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20 January 2016

Mr John Hindmarsh
Chief Executive Officer
Queensland Competition Authority
GPO Box 2257
Brisbane Queensland 4001

Dear Mr Pierce

Interim Consultation Paper – Regulated retail electricity prices for 2016-17

Ergon Energy Corporation Limited (Ergon Energy), in its capacity as a Distribution Network Service Provider (DNSP) in Queensland, welcomes the opportunity to provide comment to the Queensland Competition Authority (QCA) on its *Interim Consultation Paper – Regulated retail electricity prices for 2016-17.*

Please find attached Ergon Energy's submission. 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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Group Manager Regulatory Affairs

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Enc: Ergon Energy's submission

Submission on the *Regulated Retail Electricity Prices for 2016-17 – Interim Consultation Paper*

20 January 2016

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Queensland Competition Authority

20 January 2016

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

Ergon Energy Corporation Limited

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Introduction

Ergon Energy Corporation Limited (Ergon Energy), in its capacity as a Distribution Network Service Provider (DNSP) in Queensland, welcomes the opportunity to provide comment to the Queensland Competition Authority (QCA) on its *Regulated Retail Electricity Prices for 2016-17 – Interim Consultation Paper* (Consultation Paper).

Ergon Energy is supportive of the overall approach the QCA is taking to developing regulated retail tariffs for 2016-17, and in particular, Ergon Energy supports a move towards more cost reflective tariffs using Ergon Energy Distribution network tariff structures for all residential and small business customers.

In response to the QCA's invitation to provide comments on the Consultation Paper, Ergon Energy has focused on the questions presented in the Consultation Paper. However, Ergon Energy has also provided a number of specific comments below. Ergon Energy is available to discuss this submission or provide further detail regarding the issues raised, should the QCA require.

Specific comments

Description of our network tariff structures

On page 7 of the Consultation Paper, the QCA indicates that Ergon Energy's "*residential time-of-use tariff structures comprise the same components as Energex (i.e. fixed charge, variable peak, shoulder and off-peak charges)…*" and our small business time-of-use tariffs include peak, shoulder and off-peak variable charges. This is not correct.

From 2016-17, our Seasonal Time-of-Use Energy (STOUE) tariffs for both residential and small to medium business customers will not have a shoulder charge. We proposed to consolidate the shoulder and peak energy charges (including time periods) into one peak energy charge. This simplifies the tariff for retailers and customers and is a natural progression from our 2015-16 STOUE tariffs, where the shoulder and peak rates were the same.

Further, in Table 2 (page 7) of the Consultation Paper, the QCA indicates that the off-peak charge for our Seasonal Time-of-Use Demand (STOUD) tariffs applies at all times in non-summer months. This is also not correct.

From 2016-17, the monthly demand charges, <u>for both summer and non-summer months</u>, are based on the average demand a customer places on the network in the daily demand window.

For business customers, the demand window is the half hours between 10am and 8pm on weekdays. For residential customers, the window is the half hours between 3pm and 9.30pm each day of the year.

We look at the highest four demand days in the month, determined by the average demand recorded in these daily windows. We apply the monthly demand rate to the average of these top four demand days.

In the non-summer months, a 3 kW floor also applies. This means the customer pays for 3 kW of demand or the average of their top four average daily days in the month, whichever is the greater.

This mechanism has allowed us to remove fixed charges (distribution) throughout the summer months.

Further information on our proposed network tariff structures for 2016-17 is provided in our Tariff Structure Statement (available at https://www.ergon.com.au/network/network-management/network-pricing/network-tariff-strategy-consultation/2016-20-consultation-information).

Unmetered tariffs

Ergon Energy would like to clarify that our fixed charge for unmetered supply tariffs is $/day/device (Table 3 of the Consultation Paper).

