out date: 1 July 2020	Usage – 7am to 9pm weekdays first 10,000kWh per month	46.516	c/kWh
		Usage – 7am to 9pm weekdays all remaining usage	39.336	c/kWh
		Usage – all other times	16.448	c/kWh
		Daily supply charge	78.451	c

Tariff	Description	Charge type	Rate	Unit
65	Transitional irrigation business time-of-use primary tariff. Scheduled phase-out date: 1 July 2020	Usage – Peak (daily pricing period)	36.894	c/kWh
		Usage – all other times	20.321	c/kWh
		Daily supply charge	78.003	c
66	Transitional irrigation business fixed annual dual-rate demand primary tariff. Scheduled phase-out date: 1 July 2020	Fixed charge (annual) – first 7.5kW	37.503	$/kW
		Fixed charge (annual) – remaining kW	112.759	$/kW
		Usage	19.338	c/kWh
		Daily supply charge	171.915	c

Part 4—Unmetered supply tariffs

These tariffs are applicable subject to the matters set out in part 1.

Tariff	Description	Charge type	Rate	Unit
71	Business flat-rate primary tariff for street lighting.	Usage	31.140	c/kWh
		Daily supply charge	0.525	c/lamp
91	Business flat-rate primary tariff.	Usage	24.280	c/kWh

Part 5—Metering charges

Type 1, 2, 3, 4 (advanced digital) meters—large business

Description	Charge type	Rate	Unit
Standard asset customer.	Daily metering charge	141.078	c
Connection asset customer.	Daily metering charge	328.542	c
Individually calculated customer.	Daily metering charge	506.502	c

End of Tariff Schedule

APPENDIX G: ASSUMPTIONS AND DATA USED TO DETERMINE CUSTOMER IMPACTS

Typical customer figures are based on the annual consumption of the median customer on each tariff in regional Queensland. Consistent with previous price determinations, Ergon Distribution provided the forecast usage for tariffs 12A and 22A[178], while Ergon Retail provided actual usage data for the remaining tariffs.

The median customer is the middle customer in terms of consumption out of all customers on each tariff. As such, approximately half of all customers will use less electricity than the typical figure, and half will use more. Stakeholders requested the QCA provide a range of bill impacts for residential customers. For this price determination, the QCA has provided tariff 11 bill impacts for the 25th and 75th percentile customers. One quarter of customers will use less electricity than the 25th percentile customer, while three-quarters of customers will use less electricity than the 75th percentile customer.

In submissions for previous determinations, stakeholders noted that the typical customer figures provided by Ergon Retail appear lower than those on the AER's Energy Made Easy website. The reason for the discrepancy is that the Energy Made Easy website uses average consumption figures based on a survey of 4,000 customers across Australia in 2014, while Ergon Retail uses actual consumption figures from their customer base of over 700,000 electricity customers in regional Queensland.

Table 38 Usage data used to determine customer impacts

Retail tariff	*Usage (kWh per year)*	*Peak usage (%)*	*Off-peak usage (%)*	*Demand (kW per month)*	*Demand threshold (kW per month)*
T11 (only)—25th percentile	2,554				
T11 (only)—median	4,184				
T11 (only)—75th percentile	6,547				
T11 (with T31)—median	4,369				
T31—median	1,743				
T11 (with T33)—median	4,054				
T33—median	1,620				
T20—median	6,835				
T12A—median[a]	4,159	11	89		
T22A—median[a]	7,625	10.1	89.9		
T44—median	235,977			54	30
T45–median	868,631			204	120
T46–median	2,254,639			521	400

a *At the time of the final determination, Ergon Distribution's best forecasts were forecast figures provided to the QCA as part of the 2017–2018 pricing determination.*

[178] Forecast data were provided, as actual usage data were considered unreliable due to the very small number of customers on these tariffs.

