

Draft determination

Regulated retail electricity prices for 2016–17

March 2016

We wish to acknowledge the contribution of the following staff to this report:

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SUBMISSIONS

Closing date for submissions: 20 April 2016

Public involvement is an important element of the decision-making processes of the Queensland Competition Authority (QCA). Therefore submissions are invited from interested parties concerning its assessment of the regulated retail electricity prices for 2016–17. The QCA will take account of all submissions received.

Submissions, comments or inquiries regarding this paper should be directed to:

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www.qca.org.au/submissions

Confidentiality

In the interests of transparency and to promote informed discussion, the QCA would prefer submissions to be made publicly available wherever this is reasonable. However, if a person making a submission does not want that submission to be public, that person should claim confidentiality in respect of the document (or any part of the document). Claims for confidentiality should be clearly noted on the front page of the submission and the relevant sections of the submission should be marked as confidential, so that the remainder of the document can be made publicly available. It would also be appreciated if two copies of each version of these submissions (i.e. the complete version and another excising confidential information) could be provided. Where it is unclear why a submission has been marked 'confidential', the status of the submission will be discussed with the person making the submission.

While the QCA will endeavour to identify and protect material claimed as confidential as well as exempt information and information disclosure of which would be contrary to the public interest (within the meaning of the *Right to Information Act 2009* (Qld) (RTI)), it cannot guarantee that submissions will not be made publicly available.

Public access to submissions

Subject to any confidentiality constraints, submissions will be available for public inspection at the Brisbane office, or on the website at www.qca.org.au. If you experience any difficulty gaining access to documents please contact us on (07) 3222 0555.

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EXECUTIVE SUMMARY

The Queensland Competition Authority (QCA) has made a draft determination of regulated retail electricity prices (notified prices) to apply in regional Queensland from 1 July 2016 to 30 June 2017. In general, notified prices are paid by customers who have not entered into a negotiated or market contract with their retailer. Notified prices are available to residential, small business and large business customers in regional Queensland. As retail electricity prices in south east Queensland are to be deregulated from 1 July 2016, notified prices will not be available to customers in this region.

We began our review in November 2015 under a delegation from the Minister for Energy and Water Supply. Our proposed approach to setting notified prices for 2016–17 is largely consistent with previous years.

In accordance with the Queensland Government's Uniform Tariff Policy (UTP), we have continued to base notified prices for residential and small business customers on the costs of supplying electricity in south east Queensland. We have also continued to base notified prices for large business customers on the lowest cost of supply in regional Queensland.

We have also undertaken a detailed review of retail costs (such as customer administration, call centres, billing and IT systems, and a retail margin) so that our estimates of these costs are based on the latest information, including observations from competitive retail electricity markets in Australia.

Our draft determination is based on the most up-to-date information available at the time of publication. It is highly likely that there will be changes in the expected costs of supply between this determination and our final determination, which is to be released by 31 May 2016.