New demand controlled tariff

As highlighted by the QCA on page 9 of the Consultation Paper, Ergon Energy is proposing to introduce a new controlled load tariff from 1 July 2016. If approved, the 'Demand Controlled' tariff will be available in conjunction with the Residential STOUD and, like our other controlled load tariffs, will consist of a fixed charge ($/day) and an any time energy (volume) charge ($/kWh).

This tariff will apply where a customer has agreed for load to be actively controlled by Ergon Energy to partially reduce demand at times of system peak, without significantly affecting the customer's use of the appliance. New products such as PeakSmart air-conditioning are supported by this tariff.

Access to Tariffs 12 and 22

If the Queensland Productivity Commission supports de-regulation in south east Queensland, Ergon Energy believes that Tariff 12 should be removed from the schedule of regulated tariffs as this tariff is currently only available to customers in Energex's distribution area.

Furthermore, Ergon Energy suggests that careful consideration is required for the timing of removal of Tariff 22 (currently accessible to all small business customers across Queensland). Ergon Energy suggests the QCA take into consideration the number of customers in our distribution area accessing this tariff and the customer impact of moving to an alternative tariff. Ergon Energy understands that moving our customers off this tariff will require changing out approximately 7,000 meters, which is estimated to be a 6 month program. We also note that this tariff is currently expected to be phased out no later than 30 June 2017 and is not available to new customers. As such, Ergon Energy supports maintaining the current transition period and current eligibility requirements which restrict new customers from accessing this tariff.

Reference to 'flat' tariffs

Ergon Energy notes that the QCA refers to flat rate tariffs throughout the Consultation Paper (e.g. bottom of page 3). This should be volume-based tariffs. Our inclining block tariff (IBT), which is compared under Tariff 11, is not a flat rate.

Table of detailed comments

Question(s)	Ergon Energy Response
Legislative requirements and pricing approaches	
1. For residential and small business customers, should we maintain the 2015-16 approach, which is to keep notified prices at south east Queensland levels, but use Ergon Distribution's tariff structures for time-of-use and demand tariffs? Why?	Ergon Energy's ultimate preference is that the network component of all regulated retail tariffs (except transitional tariffs) be based on the cost to supply customers across regional Queensland. Our network tariffs have been specifically tailored to reflect our network conditions and cost drivers. As such, they should be reflected in retail prices. However, we recognise the limitations faced by the QCA in determining regulated retail prices – namely, the current Uniform Tariff Policy. Further, we are conscious of the impacts on residential and business customers from passing through real costs. Therefore, for residential and small business customers, we support the third option proposed by the QCA in its Consultation Paper. That is, all residential and small business tariffs should be based on our network tariff structures. We agree this would be a further step towards improving cost reflectivity, as IBTs better reflect costs when compared to flat energy based tariffs. However, notwithstanding this, we acknowledge there would be a need to implement appropriate transitional arrangements to enable this to occur in an efficient manner. In determining the price levels for the time-of-use and demand tariffs, the QCA needs to carefully consider the incentives for customers to move from the non-time-of-use tariffs to our newer tariff offerings. For example, we found that the Tariff 14 rates determined by the QCA in 2015-16 did not provide a sufficient differential between peak and off-peak demand. Ergon Energy would be keen to discuss this with the QCA further. Ergon Energy is happy to work closely with the QCA to ensure this relativity is maintained despite the use of Energex's network charges. In relation to load control tariffs, Ergon Energy believes that consideration should be given to the underlying network tariffs in determining which network tariff structure to use. In relation to the new demand controlled tariffs some aspects of these tariffs are currently unknown. Therefore in the absence of sufficient