APPENDIX H: SUMMARY OF CONCESSIONAL ARRANGEMENTS FOR ELECTRICITY IN QUEENSLAND

Concession	*Eligibility criteria*	*Annual amount (including GST)*
Electricity Rebate	Rebates are available to people who have any of the below: • Pensioner Concession Card • Department of Veterans' Affairs Gold Card (and receive the War Widow/er Pension or special rate TPI Pension) • Queensland Seniors Card. • Commonwealth Health Care Card (Electricity Rebate only) • Asylum seeker status (residents will need to provide their ImmiCard details) (Electricity Rebate only) To be eligible, you must be the electricity account holder and also live alone or share your principal place of residence with (only) any of the below: • their spouse • other people who hold a Pensioner Concession Card or Queensland Seniors Card • other people wholly dependent on them • other people who receive an income support payment from Centrelink, the Family Assistance Office, or the Department of Veterans' Affairs and who do not pay rent • other people who live with the card holder to provide care and assistance, and who do not pay rent. If you live in a caravan park or multi-unit residential building (e.g. apartment), you must also show that your electricity or reticulated natural gas is paid on the basis of metered consumption.	$340.85
Electricity rebate (for residential home parks and multi-unit residential premises)	The rebate is available for premises where the proprietor/owner: • is the consumer of the energy retailer • supplies electricity and/or reticulated natural gas to each of the separately identifiable vans, flats or home units • charges for electricity and/or reticulated natural gas used by residents based on metered consumption. To be eligible, residents must have one of the following: • a current Pensioner Concession Card issued by Centrelink • a current Department of Veterans' Affairs (DVA) Gold Card (Totally and Permanently Incapacitated (TPI) and widow/er only) • a current Queensland Seniors Card • a current Commonwealth Health Care Card (issued by Centrelink) (Electricity Rebate only) • asylum seeker status (residents will need to provide their ImmiCard details) (Electricity Rebate only). Eligible residents must live alone or share the premises with:	$0.9338 per day

Concession	***Eligibility criteria***	***Annual amount (including GST)***
	• their spouse or other eligible card holders • other people wholly dependent on them • other people who are social security recipients, and who do not pay rent • other people who live with the resident to provide care and assistance, and who do not pay rent.	
Electricity asset ownership dividend	To provide continued electricity bill relief for all Queensland households, $200 million from the dividends of government owned corporations will be delivered as a $50 per year ($100 over 2 years) rebate for households over the next 2 years. Households will automatically receive their first $50 rebate from the second quarter of 2018. Customers don't need to apply for the rebate—it will be automatically applied to each residential electricity account.	$50.00
Energy efficient appliance rebate	To help Queensland households improve their energy efficiency, $20 million has been committed for rebates on approved energy efficient appliances under the Affordable Energy Plan. Rebates will apply to purchases on or after 1 January 2018 for the following household appliances: • $200 for a 4-star or higher energy rated washing machine • $250 for a 4-star or higher energy rated refrigerator • $300 for a 4-star or higher energy rated air conditioner. Limited to one rebate application per household. To be eligible for a rebate, the appliance must: • have a minimum 4-star energy rating • be new and purchased on or after 1 January 2018 (you must provide a copy of the tax invoice or receipt for the purchase of the approved appliance showing you have paid in full) • be for the purposes of domestic/residential use in a Queensland residence. For air conditioners, the minimum 4-star energy rating relates to cooling. Free-standing, portable air conditioners and evaporative coolers do not qualify for the rebate.	$200 for a 4-star energy rated washing machine. $250 for a 4-star energy rated refrigerator. $300 for a 4-star energy rated air conditioner.
No interest loans and rebates for rooftop solar and battery systems	To drive continued uptake of solar, and support customers to adopt battery storage technology, $21 million is being committed to provide no interest loans for these technologies. The no interest loans enable households and small businesses to access the necessary upfront capital required to purchase systems.	
Home Energy Emergency Assistance Scheme	The Home Energy Emergency Assistance Scheme: • is for Queensland households experiencing problems paying their electricity or reticulated natural gas bills as a result of an unforeseen emergency or a short-term financial crisis • is one-off emergency assistance to help with paying your home energy bills	Up to $720 once every two years.

