

28 February 2014

QLD COMPETITION AUTHORITY

03 MAR 2014

DATE RECEIVED

Dr Malcolm Roberts  
Chairman  
Queensland Competition Authority  
GPO Box 2257  
Brisbane QLD 4001



Dear Mr Roberts

**QCA's Draft Determination Regulated Retail Electricity Prices 2014-15**

Energex welcomes the opportunity to provide comment on the Queensland Competition Authority's (the Authority) *Draft Determination Regulated Retail Electricity Prices 2014-15*.

Energex generally supports the positions outlined by the Authority.

Customers can benefit from switching to time-of-use tariffs but the realisation is dependent on greater education to enable customers to make informed decisions, improved metering technology and retailer support of these options.

Energex is continually aiming to provide customers with both the necessary metering technology and network pricing signals to optimise their energy demand and, consumption behaviour.

In the absence of enabling technology and the option for dynamic tariff structures at the retail level, the capability of the Authority to enhance the underlying network price signals for the majority of residential customers will remain constrained.

For this reason, Energex encourages the Authority to consider options that allow small customers that already have enabling technology the opportunity to access tariffs that provide time of use signals and benefits.

A submission responding to specific matters raised by the Authority is provided as an attachment to this letter.

Should you have any questions in relation to this matter, please refer them to Raquel Flynn, Network Pricing Manager on (07) 3664 5539.

Yours sincerely

Kevin Kehl  
Executive General Manager  
Finance, Regulation & Strategy

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# Regulated Retail Electricity Prices 2014-15

## Response to Queensland Competition Authority

### - Draft Determination

**28 February 2014**



**energex**

positive energy

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# 1 Executive Summary

Energex Limited (Energex) is committed to delivering safe, reliable and affordable electricity to our customers in South East Queensland in a commercial environment that recognises the need to balance customer prices, service and performance.

Energex generally supports the proposals outlined in the Queensland Competition Authority's (the Authority) Draft Determination.

The Delegation from the Minister for Energy and Water Supply requires the Authority to adopt a cost-reflective N+R pricing model under which network costs (N) are to be passed through to customers.

As part of the derivation of the network costs, the Authority has acknowledged that any further refinement of, or addition to, Energex's tariffs is a matter for Energex to determine within the requirements of the National Electricity Rules.

Energex has previously highlighted that it intends to continually strengthen the network time-of-use signals in its tariffs and will progress this reform within its customer engagement framework.

The Delegation also requires the Authority to consider whether its approach to estimating energy costs could strengthen or enhance the underlying network price signals and provide greater incentives for customers to switch to time-of-use tariffs and reduce their contribution to peak demand.

By better reflecting the actual costs of supplying and transporting energy, informed customers can more accurately value, and thereby efficiently respond to, ways to help minimise these costs over time. This in turn will ensure energy expenditure at all levels of the supply chain is as efficient as possible for all consumers in the long run.

Customers can benefit from switching to time-of-use tariffs but the realisation is dependent on greater education to enable customers to make informed decisions, improved metering technology and retailer support of these options.

Despite these constraints, the Authority could consider providing customers who already possess enabling technology to utilise this technology to make informed choices about their consumption.

In the absence of enabling technology and the option for dynamic tariff options at the retail level, the capability of the Authority to enhance the underlying network price signals for the majority of residential customers will remain constrained.

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## 2 Introduction

Energex welcomes the opportunity provided by the Queensland Competition Authority (the Authority) to submit comments in response to its Draft Determination on Regulated Retail Electricity Prices 2014-15 (Draft Determination).

Energex is committed to delivering safe, reliable and affordable electricity to our customers in South East Queensland in a commercial environment that recognises the need to balance customer prices, service and performance.

The Authority's review comes at a time when tariff reform is gaining increased attention as part of the national reform agenda for the national energy market.

For this reason, it is important that the Authority consider the impact of its decision in concert with outcomes of the national reform agenda.

Energex's submission focuses on informing the Authority of matters relating to network tariffs, the need for customers to be informed about how their behaviour can influence prices in both the short and long term and options for enhancing time-of-use signals.

While Energex has not re-stated a number of comments previously raised in response to the Authority's Interim Consultation paper, Energex maintains the position it has previously raised on these matters.

## 3 Response to Matters Raised

### 3.1 Network Costs

#### 3.1.1 Network Tariffs for Residential and Small Business Customers

The Delegation from the Minister for Energy and Water Supply (the Delegation) requires the Authority to adopt a cost-reflective N+R pricing model under which network costs (N) are to be passed through to customers.

The Authority has proposed continuing the use of Energex's network tariffs as the basis for its 2014-15 calculation of 'N'.