		information it is suggested that as a temporary measure the retail tariff should be based on the underlying Energex structure and rates. However, any terms and conditions that Ergon Energy applies to its network demand controlled tariff should also apply to the retail tariff.
2	For large business customers, should we maintain the 2015-16 approach, which is to base notified prices on regional Queensland costs? Why?	Ergon Energy agrees that the 2015-16 approach of basing regulated retail tariffs for large businesses and public lighting customers on our network tariffs should be maintained. This is because basing these tariffs on Ergon Energy's network tariffs will send appropriate cost-reflective signals to customers about their use of the network, thereby promoting efficiency in capital expenditure and improved asset utilisation. However, we note that our Standard Asset Customer (SAC) Large Demand High Voltage tariff will continue to be phased out in 2016-17. This tariff will only be available in the East Zone and is not available to new customers. This tariff is currently used by the QCA to establish prices for Tariffs 47 and 48. In the context of this phasing out, the QCA may wish to consider amending the eligibility requirements for Tariff 47 (i.e. not available to new customers from 1 July 2016). Further, we recommend the QCA adopt one of our Connection Asset Customer (CAC) any time demand tariffs to establish prices for Tariff 48. Or alternatively develop retail prices for all four any time demand tariffs. Our any time demand tariffs include: • CAC 22/11 kV Line • CAC 22/11 kV Bus • CAC 33 kV • CAC 66 kV Further, Ergon Energy has three STOUD tariffs for CACs: • STOUD CAC 22/11 kV Line • STOUD CAC 22/11 kV Bus • STOUD CAC Higher Voltage (66/33kV). We believe that a corresponding regulated retail tariff should be available to non-market customers so that they can access the STOUD tariffs. Finally, we note that from 1 July 2016, our CAC tariffs will be subject to an excess reactive power (excess kVAr) charge. This charge reinforces the price signal introduced by the kVA tariff in 2015-16, which encourages customers to improve their power factor and reduce their usage of network capacity. Ergon

	Energy wrote to our major customers in December 2015 and advised them of their permissible excess kVAr and whether we expect the excess kVAr charge would apply to them in 2016-17 (assuming similar behaviour to 2014-15). If regulated retail tariffs based on CAC tariffs are introduced, we consider the excess kVAr charge should be included as a retail charging element. We are happy to work with the QCA on possible options for incorporating the above tariffs (including structures) into the Notified Prices.
Network costs	
1 Should we use Energex's tariff structures as the basis for retail tariffs for residential and small business customers?	Ergon Energy does not support the continued use of Energex's tariff structures as the basis for retail tariffs for residential and small business customers subject to the comments above.
2 Alternatively, should we use Ergon Distribution's tariff structures for some or all retail tariffs for residential and small business customers? If so, how should Ergon Distribution tariffs be adjusted to reflect the uniform tariff policy?	Ergon Energy supports the use of our network tariff structures for all retail tariffs for residential and small business customers subject to the comments above.
3 Should we use Ergon Distribution's tariff structures as the basis for retail tariffs for large business, and street lighting customers?	Ergon Energy supports the continued use of Ergon Energy's tariff structures as the basis for retail tariffs for large business and public lighting customers. Refer to response above.
4 Are there any other issues we should consider?	Ergon Energy suggests that monthly plan tariffs be considered as a more easily understood retail tariff (similar to a mobile phone plan), which could be structured over the top of the Ergon Energy 'N'. Please refer to Appendix A for further detail on these tariffs.
Energy costs	
1 Is there any new information available to suggest alternative approaches to those used in the 2015-16 determination might be more appropriate?	Nil comment.
2 What improvements could be made to the current approaches?	Nil comment.
3 Should prudential capital costs be removed from retail operating costs and accounted for as part of energy costs?	Nil comment.

