



25 January 2019

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

Dear Mr Millstead

**Energy Queensland submission to the Interim Consultation Paper on Regulated Retail Electricity Prices for 2019-20**

Energy Queensland Limited (Energy Queensland) welcomes the opportunity to provide comment to the Queensland Competition Authority (QCA) on its Interim Consultation Paper for Regulated Retail Electricity Prices for 2019-20 (Interim Consultation Paper).

Energy Queensland's comments on the specific questions raised in the Interim Consultation Paper are provided in the attached submission.

Should the QCA require additional information or wish to discuss any aspect of this submission, please contact Trudy Fraser on (07) 3851 6787 or Peter Wall on (07) 3664 4968.

Yours sincerely

A handwritten signature in black ink that reads "C. G. Martin".

Charmain Martin  
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*Enc: Energy Queensland's comments on the Interim Consultation Paper*

# **Energy Queensland Submission on regulated retail electricity prices for 2019-20**

## **Interim Consultation Paper**

**Energy Queensland Limited**  
25 January 2019



## About Energy Queensland

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

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

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

Our distribution businesses, Energex and Ergon Energy, cover 1.7 million km<sup>2</sup> and supply 37,208 GWh of energy to 2.1 million homes and businesses. Ergon Energy Retail sells electricity to over 740,000 customers.

The Energy Queensland Group also includes Yurika, an energy services business creating innovative solutions to deliver customers greater choice and control over their energy needs and access to new solutions and technologies. Yurika is a key pillar to ensure that Energy Queensland is able to meet and adapt to changes and developments in the rapidly evolving energy market.

## Contact details

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# 1 Introduction

Energy Queensland Limited (Energy Queensland) welcomes the opportunity to provide comment to the Queensland Competition Authority (QCA) on its Interim Consultation Paper for Regulated Retail Electricity Prices for 2019-20. This submission is provided by Energy Queensland, on behalf of its related entities Energex Limited (Energex), Ergon Energy Corporation Limited (Ergon Energy Network), and Ergon Energy Queensland Limited (Ergon Energy Retail).

In response to the QCA's invitation to respond to the questions raised in the Interim Consultation Paper, Energy Queensland has also provided comments on several related matters.

Energy Queensland is available to discuss this submission or provide further detail regarding the issues raised, should the QCA require.

## 2 Specific comments

### 2.1 Responses to Consultation Questions

QCA Consultation Question	Energy Queensland Response
<b>Chapter 2 – Potential pricing approaches</b>	
<p><i>For residential and small business customers, should we maintain the 2018–19 approach of basing notified prices on the costs of supply in south east Queensland?</i></p>	<p>Energy Queensland supports the QCA’s existing framework for determining regulated retail prices for regional Queensland which reflects the Queensland Government’s Uniform Tariff Policy (UTP). The UTP is intended to ensure that regulated retail prices charged to regional residential and small business customers (classified by distribution businesses as Queensland Standard Asset Customers (SAC) – Small) reflect the cost of supplying customers in South East Queensland. Energy Queensland also supports the QCA’s existing treatment of the network cost component in its determination of regulated retail prices.</p> <p>In line with our previous responses to QCA consultations on regulated retail electricity prices for regional Queensland, Energy Queensland restates its preference for:</p> <ul style="list-style-type: none"> <li>• The removal of all connection to Energex’s network tariff structures</li> <li>• A gradual deployment of Ergon Energy Network’s tariff structures, and</li> <li>• A recalibration of Ergon Energy Network’s overall network costs within the regulated retail prices to align with the required UTP.</li> </ul> <p>Energy Queensland maintains that this alternative approach would provide customers with price signals that would better reflect the underlying cost drivers of Ergon Energy’s network, leading to a more efficient level of investment and better outcomes for customers over the longer term.</p> <p>Energy Queensland also supports the use of Ergon Energy Network’s tariff structures for time-of-use energy and demand retail tariffs for SAC - Small to strengthen or enhance the underlying network price signals. When adjusting</p>