Concession	***Eligibility criteria***	***Annual amount (including GST)***
	• pays up to $720 once every 2 years. To be eligible, customers must be responsible for paying the outstanding bill (the bill does not need to be in your name) and meet one of the following: • hold a current concession card • have an income equal to or less than the Australian Government's maximum income rate for part-age pensioners. Contact Centrelink for details of the maximum income rate • be part of your energy retailer's hardship program or payment plan.	
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.	$694.18 per year for each oxygen concentrator. $464.88 for each kidney dialysis machine.
Medical Cooling and Heating Electricity Concession Scheme	The Medical Cooling and Heating Electricity Concession Scheme helps with electricity costs for people who have a chronic medical condition, such as multiple sclerosis, autonomic system dysfunction, significant burns or a severe inflammatory skin condition, which is aggravated by changes in temperature.	$340.85
Drought relief from Electricity Charges Scheme	The Drought Relief from Electricity Charges Scheme (DRECS) provides relief from supply charges on electricity accounts that are used to pump water for farm or irrigation purposes. Financial assistance is available in drought-declared areas or if your property has been drought-declared. You can apply for a waiver or reimbursement of supply charges on all relevant electricity accounts.	

Note: For more information, see https://www.qld.gov.au/community/cost-of-living-support/energy-concessions.

APPENDIX I: BUILD-UP OF NOTIFIED PRICES

Table 39 Regulated retail tariffs and prices for residential customers (GST exclusive)

Retail tariff	*Tariff component*	*Fixed[a] (c/day)*	*Peak usage (c/kWh)*	*Off-peak/Flat usage (c/kWh)*	*Peak demand ($/kW/mth)*	*Off-peak/Flat demand ($/kW/mth)*
Tariff 11—Residential (flat-rate)	Network	48.000		8.428		
	Energy			13.017		
	Fixed retail	36.713				
	Variable retail			2.417		
	Standing offer adjustment	4.236		1.193		
	SRES cost pass-through			0.2429		
	Total	**88.948**		**25.298**		
Tariff 12A—Residential (seasonal time-of-use)	Network	37.219	40.412	5.155		
	Energy		13.017	13.017		
	Fixed retail	36.713				
	Variable retail		6.021	2.048		
	Standing offer adjustment	3.697	2.973	1.011		
	SRES cost pass-through		0.2429	0.2429		
	Total	**77.628**	**62.666**	**21.474**		
Tariff 14—Residential (seasonal time-of-use demand)	Network	7.497		1.833	53.732	7.909
	Energy			13.017		
	Fixed retail	36.713				
	Variable retail			1.674	6.056	0.891
	Standing offer adjustment	2.210		0.826	2.989	0.440
	SRES cost pass-through			0.2429		
	Total	**46.420**		**17.593**	**62.777**	**9.241**
Tariff 31—Night rate super economy	Network			5.715		
	Energy			8.998		
	Fixed retail					
	Variable retail			1.658		

Retail tariff	*Tariff component*	*Fixed[a] (c/day)*	*Peak usage (c/kWh)*	*Off-peak/Flat usage (c/kWh)*	*Peak demand ($/kW/mth)*	*Off-peak/Flat demand ($/kW/mth)*
	Standing offer adjustment			0.819		
	SRES cost pass-through			0.2429		
	Total			**17.433**		
Tariff 33—Controlled supply economy	Network			6.963		
	Energy			10.846		
	Fixed retail					
	Variable retail			2.007		
	Standing offer adjustment			0.991		
	SRES cost pass-through			0.2429		
	Total			**21.050**		

a *Charged per metering point.*

Note: Totals may not add due to rounding.