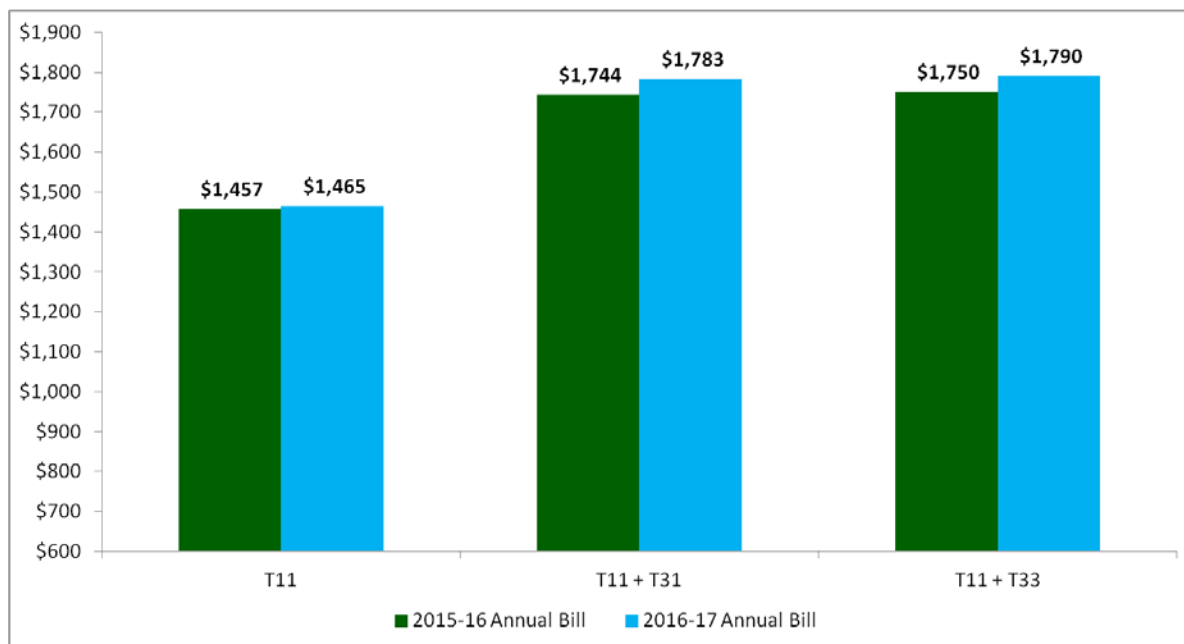
Impacts on residential customers¹

The main retail tariff for residential customers is tariff 11. Many customers on tariff 11 are also on one of the 'off-peak' or 'controlled load' tariffs (tariffs 31 and 33) for uses such as water heating and pool pumps.

In 2016–17, the annual bill for a typical customer on tariff 11 is expected to increase by 0.6 per cent from \$1,457 to \$1,465. For a typical customer on a combination of tariffs 11 and 31 or tariffs 11 and 33, the expected increase will be slightly higher at 2.3 per cent. However, the impact on individual customers will vary depending on their consumption. Customers with lower consumption than the typical customer are facing decreases or smaller increases while higher consumption customers face larger increases.

The increase in typical tariff 11 customer bills is primarily due to higher energy costs. Our consultant, ACIL Allen, advised that the rise in energy costs is driven largely by increasing demand from liquefied natural gas plants, and higher Renewable Energy Target costs. Some of the impact of higher energy costs has been offset by a decrease in network costs. For lower consumption customers, the outcome of the review of retail costs has also helped to offset the impacts of higher energy costs as it has reduced the level of fixed retail costs.

¹ The bill impacts presented are based on typical levels of consumption using data from Ergon Retail.

Figure 1 Annual bills for typical residential customers (GST inclusive)**Table 1 Tariff 11 charges (GST exclusive)**

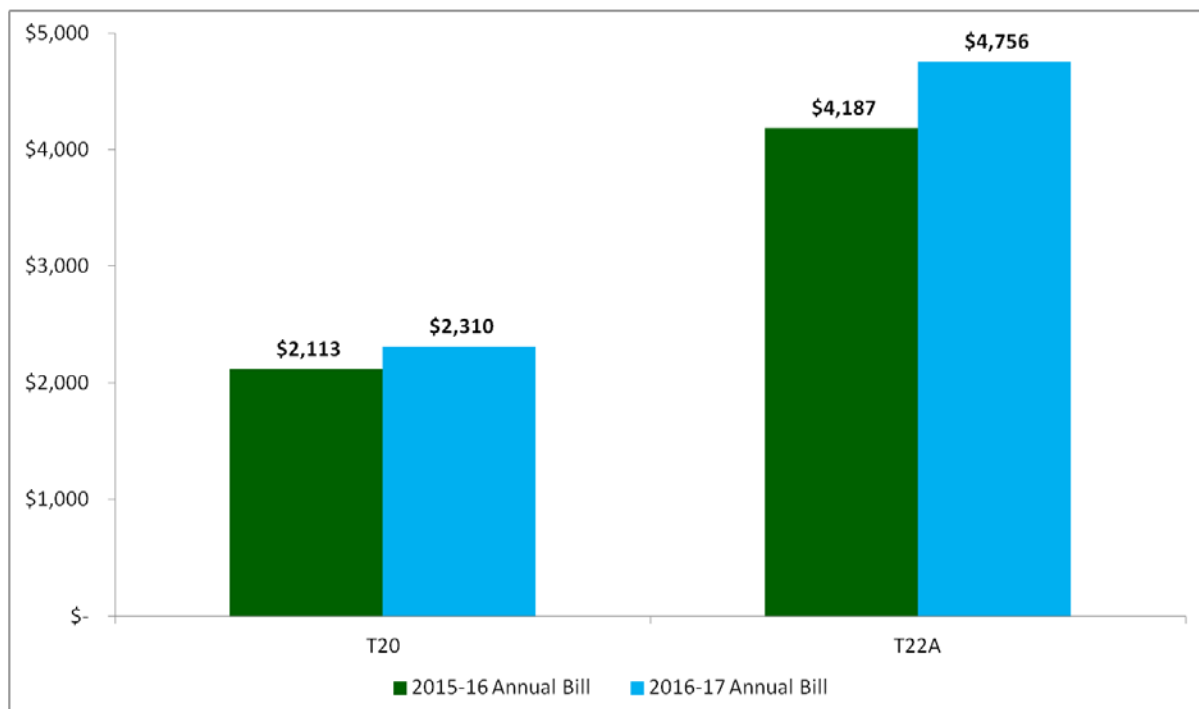
	<i>2015–16 Final Determination</i>	<i>2016–17 Draft Determination</i>	<i>Change (%)</i>
Fixed charge (cents/day)	106.73	89.55	-19.2%
Variable charge (cents/kWh)	22.24	23.91	7.0%

