Ergon Energy Corporation Limited
and
Ergon Energy Queensland Pty Ltd

Submission on the *Regulated Retail Electricity Prices 2013–14: Transitional Issues* Consultation Paper

Queensland Competition Authority

7 January 2013

Submission on the *Regulated Retail Electricity Prices 2013–14: Transitional Issues* Consultation Paper

Queensland Competition Authority

7 January 2013

This submission, which is available for publication, is made by:

Ergon Energy Corporation Limited and Ergon Energy Queensland Pty Ltd
PO Box 15107
City East
BRISBANE QLD 4002

Enquiries or further communications should be directed to:

Jenny Doyle
Group Manager Regulatory Affairs
Ergon Energy Corporation Limited
Email: jenny.doyle@ergon.com.au
Ph: (07) 4092 9813
Mobile: 0427 156 897

1. INTRODUCTION

Ergon Energy Corporation Limited (EECL) and Ergon Energy Queensland Pty Ltd (EEQ) welcome the opportunity to provide comment to the Queensland Competition Authority (QCA) on its Consultation Paper, *Regulated Retail Electricity Prices 2013–14: Transitional Issues*.

This submission is provided by:

- EECL, in its capacity as a Distribution Network Service Provider (DNSP) in Queensland; and
- EEQ, in its capacity as a non-competing area retail entity in Queensland.

In this submission, EECL and EEQ are collectively referred to as 'Ergon Energy'.

Our key positions and specific comments relating to the transitional arrangements for the 2013–14 regulated retail tariffs (or Notified Prices) are outlined in Section 2. Ergon Energy is available to discuss this submission or provide further detail regarding the issues raised, should the QCA require.

2. SPECIFIC COMMENTS

Ergon Energy continues to strongly support transitional arrangements for those customers affected by the tariff reform process. As highlighted in our response to the QCA's Interim Consultation Paper,[1] the impact of tariff reform will vary between different customer segments and even within these segments. For many customers, moving to cost reflective N+R (network plus retail) Notified Prices will result in not only a significant price increase but also a change in tariff structure. As such, customers require adequate time to understand and prepare for the associated operational and financial impacts.

Ergon Energy has outlined below our key positions and concerns regarding transitional arrangements.

2.1. Establishing an appropriate price path

Ergon Energy believes the key challenge in determining an appropriate price path for the Notified Prices is the ability to estimate the ultimate structural and price 'end point', given the current uncertain environment. The main factors contributing to this uncertainty include:

- *Future network tariff structures*

  Ergon Energy is currently reviewing its network pricing strategy. This strategy aims to identify and implement options where pricing can support the reduction of future network investment and resultant revenue requirements. It will affect both network tariff structures and pricing over the coming years.

  Ergon Energy does not anticipate any changes to the network tariff structure to be implemented in the 2013–14 pricing year. Rather, implementation will commence in the 2014–15 pricing year.

  It is important to note that any change to network tariffs (either price or structure) will need to be detailed in our annual Pricing Proposal and approved by the Australian Energy Regulator. As highlighted in our response to the Interim Consultation Paper, this approval may not be granted until the end of May or early June in each year. Therefore, the full effect and timing of network tariff changes over the next three years will not be fully understood prior to the QCA's 2013–14 Notified Prices determination.

- *New Distribution Determinations to apply to both Queensland DNSPs in 2015–16 to 2019–20*

  The Final Distribution Determination sets out a DNSP's approved Annual Revenue Requirement (ARR) and arrangements for how network prices are to be developed and applied by the DNSP for the respective regulatory control period. As the next regulatory control period is scheduled to commence at the beginning of the third year of the QCA's Delegation, it will be problematic to estimate the end point of the 'N' cost component.

- *Queensland electricity sector reforms*

  The Queensland Government has established an Inter-Departmental Committee and an Independent Review Panel to examine Queensland's electricity sector and recommend solutions to address rising electricity costs, while also maintaining a reliable network. Until the outcomes of the reviews are known and understood, it will be difficult for the QCA to establish an appropriate price path.

- *Demand data availability*

  Ergon Energy intends to upgrade metering at approximately 1,200 large[2] customer sites to demand capable metering. This program commenced in mid-December 2012 and is expected to be completed by the end of March 2013. These meters will continue to be read as accumulation meters for billing purposes until customers move to demand tariffs. However, Ergon Energy

[1] Ergon Energy (2012), Submission on the *Regulated Retail Electricity Prices 2013–14,* Interim Consultation Paper, 19 October 2012.
[2] Premises which consume greater than 100 MWh per annum.

intends to capture a maximum demand[3] reading for the billing period as part of the manual read process as soon as the necessary process and system modifications are implemented. This information will be retained for future discussions with customers.