Table 40 Regulated retail tariffs and prices for residential customers (GST exclusive)

Retail Tariff	*Tariff Component*	*Fixed Band 1 ($/mth)*	*Fixed Band 2 ($/mth)*	*Fixed Band 3 ($/mth)*	*Fixed Band 4 ($/mth)*	*Fixed Band 5 ($/mth)*	*Usage (c/kWh)*	*Top up Charge ($/kWh/mth)*
Tariff 15—Residential	Network	24.274	31.094	37.914	44.734	51.554	2.954	3.601
	Energy						13.017	
	Fixed retail	11.174	11.174	11.174	11.174	11.174		
	Variable retail						1.800	0.406
	Standing offer adjustment	1.772	2.113	2.454	2.795	3.136	0.889	0.200
	SRES cost pass-through							
	Total	**37.221**	**44.382**	**51.543**	**58.704**	**65.865**	**18.659**	**4.207**

Note: Totals may not add due to rounding.

Table 41 Regulated retail tariffs and prices for small business and unmetered supply customers (GST exclusive)

Retail tariff	*Tariff component*	*Fixed[a] (c/day)*	*Peak usage (c/kWh)*	*Off-peak/Flat usage (c/kWh)*	*Peak demand ($/kW/mth)*	*Off-peak/Flat demand ($/kW/mth)*
Tariff 20—Business (flat-rate)	Network	65.100		9.100		
	Energy			13.017		
	Fixed retail	52.008				
	Variable retail			2.831		
	Standing offer adjustment	5.855		1.247		
	SRES cost pass-through			0.2462		
	Total	**122.963**		**26.442**		
Tariff 22A—Business (seasonal time-of-use)	Network	65.100	31.485	6.179		
	Energy		13.017	13.017		
	Fixed retail	52.008				
	Variable retail		5.696	2.457		
	Standing offer adjustment	5.855	2.510	1.083		
	SRES cost pass-through		0.2462	0.2462		
	Total	**122.963**	**52.954**	**22.982**		
Tariff 24—Business (seasonal time-of-use demand)	Network	8.561		2.616	76.251	7.854
	Energy			13.017		
	Fixed retail	52.008				
	Variable retail			2.001	9.760	1.005
	Standing offer adjustment	3.028		0.882	4.301	0.443
	SRES cost pass-through			0.2462		
	Total	**63.597**		**18.762**	**90.312**	**9.302**
Tariff 41Business low voltage (demand)	Network	451.900		0.392		20.017
	Energy			13.017		
	Fixed retail	52.008				
	Variable retail			1.716		2.562
	Standing offer adjustment	25.195		0.756		1.129
	SRES cost pass-through			0.2462		

Retail tariff	***Tariff component***	***Fixed[a] (c/day)***	***Peak usage (c/kWh)***	***Off-peak/Flat usage (c/kWh)***	***Peak demand ($/kW/mth)***	***Off-peak/Flat demand ($/kW/mth)***
	Total	**529.103**		**16.128**		**23.708**
Tariff 91—Unmetered supply	Network			7.275		
	Energy			13.017		
	Fixed retail					
	Variable retail			2.597		
	Standing offer adjustment			1.144		
	SRES cost pass-through			0.2462		
	Total			**24.280**		

a *Charged per metering point.*

Note: Totals may not add due to rounding

Table 42 Regulated retail tariffs and prices for large business and street lighting customers (GST exclusive)

