Notified electricity prices 2024-25

15 December 2023

This interim consultation paper (ICP) sets out the key issues for our determination of regulated retail electricity prices (notified prices) for regional Queensland to apply in 2024-25.

Stakeholders are invited to make submissions on this consultation paper by **19 January 2024**.

Framework and approach

We set notified prices based on the requirements of the *Electricity Act 1994* and the delegation issued to us by the Minister for Energy, Renewables and Hydrogen (the Minister).¹

Box 1 sets out the key matters we must consider when setting notified prices. These matters are broadly consistent with the matters we were required to consider in previous determinations and with the way we set notified prices in the past.

We have a well-established methodology and approach for setting notified prices. It is a cost-based approach under which the prices we set comprise of individual cost components including the:

- **network cost (N) component** this encompasses the distribution and transmission costs associated with transporting electricity to customers
- retail cost (R) component this captures the costs of buying and selling electricity to customers. It has two main elements:
 - energy costs, which cover the costs retailers incur when purchasing electricity in the national electricity market (NEM) for their customers (such as wholesale energy costs and other costs associated with the operation of the NEM)
 - retail costs, which cover the costs of running a retail electricity business (such as costs of billing systems and administrative costs).

The notified prices we set represent the estimated costs to a retailer of supplying electricity to customers over the price determination period. Having said that, we do consider the Queensland

¹ We received the delegation on 14 December 2023. A copy of the delegation is provided in appendix A.

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Government's uniform tariff policy (UTP), which lowers prices for most customers in regional Queensland.

Box 1: Overarching framework for our determination

The Electricity Act requires us to have regard to the following factors when we set notified prices:²

- the actual costs of making, producing or supplying the goods or services
- the effect of the price determination on competition in the Queensland retail electricity market
- any matter we are required by delegation to consider.³

The Minister's delegation (see appendix A) states the terms of reference for our review. Among other things, the delegation specifies particular policies, principles or other matters we must consider when making a determination, such as:

- use of the network plus retail cost build-up methodology (N+R framework) to set notified prices. This methodology involves passing through network tariffs and prices approved by the Australian Energy Regulator (AER) and then adding retail and energy costs (which we determine)
- the Queensland Government's UTP, which provides that, 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. This means that for most customers prices are set at a lower level than the actual cost of supply, with the cost difference met by the Queensland Government through a community service obligation payment.

For small customer tariffs, we also consider incorporating a standing offer adjustment (SOA). This is an additional amount included in notified prices that is intended to reflect the value of the more favourable terms and conditions in standard contracts relative to market contracts. However, we also consider reducing the SOA if notified prices exceed the equivalent default market offer (DMO)⁴ reference bills set by the AER's for south-east Queensland.

Review process and consultation

We invite all stakeholders, including members of the community, to participate in our review.

We welcome feedback on all aspects of our review, including our existing methodology for setting notified prices. While the methodology and approach we apply to set notified prices is wellestablished, we continue to look for ways to improve the accuracy of our estimates, building on the refinements made in the past. For example, to improve our wholesale energy cost estimates for

² Electricity Act s. 90(5)(a).

³ We may also have regard to any other matter we consider relevant (s. 90(5)(b)).

⁴ The AER sets a default market offer each year, which caps the price retailers can charge small customers on standard retail contracts in south-east Queensland.

2023-24 we incorporated additional advanced digital meter (ADM) data.⁵ We will consider any feedback in the context of our requirements under the Electricity Act and the delegation from the Minister (summarised in Box 1).

We are also interested in stakeholders' views on new matters in this year's delegation, as listed in Table 1.

Table 1: New matters in this year's delegation

1. Default retail tariff arrangements for small customers

Under existing arrangements, if a small customer does not nominate a primary tariff when opening an electricity account, they are required to be assigned to a flat-rate tariff by default (i.e. tariff 11 or tariff 20).⁶

This year, we are required to consider if there is an ongoing need for these default retail tariff arrangements.

