



# Regulated retail electricity prices for 2020–21

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**Interim consultation paper**

Handbook

*December 2019*

# Overview

## What is the QCA's role in setting electricity prices?

The Minister for Natural Resources, Mines and Energy has asked us to set electricity prices (**notified prices**) for regional customers to apply from 1 July 2020 to 30 June 2021.

## What is this document?

The handbook gives an overview of the price setting process and key issues for setting notified prices this year.

It is not a substitute for, and should be **read in conjunction with, our interim consultation paper (ICP)**

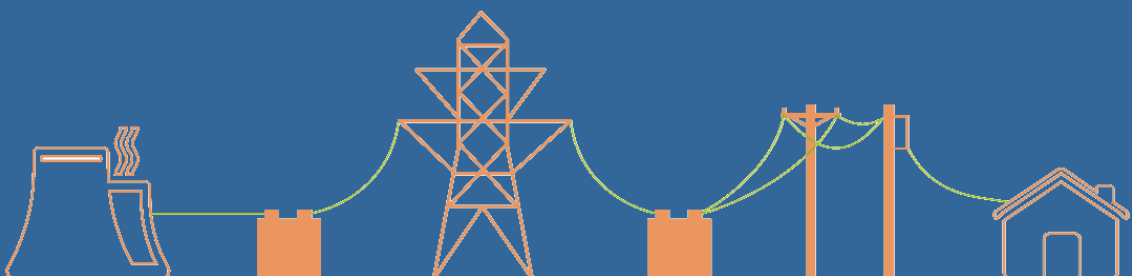
## What is our approach to determine notified prices?

As has been the case in previous determinations we have been asked to **consider continuing to use the**

# 'N+R' framework

which **individually calculates** network, energy, and retail costs to determine prices for each tariff.

## Key dates



# What makes up my electricity bill?



## Network costs

These are the costs your retailer incurs to send electricity to you via the electricity network.

## Energy costs

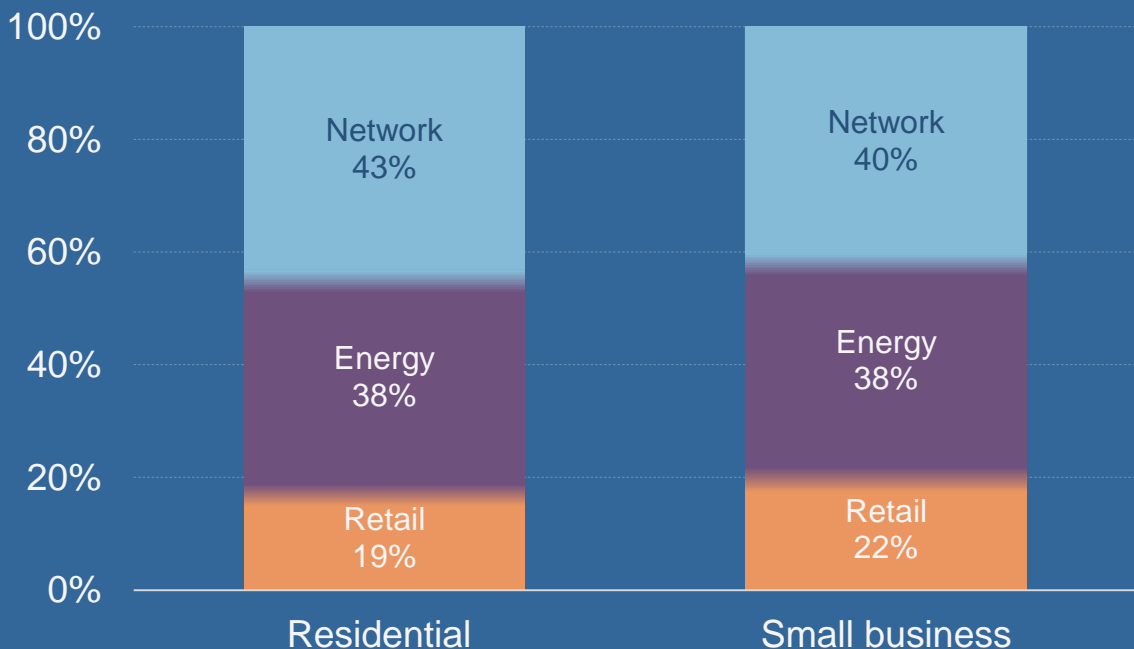
These are the costs your retailer incurs to buy electricity from the wholesale market. It also includes the costs for 'green schemes' such as the Renewable Energy Target.



