13 January 2020

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

Dear Mr Millsteed

Energy Queensland submission to the Interim Consultation Paper for Regulated Retail Electricity Prices for 2020-21

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 2020-21 (Interim Consultation Paper). This submission is on behalf of our retail business Ergon Energy Queensland Pty Ltd (Ergon Energy Retail), and network businesses Energex Limited (Energex) and Ergon Energy Corporation Limited (Ergon Energy Network).

Energy Queensland broadly supports the Minister's delegation to the QCA outlining the key matters the QCA must consider when determining the notified prices for 2020-21. Notwithstanding, Energy Queensland has provided detailed comments in response to specific issues in the attached responses to the questions raised in the Interim Consultation Paper.

The key challenge for the QCA in setting the notified prices for 2020-21 is the uncertainty around network tariff structures and prices for the next financial year. The Interim Consultation Paper acknowledges this challenge and presents two approaches for consideration:

- maintaining the existing retail tariffs; and
- adjusting the network costs by a suitable index or incorporating new network tariffs using actual network prices as the network cost component.

Energy Queensland's strong preference is to pass through 2020-21 network prices and structures in the 2020-21 notified prices (while continuing to have regard to the Uniform Tariff Policy). This will allow regional Queensland customers to receive the benefits of the proposed network tariff reform and maintain the QCA's current methodology of a network (N) plus retail (R) pricing approach. Further, Energy Queensland considers that indexation has the potential to deliver results which are inaccurate, distort the price signal and result in the need for new transition paths in future years as regulated retail tariffs are rebased to the true 'N'.

Furthermore, the updated definition of the Uniform Tariff Policy to include consideration of tariff structures is supported by Energy Queensland. Regional Queensland customers should not be disadvantaged compared to South East Queensland customers in terms of the default tariff structures offered. However, it is equally important to consider new tariffs being proposed by Ergon Energy Network that have

been designed to reflect the needs and circumstances of customers in Regional Queensland, e.g. agriculture and irrigation tariffs. It is important for the QCA to ensure that the tariffs for Regional Queensland reflect these characteristics while also capturing the advantages of proposed new tariff reforms, such as new opt-in tariffs (e.g. new time-of-use and load control tariffs). Further, customers should be given time to consider alternative tariff structures and the 2020-21 prices before any mandated change of retail tariff structure is implemented.

Energy Queensland would welcome the opportunity to discuss these matters further with the QCA. In the meantime, should the QCA require additional information in relation to any aspect of this submission, please contact me on (07) 3811 1751 or via email at mike.hutchens@energyq.com.au or Trudy Fraser on (07) 3851 6787.

Yours sincerely

Mike Hutchens
Acting Chief Financial Officer

Encl: Energy Queensland Response to QCA Interim Consultation Paper

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Energy Queensland responses to questions raised in the Interim Consultation Paper

Question	Energy Queensland Response
Consultation question 1	
Stakeholders are invited to comment on the consideration affecting how we have regard to the UTP when setting notified prices, in light of the network tariff reforms underway.	Energy Queensland acknowledges the importance of the Queensland Government's Uniform Tariff Policy to ensure that the cost of electricity in regional Queensland is consistent with the costs of supply in South East Queensland (SEQ). We note the Queensland Government has clarified the Uniform Tariff Policy (UTP) (as detailed in the Minister's Delegation to the QCA) to now capture pricing structures: *"wherever possible, customers of the same class should pay no more for their electricity and should pay for their electricity via similar price structures, regardless of their geographic location"* (emphasis added). Energy Queensland supports the Queensland Government's clarification of the UTP definition which ensures regional Queensland customers will not be disadvantaged compared to SEQ consumers in terms of the default tariff structures offered. This is an important change given that across the National Electricity Market (NEM), including within Queensland, network tariff reforms are introducing many new network pricing structures to make prices more cost-reflective while enabling retailers to offer customers more choice in the way they are charged for electricity. Energy Queensland considers that network tariff reform: • is required to assist consumers and the energy industry transition towards the changing electricity market; and • provides the opportunity to increase the number of opt-in retail tariffs, especially for customers with digital meters. Energy Queensland notes that there are several factors the QCA must resolve in setting 2020-21 retail electricity prices. Customers generally prefer simplicity over complexity. Therefore, it is important for the QCA to consider how retailers will be packaging Energex's new network tariffs into retail tariffs to appropriately reflect the intent of the UTP. It is important for the QCA to ensure that the tariffs for regional Queensland capture the advantages of proposed new tariff reforms, such as new opt-in tariffs (e.g. new time-of-use (TOU) and load control tariffs).