We welcome stakeholder feedback on this matter. In particular, we are interested in how retailers might act, in the absence of the default tariff arrangements, when customers do not nominate a tariff when they open an electricity account or when a deemed customer retail arrangement applies.⁷

2. Small customer metering service costs

Consistent with the approach we took last year, we plan to include small customer metering service costs into the R component of each tariff – based on the costs of metering services for customers in south-east Queensland (i.e. for Energex type 6 (basic) metering and advanced digital metering (ADM) services, and the deployment rate of ADMs in regional Queensland).

While this year's delegation is largely consistent with last year's delegation, it does include some additional guidance around small customer ADM deployment information. Specifically, we should have regard to the replacement of distributor meters with ADMs using Ergon Energy Retail and other electricity retailer forecast deployment information for regional Queensland in 2023-25 and existing deployed stock levels.⁸ This year, we are also required to consider applying a cost 'true-up' mechanism based on any differences between the forecast and actual volume of ADM installations for the previous tariff year (2022-23).

We welcome stakeholder feedback on this matter. In particular, we are interested in stakeholder views on using a true-up mechanism to account for actual ADM deployment being higher (or lower) than the forecast used to set the small customer metering costs included in notified prices.

3. Manual meter read fee – type 4A meters

If a customer voluntarily disables the remote communication function on their digital meter (a type 4A meter), they need to pay a retail fee (per meter read) for a manual meter reading. Last year, we set this fee based on the AER-approved special meter read fee for Ergon Distribution.⁹

⁸ In our last determination, we used forecast deployment information supplied by Ergon Energy as at 30 June 2024.

⁵ QCA, <u>Regulated retail electricity prices in regional Queensland 2023-24</u>, final determination, June 2023, pp. 26-28.

⁶ These default tariff arrangements do not prevent the customer from later nominating a different tariff.

⁷ For example, a deemed customer retail arrangement can apply when a small customer starts consuming energy at a premises without first applying to a retailer for the provision of customer retail services (i.e. a move-in customer) – see ss. 54-55 of the National Energy Retail Law (Queensland).

⁹ QCA, <u>Regulated retail electricity prices in regional Queensland 2023-24</u>, final determination, June 2023, p. 18.

This year, the Minister asked us to consider setting charges 'in a way that better reflects the cost associated with those [customer] choices.'¹⁰ In particular, we are required to consider setting a series of retail charges generally based on Ergon Energy Retail's average costs of manually reading type 4A meters for different electricity feeder types.¹¹

We welcome stakeholder feedback on this matter. We note setting a series of fees would rely on relevant cost information from Ergon Energy Retail.

Indicative consultation timetable

The ICP is the first step in our price determination process. Stakeholders are invited to make a written submission on any issues relevant to our review by **19 January 2024**. Information on making a submission is provided in the 'Submissions' section of this paper.

We will consider all submissions received by this time in preparing our draft determination, which we expect to publish in March 2024. Our draft decision must be made within one week of the AER publishing its draft DMO decision (due early March 2024).

The timetable below indicates when we intend to publish reports, hold stakeholder information sessions and seek further stakeholder submissions.



Figure 1: Indicative timetable

Stakeholders can <u>subscribe to our email alerts</u> to keep up to date with the latest developments on this review, including on the information sessions.

¹⁰ Appendix A, Minister's covering letter.

¹¹ Potentially relevant feeder types for regional Queensland include isolated feeders, long rural feeders, short rural feeders or urban feeders (<u>Electricity Distribution Network Code</u>, p. 35).

Submissions

Closing date for submissions: 19 January 2024

Public involvement is an important element of our decision-making processes. Therefore, we invite submissions from interested parties. We will take account of all submissions received within the stated timeframes. Submissions, comments or inquiries regarding this paper should be directed to:

Queensland Competition Authority

GPO Box 2257, Brisbane QLD 4001 Tel (07) 3222 0555 www.qca.org.au/submissions/

Confidentiality

In the interests of transparency, and to promote informed consultation, we intend to make all submissions publicly available. However, if a person making a submission believes that information in it is confidential, they should claim confidentiality over the relevant information (and state the basis for that claim). We will assess confidentiality claims in accordance with the *Queensland Competition Authority Act 1997*. Among other things, we will assess if disclosure of the relevant information is likely to damage a person's commercial activities, and we will consider the public interest.