4	Are there any other issues we should consider when estimating energy costs?	Nil comment.
Retail costs		
1	Is the QCA's current definition of a representative retailer appropriate?	Nil comment.
2	Are there any alternative definitions the QCA should consider?	Nil comment.
3	Are ACIL Allen's proposed methods appropriate for estimating efficient ROC allowances?	Nil comment.
4	Are there any alternative estimation methods the QCA and ACIL Allen should consider?	Nil comment.
5	What costs should be considered as part of the ROC allowance? What costs should be excluded and why?	Nil comment.
6	Are large and very large customers more costly to serve than small customers? If so, why?	Nil comment.
7	Should the QCA continue to apply a different ROC allowance for large and very large customers?	Nil comment.
8	Is ACIL Allen's approach to estimating large customer ROC allowances appropriate? Are there any other estimation methods that should be considered?	Nil comment.
9	Is the QCA's approach to applying ROC to retail tariffs appropriate? Are there any other approaches we should consider?	Nil comment.
10	Should the ROC allowance apply to fixed or variable component of retail tariffs or some combination of the two?	Nil comment.
11	How should the QCA update the efficient ROC allowance from year to year?	Nil comment.
12	How often should the QCA conduct a comprehensive review/re-estimation of the ROC allowance?	Nil comment.

13	Is ACIL Allen's proposed approach to estimating retail margins appropriate?	Nil comment.
14	Are there any other methods to consider for estimating retail margins?	Nil comment.
15	What risks should be compensated for through the margin, and what risks should not?	Nil comment.
16	Is the way we have previously applied the margin to retail tariffs still appropriate?	Nil comment.
17	Are there any other approaches the QCA should consider?	Nil comment.
Other issues		
1	Should headroom continue to be included in notified prices for residential and small business customers? Why?	Nil comment.
2	Should headroom continue to be included in notified prices for large business customers? If so, at what level? If not, why not?	Nil comment.
3	What other issues should we consider in relation to competition and headroom?	Nil comment.
4	Should we allow for any pass-through of SRES under- or over-recoveries incurred during 2015-16 into 2016-17 notified prices?	Nil comment.
5	Should tariff 41 be removed from the tariff schedule?	Nil comment.
6	Is there any new information that suggests the overall approach we propose to take for transitional and obsolete tariffs is no longer appropriate?	Nil comment.
7	What other issues should we consider (please provide supporting evidence where possible)?	Nil comment.

Appendix A – Development of the 'Monthly Plan' tariff options for SAC Small (Residential and Business) customers

The introduction of Long Run Marginal Cost-based tariffs means that residential and small to medium business customers see new and different tariff structures and components. While the majority of these components have been known and understood by larger businesses for some time, they are not intuitive to many small usage customers.

Our stakeholder engagement undertaken as part of our tariff reform initiatives has delivered a number of strong messages including:

- There is support for the new demand-based, seasonal time-of-use tariffs to be introduced as voluntary tariffs, as well as features like the monthly billing cycle;
- There are concerns about the complexity of the STOUD tariffs. It is vital tariffs meet the simplicity principle and can be understood so that customers can respond to the price signals appropriately. There is some desire to have alignment with Energex / other distributors;
- Some stakeholders recognise that there is no visibility of Ergon Energy's network tariff in the regulated retail tariff so the transition could occur at the retail level;
- The need for the introduction of these tariffs to be accompanied by customer information, advice and education to allow customers to effectively respond to the new choices that are being presented to them.

In responding to our customers' concerns we suggest the QCA consider developing a regulated retail tariff for residential customers that is underpinned by our cost reflective network tariff, but is offered to the customer as a set monthly rate which includes a certain amount of demand and volume. This would provide customers with an alternative to Tariff 14 but be based on the same network tariff. Consideration could also be given to using T11 as a safety net for a transition period to provide customers with some confidence in moving to new tariff structures.

Historically, customer retail prices have been set by taking relatively simple two or three part tariffs and adding the cost of energy purchases and other retailer costs. Combining tariff components in the retail price offer provides an opportunity for retailers to 'bundle' several different tariff components to simplify the retail offer and facilitate customer understanding and adoption of the new tariffs.

The proposed structures are prevalent in similar industries (such as telecommunications and gas) which are now well understood by customers. For Ergon Energy's customers they can assist in addressing issues such as retail tariff complexity, infrequent large and variable bills, and seasonal bill variation. They also provide a framework in which retailers or third party service providers can offer additional services to assist customers manage their usage within the allowances provided within the monthly plan.