Retail tariff	*Tariff component*	*Fixed[a] (c/day)*	*Peak usage (c/kWh)*	*Off-peak/Flat usage (c/kWh)*	*Peak demand ($/kW/mth)*	*Off-peak/Flat demand ($/kW/mth)*
Tariff 44—Business over 100 MWh/yr—Small (demand)	Network	3998.000		1.275		32.444
	Energy			11.644		
	Fixed retail	371.922				
	Variable retail			0.781		1.961
	Headroom	218.496		0.685		1.720
	SRES cost pass-through			0.2345		
	Total	**4588.419**		**14.620**		**36.125**
Tariff 45—Business over 100 MWh/yr—Medium (demand)	Network	13487.000		1.275		24.144
	Energy			11.644		
	Fixed retail	1022.746				
	Variable retail			0.781		1.459
	Headroom	725.487		0.685		1.280
	SRES cost pass-through			0.2345		
	Total	**15235.233**		**14.620**		**26.884**
Tariff 46—Business over 100 MWh/yr—Large (demand)	Network	35425.400		1.265		19.786
	Energy			11.644		
	Fixed retail	2601.590				
	Variable retail			0.780		1.196
	Headroom	1901.350		0.684		1.049
	SRES cost pass-through			0.2345		
	Total	**39928.340**		**14.608**		**22.031**
Tariff 50—Business over 100 MWh/yr (seasonal time-of-use demand)	Network	3102.600	0.955	3.205	58.632	10.581
	Energy		11.644	11.644		
	Fixed retail	334.955				
	Variable retail		0.762	0.898	3.544	0.640
	Headroom	171.878	0.668	0.787	3.109	0.561
	SRES cost pass-through		0.235	0.2345		
	Total	**3609.432**	**14.264**	**16.769**	**65.285**	**11.782**
	Network	0.500		16.112		

Retail tariff	***Tariff component***	***Fixed[a] (c/day)***	***Peak usage (c/kWh)***	***Off-peak/Flat usage (c/kWh)***	***Peak demand ($/kW/mth)***	***Off-peak/Flat demand ($/kW/mth)***
Tariff 71—Street lighting	Energy			11.644		
	Fixed retail					
	Variable retail			1.678		
	Headroom	0.025		1.472		
	SRES cost pass-through			0.2345		
	Total	**0.525**		**31.140**		

a *Charged per metering point.*

Note: Totals may not add due to rounding.

Table 43 Regulated retail tariffs and prices for very large business customers (GST exclusive)

Retail tariff	*Tariff component*	*Fixed[a] (c/day)*	*Peak usage (c/kWh)*	*Off-peak/flat usage (c/kWh)*	*Connection unit ($/day/unit)*	*Capacity Flat/Off-peak ($/kVA of AD/mth)*	*Demand flat/peak ($/kVA/mth)*	*Excess reactive power ($/excess kVAr/mth)*
Tariff 51A—Business over 4 GWh/yr—High voltage 66kV	Network	21526.000		1.317	9.054	4.041	2.400	4.000
	Energy			11.101				
	Fixed retail	2575.292						
	Variable retail			0.751	0.547	0.244	0.145	0.242
	Headroom	1205.065		0.658	0.480	0.214	0.127	0.212
	SRES cost pass-through			0.220				
	Total	**25306.357**		**14.047**	**10.081**	**4.500**	**2.672**	**4.454**
Tariff 51B—Business over 4 GWh/yr—High voltage 33kV	Network	15026.000		1.317	9.054	4.941	2.474	4.000
	Energy			11.101				
	Fixed retail	2575.292						
	Variable retail			0.751	0.547	0.299	0.150	0.242
	Headroom	880.065		0.658	0.480	0.262	0.131	0.212
	SRES cost pass-through			0.220				
	Total	**18481.357**		**14.047**	**10.081**	**5.502**	**2.755**	**4.454**
Tariff 51C—Business over 4 GWh/yr—High voltage 22/11kV Bus	Network	13626.000		1.320	9.054	5.741	3.000	4.000
	Energy			11.101				
	Fixed retail	2575.292						
	Variable retail			0.751	0.547	0.347	0.181	0.242
	Headroom	810.065		0.659	0.480	0.304	0.159	0.212