Impacts on small business customers²

In 2016–17, typical customers on the main small business tariff (tariff 20) can expect an increase of \$197 or 9.3 per cent in their annual bill. Typical small business customers on the seasonal time-of-use tariff (tariff 22A) can expect an increase of \$569 or 13.6 per cent. These increases have been driven primarily by higher energy costs and retail costs. Bill impacts will vary depending on each individual customer's level and pattern of consumption.

² The bill impacts presented are based on typical levels and patterns of consumption using data from Ergon Retail.

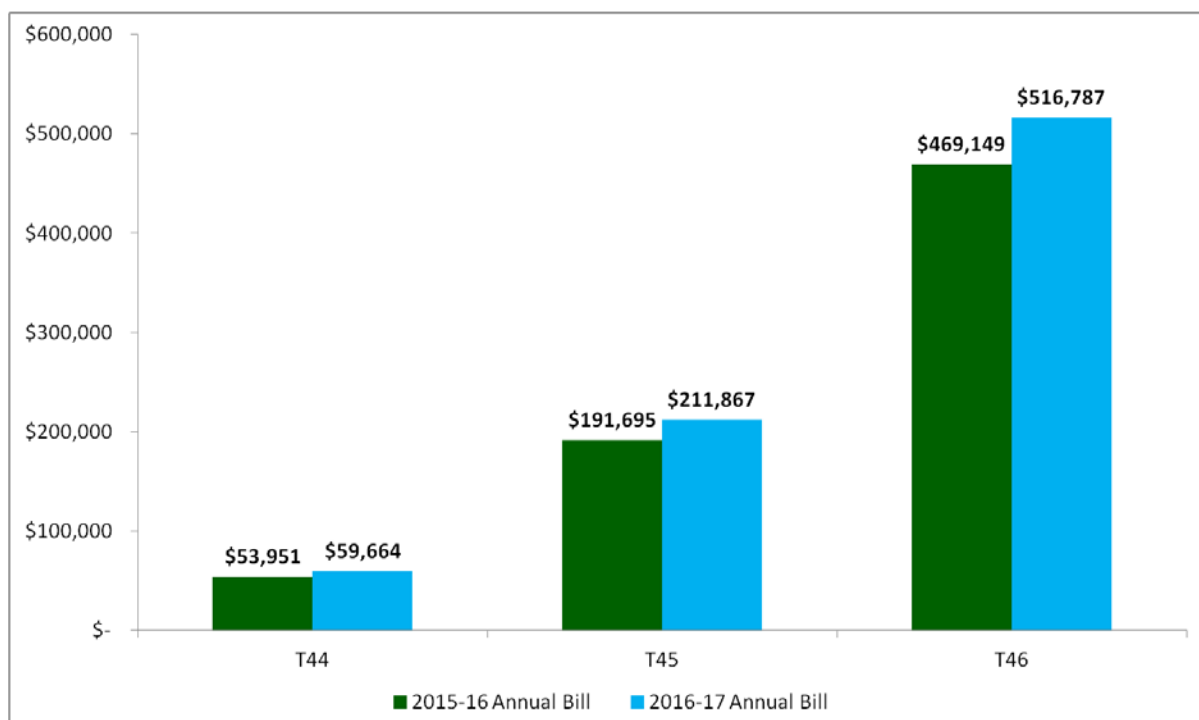
Figure 2 Annual bills for typical small business customers (GST inclusive)