	In addition to the inclusion of pricing structures, the Minister's Delegation also requires the QCA to consider the Default Market Offer (DMO) for SEQ in its pricing determination for regional Queensland. We acknowledge the Minister's instruction regarding the DMO and support the intent of this position to ensure notified prices in regional Queensland align with prices charged in SEQ. However, Energy Queensland notes that care is required in the application of the DMO to notified prices. The DMO methodology is applied against a reference energy usage level for residential and small business customers only: • 4.6 megawatt-hours per year (MWh) for a residential small customer on a flat primary tariff (i.e. Tariff 11), and • 20 MWh per year for small business customers on a flat primary tariff (i.e. Tariff 20). However, these usage levels do not take into account the varying loss factors and average usage levels in regional Queensland. Further, the DMO does not specify the separate elements of supply charges, usage rates or metering charges used to determine the DMO reference bill. As such, the DMO "bill cap" is not easily scalable for sites with energy usage above or below the reference usage level e.g. high energy using households and businesses, and conversely low energy using households and businesses, including those with solar PV. Also, as the average usage levels are different in regional Queensland, care is required in applying the DMO to gazetted Queensland retail tariffs. Finally, in its position paper for the 2020-21 DMO (published September 2019), the Australian Energy Regulator (AER) notes the Commonwealth Government's intention to expand the application of the DMO to capture TOU and solar tariffs in its methodology. Therefore, the QCA may also want to consider the application of the DMO in pricing TOU retail tariffs. Energy Queensland would welcome the opportunity to discuss a way forward on these issues with the QCA.
Consultation question 2	
Stakeholders are invited to comment on the	Energy Queensland considers that the N+R approach for determining notified prices is helpful for facilitating network tariff reform as it enables network price signals to be passed through to retail tariffs. Notwithstanding, Energy Queensland acknowledges the challenges faced by the QCA in determining prices for 2020-21 using the N+R methodology when underlying network tariffs, which support the network cost components of regulated retail

approaches to applying the N+R methodology for this price determination, in light of the network tariff reforms underway.	tariffs, will not be finalised until the AER approves Energex's and Ergon Energy Network's proposed tariff structures and associated network prices. Energy Queensland notes that the Minister's Delegation provides an option for the QCA to determine the N component of tariffs based on an indexation applied to the existing N component of the regulated retail tariffs. Whilst Energy Queensland recognises that this approach provides the QCA with flexibility given the network tariff reform underway and the tight timeframes for finalisation of notified prices for 2020-21, we consider this option has potential to deliver results which are inaccurate, distort the price signal and could result in the need for new transition paths in future years as regulated retail tariffs are rebased to the true 'N'. As an example, the component charges for the underlying 'N' for retail tariff 11 (Energex NTC8400) are proposed to move in different directions in 2020-21. Specifically, (the fixed charge for Energex NTC8400 is proposed to increase by two per cent but the variable charge is proposed to decrease by 16 per cent) making an indexation approach challenging. Applying a uniform indexation to the network cost component in 2020/21 would result in the need to rebalance the network cost component in 2021/22. Another consideration is whether the QCA would use the new network tariff structures as proposed by Energex and Ergon Energy Network under an indexation approach. For example, new primary load control network tariffs are proposed for introduction in Queensland, which has attracted favourable feedback from customers. Given this, Energy Queensland would like these tariff structures to be available to regional Queensland customers and would appreciate the opportunity to discuss this with the QCA prior to its release of the Draft Determination. Energy Queensland appreciates that the QCA is required by the terms of the Delegation to publish its Draft Determination in February 2020. In order to meet this deadline, we suggest that the QCA consider basing its calculation of the N component on the draft network tariffs submitted by Energex and Ergon Energy Network to the AER on 10 December 2019, uplifted by any applicable jurisdictional scheme charges, such as the Solar Bonus Scheme costs (noting that the Powering Queensland Plan provided for a three year moratorium on including the Solar Bonus Scheme costs in network prices for 2017/18 to 2019/20), that were not included in the indicative network prices submitted to the AER. This approach is more likely to better reflect the direction of the movement in the underlying network costs component than a uniform indexation across all tariffs.