Retail tariff	***Tariff component***	***Fixed[a] (c/day)***	***Peak usage (c/kWh)***	***Off-peak/flat usage (c/kWh)***	***Connection unit ($/day/unit)***	***Capacity Flat/Off-peak ($/kVA of AD/mth)***	***Demand flat/peak ($/kVA/mth)***	***Excess reactive power ($/excess kVAr/mth)***
	SRES cost pass-through			0.220				
	Total	**17011.357**		**14.051**	**10.081**	**6.392**	**3.340**	**4.454**
Tariff 51D—Business over 4 GWh/yr—High voltage 22/11kV Line	Network	12826.000		1.338	9.054	11.191	6.050	4.000
	Energy			11.101				
	Fixed retail	2575.292						
	Variable retail			0.752	0.547	0.676	0.366	0.242
	Headroom	770.065		0.660	0.480	0.593	0.321	0.212
	SRES cost pass-through			0.220				
	Total	**16171.357**		**14.071**	**10.081**	**12.461**	**6.736**	**4.454**
Tariff 52A—Business over 4 GWh/yr—High voltage 66/33kV (STOUD)	Network	9526.000	0.896	1.256	9.054	6.141	11.000	4.000
	Energy		11.101	11.101				
	Fixed retail	2575.292						
	Variable retail		0.725	0.747	0.547	0.371	0.665	0.242
	Headroom	605.065	0.636	0.655	0.480	0.326	0.583	0.212
	SRES cost pass-through		0.220	0.220				
	Total	**12706.357**	**13.578**	**13.979**	**10.081**	**6.838**	**12.248**	**4.454**
Tariff 52B—Business over 4 GWh/yr—High voltage 22/11kV Bus (STOUD)	Network	9526.000	0.899	1.259	9.054	4.341	40.427	4.000
	Energy		11.101	11.101				
	Fixed retail	2575.292						
	Variable retail		0.725	0.747	0.547	0.262	2.444	0.242

Retail tariff	Tariff component	Fixed[a] (c/day)	Peak usage (c/kWh)	Off-peak/flat usage (c/kWh)	Connection unit ($/day/unit)	Capacity Flat/Off-peak ($/kVA of AD/mth)	Demand flat/peak ($/kVA/mth)	Excess reactive power ($/excess kVAr/mth)
	Headroom	605.065	0.636	0.655	0.480	0.230	2.144	0.212
	SRES cost pass-through		0.220	0.220				
	Total	**12706.357**	**13.582**	**13.983**	**10.081**	**4.834**	**45.014**	**4.454**
Tariff 52C—Business over 4 GWh/yr—High voltage 22/11kV Line (STOUD)	Network	9526.000	0.917	1.277	9.054	7.941	72.333	4.000
	Energy		11.101	11.101				
	Fixed retail	2575.292						
	Variable retail		0.726	0.748	0.547	0.480	4.372	0.242
	Headroom	605.065	0.637	0.656	0.480	0.421	3.835	0.212
	SRES cost pass-through		0.220	0.220				
	Total	**12706.357**	**13.602**	**14.003**	**10.081**	**8.842**	**80.540**	**4.454**
Tariff 53—Business over 40 GWh/yr	Network	12826.000		1.338		11.191	6.050	4.000
	Energy			11.101				
	Fixed retail	2397.332						
	Variable retail			0.752		0.676	0.366	0.242
	Headroom	761.167		0.660		0.593	0.321	0.212
	SRES cost pass-through			0.220				
	Total	**15984.499**		**14.071**		**12.461**	**6.736**	**4.454**

a *Charged per metering point.*

Note: Totals may not add due to rounding

APPENDIX J: SRES COST PASS-THROUGH CALCULATIONS

This appendix provides further information about how the SRES pass-through amounts presented in Chapter 6 were calculated.

First, we calculated the actual cost of SRES compliance during 2017–18, in dollars per megawatt hour ($/MWh), based on the final STP for the 2017 and 2018 calendar years—using the same approach employed by ACIL Allen. The STPs are determined by the Clean Energy Regulator.

We then took the difference between the SRES allowance provided in 2017–18 notified prices and the actual 2017–18 SRES cost. This revealed an SRES under-recovery of approximately $1.804/MWh (0.1804 c/kWh), as shown in the table below.