Impacts on large business customers³

In 2016–17, typical large business customers can expect increases in their annual bills of between 10.2 per cent and 10.6 per cent. The increases have been driven primarily by higher energy costs and network costs. Bill impacts will vary depending on each individual customer's level and pattern of consumption.

Figure 3 Annual bills for typical large business customers (GST inclusive)



³ Based on typical levels and patterns of consumption using data from Ergon Retail.

Arrangements for customers on obsolete and transitional tariffs

Some business customers are supplied under transitional or obsolete tariffs, which include farming and irrigation tariffs. These tariffs have been made available for several years to allow customers to transition to standard business tariffs and recoup some of the investments made to suit the level and structure of transitional or obsolete tariffs. Based on information from Ergon Retail, many customers on these tariffs may face lower electricity bills if they moved to a standard business tariff but some customers would face much higher bills.

We propose to maintain transitional arrangements for 2016–17. Our general approach in past determinations has been to increase the charges in each transitional and obsolete tariff in line with the percentage increases in the standard business tariffs customers would otherwise pay. We have then generally applied an additional escalation factor to limit charges for transitional and obsolete tariffs falling further below cost in dollar terms.

Standard business tariffs are expected to increase in 2016–17 so transitional and obsolete tariffs will also need to increase. Under our general approach in previous determinations, the escalation factors for most of these tariffs in 2016–17 would be 1.25 or 1.5.

However, given the substantial price increases that customers on transitional and obsolete tariffs have experienced in recent years and that customers on these tariffs are more than halfway through the transition to standard business tariffs, we have decided to apply the minimum escalation factor of 1.1. This means customers on these tariffs will face increases of between 10.3 per cent and 11.5 per cent in 2016–17 rather than between 11.7 per cent and 15.6 per cent if the higher escalation factors were applied.

New customers will also continue to be allowed to access transitional tariffs.

Next steps

This is a draft determination only and we intend to consult extensively prior to finalising our determination in May 2016.

We will be holding public workshops on the draft determination in Toowoomba, Bundaberg, Townsville, Cairns and Brisbane between 1 April and 7 April 2016. Stakeholders are encouraged to attend these workshops and to make submissions on the draft determination. We will consider all issues raised in submissions received by the closing date in making our final determination for 2016–17.

More information on the workshops and how to make a submission is available on our website, www.qca.org.au.

Submissions close on 20 April 2016 and our final determination will be published by 31 May 2016.

THE ROLE OF THE QCA—TASK, TIMING AND CONTACTS

The Queensland Competition Authority (QCA) is an independent statutory authority that aims to promote competition as the basis for enhancing efficiency and growth in the Queensland economy.

The QCA's primary role with respect to electricity pricing is to set regulated retail electricity prices in accordance with the requirements of the delegation from the Minister for Energy and Water Supply (Appendix A) and the *Electricity Act 1994* (the Electricity Act).

Key dates

2016–17 review of regulated retail electricity prices: indicative timetable

Release of draft determination	23 March 2016
Workshops on draft determination	1–7 April 2016
Submissions on draft determination due	20 April 2016
Release of final determination	By 31 May 2016

Registration of interest

<http://www.qca.org.au/Contact-us>

Contacts

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1 INTRODUCTION

The Queensland Competition Authority (QCA) has received a delegation from the Minister for Energy and Water Supply (the Minister) to determine regulated retail electricity prices (notified prices). The delegation specifies that the notified prices we determine will apply to non-market customers in the Ergon Energy Corporation Limited (Ergon Distribution) distribution area from 1 July 2016 to 30 June 2017 (see Appendix A).