Consultation question 3	
Stakeholders are invited to comment on the new matter of introducing primary default tariffs that would apply if a customer does not nominate a primary tariff when setting up an electricity account.	Energy Queensland supports the Queensland Government's policy that default tariffs should be set for residential and small business customers. Primary default retail tariffs provide certainty for new customers who are not sufficiently engaged for a discussion on the most appropriate tariff at establishment of their account and is likely to improve the customer experience. It also does not preclude engaged customers from opting into new retail tariffs, such as TOU.
Consultation question 4	
We seek stakeholder comments on the new methodology for determining ICC tariffs, including any other issues we should consider in assessing these.	Energy Queensland supports the intent of the Delegation by ensuring that wherever possible price reductions through network tariff reform are passed on to retail customers through reduced retail tariffs. We note the Delegation states that if the AER approves the reclassification framework to allow some Connection Asset Customers (CAC) to be reclassified as Individually Calculated Customers (ICC) and if there are network cost savings for the customer, the QCA should develop a new retail tariff for ICC customers passing through the reduced network costs. However, should the underlying network costs increase for these customers than they should still have access to retail tariff 53. Energy Queensland notes the complexity of this issue and suggests that the QCA consider the following issues in developing a new methodology for determining ICC tariffs. If the proposed framework for changing the classification of CAC to ICCs, is endorsed by the AER in its Final Determination on Energex's and Ergon Energy's Regulatory Proposals, in April 2020, the QCA will have to consider for the first time how

	to either (i) pass through site-specific network costs or (ii) as an alternative, pass through a proxy for the reduction in network costs to an ICC customer. If the QCA intends to pass through specific network charges to the customer, then Energy Queensland recommends the QCA consider: • The sensitivity of this information - as the site-specific costs are generally confidential in nature for each customer, the QCA will need to consider how the retail tariffs are published in the retail tariff gazette while protecting customers' financial privacy; and • The administration of site-specific retail tariffs – for example, when a new ICC is connected the QCA will need to have a process for establishing and gazetting a new site-specific retail tariff. For example, the QCA could document the process for determining site-specific retail tariffs in the Gazette.
Consultation question 5	
We invite stakeholder comments on these matters, particularly on any appropriate network price indexation methodologies we should consider applying, if it becomes necessary. Are there any other matters we should consider?	As discussed in our response to Question 2, Energy Queensland has concerns with the application of an indexation approach in the determination of the network cost component of regulated retail tariffs. We consider this option has potential to deliver results which are inaccurate, distort the price signal and could result in the need for new transition paths as regulated retail tariffs are rebased in future years to the true 'N'. Further, an approach which is based on an indexed 'N' from 2019-20 tariffs will not capture any of the benefits of the new tariff structures proposed by Energex and Ergon Energy Network in their Revised Regulatory Proposals. A key concern with using an indexation approach is that customers may make decisions on their electricity use based on distorted prices and out-of-date structures and when retail prices are rebased to the true 'N' these customers may experience sunk investments (e.g. into solar generation). Customers may also face challenges from transitioning to new structures without the benefit of the proposed significant reduction in network costs, and associated price impacts (if the price reductions are overstated). The QCA should consult with Energex and Ergon Energy Network to determine the most appropriate indexation that would best reflect the underlying movement of network prices for each customer segment (e.g. residential, small business and large business etc). For example, any reintroduction of the Solar Bonus Scheme costs into network charges from 1 July 2020 could reduce the proposed network price de-escalations and this should be factored into any indexation approach used by the QCA. It is imperative to use the best available information to minimise the risk of customers experiencing swings in network costs in subsequent years as retail tariffs are rebased to the true underlying network prices from 2021/22.

Consultation question 6	
Do stakeholders consider any changes should be made to our approach for estimating energy costs, or particular categories of energy costs?	Energy Queensland supports the QCA's approach for estimating energy costs and strongly supports regulatory consistency so that Ergon Energy Retail can effectively manage the significant risks involved in purchasing electricity and related products in a volatile and evolving NEM. Energy Queensland notes the continued strong take-up of rooftop solar PV in Queensland and the commissioning of several large-scale solar farms has changed the wholesale electricity market, and has resulted in increasing occurrence of low and negative pool prices during times of peak solar generation. Figure 1 below shows the impact of increased solar generation, from both rooftop and large-scale generation, on Queensland electricity demand over time. Note the changing shape of daytime demand (blue line has moved to the gold line) as more rooftop solar PV was added from 2017.