Claims for confidentiality should be clearly noted on the front page of a submission, and relevant sections of the submission marked as confidential. The submission should also be provided in both redacted and unredacted versions. In the redacted version, all information claimed as confidential should be removed or hidden. In the unredacted version, all information should be exposed and visible. These measures will make it easier for us to make the remainder of the document publicly available. A confidentiality claim template is available at **www.qca.org.au/submission-policy/**

The template gives guidance on the type of information that may help us to assess a confidentiality claim. We encourage stakeholders to use this template when making confidentiality claims.

Public access to submissions

Subject to any confidentiality constraints, submissions will be available for public inspection at our Brisbane office or on our website at **www.qca.org.au/**. If you experience any difficulty gaining access to documents, please contact us on **(07) 3222 0555**.

Appendix A: Minister's delegation



Minister for Energy, Renewables and Hydrogen Minister for Public Works and Procurement

Our Ref: MN12183-2023

14 December 2023

Professor Flavio Menezes Chair Queensland Competition Authority Email: 1 William Street Brisbane Queensland GPO Box 2457 Brisbane Queensland 4001 Australia Tatephone E: epw@ministatat.gld.gov.au

Dear Professor Menezes Plavio

Pursuant to section 90AA of the *Electricity Act 1994* (the Act), I am delegating to the Queensland Competition Authority (QCA) the functions under section 90(1) of the Act for the determination of regulated retail electricity prices in regional Queensland for the 2024-25 Tariff Year. Delegation No. 1 2023 is for the setting of notified prices for existing retail tariffs in the usual manner. To achieve this, I ask QCA to consider applying the same cost build-up methodologies it used in setting prices for 2023-24 for all current tariffs.

Additionally, pursuant to section 93 of the Act, I direct the QCA to decide the solar feed-in tariff (FiT) rate for the 2024-25 Tariff Year.

The Queensland Government is committed to reducing cost of living pressures by ensuring affordable electricity prices for Queensland households and businesses. Access to affordable electricity is essential to ease cost of living pressures for all Queensland households, and this extends to businesses. Regional Queensland constitutes most of the State's land mass but is home to only around one third of Queensland's population. This can present challenges to ensuring regional Queenslanders can access affordable energy. This is why the Queensland Government continues to implement its Uniform Tariff Policy (UTP) to ensure all Queenslanders pay a similar price for electricity no matter where they live.

The Queensland Energy and Jobs Plan (QEJP) provides a clear path forward for the energy sector over the coming years and outlines how Queensland's energy transformation will deliver clean, reliable and affordable power for generations. A key focus area of the QEJP is to empower Queensland households and businesses when it comes to electricity usage. The Queensland Government will continue to deliver affordable energy while supporting Queenslanders as they invest in more smart technologies, such as solar rooftop generation, storage of electricity in home batteries, and electric vehicles.

General Price Setting

The enclosed Delegation and terms of reference for 2024-25 are generally consistent with the approach of previous delegations. The UTP, as described in the delegation, continues to provide provision for QCA to consider the South East Queensland (SEQ) Default Market Offers (DMO) in its determination.

Given the timing of the Australian Energy Regulator's (AER) DMO decisions, I recognise the QCA requires time to consider the outcomes with its own decision. Further, I consider it appropriate QCA undertake its usual process to determine costs that contribute to notified prices, including considering costs and benefits associated with small customer standing offers in SEQ. Queensland households continue to deal with cost of living pressures. The government's UTP provides an essential pressure valve in such times and in considering the DMO, QCA should have careful regard to the equivalence in pricing between regional Queensland and South East Queensland. The QCA should continue to use the Standing Offer Adjustment (SOA) components of the flat tariffs T11 and T20 as the adjustment mechanism where any outcome of QCA's methodology results in a comparable bill being more than the equivalent DMO. Where the QCA considers the SOA impact could be material and result in outcomes similar to the 2023-24 period, I request it advises government so consideration can be given to what, if any, response is required.