	Ergon Energy Network's tariffs to reflect South East Queensland network costs it is important to ensure that the UTP is maintained and customers continue to pay the equivalent of Energex's network costs in the setting of these retail tariffs.
<i>For large business customers, should we maintain the 2018–19 approach of basing notified prices on the costs of supply in Ergon Distribution's east pricing zone, transmission region one?</i>	Energy Queensland agrees that the 2018-19 approach of basing regulated retail tariffs for large business customers on Ergon Energy Network's network tariffs should be maintained.
<b>Chapter 3 – Network costs</b>	
<i>Should we use Energex's network tariff structures as the basis for all retail tariffs for residential, small business and unmetered supply (excluding street lighting) customers?</i>	<p>Energy Queensland acknowledges the need to calibrate network tariffs for notified prices to reflect the network costs paid by South East Queensland customers (i.e. Energex's network costs) in accordance with the UTP for 2019-20. For the reasons set out in our response to Question 1 above, Energy Queensland generally supports the use of Energex's network tariff structures as the basis for the energy consumption-based retail tariffs for residential, small business (i.e. retail tariffs 11 and 20) and unmetered supply (excluding street lighting) customers.</p> <p>Consistent with the Minister for Natural Resources Mines and Energy's (the Minister) delegation to the QCA for the setting of notified prices for 2019-20, Energy Queensland considers that Ergon Energy Network's underlying tariff structure should be used as the basis for setting retail Tariff 15 (Residential Lifestyle Tariff). This is because Energex's long run marginal cost (LRMC) values and levels of the band charges are materially different to those of Ergon Energy Network, and their use would result in a significant distortion of the LRMC drivers inherent in the band structure for the Lifestyle Tariff. Furthermore, given that the Lifestyle Tariff is being offered to retail customers in 2019-20 for the purpose of market testing, Energy Queensland is of the view that the results of the Lifestyle Tariff trial need to be as accurate as possible as they will inform the ongoing development of Ergon Energy's 2020-25 Tariff Structure Statement and education material tailored to the needs of retailers and customers.</p> <p>Energy Queensland also considers that the Lifestyle Tariff recalibration method previously provided to QCA, and which is noted by the QCA in the consultation paper, should be used to recalibrate the Ergon Energy Network Lifestyle Tariff</p>

	<p>for 2019-20.</p> <p>We also consider that the QCA should continue to base the network cost component of retail tariffs 12A, 22A, 14 and 24 on Energex's network charges, but use the relevant Ergon Energy Network tariff structures.</p>
<p><i>Alternatively, should we use Ergon Distribution's network tariff structures as the basis for some or all retail tariffs for residential, small business and unmetered supply (excluding street lighting) customers? If so, how should Ergon Distribution's network tariff structures be adjusted to reflect the UTP?</i></p>	<p>Refer to our responses to Questions 1 and 3 above.</p>
<p><i>Should we use Ergon Distribution's network tariffs as the basis for retail tariffs for large business customers and street lighting customers?</i></p>	<p>As above, Energy Queensland supports the application of Ergon Energy Network's tariff structures as the basis for retail tariffs for large business customers and street lighting customers in regional Queensland.</p>
<p><i>Should we use the proposed adjusted Ergon Distribution's 'lifestyle' network tariff as the basis for the retail 'lifestyle' tariff (tariff 15)?</i></p>	<p>Energy Queensland strongly recommends that the QCA use Ergon Energy Network's proposed adjusted Lifestyle network tariff as the basis for the new retail tariff 15 in line with the Minister's delegation to the QCA.</p>
<p><i>Are there any other issues that we should consider?</i></p>	<p>Energy Queensland is not aware of any other issues which should be considered.</p>
<p><b>Chapter 4 – Energy costs</b></p>	
<p><i>Should we continue to use the Ergon NSLP rather than the Energex NSLP to estimate prudential costs for large customers</i></p>	<p>Energy Queensland supports the use of the Ergon Energy Network net system load profile (NSLP) rather than the Energex NSLP to estimate prudential costs for large customers in regional Queensland as it is aligned to the calculation of wholesale energy costs and provides a more accurate estimate of these costs.</p>
<p><i>Should we again extend the energy cost data cut-off date to into January, so as to account for a significant amount of the summer period and any corresponding changes in wholesale energy costs?</i></p>	<p>Energy Queensland supports the extension of the energy cost data cut-off date to the end of January as this will result in a more accurate estimate of wholesale energy costs by including summer's seasonal influences on pricing.</p>
<p><i>What improvements could be made to the current approaches?</i></p>	<p>Energy Queensland offers no comment in response to this consultation question.</p>