## Retail costs

These are costs for customer services like call centres and administrative tasks like sending bills.

The chart shows how the components contributed to the 2019–20 bill of a typical customer



Totals are exclusive of standing offer adjustment and based on 3,738 kWh (residential) and 6,866 kWh (small business) annual usage.

# The basics of price setting

## How do we set prices?

When setting prices, we have been asked to consider the Queensland Government's

## Uniform Tariff Policy

which provides that, **wherever possible**, customers of the same class **should pay no more for their electricity**, and should be able to pay for their electricity via **similar price structures**.

## What does this mean for regional Queensland?

Prices for **small customers** are based off the cost of supply in SEQ, and for **large customers** based off the Ergon region with the lowest cost of supply.

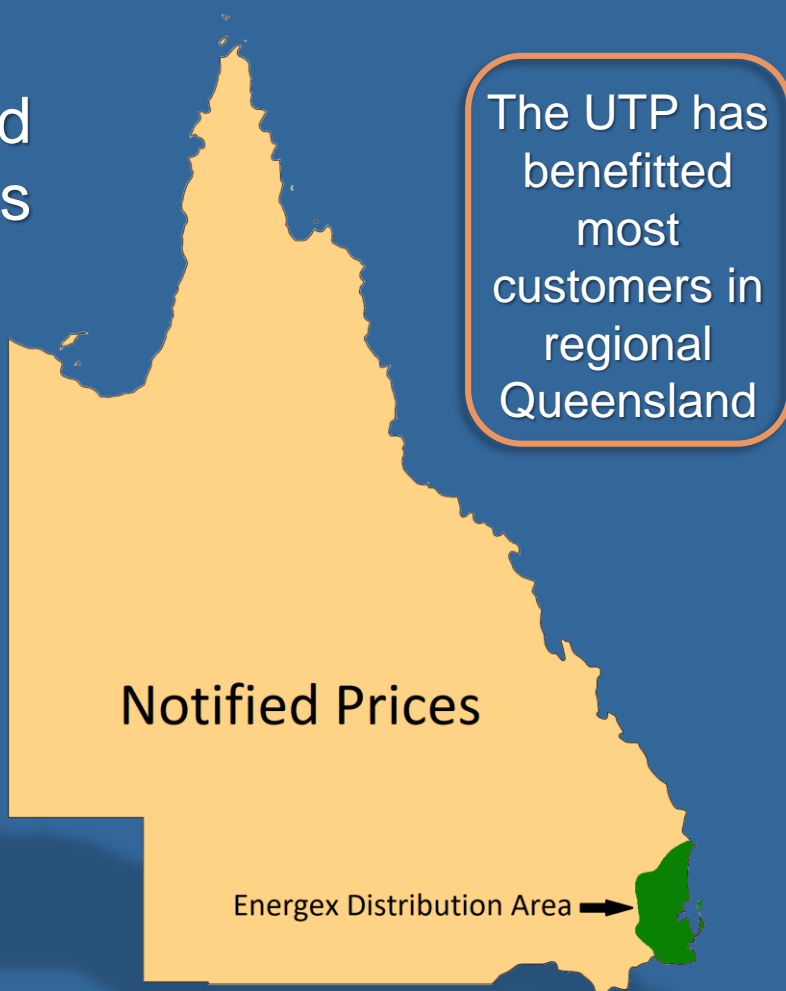
## Who can access notified prices?