Also, it is important that in applying any SOA adjustment in consideration of the SEQ DMOs, bill relativity be maintained for more complex small customer tariffs for which equivalent DMOs are not determined by the AER. This should be achieved by applying any proportional reduction in SOA to other tariffs within the customer class. These tariffs provide customers with choices that may better suit their individual circumstances. They also present important price signals to customers about how they use their electricity. As the electricity transformation gathers pace, it is equally important to ensure the effect of the UTP is reflected across relevant tariffs.

Metering costs

A key target of the QEJP alms to achieve 100 per cent deployment of smart meters by 2030. This target was recently reinforced by recommendations set out in the Australian Energy Market Commission's 2023 Review of the Regulatory Framework for Metering Services, and progress is already well underway in regional Queensland.

I ask that QCA consider smart meter deployment volumes in regional Queensland, including electricity retailer forecasts for installations across the Tariff Year, and variances between forecast and actual deployments in previous years when assessing associated costs for its pricing decision. QCA is also asked to consider the impacts of individual customer choices to disable some smart meter functionality that necessitates ongoing physical meter reading. These impacts include costs currently placed on other customers and safety issues including accessibility and risks of dog attacks, and set charges in a way that better reflects the cost associated with those choices.

Default tariff assignment

In 2020-21, for administrative convenience of regional retailers and to formalise existing practice, a section was added to the Tariff Schedule to allow retailers to nominate a 'default tariff' to a small customer. Currently, regional retailers can assign basic residential or small business flat tariffs to a new regulated small customer in the event the customer did not nominate a primary tariff when establishing an electricity account. In SEQ, no similar arrangement exists and retailers must obtain direction of the specific product choice from a new customer. The exception is where deemed contract arrangements to which Tariff 11 (T11) style flat rate charges generally apply, for example when someone moves into a residence and starts using electricity without establishing an account with a retailer.

I understand that if provisions for this current process were to be extinguished, retailers in regional Queensland would be required to obtain specific direction from the customer when establishing an electricity plan. While this would better align with retailer practices in SEQ, it may place additional administrative burden on regional retailers.

Accordingly, I ask that QCA consider if, on balance, there remains an ongoing need for the existing default tariff assignment arrangements, and what provisions may be required for situations where small customers are deemed to have entered a standard contract. Any change should not limit a small customer's ability to access relevant flat rate tariffs – T11 (residential) or T20 (small business).

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FIT

In the direction notice for the 2023-24 regional FiT, I asked QCA to consider if the methodology it has applied for a number of years in deciding the value of the FiT remains appropriate. I thank the QCA for its work on this matter noting that QCA concluded the methodology does remain appropriate. I ask QCA continue to apply its avoided cost methodology for the 2024-25 year.

3

Public consultation has long formed a vital part of QCA's process for determining retail electricity prices. The terms of reference of the delegation sets out the consultation needs requiring QCA to undertake its usual consultation. The QCA is also required to publish its draft price determination within one week after the publication by the AER of its draft DMO for the 2024-25 tariff year, and to publish its final price determination by 7 June 2024.

Regional customers continue to benefit from the electricity cost protection provided by UTP and the benefits of Queensland-owned assets. In just 12 short months since the release of the QEJP, Queensland is getting more than 25 per cent of its electricity needs from renewable energy sources. Queensland is already more than halfway to its 50 per cent target by 2030 and is accelerating progress by powering more new jobs, new industries and new export opportunities with affordable, reliable and cleaner energy.

The Department of Energy and Public Works (DEPW) will be available to consult with QCA on the 2024-25 price determination and Tariff Schedule and FiT.

If you require further information or assistance with this matter,

Yours sincerely

Mick de Brenni MP Minister for Energy, Renewables and Hydrogen Minister for Public Works and Procurement

Encl.