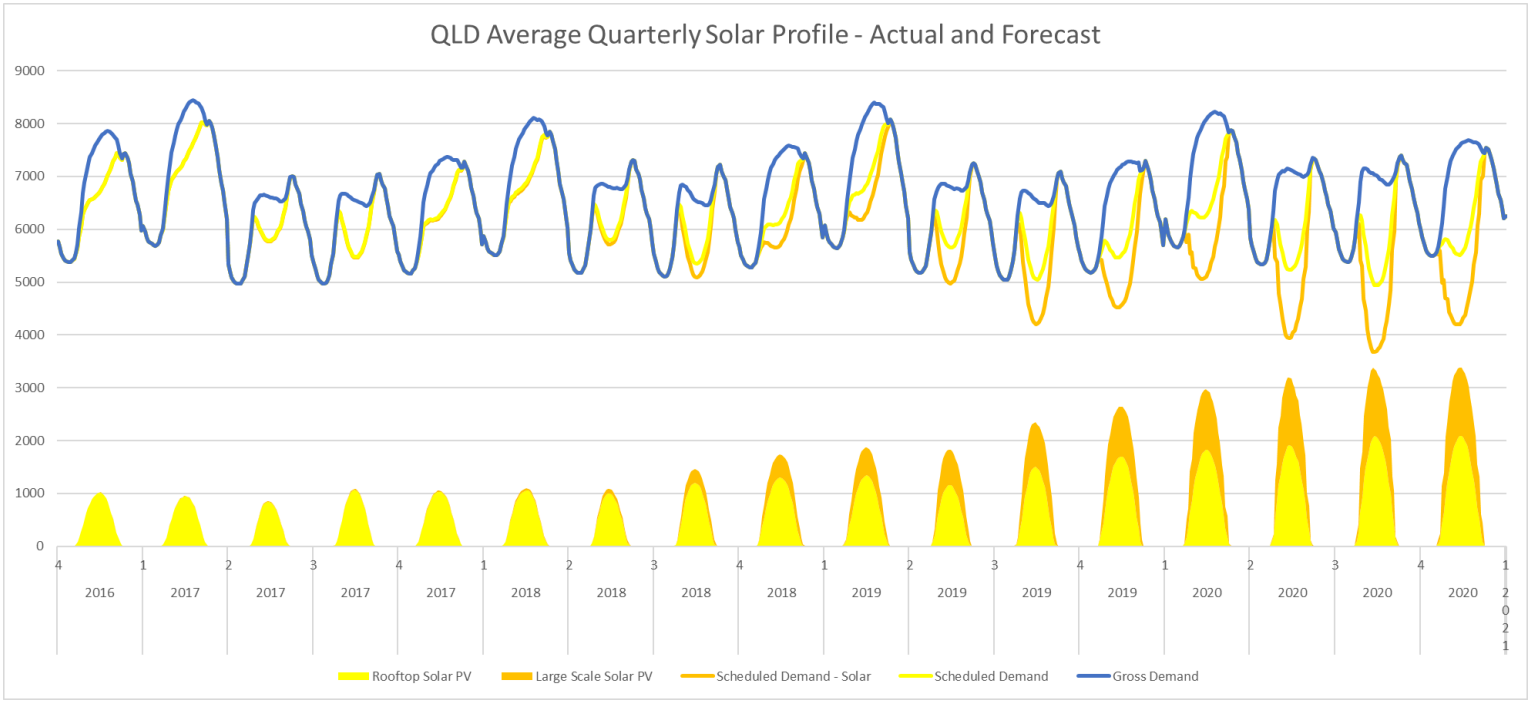


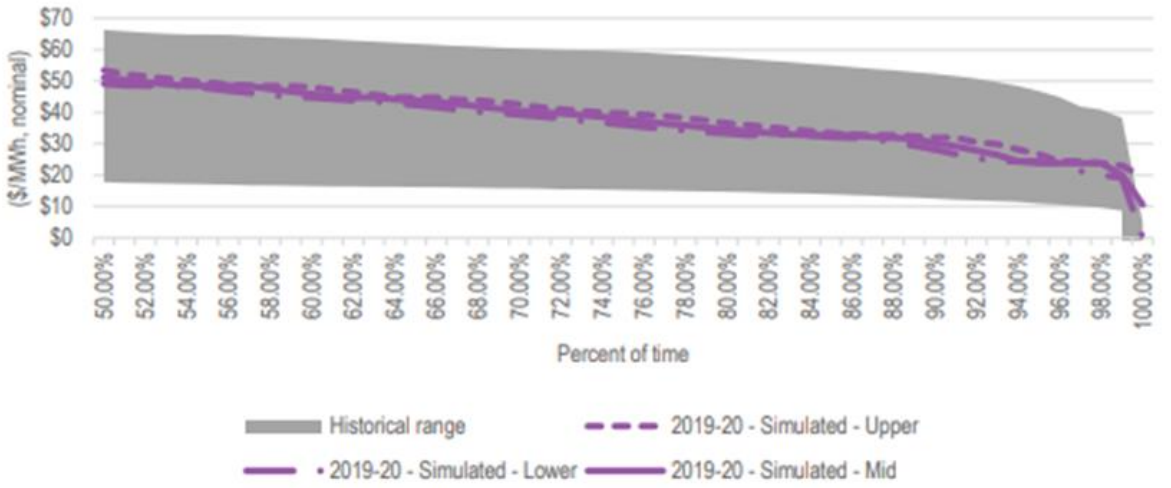
Figure 1 – Queensland Average Quarterly Solar Profile – Actual and Forecast

The rise of solar PV generation, combined with wind generation, has led to 2019 as a year of transition for the NEM. Managing the risks of this transition into the future will be particularly important for electricity retailers.

Energy Queensland noted the issue of increasing solar PV generation and depressed middle of the day spot prices in its submission to the QCA Draft Determination for Regulated Electricity Prices for financial year 2019/20. This comment was noted by the QCA's economic consultants, ACIL Allen, in section 3.2 of their Estimated Energy Costs report to the QCA.

Specifically, ACIL Allen agreed with Energy Queensland's comment that the development of utility scale PV projects will suppress wholesale spot outcomes during daylight hours. ACIL Allen referred to the price duration curve in Figure 4.15 in their report which is replicated below:

FIGURE 4.15 COMPARISON OF LOWER 50 PERCENT TAIL OF SIMULATED HOURLY PRICE DURATION CURVES FOR QUEENSLAND AND HISTORICAL OUTCOMES



SOURCE: AEMO HISTORIC POOL PRICE DATA AND ACIL ALLEN RESULTS FROM POWERMARK MODELLING

While the ACIL Allen forecast did show some low prices, down to $10/MWh, actual spot prices in the current financial year have been lower than forecast by ACIL Allen at the bottom end (far right-hand end) of the price duration curve.

Figure 2 replicates ACIL Allen's Figure 4.15 for actual spot prices for the first six months of financial year 2019/20, using the same vertical axis for comparison.