It is important to note that maximum demand data will not be available for all large customer sites. For example, Ergon Energy anticipates that approximately 350 large customer sites will not have compliant switchboards and metering capable of recording demand for the principal tariff. These remaining sites will require customer-funded upgrades to switchboards before metering can be installed to allow tariff transfers.

Presently, there is no 12 month historical maximum demand data available to large customers on non-demand based tariffs. Ergon Energy therefore recommends that customers should be allotted at least 12 months, post the installation of a demand meter, to understand and respond to the effects of their peak demand on their potential electricity costs.

2.2. Transitional period and step changes

In light of the uncertainties regarding the structure and price of the Notified Prices into the future, Ergon Energy recommends that the QCA establish a longer, rather than shorter, transition period (i.e. greater than three years). Key factors supporting a longer transitional pathway include:

- The opportunity to provide customer transparency of the 'N' component at a more advanced stage of the structural change process;
- Future technological advancements in metering and other solutions;
- To allow current desirable customer behaviour in response to existing peak / off-peak signals in retail tariffs to be maintained while network tariffs are evaluated in terms of the establishment of sustainable network time-of-use, off-peak prices and controlled tariff signals; and
- Providing customers with time to anticipate and prepare for resulting change. This may require customer education on the new tariffs and what changes may be needed to their operations.

Further, Ergon Energy recommends that the price path is 'back-ended'[4] so that short-term anomalies may be removed. There is risk that the use of the 'N' charges as currently structured will see a change in price signal substantially different to the current retail tariffs. Ergon Energy also suggests retail tariff structural changes early in the process will encourage particular consumption changes which may counter or be inconsistent with subsequent network pricing changes. This may confuse customers, result in redundant customer response and have adverse impacts on distribution system demand by sending customers inappropriate pricing signals that do not reflect the optimal capital and operating decisions needed to minimise distribution business capital expenditure decisions.

This approach will also help mitigate the risk of customers experiencing unreasonable and unnecessary price increases in the short-term. Importantly, the QCA should recognise that short-term price shocks may lead to business closures and financial hardship, which may have otherwise been avoidable depending on the ultimate 'end point' of tariffs over the full transitional period. Ergon Energy is particularly concerned by the impact this may have in remote communities or where the business is the largest employer in the community.

2.3. Eligibility

Under the current terms of the 2012–13 Tariff Schedule new customers[5] can only access the N+R Notified Prices. This can, and has, resulted in inequitable outcomes between customers. Given the uncertainty within the market, and in the context of the Uniform Tariff Policy, it would be prudent to allow all customers access to the transitional tariffs (i.e. Tariffs 62, 65, 66, 20(Large), 22(Large), 41(Large), 43 and 53) to prevent any unintended impacts on customers.

[3] For those customers on quarterly reads, this may be indicative of seasonal maximum demand and will be a maximum demand in a circa 90 day period. It will not have monthly granularity.
[4] That is, small adjustments are made in the earlier years.
[5] Both new connections and new account holders for existing connections.

Ergon Energy also believes that access to the original obsolescent tariffs (i.e. Tariffs 21, 37, 63 and 64) should continue to be restricted to existing customers as these tariffs have been obsolescent for many years.

2.4. Practical constraints

Ergon Energy has provided a detailed explanation of billing, metering and other constraints to the QCA as part of a separate request for information on customer impacts. A summary of these constraints is outlined below.

2.4.1 Billing

There are no billing constraints that would prevent customers on obsolete tariffs from moving to the current range of N+R Notified Prices in 2013–14. However, if structural changes are made to the retail tariff offerings, this may necessitate system changes to correctly apply tariff conditions and to enable electronic billing. It is not possible to determine the extent of systems modification requirements until final tariff structures and transitional arrangements are known.

2.4.2 Metering

Transferring customers to N+R Notified Prices may require meter changes. The ability to make these changes in an efficient and effective manner depends on:

- The number of customers impacted;
- The period of time allowed for transition off obsolete tariffs;
- Site location;
- Availability of meters;
- The extent of metering changes required; and
- Installation schedules.