DEPARTMENT OF ENERGY AND PUBLIC WORKS

Electricity Act 1994

ELECTRICITY (MINISTERIAL) DELEGATION (NO. 1) 2023 to the Queensland Competition Authority (QCA)

Preliminary matters

- 1. The preliminary matters form part of this delegation.
- QCA means the Queensland Competition Authority established under the Queensland Competition Authority Act 1997.
- Section 89A of the *Electricity Act 1994* (the Act) relevantly provides: price determination see section 90(1). pricing entity means—

 (a) the Minister; or
 (b) QCA, if the Minister delegates a function of the Minister under section 90(1) to QCA.
- 4. Section 90(1) of the Act provides:
 - The Minister must, for each tariff year, decide (a **price determination**) the prices, or the methodology for fixing the prices, that a retailer may charge its standard contract customers for all or any of the following—
 - (a) customer retail services;
 - (b) charges or fees relating to customer retail services;
 - Examples-
 - charges or fees for late or dishonoured payments
 - credit card surcharges for payments for the services
 - (c) other goods and services prescribed under a regulation.

5. Section 90(5) provides:

In making a price determination, the pricing entity-

(a) must have regard to all of the following-

- (i) the actual costs of making, producing or supplying the goods or services;
- (ii) the effect of the price determination on competition in the Queensland retail electricity market;
- (iii) if QCA is the pricing entity—any matter the pricing entity is required by delegation to consider; and
- (b) may have regard to any other matter the pricing entity considers relevant.
- Section 90AA(1) of the Act provides that the Minister may delegate to the QCA all or any of the Minister's functions under section 90(1) of the Act.
- Section 90AA(2) of the Act provides that delegation to the QCA may state the terms of reference of the price determination.
- Section 90AA(3) of the Act provides what the terms of reference may specify and how the terms of reference may apply.

9. The terms of reference provided for in sections 90AA(2) and (3) of the Act are contained in the Schedule to this delegation and comprise the matters under section 90(5)(a)(iii) of the Act that the QCA as the pricing entity is required by delegation to consider.

Powers delegated

 Subject to the conditions of this delegation, I delegate all of the Minister's functions under section 90(1) of the Act to the QCA for the tariff year 1 July 2024 to 30 June 2025.

Conditions of delegation

- 11. The delegated functions of the Minister must only be exercised for the purpose of deciding the prices, or the methodology for fixing the prices that a retail entity may charge its Standard Contract Customers in Queensland, other than Standard Contract Customers in the Energex distribution area.
- 12. In exercising the delegated functions under section 89A, the QCA, as the pricing entity, must have regard to all of the matters set out in section 90(5)(a) of the Act, which includes the terms of reference in the Schedule to this delegation.
- In exercising the delegated functions, the QCA must have regard to all relevant statutory provisions, whether referred to in this delegation or not.

Revocation

- All earlier delegations of the Minister's powers under section 90(1) of the Act are revoked.
- Unless earlier revoked in writing, this delegation ceases upon gazettal by the QCA of its final price determination on regulated retail electricity tariffs for the 2024–25 tariff year under section 90AB of the Act.

Note to delegation

16. Statutory references are to be construed as including all statutory provisions consolidating, amending or replacing the statute referred to and all regulations, rules, by-laws, local laws, proclamations, orders, prescribed forms and other authorities pursuant thereto.

This delegation is made by The Honourable Mick de Brenni MP Minister for Energy, Renewables and Hydrogen and Minister for Public Works and Procurement:

Signed:

The Honourable Mick de Brenni MP Minister for Energy, Renewables and Hydrogen and Minister for Public Works and Procurement

Dated: 14/12/2023

DELEGATION TO OCA

SCHEDULE Terms of Reference Section 90(5)(a)(iii) and 90AA of the Act

Period for which the price determinations will apply (section 90AA(3)(a) of the Act)

1. These Terms of Reference apply for the tariff year 1 July 2024 to 30 June 2025.

Policies, principles and other matters the QCA must consider when working out the notified prices and making the price determination (sections 90(5)(a)(iii), 90AA(3)(c) and 90AA(3)(d) of the Act)

- The policies, principles and other matters that the QCA is required by this delegation to consider are:
 - (a) Retail pricing policy:
 - (i) the Government's Uniform Tariff Policy (UTP), 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 common price structures, regardless of their geographic location.
 - (b) 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 generally treated as a pass-through and R (energy and retail cost) is determined by the QCA.