The notified prices we set are available to standard contract customers in rural and regional Queensland (outside of the Energex Distribution area).

The Queensland Government has budgeted

**\$498 million**

to fund the UTP this year



# What is new for 2020–21?

## Definition of the UTP

The government's UTP now states that '*wherever possible, customers of the same class should be able to pay no more for their electricity **and pay for their electricity via similar price structures** regardless of their geographic location*'.

## Network costs

Uncertainty around network tariff reforms mean we may need to consider different approaches to calculating network costs than before, including ones that:

- maintain the existing retail tariffs and adjust the network costs by a suitable index
- incorporate new network tariffs if feasible.

## Individually Connected Customer (ICC) tariffs

The Minister asked us to consider:

- a new approach to determining ICC tariffs, where a customer's site specific network tariff is passed through and the energy and retail costs are set by us
- maintaining tariff 53 in addition to the new cost-reflective ICC tariffs.

## Default retail tariffs

The Minister asked us to consider nominating default retail tariffs for residential and small business customers. This would likely result in small customers being on flat tariffs, unless they nominate a different tariff.

## Default market offer (DMO)

The Minister asked us to consider the equivalent DMO set by the AER and, if necessary, adjust our notified prices to make sure they do not exceed the equivalent DMO reference bill value.

## Customer classes impacted

Issue	Residential	Small business	Large and ICC
Definition of the UTP	✓	✓	
Network costs	✓	✓	✓
ICC tariffs			✓
Default retail tariffs	✓	✓	
Default market offer	✓	✓	

# Key issues we are considering

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## The overarching pricing framework

2019–20

2020–21

### Uniform Tariff Policy

We had regard to the:

- cost of supply in SEQ (for small customers)
- lowest cost Ergon Distribution region (for large customers).

We will have regard to the :

- cost of supply in SEQ and the tariff structures available (for small customers)
- lowest cost Ergon Distribution region (for large customers).

### N+R methodology

For the 2 components we:

- passed through the N component and
- determined the R component (energy and retail costs).

We will have regard to using:

- the same approach as last year; or
- a more flexible approach, which allows for different treatment of the N component.

### Other matters

Not applicable.

We will have regard to:

- nominating primary default retail tariffs
- introducing a new methodology for calculating ICC tariffs
- maintaining the scheduled phase-out period for obsolete tariffs.

# Key issues we are considering

## The cost build-up components

2019–20

2020–21

N

+

R

O

### Network costs

We used the underlying network tariffs approved by the AER as the basis for building-up notified prices.

We will have regard to using:

- the same approach as last year; or
- an approach, which allows for maintaining existing retail tariffs, adjusting the N component with a suitable index.

### Energy costs

We have engaged ACIL Allen to assist us in estimating energy costs.

We will have regard to using the same approach as last year.

### Retail costs

We used the 2016–17 benchmark retail costs, adjusted for inflation.

We will have regard to using:

- the same approach as last year; or
- an approach that updates the existing benchmark costs.

### Other costs

We applied a:

- 5% standing offer adjustment (SOA)
- 5% headroom adjustment.

We will have regard to using:

- a 5% SOA (with bill ceiling equivalent to the DMO reference bill)
- 5% headroom adjustment.

# Consultation

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The interim consultation paper is the first step in our process.



We ask stakeholders to consider the 10 consultation questions contained in the paper.

Stakeholders are invited to provide submissions on issues raised in the ICP, or any other matters considered relevant to our price determination.

**Stakeholder submissions on the ICP are due by  
13 January 2020**

Information on making a submission is available on our [website](#).

## Useful links

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[Australian Energy Market Commission](#)

[Australian Energy Market Operator](#)

[Australian Energy Regulator](#)

[Department of Natural Resources, Mines and Energy](#)

[Energy and Water Ombudsman Queensland](#)

[Energex](#)

[Ergon Energy Queensland](#)

[Powerlink](#)

[QCA 2019–20 — notified prices final determination](#)