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2 March 2015

Malcolm Roberts
Queensland Competition Authority
GPO Box 2257
BRISBANE QLD 4001

Dear Mr Roberts

REGULATED RETAIL ELECTRICITY PRICES FOR 2015-16 – DRAFT DETERMINATION

Ergon Energy Corporation Limited (Ergon Energy), in its capacity as a Distribution Network Service Provider in Queensland, welcomes the opportunity to provide a submission to the Queensland Competition Authority (QCA) on its *Regulated Retail Electricity Prices for 2015-16 – Draft Determination* (the Draft Determination).

Ergon Energy broadly supports the approach adopted by the QCA to determine the Notified Prices for 2015-16. Below are a few general comments in relation to the Draft Determination.

Uncertainty
Ergon Energy notes that the QCA will publish the Final Determination on Notified Prices on 29 May 2015, and that there are a number of contributing factors which will not be determined prior to this time. For example, it is noted that the QCA will be setting the 2015-16 Notified Prices based on our initial Pricing Proposal (as submitted in May 2015 and not the Australian Energy Regulator (AER) approved one). Therefore there is a risk that there could be differences between our (and Energex's) final approved network tariff rates and those the QCA are referencing to set the Notified Prices.

Metering charges
It appears that the QCA have made assumptions that the unbundled alternative control services (ACS) metering charges that customers in regional Queensland will pay, will be based on Energex's metering charges and will be subsidised by the Queensland Government. This assumption appears to also be reflected in the customer impact modelling. Ergon Energy notes that this assumption is for modelling purposes only and that this is a matter for the Queensland Government to decide, in light of the uniform tariff policy (UTP). Ergon Energy notes that the most economically efficient outcome is for

customers to see cost reflective prices. However, Ergon Energy notes that customer impacts must be considered in the transition to cost reflective prices.

Cost reflective prices

Ergon Energy supports and appreciates the QCA's approach to improve cost reflective signals, particularly with respect to Tariffs 12 and 22A. In our consultation paper on network tariffs[1], we have noted the importance of ensuring that:

- the long run marginal cost of supplying energy is reflective through a peak charge; and
- the residual costs are allocated to charges in a way that reflects customers' willingness to pay (but without affecting physical and economic bypass).

Ergon Energy suggests that Notified Prices which reflect these principles will result in better outcomes for prices in the long term. Ergon Energy is happy to discuss how we can better promote these principles with the QCA, noting the limitations posed by the UTP and other arrangements.

Metering change requirements

Ergon Energy notes the introduction of Tariff 22A from 1 July 2015 will include a transitional framework for customers to transfer off the existing Tariff 22 to the new instrument. The transition period suggested by the QCA is two years, but there is reasonable justification to progress in a shorter time period to support ongoing network tariff reform agendas.

Currently the draft Gazette implies that meter changes would occur at the customer's request, rather than as part of a meter change schedule led by Ergon Energy. Ergon Energy suggests that it is more cost efficient if there is a consolidated and managed program of meter replacement and reprogramming of metering at the identified sites from 1 July 2015, with a commitment to complete change out by 30 June 2016 if possible. This would mean that customers are transferred to the new tariff structure as soon as the new metering configuration / capability is implemented at each site. Ergon Energy notes this will require customer engagement, but is likely to avoid having a number of customers remaining on the old tariff at the end of the transitional period (which is likely under a customer-led transition).

Network tariffs

Ergon Energy is currently considering the introduction of four standardised tariffs for our Connection Asset Customers (CAC) as part of our Network Tariff Strategy. In addition, we are considering moving existing Standard Asset Customer (SAC) Large High Voltage customers onto our SAC Large Demand Large tariffs. This would mean that the SAC Large High Voltage tariff would no longer be available.

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[1] Ergon Energy (2014), *Consultation Paper: Future Networks Tariffs*, December 2014, https://www.ergon.com.au/network/network-management/network-pricing/network-tariff-strategy-consultation/2015-16-consultation-information.

These changes are likely to impact Tariffs 47 and 48. As such, the QCA may wish to reconsider the network tariffs underlying these tariffs. Additional regulated retail tariffs may also be required to take into account the standardised tariffs for CACs.