*Are there any other issues we should consider when estimating energy costs?*

Energy Queensland considers that the QCA should take into account the significant new renewable energy generation connected, or about to be connected, to the National Electricity Market (NEM), and the impact on the wholesale electricity market. Energy Queensland notes that in 2018 around 3700MW of new solar photovoltaic generation capacity was added to the NEM, including 2000MW of utility-scale solar, half of which was installed in Queensland.

When combined with additional renewable generation due to come on line in 2019, Energy Queensland expects that wholesale prices in the middle of the day will be further suppressed, resulting in higher evening prices as other forms of generation make up for lost daytime revenue in the evening peak period.

This change will also impact the NSLPs of both Ergon Energy Network and Energex. This changing load shape and changing pool price pattern will have an impact on wholesale energy costs and electricity retailers will need to hedge to manage morning and evening peaks, but will be over-hedged during the middle of the day when pool prices are suppressed. This will result in significant contract-for-difference payments.

Energy Queensland considers that the methodology developed by consultants ACIL Allen to determine wholesale energy costs should capture these effects. However, as the evolving wholesale market is only just starting to see the market effects of utility-scale solar, this development will require particular attention from the QCA in this determination process.

As noted in our submission to the QCA's consultation paper for regulated retail prices for 2018-19, Ergon Energy Retail, like many other retailers, has entered into long-term power purchase agreements with new renewable energy projects. This enables these projects to be developed while also enabling Ergon Energy Retail to meet its obligations under the Renewable Energy Target. For Ergon Energy Retail these will take full effect in the 2019-20 financial year. This constitutes a regulatory-driven change in how retailers purchase energy. Further regulatory changes associated with the potential Retail Reliability Obligation might also cause retailers to enter into long-term arrangements with generators.

These changes to the way retailers purchase electricity warrant consideration of the approach in future electricity price determinations.

<b>Chapter 5 – Retail costs</b>	
<p><i>Should the QCA establish new retail cost allowances based on up-to-date market data, or continue to base retail costs on the allowances established in the 2016–17 price determination?</i></p>	<p>Energy Queensland acknowledges the potential for the existing retail cost allowance approach to be updated to reflect contemporary retail cost factors. However, given the limited time the QCA has to determine notified prices for 2019-20, Energy Queensland considers it would be appropriate to retain the existing approach to retail cost allowances, and to defer any revision until after the conclusion of the 2019-20 pricing determination.</p> <p>There are a number of factors that are likely to influence retail operating costs in the short to medium term including regulatory compliance changes as well as policy issues at a federal level that may take some time to be accurately captured and forecast by retailers.</p> <p>Given the uncertainty around some of the influencing factors that can drive retail operating costs, Energy Queensland suggests an escalation of these costs based on the Consumer Price Index could be appropriate for the 2019-20 pricing determination to provide certainty to stakeholders.</p>
<p><i>If stakeholders support establishing new retail cost allowances, what methodology(ies) and data sources should the QCA consider?</i></p>	<p>If the QCA determines that there is merit in revisiting retail cost allowances based on up-to-date market data, then Energy Queensland supports the methodology used in 2016-17 – i.e. a combination of bottom-up and benchmarking methods informed by analysis of publicly available data, observed market offers, and detailed confidential information provided by retailers. However, we consider that any data analysed would need to contain consistent retail cost components across the various sources and include key cost to serve components (e.g. bad debt).</p> <p>Energy Queensland also notes that the Australian Competition and Consumer Commission’s Retail Electricity Pricing Inquiry Final Report, which considered retail costs and their drivers, may be an additional data source for consideration.</p>
<p><i>Are there any other approaches to establishing retail cost allowances we should consider?</i></p>	<p>Energy Queensland offers no comment in response to this consultation question.</p>
<p><i>Are there any other issues we should consider when estimating retail costs?</i></p>	<p>Energy Queensland notes that there are significant regulatory changes, and associated compliance costs, that will likely have an impact on current and</p>