When determining the N components for each regulated retail tariff, where retained:

- (i) for residential and small business customer Tariffs 11, 20, 31 and 33 basing the network cost component on the relevant Energex network charges to be levied by Energex and the relevant Energex tariff structures;
- (ii) for all other residential and small business customer tariffs, except for those set out in (b)(iii) below - basing the network cost component on the price level of the relevant Energex network charges to be levied by Energex, but utilising the relevant Ergon Energy Corporation Limited (EECL) tariff structures;
- (iii) for tariffs 62A, 65A, 66A and all large customer tariffs basing the network cost component on the relevant EECL network charges to be

levied by EECL in the 'East distribution pricing zone - Transmission pricing zone T1'.

- (c) Small customer metering costs:
 - basing small customer retail metering service costs, an element of R components for each regulated tariff, on the Energex rate for standard Type 6 small customer metering services plus costs incurred by retailers operating in the Energex distribution area for small customer advanced digital metering services;
 - (ii) having regard to the installation volume of advanced digital meters using Ergon Energy Retail and other electricity retailer forecast deployment information for 2023-25 and existing deployed stock levels;
 - (iii) applying a cost 'true-up' based on any difference between the forecast and actual volume of advanced digital meter installations for the previous tariff year (2022-23) as advised by retailers; and
 - (iv) setting a series of retail charges generally based on Ergon Energy Retail's averaged costs of manually reading a Type 4A meters associated with each of the electricity feeder types set out in the Electricity Distribution Network Code. The charges should apply to Standard Contract Customers who have voluntarily chosen to have the remote communication function of the advanced digital metering installed at their premises disabled.
- (d) Default tariffs:
 - (i) if there is an ongoing need for the existing nomination of a primary tariff for each class of small customer to apply to a customer's electricity account in the event the customer does not nominate a primary tariff when opening an electricity account; and
 - (ii) any need for tariff assignment arrangements where a customer is deemed to have entered a standard contract.

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(e) Customer retail services:

Continue enabling retailers to also charge Standard Contract Customers for the following customer retail services that are not included in regulated retail tariffs:

- (i) 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:
 - i. the customer voluntarily participates in such program or scheme;
 - ii. the additional amount is payable under the program or scheme; and
 - the retailer gives the customer prior written notice of any change to the additional amount payable under the program or scheme.

Consultation Requirements (section 90AA(3)(e) of the Act)

Interim Consultation Paper

- The QCA must publish an Interim consultation paper identifying key issues to be considered when making the price determination.
- 4. 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.
- 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

6. The QCA must publish an annual consultation timetable within two weeks after submissions on the interim consultation paper are due, which can be revised at the discretion of the QCA, detailing any proposed additional public papers and information sessions that the QCA considers would assist the consultation process.

Information Sessions and Additional Consultation

 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 (information sessions and papers) on identified key issues.

Draft Price Determination

- The QCA must investigate and publish its draft price determination on regulated retail electricity tariffs, with each tariff (to the extent practicable) to be presented as bundled prices appropriate to the retail tariff structure.
- 9. 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.
- 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

11. The QCA must investigate and publish its final price determination on regulated retail electricity tariffs, with each tariff (to the extent practicable) to be presented as bundled prices appropriate to the retail tariff structure, and gazette the retail tariffs in the form of a Tariff Schedule.

Time frame for QCA to make and publish reports (section 90AA(3)(b) of the Act)

- The QCA must make its reports available to the public and, at a minimum, publicly release the papers and price determinations listed in paragraphs 3 to 11.
- The QCA must publish the interim consultation paper for the 2024–25 tariff year no later than one month after the date of this Delegation.
- The QCA must publish the draft price determination on regulated retail electricity tariffs no later than one week after the publication by the Australian Energy Regulator of its draft Default Market Offer for the 2024-25 tariff year.
- The QCA must publish the final price determination on regulated retail electricity tariffs for the 2024–25 tariff year and have the retail tariffs gazetted no later than 7 June 2024.

(SCHEDULE ENDS)