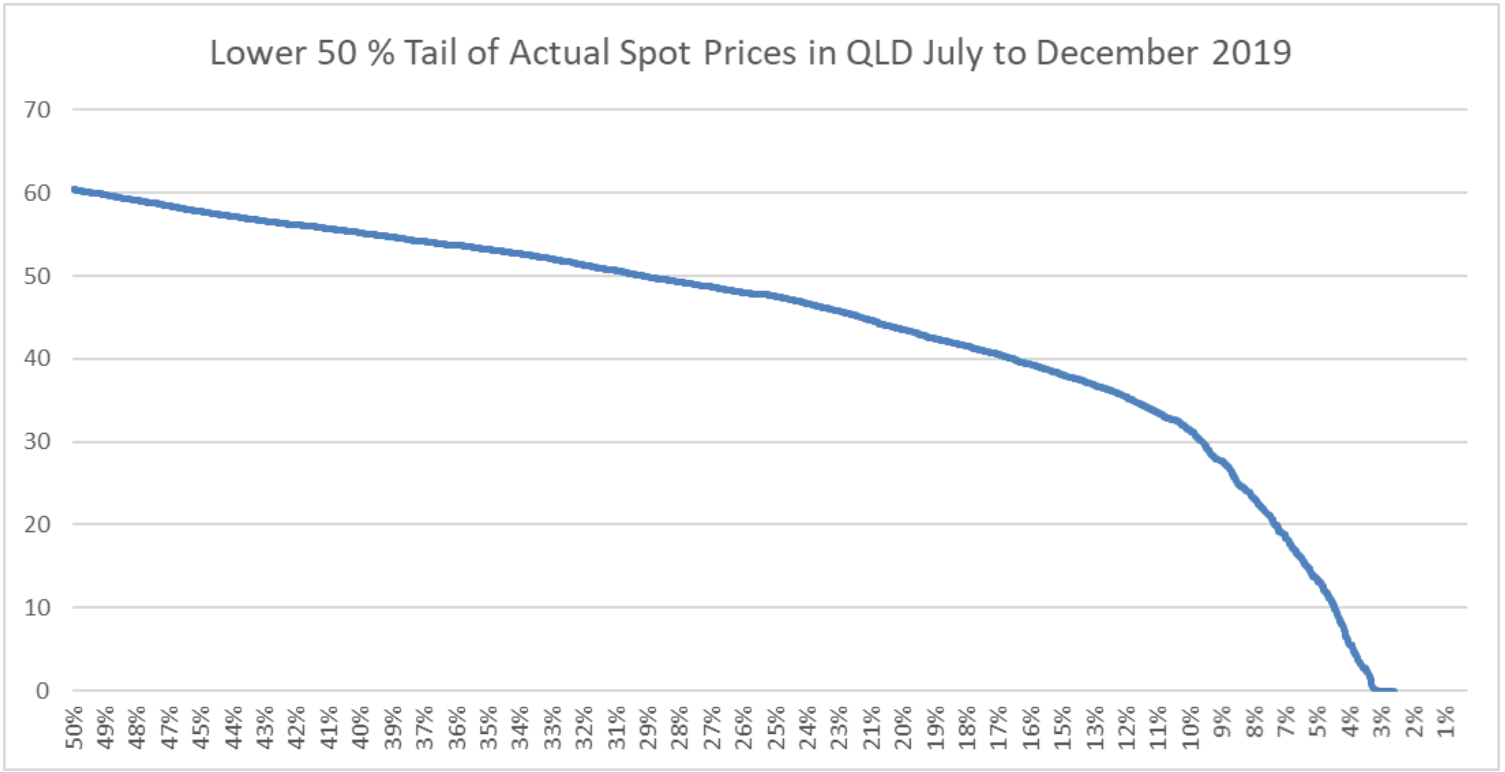


Figure 2 – Lower 50% Tail of Actual Spot Prices in Queensland July to December 2019

Examining Figure 2 reveals actual spot prices have been below $20 for 7% of the time, below $10 for 5% of the time and at or below $0 for 3% of the time. However, the scale of the vertical axis does not allow for actual negative prices to be shown. In the period shown, the Queensland region experienced 237 negatively priced half hour trading intervals in which prices dropped down to a low of -$859.85/MWh. Figure 3 shows the lower 5% of actual spot prices in Queensland for this period.

