Ergon Energy Corporation Limited
and
Ergon Energy Queensland Pty Ltd

Submission on the *Regulated Retail Electricity Prices 2013–14: Cost Components and Other Issues*

Consultation Paper

Queensland Competition Authority

7 January 2013

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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: Cost Components and Other 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'.

Section 2 provides detailed comments in relation to the consultation questions posed by the QCA. Ergon Energy is available to discuss this submission or provide further detail regarding the issues raised, should the QCA require.

2. TABLE OF DETAILED COMMENTS

<table>
<tr><th>Question(s)</th><th>Ergon Energy Response</th></tr>
<tr><td colspan="2">Network Costs</td></tr>
<tr><td>The Authority seeks information from Energex and Ergon Energy on whether they are reviewing their network charges for 2013-14 and beyond and, if so, what opportunities have been or will be available for stakeholders to have input.</td><td>Ergon Energy is currently reviewing its network pricing strategy. We have sought independent advice on possible future tariff structures and are currently conducting further analysis of these possible structures. Ergon Energy expects to release an initial Issues Paper to stakeholders for comment in January / February 2013. Consultation will continue to occur throughout 2013. The strategy is likely to be finalised by the end of 2013, with implementation commencing in the 2014–15 pricing year.

Ergon Energy is cognisant of the importance of early communication of the proposed structures to the QCA, retailers and customers, and will endeavour to do so.</td></tr>
<tr><td>The Authority seeks stakeholders' views on the following:

(a) the suitability of Energex's network tariffs as the basis of retail tariffs for small customers and, in particular, whether the network tariffs need to provide stronger time-of-use signals;

(b) the suitability of Ergon Energy's network tariffs as the basis of retail tariffs for large customers and, in particular;

(i) whether the network tariffs need to provide time-of use signals?

(ii) whether notified prices for large customers should be based on network charges in Ergon Energy's East pricing zone, transmission region 1 and, if not, what should they be based on?

(iii) what better options, if any, are there for the network charge(s) to be used as the basis for notified prices for very large Ergon Energy customers?</td><td>(a) Ergon Energy considers that Energex's network tariffs are a suitable basis for setting regulated retail tariffs (or Notified Prices) for small customers, including unmetered supplies.

(b) Given large customers (including street lighting customers) in Energex's supply area are unable to access Notified Prices, we believe that Ergon Energy's 'N' should continue to be used when setting Notified Prices for these customers. This more closely represents the network price signals applicable to large customers in our supply area and not those of a different network, which has the potential to create perverse outcomes.

(i) Ergon Energy notes that the structure of network tariffs, including the presence of time-of-use signals, is ultimately a matter for DNSPs and the Australian Energy Regulator (AER). Having said this, we recognise the role time-of-use signals play in managing peak demand. Ergon Energy is examining possible time-of-use energy and demand components for network tariffs as part of our network pricing strategy.

(ii) Ergon Energy agrees that the Notified Prices for Standard Asset Customers >100 MWh per annum (SAC Large) should be based on Ergon Energy's East Zone Transmission Region 1.

(iii) Ergon Energy is cognisant of the financial impacts on very large customers if they are required to pay retail prices based on their site-specific network charges. For example, the QCA identified that 30 of EEQ's 108 very large customers would have</td></tr>
</table>

