Submission to QCA
Further Consultation Paper
Regulated Retail Electricity Prices 2015-16

May 2015

BACKGROUND

Ergon Energy Queensland Pty Ltd (EEQ) welcomes the opportunity to provide comment on the Queensland Competition Authority's (QCA) Further Consultation Paper on Regulated Retail Electricity Prices for 2015-16.

EEQ is a proud Queensland company that provides electricity to more than 700,000 homes and businesses and helps regional Queenslanders manage their energy consumption. With our roots firmly entrenched in regional Queensland, we have a team of people servicing regional Queensland customers from our contact centres and offices located in Townsville, Rockhampton, Maryborough and Brisbane. We also firmly believe in supporting our local communities by providing regional jobs and engaging in community partnerships such as the Royal Flying Doctor Service.

EEQ acknowledges the increasing pressure electricity prices are placing on our customers' household budgets and businesses and support activity to create a cost-competitive market.

We acknowledge the Government's decision to postpone the full deregulation of electricity prices in south east Queensland requires the QCA to revise its approach to setting prices for some tariffs and its definition of the UTP.

We are supportive of a competitive electricity market in Queensland and look forward to the outcomes of the Queensland Government's Public Enquiry into electricity prices.

EEQ supports tariff options that enable customers to respond to price signals, empowering them to take control of their energy costs either by load shifting or reducing total consumption.

EEQ has provided direct responses to the Key Issues raised in the Further Consultation Paper. For those issues that remain unchanged from the Draft Determination we refer stakeholders to the QCA website for our submission.

We welcome the opportunity to discuss any aspects of this submission or to provide further information directly to the QCA.

Section 2 – Key Issues

2.1 Overall framework and headroom

In accordance with the Uniform Tariff Policy, the QCA propose to continue basing notified prices for residential and small business customers throughout Queensland on the costs of supply in south east Queensland. However, as the Uniform Tariff Policy is no longer defined by reference to standing offer prices in south east Queensland, the basis on which the QCA proposed to include an allowance for headroom in the Draft Determination no longer applies. Consistent with previous decisions, the QCA consider that it is appropriate to continue to include an allowance for headroom, so that the level of notified prices is not a constraint on competition in south east Queensland. In accordance with the requirement in the *Electricity Act 1994* (the Electricity Act) to consider the effect of their determination on competition, the QCA will consider whether the 5 per cent level proposed in the Draft Determination (and included in previous decisions) is appropriate, by assessing the state of competition in south east Queensland.

Consistent with previous decisions, the QCA propose to assess competition against the following indicators:

- The switching rate;
- The number of active retailers and degree of market concentration;
- Available market offers; and
- The degree of customer participation and engagement in the market.

The QCA will also consider the findings of the Australian Energy Market Commission's 2014 report into the state of competition in retail energy markets across the National Electricity Market, which, for the first time, involved an extensive assessment of the south east Queensland retail electricity market.

The QCA are not proposing to change the QCA approach to set notified prices for large business customers. The decision to continue to regulate prices for customers in south east Queensland only applies to residential and small business customers. The terms of reference applicable to large business customers is also unchanged.

Response

EEQ supports the QCA's approach to reviewing the level of headroom to reflect the desire to support a competitive market in regional and SEQ.

EEQ acknowledges that the QCA's Delegation in relation to large customers in regional Queensland has not changed. EEQ reiterates the position from our previous submissions around the framework and headroom for large customers. We support maintaining the 2014-15 approach in line with the Queensland Government's Uniform Tariff Policy (UTP) of using East Transmission Zone 1 Network costs for large business customers.

EEQ acknowledges that in making its determination, the QCA is required under the Queensland Electricity Act 1994 to consider competition and National Competition Policy requirements. We support the retention of the headroom allowance as it remains a key component of retail tariff pricing and ensures that we do not deviate from the transition path which would allow an effective competitive market to develop further in regional Queensland.

2.2 Network costs – residential and small business customers

The QCA is considering the following approaches for the Final Determination:

- For the flat rate and controlled load tariffs, using Energex network tariffs and prices (consistent with the draft determination and previous determinations).
- For existing time-of-use retail tariffs, establishing separate retail tariffs for customers in south-east Queensland and regional Queensland, as follows:
  - For south-east Queensland customers, using Energex network tariffs and prices (consistent with previous determinations); and.
  - For regional customers, using Ergon Distribution network tariff structures, but reducing network prices to Energex levels (consistent with the draft determination).
- Whether to introduce two new (optional) retail tariffs for regional customers, based on Ergon Distribution's proposed STOUD tariffs.
- Removing tariff 13 from the tariff schedule, so that it is no longer available to residential customers. This is consistent with the QCA's draft determination and Energex's decision to remove the network tariff underlying tariff 13.

<u>Response</u>

EEQ supports the QCA's approach for determining time-of-use tariffs for regional Queensland and south east Queensland (SEQ). Under the N+R approach, network tariff terms and conditions should be replicated into the retail tariff terms and conditions.

Conditions for network tariff switching should therefore be replicated at the retail tariff level in the tariff gazette to ensure that the network switching terms and conditions are not altered by the retail tariff terms and conditions.

EEQ supports the QCA's approach of allowing a two year transition period to transfer customers to tariff 22A. This will provide sufficient time for a targeted roll-out of meters. EEQ considers it is critical to allow flexibility to plan the replacement/reprogramming of meters by Ergon Network so that costs can be minimised.