The Authority also acknowledged that any further refinement of, or addition to, these tariffs is a matter for Energex and the Australian Energy Regulator (AER) to determine within the requirements of the National Electricity Rules (NER).

Under the NER, Energex is required to submit an annual pricing proposal to the AER outlining proposed prices to take effect from the commencement of the next regulatory year.

Energex is required to submit its Pricing Proposal for 2014-15 by 30 April 2014.

Energex's tariff structure for 2014-15 will remain broadly consistent with previous years.

However, as previously highlighted, Energex is reviewing the balance between the fixed and variable components of residential tariffs to improve cost-reflectivity in the medium term.

Furthermore, Energex also intends to progress its on-going program of strengthening network time-of-use signals and intends to explore the option of progressively rolling out demand based tariffs for small business and residential customers in the future.

To the extent Energex's tariff structure does change markedly in the future, Energex will ensure that its customers, retailers and other key stakeholders will be consulted utilising Energex's documented customer engagement framework.

#### 3.1.2 Maintaining alignment of retail and network tariffs

Energex has previously highlighted a number of risks associated with the current misalignment between the approval of network tariffs by the AER and the approval of notified tariffs by the Authority.

Until the timeframe for approving network prices is amended, there does not appear to be an alternative for the Authority than to accept preliminary network prices and to make any necessary adjustments using the pass-through mechanism following the approval of network tariffs by the AER.



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## 3.2 Energy Costs

### 3.2.1 Enhancing Time-of-Use Signals

The Delegation requires the Authority to consider whether its approach to estimating energy costs could strengthen or enhance the underlying network price signals and provide greater incentives for customers to switch to time-of-use tariffs and reduce their energy consumption during peak times.

Network costs are largely driven by the extent of peak demand. This tends to occur for only a few hours every year, while wholesale costs can vary every 5 minutes and are settled every 30 minutes. The objective of stronger network price signals is to align the charge paid by consumers with the cost structure of electricity networks.

By better reflecting the actual costs of supplying and transporting energy, customers can more accurately value, and thereby efficiently respond to, ways to help minimise these costs over time. This in turn will ensure energy expenditure at all levels of the supply chain is as efficient as possible for all consumers in the long run.

This can be achieved through retail prices that vary by both time and location to recover network costs in a manner that signals the cost of future augmentation to meet peak demand in different parts of the network.

Customers can benefit from switching to time-of-use tariffs but the realisation is dependent on greater education to enable customers to make informed decisions, improved metering technology and retailer support of these options.

Energex's current reliance on kWh consumption-based charging for residential customers is a direct consequence of existing metering capability limitations. Most small and residential customers currently have single register kWh accumulation metering which precludes the measurement of interval meter data and thereby prevents time-of-use pricing.

Energex is proactively addressing this issue through the installation of meters that are capable of being programmed with three-rate time-of-use data displayed and can be read as an accumulation meter for all new connections.

However, Energex acknowledges that any decision regarding mandating the use of metering technology to facilitate more efficient network and retail pricing is outside of the scope of this Determination.

In terms of the ability of the Authority's 'R' component to provide incentives, Energex acknowledges that the network system load profile (NSLP) method is applied by the Australian Energy Market Operator (AEMO) to approximate how much electricity is used by all customers on accumulation meters for each half hour of the day for settlement purposes.

Despite these constraints, Energex considers that where a customer already possesses enabling technology it should be utilised to allow the customer the opportunity to access tariffs that provide time-of-use signals. Approximately 450,000 small customers and all new

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customer connections in Energex's region have the technology for existing meters to be programmed to display time-of-use for TOU tariffs (e.g. type EM1000 and EM1200 meters).

These meters would not require a metrological change as they are still being read as an accumulation meter.

In the absence of enabling technology and the option for dynamic tariff structures at the retail level, the capability of the Authority to enhance the underlying network price signals for the majority of residential customers will remain extremely limited.

### **3.3 Transitional Arrangements for Obsolete Tariffs**

Energex has previously raised a number of matters in response to the Authority's Interim Consultation paper. Energex accepts that a number of these positions are matters of Government policy and are outside of the Authority's influence. Notwithstanding, Energex maintains the position it has previously raised on these matters.



## 4 Glossary

AER	Australian Energy Regulator
DNSP	Distribution Network Service Provider
IPART	Independent Pricing and Regulatory Tribunal
kVA	Kilovolt amperes
kWh	Kilowatt hours
'N'	Network charge/s
NEM	National Electricity Market
NUoS	Network Use of System
'R'	Retail charge/s
The Authority	The Queensland Competition Authority
ToU	Time-of-use
UTP	Uniform Tariff Policy