	experienced price increases of over 100 per cent if they had moved to their site-specific Notified Price at the start of 2012–13.[1] It is unlikely that these businesses will be able to absorb this level of price impact. In light of the significant cost impacts, Ergon Energy supports the continuation of a transitional regulated retail tariff for very large customers as this will allow these customers time to prepare for the impact of higher prices on their businesses. For customers classified as Individually Calculated Customers (ICCs) or Connection Asset Customers (CACs), Ergon Energy supports the continued use of the (SAC) High Voltage Demand network tariff as the basis for these Notified Prices during the transitional period.
The Authority seeks stakeholders' views on how best to maintain alignment between network and retail tariffs.	Ergon Energy agrees that DNSPs should provide the QCA with the proposed network tariffs and prices when these are submitted to the AER for approval on 30 April 2013, and the QCA should use these as the basis for setting the 2013–14 Notified Prices. Further, Ergon Energy considers that in instances where there is a material difference between the network tariff price approved by the AER and the network tariff price used as the 'N' component in the Notified Prices, the QCA could introduce a catch-up mechanism. In the absence of such a mechanism, this risk must be appropriately accounted for in the retail margin.
Energy Costs	
The Authority seeks stakeholders' views on the following: (a) Is ACIL's proposed method for estimating wholesale energy costs reasonable given the requirements of the Electricity Act and the Delegation? (b) What other approaches should the Authority consider? (c) What factors should ACIL take into account when determining modelling inputs such as customer load forecasts, plant outage scenarios, hedging strategies and spot price forecasts? (d) How could appropriate time of use signals be included in	(a) Nil comment. (b) Nil comment. (c) Nil comment. (d) Ergon Energy supports the creation of time-of-use signals within the energy cost estimates calculation where it aligns to market peak wholesale periods in the National Electricity Market (NEM). Ergon Energy previously supported the inclusion of a time-of-use 'R' component for Tariff 22 due to the relative alignment between the Tariff 22 peak periods (7.00 am to 9.00 pm, weekdays) and the market peak wholesale periods in the NEM (7.00 am to 10.00 pm, business weekdays). Ergon Energy was also cognisant of the potential

[1] QCA (2012), *Advice to the Minister for Energy and Water Supply, Retail Electricity Prices for Ergon Energy Queensland's Very Large Customers*, November 2012, pi.

energy cost estimates under the current metering and settlement arrangements? (e) Could ACIL's approach to estimating carbon costs be improved?	significant customer impacts associated with the expected large increase in the off-peak rate of Tariff 22 (approximately 80 per cent).[2] However, with the increasing divergence of time-of-use network tariffs away from the wholesale peak periods (e.g. Energex's proposed three-part business time-of-use network tariff), Ergon Energy believes that the calculation of a time-of-use 'R' on a three-part basis is not cost reflective of a retailer's wholesale electricity costs. If the QCA decides to pursue a time-of-use 'R' component, then the increased risk of revenue uncertainty to retailers would need to be appropriately factored into the risk margin provided for in the pricing determination. (e) Nil comment.
The Authority seeks stakeholders' views on the following: (a) How should a retailer's cost of complying with the Queensland Gas Scheme best be estimated? (b) What data source(s) should the Authority use in modelling the Queensland Gas Scheme? (c) Are there are any other issues that should be considered in estimating this cost component?	(a) Nil comment. (b) Nil comment. (c) Nil comment.
The Authority seeks stakeholders' views on the following: (a) How should the Authority estimate retailers' costs of complying with the ERET scheme? (b) What factors should be considered in forecasting the REC costs likely to be incurred by retailers in the SRES and LRET markets? (c) Do stakeholders agree with using clearing house price in estimating SRES costs, or would market prices be more appropriate? How can the proportion of STCs sold through the clearing house be calculated? (d) Do stakeholders agree with using non-binding STP targets	(a) Nil comment. (b) Nil comment. (c) Nil comment. (d) As noted by the QCA,[3] the challenge with using non-binding estimates for the Small-scale Technology Percentage (STP) targets is that the estimates are often lower than the final binding STP targets upon which final compliance costs are based. Consequently, the compliance costs for retailers can be underestimated. Ergon Energy agrees with the QCA's approach of using the most current available STP target in the pricing determination, but also suggests that a catch-up mechanism should be introduced to account for any material over or under estimation of the target based on a later change in the STP.