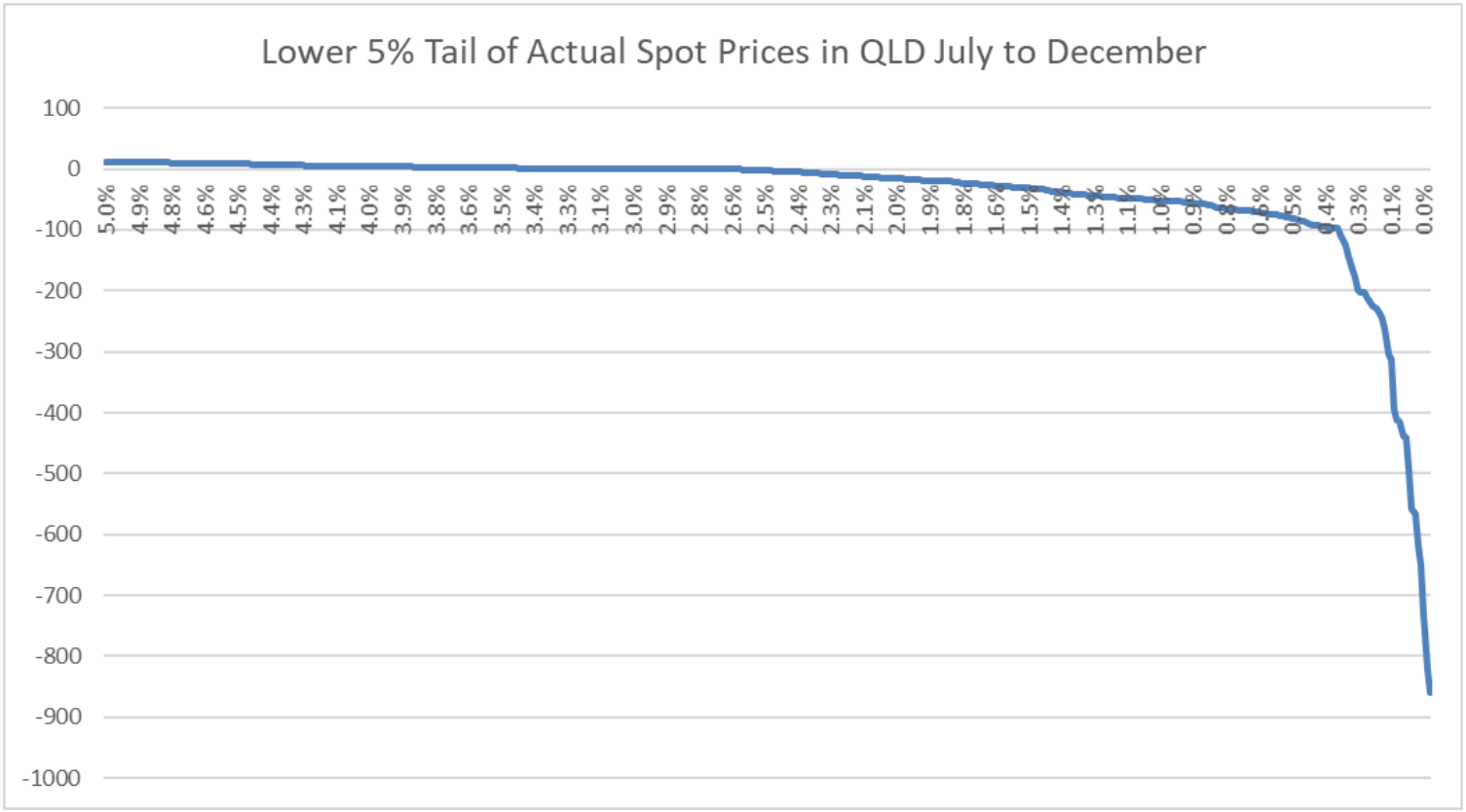


Figure 3 – Lower 5% Tail of Actual Spot Prices in Queensland July to December 2019

Although still a relatively small percentage, the occurrence of large negative prices imposes risks and costs onto electricity retailers in the form of large contract for difference payments under traditional standard market Peak Period contracts. While middle of the day prices have declined, evening peak prices remain relatively high and retailers still need to manage

the risk of high and volatile evening peak prices through the contract market. These negative price periods have most frequently occurred during the middle of the day:

- only five out of the 237 half hour trading intervals with negative prices did not occur during daylight hours
- 115 negative half hour trading intervals occurred during the period covered by a standard market Peak Period contract (which covers 7:00 am to 10:00 pm on work days)
- 232 negative half hour trading intervals occurred during the times of a Seven Day Peak Period contract.

In considering the estimated energy costs for the 2020/21 retail tariffs, Energy Queensland requests that the QCA pay particular attention to the further increases in solar generation, both rooftop and large scale, that will occur, which when combined with the risks of transmission constraints affecting electricity flows into NSW, are very likely to lead to further and increasing occurrences of negative prices in the middle of the day, particularly at times of low demand in spring and autumn.

Energy Queensland also notes that prices for large-scale generation certificates have shown significant movements during 2019 and we suggest that the QCA methodology should reflect these movements in its determination. Energy Queensland also notes that during FY2019/20 to date, retailers are experiencing increased costs for ancillary services and these costs should also be considered in the pricing determination.

Longer Term Considerations

While Energy Queensland supports regulatory consistency there are significant changes planned and under active consideration for the NEM which could well require the methodology for determining wholesale energy costs to be reconsidered. A table of the changes with a brief commentary of retailer risk and cost impact is provided in Table 1.