	<p>forecast retail operating costs in 2019-20. This includes, but is not limited to, implementation costs of the Power of Choice and Five Minute and Global Settlement reforms, and changes to the life support and customer hardship arrangements.</p> <p>In the event that the QCA decides to review the existing approach to determining retail operating costs, Energy Queensland considers that the new approach should capture forecast costs of regulatory changes that impact on retailers. Further, the QCA should ensure that operating cost information is provided by retailers in a consistent manner, noting that retailers often treat some aspects of their operating costs differently.</p>
<b>Chapter 6 – Other issues</b>	
<b>6.1 - Standard and market contracts—residential and small business customers</b>	
<i>Would an adjustment of similar magnitude to previous determinations appropriately reflect the additional value associated with standard contracts (as compared to market contracts)?</i>	Energy Queensland considers that the current standing offer adjustment of five per cent is appropriate for the determination of notified prices for 2019-20.
<i>Would an adjustment of similar magnitude to previous determinations be consistent with the current definition of the UTP?</i>	Energy Queensland considers a standing offer adjustment of similar magnitude to previous determinations to be consistent with the current definition of the UTP.
<i>Are there any alternative approaches to making an adjustment that might be more appropriate?</i>	Energy Queensland is not aware of a more appropriate alternative approach to estimating the standing offer adjustment.
<i>Are there any other issues we should consider when seeking to make an appropriate adjustment?</i>	Energy Queensland is not aware of any other issues which should be considered when estimating the standing offer adjustment differential.
<b>6.2 - Competition and headroom—large business customers</b>	
<i>Should headroom continue to be included in notified prices for large business customers? If so, at what level? If not, why not?</i>	Energy Queensland supports competition for large customers in regional Queensland and the continued allocation of a headroom component in the

	regulated retail tariff. As noted by the QCA in its Final Determination for regulated retail electricity prices for 2018–19, the large customer segment, particularly in east pricing zone transmission region one, has developed a level of competition that is in part facilitated by the inclusion of headroom.
<i>What other issues should we consider in relation to competition?</i>	Energy Queensland is not aware of any other issues which should be considered in relation to competition for large customers in regional Queensland.
<b>6.3 - Cost pass-through mechanism</b>	
<i>Should we allow for any pass-through of SRES under- or over-recoveries incurred during 2018–19 into 2019–20 notified prices?</i>	Energy Queensland supports the maintenance of a cost pass-through mechanism to allow an adjustment for under- or over-recoveries for Ergon Energy Retail's costs related to the Small-scale Renewable Energy Scheme incurred during 2018–19 into regulated retail prices for 2019–20.
<b>6.4 Transitional arrangements</b>	
<i>Should the five-year transitional period for tariffs 47 and 48 be maintained?</i>	Energy Queensland supports the maintenance of the five year transitional period for tariffs 47 and 48.
<i>Should tariffs 20 (large), 21, 22 (small and large), 62, 65 and 66 be closed to new customers in 2019–20?</i>	<p>Energy Queensland notes that transitional tariffs 20 (large), 21, 22 (small and large), 62, 65 and 66 are scheduled to expire on 30 June 2020, and supports the closure of these tariffs to new customers from 1 July 2019 in accordance with the Minister's delegation to the QCA.</p> <p>Energy Queensland is committed to assisting customers currently billed on obsolete or transitional tariffs to understand the options available to them once these tariffs are no longer available and is in the process of rolling out a significant customer engagement program via Ergon Energy Retail. This support is available to existing customers and will be extended to new customers who have taken over premises where the previous occupant was billed on an obsolete or transitional tariff.</p> <p>Energy Queensland notes that closure of these tariffs to new customers would impact certain customer groups. Energy Queensland welcomes the opportunity to discuss this issue with relevant stakeholders if required.</p>