[2] Ergon Energy (2012), *Response to the QCA's Draft Determination*, 16 April 2012, p11.
[3] QCA (2012), *Consultation Paper, Regulated Retail Electricity Prices 2013–14: Cost Components and Other Issues*, December 2012, p18.

for 2014 and future years? Are there any better forecasts that the Authority could use? (e) How should the Authority deal with variations from the STP targets used in determining 2013-14 prices? (f) Are there any other issues that should be considered in estimating this cost component?	(e) Please refer to our comments above. (f) Nil comment.
The Authority seeks stakeholders' views on the following: (a) How should the Authority estimate NEM participation fees and ancillary services charges incurred by retailers? (b) Are there are any other issues that should be considered in estimating this cost component?	(a) Nil comment. (b) Nil comment.
The Authority seeks stakeholder's views on the following: (a) How should the Authority take account of energy losses that occur between the regional reference node and the retail customer? (b) Are there any issues other associated with the incorporation of energy losses in its energy cost estimate.	(a) Ergon Energy supports the use of transmission and distribution losses as published by the Australian Energy Market Operator (AEMO) in the wholesale energy calculation. However, we seek clarification from the QCA and its consultant, ACIL Tasman, regarding the treatment of energy losses in the pricing determination. The QCA has stated: *"As AEMO publishes its Distribution Loss Factors and Marginal (transmission) Loss Factors in September of each year, the Authority's 2012-13 determination relied on the losses for the 2011-12 year as these were the mor (sic) recent available at the time. Similarly, the Authority will be required to use 2012-13 losses in its 2013-14 Determination"[4].* Ergon Energy understands that AEMO publishes the distribution loss factors (DLFs) and transmission loss factors (TLFs) to be applied for the next financial year by 1 April each year in accordance with clause 3.6 of the National Electricity Rules. As such, the 2013–14 DLFs and TLFs will be available for use in the 2013–14 Final Determination. (b) Nil comment.
Retail Costs	
The Authority seeks stakeholders' views on the following: (a) Is the Authority's 2012-13 approach to determining the	(a) Ergon Energy acknowledges the benefits of a comprehensive analysis of retail operating costs in formulating an appropriate retail operating cost allowance for the

[4] Ibid 3, p20, footnote 13.

retail operating cost allowances appropriate to use for 2013-14? If not, what is an appropriate alternative approach and why would this be superior? (b) Have there been any recent developments that would suggest a significant change in current costs has occurred?	Notified Prices. Where it is impractical for the QCA to undertake its own comprehensive analysis (e.g. due to time constraints for determining the 2013–14 Notified Prices), Ergon Energy believes that there is no compelling reason to deviate from the current approach used by the QCA. (b) In the two year period from November 2010 to November 2012, there has been an increase of just over 100 per cent in the number of customers participating in the Ergon Energy hardship program. During this period, debt pertaining to customers in hardship has increased by 160 per cent. This debt currently represents over 3.4 per cent of our total retail debt compared to approximately 1.4 per cent in November 2010. As this debt is being carried for substantially longer periods, the carrying costs of this debt have substantially increased in the last two years. Resourcing to manage this increased volume of customers in hardship has also increased almost three-fold.
The Authority seeks stakeholders' views on the following: (a) Is the Authority's 2012-13 approach to allocating ROC to retail tariffs cost reflective? (b) If not, what would be a more cost-reflective approach, and why?	(a) Nil comment. (b) Nil comment.
The Authority seeks stakeholders' views on the following: (a) Is there any evidence to suggest that the current retail margin of 5.4% should change? (b) If yes, what level should the margin be set at and why? (c) What information should the Authority rely upon in determining an appropriate margin?	(a) Nil comment. (b) Nil comment. (c) Nil comment.
The Authority seeks stakeholders' views on the following: (a) Do you agree with the Authority's 2012-13 approach to applying the retail margin to retail tariffs? (b) If not, what would be a more appropriate approach and how would it be applied in practice?	(a) Nil comment. (b) Nil comment.
Competition and Other Issues	
The Authority seeks stakeholders' views on the following:	Ergon Energy notes that the provision of headroom (either hard or soft) in the Notified Prices