If the transitional arrangements end on 30 June 2013, the number of current sites impacted is significant and beyond the resource capability of Ergon Energy to address by 1 July 2013. Further, where tariff changes are ultimately driven by customer requests, there is reduced capacity to accurately anticipate volumes and manage peaks. Consideration must be given to transition methods that accommodate a gradual transfer of customers to new tariffs in a cost effective and efficient manner. The QCA should avoid creating significant and urgent demand for meter replacement when setting the 2013–14 Notified Prices.

Ergon Energy also notes that a number of sites will require customer-funded upgrades (some substantial) to switchboards before metering can be installed to allow tariff transfers. For example, this may be due to:

- The absence of Meter Isolation Links, requiring meters to be rewired before main switch;
- Meter panels located on platforms in conditions that do not allow safe work access;
- Meters mounted on deteriorated panels / switchboards requiring replacement;
- The condition of customer's ancillary equipment requiring defect notification; or
- Meters across multiple tariffs (exclusive of controlled load) requiring consolidation to a single meter potentially being limited by the capacity of switchgear, some of which may be a mixture of whole current and LV CT metering. Consolidation to a single meter per tariff may entail extensive switchboard upgrades to accommodate combined loading or require installation of remote communications requiring additional back-end support.

This remedial work will create a financial impact on the customer concerned and delay the metering change or modification.

Further, customers on demand tariffs must be read monthly. Ergon Energy currently bills approximately 2,000 large sites on a quarterly basis. As these sites move to demand tariffs, they will need to transfer to monthly meter reading blocks or be upgraded to remote read customers. There may be some remote sites where monthly manual reads or reliable remote communications are not presently available (i.e. current self-read sites). All options to facilitate monthly reading will involve increased costs. Consideration needs to be given to who should pay for any remote reading costs.

2.5. Timeframe for metering or switchboard upgrades

2.5.1 New customers

The Tariff Schedule currently prevents new customers moving to an existing site from connecting to an obsolete regulated retail tariff, even though the previous account holder was connected to an obsolete tariff. This means Ergon Energy must work with the new customer to arrange connection to the most suitable available N+R regulated retail tariff. However, an issue arises when a switchboard upgrade is required at the customer's expense. In some instances, this expense can be quite significant. The Queensland Government Gazette and the Electricity Industry Code are both silent on the timeframe for the customer to arrange for an upgrade to occur.

Ergon Energy has implemented an internal business process which provides a three month grace period from the time the customer moves into the premises to arrange completion of any switchboard / electrical work. However, this is not supported by the relevant regulatory instruments. We recommend that the QCA give due consideration to this issue, including what options are available to businesses if a customer does not complete the required switchboard / electrical work, when drafting the 2013–14 Tariff Schedule. This will provide certainty and clarity to businesses.

2.5.2 Transitional tariffs

Under the current transitional arrangements, there is no incentive for large customers on transitional tariffs[6] to change their existing switchboard arrangements, and it is unlikely that customers will be willing to accept costs associated with switchboard upgrades until the transitional arrangements end and redundant tariffs are removed from the Tariff Schedule. Ergon Energy strongly recommends introducing transitional paths for existing customers on obsolete tariffs to ensure the required works are completed throughout the transitional period and finalised by the end of the transitional arrangements.

2.6. Obsolete tariffs

Ergon Energy suggests that tariffs made obsolescent during the 2012–13 Notified Prices determination process could be re-branded as 'transitional' or 'transitioning' tariffs. This may better support a price path for customers on these tariffs and diminish the view that these tariffs will be maintained indefinitely for existing customers.

For example, Tariff 37 has been obsolete since 30 June 2007 with only customers taking supply under the tariff prior to that date having continued access to it. This ongoing access to a tariff that has now been obsolete for five years may give rise to an expectation from customers currently supplied under tariffs made obsolescent in the 2012–13 Notified Prices determination process that they may be able to remain on those tariffs indefinitely. The re-branding of the 2012–13 obsolete tariffs to 'transitional' or 'transitioning' tariffs will make it clear to existing customers (and potentially new customers as per our earlier comments on eligibility) accessing these tariffs that they are operating under transitional arrangements and that access will cease at a future date.

Ergon Energy considers that the original obsolescent tariffs should continue to be termed as 'obsolescent'.

[6] That is, tariffs made obsolescent during the 2012–13 Notified Prices determination process.