Table 1 – Future Committed and Proposed Regulatory and Policy Changes

Regulatory and Policy Change	Electricity Retailer Impact
Five Minute Settlement	Substantial system compliance cost. Uncertain impact on the supply and price of spot price contracts, especially caps.

	Wholesale Demand Response Mechanism	Retailers responsible for making the pool payments for the difference between customers' actual and baseline consumption increasing costs and risk for retailers.
	COGATI Review	Dynamic Regional Pricing and Financial Transmission Rights will introduce new risks for electricity retailers.
	Retailer Reliability Obligation	If triggered in Queensland, this will place obligations on Retailers to achieve a net contract position for the forecast reliability gap period which would likely change contracting strategies and the resulting cost.
	Emissions Policy Uncertainty	Without certainty and policy implementation many retailers will hold long term Power Purchase Agreement positions, put in place in good faith to meet Australia's Renewable Energy Targets, that could become stranded and onerous contracts.

Consultation question 7

We seek stakeholder comments on approaches to setting the retail cost allowance (including those set out above). Are there any other matters we should consider when estimating retail costs?

Energy Queensland acknowledges the importance of setting the retail cost allowance to reflect the efficient costs of operating a retail business.

In addition, Energy Queensland notes the significant influence on retail operating costs in the short to medium term of regulatory compliance and national policy initiatives. These new costs were noted in our response to last year's Interim Consultation Paper and include:

- New hardship requirements
- New life support obligations
- Increasing number of significant and costly market reform initiatives, including
  - Power of Choice (ongoing implementation)
  - Metering installation timeframes
  - 5 Minute and Global Settlement

	e.g. AEMO has projected the costs of its implementation of the 5 Minute and Global Settlement project to be approximately $121 million over ten years and has recently determined that this project is a NEM declared project in respect of which estimated costs to participants will be around $250 million over 15 years. • Additional compliance and audit activity by AER. Given these issues, Energy Queensland considers the QCA should allow for the recovery of costs for compliance with these policy reforms.
Consultation question 8	
We invite stakeholder submissions on the standing offer adjustment, including on the appropriateness of our proposed approach and alternatives stakeholders suggest.	Energy Queensland acknowledges the purpose of standing offer adjustment is to value the favourable terms and conditions (namely customer protections) inherent in standard retail contracts over those which form part of market retail contracts. The fact that retailers' market contracts are offered with discounts and do not contain these same terms and conditions is evidence that these contractual consumer protection provisions offer value to electricity customers.
Consultation question 9	
We invite stakeholder submissions on the headroom adjustment, including on the	Energy Queensland acknowledges the purpose of the headroom adjustment in the calculation of notified prices is to stimulate competitive offers below notified prices charged under standard retail contracts. We also note that this headroom adjustment has enabled the development of a competitive market in some customer segments. Energy Queensland considers that the rationale for the continued use of an appropriate headroom allowance to stimulate competition in previously uncompetitive markets remains sound.

appropriateness of our proposed approach and alternatives stakeholders suggest.	
Consultation question 10	
We invite stakeholder submissions on obsolete tariff expiry dates, including views on the revised dates set by the Minister (detailed above).	Energy Queensland supports the Queensland Government's current expiry dates for obsolete tariffs. Ergon Energy Retail remains committed to assisting its customers currently billed on obsolete or transitional tariffs to understand the options available to them now (especially if they are likely to be better off on standard tariffs) and once these tariffs are no longer available. In relation to drought assistance, Energy Queensland also considers there should be an extension to the retail discretion rules on drought revocation, so for example, a drought affected site on tariff 66 (whether transitional or cost reflective) can move to tariffs 62 or 65. In addition, we also note that under Ergon Energy Network's revised TSS, seven network tariffs which support existing regulated retail tariffs are due to expire on 30 June 2020. As a consequence, the related retail tariffs which align with these expiring network tariffs may also expire on this date (i.e. tariffs 12A, 14, 24, 22A, 52A, 52B, and 52C). To manage the customer impact and experience in relation to this reform, we recommend that customers be given additional time before being required to move retail tariffs. During that time, Ergon Energy Retail would assist affected customers to move to an alternative retail tariff. Finally, we note that no new customers should be able to access the obsolete tariffs.