(a) What matters should the Authority take into account to assess the effectiveness of competition in SEQ? What information could assist the Authority in this task? (b) What impact has the level of headroom had on competition in SEQ? (c) Are there other factors impacting on competition in SEQ? How could these be addressed? (d) What else should the Authority take into account in determining the appropriate level of headroom?	will provide the opportunity for retailers to offer a market price to customers below the Notified Price. However, Ergon Energy also recognises that many customers in regional Queensland have limited opportunities to access market offers as the costs of supply are usually higher than the Notified Price. When considering this issue, the QCA needs to balance the effect that the price determination has on competition in south east Queensland with the price impacts on regional Queensland customers.
The Authority seeks stakeholders' views on whether the Authority should include a catch-up mechanism if it is able to do so and what events this should be applied to?	Ergon Energy supports the principle of including a catch-up mechanism where the price determination has materially changed from the actual costs of supply during the year. The QCA would need to develop a materiality threshold that would trigger the application of the catch-up mechanism. A material change in the costs of complying with Government environmental schemes (e.g. a final binding STP target significantly higher or lower than allowed for in the Notified Prices) or a material variance in NEM and Ancillary Service Fees, are potential triggers of the catch-up mechanism.
The Authority seeks stakeholders' views on the following: (a) Should new customers be allowed to access obsolete tariffs during the transitional period? (b) Should some customers who were already being supplied prior to 1 July 2012 on what were to become obsolete tariffs be granted access to the corresponding obsolete tariffs. If so, which customers, which tariffs and why? (c) Are stakeholders aware of any other issues with the current notified price terms and conditions?	(a) New customers are currently prevented from accessing the obsolete tariffs during the transition period. This affects new connections and customers that move into an existing premise. As a result, some customers are facing significantly higher electricity costs than other 'like' customers and are therefore not afforded the same benefit of a transition path as existing customers. Further, as noted in the Consultation Paper,[5] some customers changed tariffs prior to 1 July 2012 unaware that their previous tariff would be made obsolete and they would be unable to return to this tariff. Consequently, these customers have forfeited the opportunity to access a transition path to cost-reflectivity. To promote equitable outcomes for customers, Ergon Energy supports all customers having access to the tariffs made obsolescent during the 2012–13 Notified Prices determination process (i.e. Tariffs 62, 65, 66, 20(Large), 22(Large), 41(Large) 43 and 53). In line with our response to the QCA on transitional issues, these obsolescent tariffs could be re-branded as 'transitional' or 'transitioning' tariffs.[6] This re-branding should make it clearer to customers that these tariffs are subject to a transition path and that

[5] Ibid 3, pp29-30.
[6] Ergon Energy (2013), *Submission on the Regulated Retail Electricity Prices 2013–14: Transitional Issues Consultation Paper*, 7 January 2013, p7.

	access will cease at a future date. This will also allow the original obsolescent tariffs (i.e. Tariffs 21, 37, 63 and 64) to remain as “obsolescent” with access to these tariffs restricted to existing customers. Ergon Energy considers that as these tariffs have been obsolescent for many years continued restriction of eligibility will not create significant inequitable outcomes for customers. For further detail on Ergon Energy’s views regarding transitional arrangements, please refer to our separate submission to the QCA’s Consultation Paper on Transitional Issues. (b) Please refer to our comments above. (c) Ergon Energy disagrees with the QCA’s view that changing the term “Service Fee” in the gazetted Tariff Schedule would likely cause greater customer confusion. Our customer support areas frequently deal with customers who misunderstand the term as meaning assistance or advice given to customers during and after the sale of electricity. For example, some customers believe the Service Fee only relates to the cost of reading a meter while others with low consumption believe they should not be charged a Service Fee. Ergon Energy suggests that the QCA reconsider this issue.