EEQ supports the QCA investigating two new (optional) retail tariffs for regional customers, based on Ergon Distribution's proposed STOUD network tariffs. EEQ recognises the benefits to customers in providing alternate tariffs where this will deliver an incentive for more efficient behaviour and an opportunity to reduce electricity costs.

The optional STOUD retail tariff will provide customers with more alternatives for managing their usage to reduce their electricity costs. The structure and implementation of the tariff should be designed to provide incentives to customers to better manage their usage to reflect the true cost of electricity supply.

Specifically EEQ and Ergon Distribution recommend the STOUD tariff is only made available once the necessary systems (including billing systems) are in place and where a customer has the necessary metering infrastructure.

2.2 Network costs – Large business and street lighting customers

The QCA propose to maintain the approach to network tariffs for large business and street lighting customers in the Draft Determination.

The QCA do not expect that Ergon Distribution will make changes to the network tariffs that underpin retail tariffs for large business* and street lighting customers.

**While Ergon Distribution had signalled in its submission that it may remove the high voltage network tariff underpinning tariffs 47 and 48, the QCA understand that this change will not be made in 2015-16.*

Response

EEQ supports maintaining the 2014-15 approach in line with the Queensland Government's UTP of using East Transmission Zone 1 Network costs for large business customers.

2.3 Energy costs

Consistent with the draft determination, the QCA propose to continue to use a market-based approach to estimate wholesale energy costs. Their consultant, ACIL Allen, is considering submissions on technical aspects of the application of the approach.

In the draft determination, the QCA included an allowance for prudential capital costs in the energy cost allowance. In its submission to the draft determination, QCOSS argued that a separate allowance for prudential capital costs was not justified because they are already accounted for in the retail operating cost (ROC) allowance. Since 2012-13, the QCA have used a benchmarking approach to set ROC, which has largely relied on the ROC allowance determined by the Independent Pricing and Regulatory Tribunal (IPART) in NSW. While it was previously unclear whether an allowance for prudential capital costs was included in IPART's ROC allowance, IPART's 2013 decision indicated that an allowance was included in ROC. IPART confirmed that this is correct. Based on draft determination data, prudential capital costs contribute about 0.094c/kWh or $4 to the annual bill of a typical tariff 11 customer.

In light of this information the QCA are considering whether a separate allowance for prudential capital costs in the energy cost allowance remains appropriate.

Response

EEQ supports the QCA's approach to determining wholesale energy costs. In particular, EEQ supports a continuation of the hedging based approach applied in a consistent methodology.

EEQ acknowledges the QCA's consideration of the appropriate treatment of the prudential capital cost allowance given IPART's (as the benchmark) approach to include this allowance in its ROC. In calculating the allowance EEQ suggests that the QCA consider the differences in the underlying drivers of prudential capital costs between the Queensland and NSW markets. In particular ensuring that, the relative volatility of the Queensland wholesale market price in comparison to NSW (an input to the AEMO's prudential requirements) and the prudential credit support requirements of Distribution Network Service Providers are appropriately accounted for.

2.4 Retail costs

Consistent with the Draft Determination, the QCA propose to continue to use a benchmarking approach to estimate ROC and the retail margin.

Response

EEQ would like to highlight the complexities which are arising through the changes to metering changes under the national regulatory framework.

We anticipate that the separation of meter charges to be recovered through a capital and non-capital ACS charge will drive a large increase in calls from customers over the initial billing cycles and augmentation of systems and processes.

These expenses will vary between customers due to the different treatment of existing meters and new meters.

2.5 Cost pass-through arrangements

In the draft determination, the QCA advised that they would consider passing through differences in Small-scale Renewable Energy Scheme costs (SRES costs), where the amounts provided in the 2014-15 Determination are found to be materially understated or overstated as a result of differences between the non-binding and binding small-scale technology percentage (STP) for 2015. The QCA propose to maintain this approach.

In the 2014-15 Determination, the QCA applied the 2015 non-binding STP of 10.10%, which is lower than the final 2015 STP of 11.71%. This means that retailers are likely to under-recover SRES costs relative to the allowance the QCA included. The QCA will assess the materiality of the under-recovery when deciding whether to make a pass-through adjustment in the final determination.

Preliminary calculations indicate that passing through the under-recovered SRES costs would add about 0.04c/kWh or $1.75 to the annual bill of a typical tariff 11 customer.

Response

EEQ supports maintaining the current arrangement for pass through of SRES. The difference between the binding and non-binding SRES percentage has increased the costs of fulfilling SRES obligations beyond the allowance provided in the 2014-15 determination.

2.6 Transitional arrangements

In the draft determination, the QCA proposed the following:

1. To complete the re-balancing of the fixed and variable components of tariff 11 using the approach established in the 2013-14 determination; and
2. To maintain the transitional arrangements for tariffs classed as transitional or obsolete; escalate the charges in each tariff by 5%; retain tariffs for a further 5 years (except for tariffs 41 (large) and 43 (large), which will be removed as foreshadowed in the 2014-15 determination); and continue to allow all business customers access to transitional tariffs.

The QCA propose to maintain this approach to transitional arrangements. However, as foreshadowed in the draft determination, if the anticipated price increases for the standard business tariffs do not eventuate, they will re-consider the 5% escalation factor applied to transitional and obsolete tariffs.

Response

EEQ supports the approach described by the QCA above with respect to the re-balancing of tariff 11 and also the application of transitional arrangements in a way that considers customer impacts and continues to support the objective of the escalation mechanism for transitional tariffs.