Table 44 2017–18 SRES under-recovery for all settlement classes

	Period	*STP (%)[a]*		*Clearing house price[a] ($/MWh)*	*SRES cost ($/MWh)*	*2017–18 average SRES cost ($/MWh)*
		Final	*Non-binding*			
2017–18 final determination allowance	1 Jul–31 Dec 2017	7.01%	–	$40.00	$2.804	$3.014
	1 Jan–30 Jun 2018	–	8.06%	$40.00	$3.224	
2017–18 actual cost	1 Jul–31 Dec 2017	7.01%	–	$40.00	$2.804	$4.818
	1 Jan–30 Jun 2018	17.08%	–	$40.00	$6.832	
Under-recovery in 2017–18 (before adjusting for energy losses, variable retail costs, standing offer adjustment/headroom and time value of money)						$1.804

a *Determined by the Clean Energy Regulator.*

Note: For presentation purposes, figures in this table have been rounded. Therefore, these figures may not sum, subtract or multiply exactly.

Next, we made an adjustment to the under-recovery to account for energy losses—to determine the SRES liabilities based on energy acquired. In the 2017–18 price determination, we applied a loss factor to energy purchase costs for each settlement class to reflect transmission and distribution losses. We applied the same loss factors to the under-recovered SRES amounts calculated above, consistent with the 2017–18 price determination.

To restore the real values of the under-recovered amounts, we made an adjustment to reflect the time-value of money for retailers over that 12-month period, proxied by a nominal weighted-average cost of capital of 8.21 per cent. Finally, we applied the relevant variable retail cost allocators, standing offer adjustment or headroom allowance (which reflect the allowances applying in the year in which the under-recovery was incurred) to arrive at the final SRES pass-through amounts. The result is four discrete pass-through amounts, which are applied at the final stage of the build-up of the 2018–19 notified prices.

The calculations and pass-through amounts to apply to each settlement class are set out in the table below.

Table 45 SRES pass-through amounts for 2018–19 by settlement class

Energex NSLP—residential and controlled load 9000 & 9100	
SRES under-recovery in 2017–18 (c/kWh)	0.1804
+ Energy losses in 2017–18 (total loss factor)	1.065
+ Discount rate (time value of money)	8.21%
Under-recovery before the application of standing offer adjustment and variable retail cost allowance (2018–19 c/kWh)	0.2079
+ Variable retail cost allowance (residential) in 2017–18 (%)	11.27%
+ Standing offer adjustment in 2017–18 (%)	5.0%
SRES cost pass-through for 2018–19 (c/kWh)	0.2429
Energex NSLP—small business and unmetered supply	
SRES under-recovery in 2017–18 (c/kWh)	0.1804
+ Energy losses in 2017–18 (total loss factor)	1.065
+ Discount rate (time value of money)	8.21%
Under-recovery before the application of standing offer adjustment and variable retail cost allowance (2018–19 c/kWh)	0.2079
+ Variable retail cost allowance (small business) in 2017–18 (%)	12.80%
+ Standing offer adjustment in 2017–18 (%)	5.0%
SRES cost pass-through for 2018–19 (c/kWh)	0.2462
Ergon Energy NSLP—SAC demand and street lighting	
SRES under-recovery in 2017–18 (c/kWh)	0.1804
+ Energy losses in 2017–18 (total loss factor)	1.079
+ Discount rate (time value of money)	8.21%
Under-recovery before the application of headroom allowance and variable retail cost allowance (2018–19 c/kWh)	0.2106
+ Variable retail cost allowance (large business) in 2017–18 (%)	6.0445%
+ Headroom allowance in 2017–18 (%)	5.0%
SRES cost pass-through for 2018–19 (c/kWh)	0.2345
Ergon Energy NSLP—high voltage—ICC and CAC	
SRES under-recovery in 2017–18 (c/kWh)	0.1804
+ Energy losses in 2017–18 (total loss factor)	1.014
+ Discount rate (time value of money)	8.21%
Under-recovery before the application of headroom allowance and variable retail cost allowance (2018–19 c/kWh)	0.1979
+ Variable retail cost allowance (large business) in 2017–18 (%)	6.0445%
+ Headroom allowance in 2017–18 (%)	5.0%
SRES cost pass-through for 2018–19 (c/kWh)	0.2204