<p><i>Is there any new information that suggests the overall approach we propose to take for transitional and obsolete tariffs is no longer appropriate?</i></p>	<p>Energy Queensland is not aware of any new information regarding the appropriateness of the approach to transitional and obsolete tariffs. As above, Energy Queensland supports the current transition periods being maintained.</p>
<p><i>What other issues should we consider? Please provide supporting evidence where possible.</i></p>	<p>Energy Queensland is currently finalising Ergon Energy Network's Regulatory Proposal, and associated Tariff Structure Statement, for the 2020-2025 regulatory control period. As detailed throughout our consultation with customers, Energy Queensland is proposing a number of changes to the structures and price signals in the network tariffs for each of our customer classes which, if approved by the Australian Energy Regulator (AER), will have implications for the determination of the new tariffs for 2020-21 and beyond.</p> <p>In light of these proposed changes, the QCA could consider, as part of the 2019-20 pricing determination process, the potential impact on customers which would result from changes in structures and price signals which will apply from 2020-21. Energy Queensland welcomes the opportunity to discuss the implications of the proposed changes with the QCA.</p>
<p><b>6.6 Default price proposal</b></p>	
<p><i>Do stakeholders consider that the Commonwealth Government's proposal for the AER to determine a 'default market offer' for south east Queensland has any implications for the QCA's task of setting notified prices for regional Queensland?</i></p>	<p>Energy Queensland does not believe the proposal for a Default Market Offer (DMO) for electricity prices in South East Queensland has any direct implications for the QCA's task of setting notified prices for regional Queensland.</p> <p>Energy Queensland notes that the methodology proposed by the AER in determining the DMO differs fundamentally from the current methodology used by the QCA. Energy Queensland understands that the QCA employs a comprehensive 'bottom-up' analysis of efficient retail costs to determine notified prices for regional Queensland. By comparison, the AER proposes "a 'top-down' approach based on current market and standing offer prices to determine DMO prices that are in line with the efficient costs of supplying customers in each</p>

	<p>distribution zone and meeting the stated policy objectives for introducing a DMO price.”<sup>1</sup></p> <p>Energy Queensland notes the importance of employing a consistent methodology to a pricing determination process each year to provide certainty to all stakeholders. Any change in the approach used should be subject to rigorous consultation with sufficient notice of the changes to allow the market to adjust. As the AER’s methodology is materially different to that currently employed by the QCA, we do not believe the outcome should influence the QCA’s price setting process.</p>
<p><b>6.7 Gazette Notice</b></p>	
<p><i>Should the QCA include wording in the Gazette Notice for 2019–20 notified prices to facilitate renewable or environmentally friendly schemes and/or the EasyPay Reward scheme?</i></p>	<p>Energy Queensland supports the continued inclusion of wording to facilitate renewable or environmentally friendly schemes and the EasyPay Reward scheme in the Gazette Notice for regulated retail prices for 2019-20.</p>

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<sup>1</sup> AER Position Paper Default Market Offer Price November 2018 Pg. 13.

## 2.2 Additional Comments

### **Section 6.5 Metering Charges**

#### Digital Metering Charges for Large Customers

Energy Queensland notes that the Minister's delegation to the QCA specifically excludes the setting of unregulated metering charges for residential and small business customers. We understand metering charges will be investigated under a separate Direction from the Minister, as was the case for the 2018–19 notified price determination process. However, Energy Queensland notes that the Minister's delegation to the QCA and the Interim Consultation Paper makes no mention of the determination of prices for digital meters for large customers for 2019-20. Energy Queensland would welcome the opportunity to discuss the treatment of these charges for the 2019-20 determination.

As stated in our submission to the 2018-19 Draft pricing determination, Energy Queensland remains concerned that the potential for a similar approach to pricing these charges may result in either an undercharge or overcharge in metering for large customers.

#### Basic Meter Charges for Large Customers

Energy Queensland notes that Part 5 of the current Government Gazette outlines the prices for digital meters (Type 1-4) for large customers and all metering costs for small customers. To provide additional clarity to all stakeholders, Energy Queensland requests that metering costs for large customers that do not have advanced digital meters (i.e. "basic" meters) are also outlined in the Gazette.

### **Section 6.7 Gazette Notice**

#### Description of Tariff 15 in the Gazette Notice

Energy Queensland would appreciate the opportunity to work with the QCA in clarifying the contextual wording for tariff 15 in the Gazette. Specifically, Energy Queensland considers that the wording associated with the application of the top-up charges may require further refinement to assist customers in understanding this mechanism.