Further, in our consultation paper on network tariffs we indicated that we were considering the introduction of a seasonal Time of Use demand tariff for residential and small business customers from 2016-17. However, due to the outcomes of our preliminary modelling and the confidence this has given us about the best path forward for tariff reform to deliver price relief, we are now proposing to introduce the tariff on a voluntary basis in 2015-16. Customer access to this tariff would be subject to customers having the necessary metering and Ergon Energy having appropriate billing system changes in place. We request that the QCA consider reflecting these network tariff structures in retail tariffs in their Final Determination as they have done with our other Time of Use tariff structures.

Ergon Energy is happy to work closely with the QCA as our network tariff reforms progress to ensure they can be appropriately reflected in regulated retail tariffs.

Changing retail tariffs

Ergon Energy has concerns about the changing retail tariffs section in Part 4 of the draft Gazette. Currently a customer or retailer may apply to Ergon Energy for a change to the network tariff assigned to a National Metering Identifier (NMI) by sending a request to the Service Transaction Centre. Any change in a network tariff assigned to a NMI will take effect from the date as approved by Ergon Energy. Subject to a change in usage or the pattern of usage at the customer's installation, a further request to change the Network Tariff Code assigned to a NMI should not be made until a period of 12 months has elapsed from the previously approved request for the NMI.[2] This policy is consistent with the current Standard Co-ordination Agreement contained at Annexure C to the Electricity Industry Code (refer clauses 7.5 and 7.6) and clause 6B.A3.2 of the National Electricity Rules (NER), which will apply in Queensland from 1 July 2015.

Ergon Energy's believes that the conditions for regulated retail tariffs should be consistent with the conditions for the underlying network tariffs. Therefore, for condition (ii) at the top of p82 of the Draft Determination, Ergon Energy suggests the following statement may be more appropriate:

> *'(ii) the change is due to a change in usage or the pattern of usage at the customer's installation and the customer meets certain costs associated with changing to another tariff'.*

Secondly, Ergon Energy does not support the option to allow residential customers to switch between Tariff 11 and 12 as they like. As noted by the QCA, this could result in customers 'gaming' the system and is counter to the signals Ergon Energy is trying to send to customers through our network tariffs (for example, to reduce energy consumption during peak times, and efficient use of the network).

[2] 2014-15 Network Tariff Guide for Standard Control Services, p12-13

Ergon Energy understands this clause was originally included in 2012 due the Minister's Terms of Reference (ToR). There does not appear to be a similar reference in the 2015-16 ToR. Further, it is inconsistent with the Standard Co-ordination Agreement and National Energy Customer Framework (NECF) provisions and the underlying network tariff conditions. For example, now that our time of use (TOU) time signals are being used for Tariff 12 (and 22A), Ergon Energy expects the underlying Network Tariff Code for Tariff 12 will now be the relevant TOU network tariff instead of the relevant Inclining Block Tariff. Therefore, moving from Tariff 11 to Tariff 12 (and vice versa) would require a change in the Network Tariff Code and this can only be done once in a 12 month period (except for a change in usage or pattern of usage).

Drafting corrections

In addition to the issues mentioned above, Ergon Energy has identified a number of small corrections for the Final Determination and Gazette.

- Footnote 'd' under Table 18 in the Draft Determination should read 'Off Peak – Non summer months'. This is consistent with the Tariff 50 wording in the draft Gazette and our Network Tariff Strategy consultation paper.
- Tariff 50 in the draft Gazette indicates that 'this tariff can be accessed by business customers classified as SAC Small >100MWh per annum…'. This should be SAC Large.
- The draft Gazette refers to the Standard Retail Contract and Standard Large Customer Retail Contract. These terms should be amended to reflect the NECF terminology, i.e. there is no Standard Large Customer Retail Contract.
- Page 73 of the Draft Determination refers to the 'customer's consent (as defined in the Electricity Industry Code (EIC))'. The Draft Electricity Distribution Network Code, which is expected to replace the EIC, removes references to 'customer's consent'. Rather, explicit informed consent is defined under the National Energy Retail Law. Ergon Energy believes the drafting should be consistent with the instrument that applies from 1 July 2015.

Should you require additional information or wish to discuss any aspect of this submission, please do not hesitate to contact either myself on (07) 3851 6416 or Trudy Fraser on (07) 3851 6787.

Yours sincerely

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