The Queensland Government (the Government) has legislated to remove retail price regulation in the Energex distribution area (covering south east Queensland) from 1 July 2016. While this decision is subject to review by the Queensland Productivity Commission (QPC), the delegation notes that, without further legislative change, notified prices will only apply to customers in Ergon Distribution's distribution area.⁴

1.1 The review process

Interim consultation paper

On 11 December 2015, we released an interim consultation paper advising interested parties of the commencement of the review. We received 12 submissions in response (see Appendix B). These submissions are available on our [website](#).⁵

Draft determination

This draft determination contains the proposed regulated retail tariffs and prices for 2016–17 (see Chapter 8). In making this draft determination, we have taken into account the requirements of the *Electricity Act 1994* (Qld) (Electricity Act) and the delegation; matters raised in submissions; ACIL Allen's draft reports on the cost of energy, retail operating costs and margin; and our own analysis.

As part of our consultation program on the draft determination we will hold workshops in April 2016. We plan to hold workshops in Brisbane, Bundaberg, Cairns, Mackay, Mount Isa, Toowoomba and Townsville, depending on the level of stakeholder interest. Further details on the workshops are available on our [website](#).⁶

Submissions in response to the draft determination are due by 20 April 2016. Details on how to make a submission are at the front of this paper.

We appreciate the valuable contribution of stakeholders who make submissions to our review. While we may not necessarily reference all arguments or submissions in our determinations, we carefully consider each submission received by the due date. Any issues that have been

⁴ Note that customers in the Essential Energy distribution area in southern Queensland do not have access to notified prices, although Origin Energy receives a subsidy to ensure that non-market customers pay no more than similar customers that have access to notified prices.

⁵ <http://www.qca.org.au/Electricity/Regional-consumers/Reg-Electricity-Prices/In-Progress/Regulated-Electricity-Prices-2016-17>

⁶ <http://www.qca.org.au/Electricity/Regional-consumers/Reg-Electricity-Prices/In-Progress/Regulated-Electricity-Prices-2016-17>

raised which are outside the scope of our review are discussed in Appendix C. All non-confidential documents relating to this review are available on our [website](#).⁷

Final determination

Our final determination will take into account the requirements of the Electricity Act and the delegation; matters raised in submissions; ACIL Allen's final reports on the cost of energy, retail operating costs and margin; and our own analysis. We are required to publish a report on our final determination and gazette notified prices no later than 31 May 2016.

⁷ <http://www.qca.org.au/Electricity/Regional-consumers/Reg-Electricity-Prices/In-Progress/Regulated-Electricity-Prices-2016-17>

2 LEGISLATIVE REQUIREMENTS AND PRICING FRAMEWORK

When we receive a delegation to determine notified prices, we must make the determination in accordance with our obligations under the Electricity Act. In this chapter, we explain these obligations as well as our draft decision on the framework we will apply to set notified prices for 2016–17.

2.1 Legislative requirements

The Electricity Act does not specify criteria or principles that we must apply when making a price determination. Rather, we are directed to have regard to various matters. In accordance with section 90(5) of the Electricity Act, the matters we are required to have regard to in making a determination are:

- the actual costs of making, producing or supplying the goods or services
- the effect of the price determination on competition in the Queensland retail electricity market
- any matter required by delegation
- any other matter we consider relevant.

When we make a determination, we also have regard to the objects of the Electricity Act, which are to:

- set a framework for all electricity industry participants that promotes efficient, economical and environmentally sound electricity supply and use
- regulate the electricity industry and electricity use
- establish a competitive electricity market in line with the national electricity industry reform process
- ensure that the interests of customers are protected
- take into account national competition policy requirements.

2.1.1 Key matters we are required to consider by delegation

The delegation sets out additional matters we are required to consider. Consistent with the approach of previous price determinations, we are required to consider applying the network (N) plus retail (R) cost build-up methodology and the Queensland Government's uniform tariff policy (UTP).

When determining the network cost component, we must consider continuing with the same general approach we applied in the 2015–16 determination. For residential and small business customer tariffs, this means using Energex's network charges and tariff structures for non-time-of-use tariffs (i.e. tariffs 11, 20, 31, 33, 41 and 91⁸). Adopting this approach would mean that network charges are below cost, because they would be based on network costs in south east Queensland, not regional Queensland. This is consistent with the Government's UTP. The

⁸ Tariff 91 applies to unmetered supplies (except street lighting).

UTP 'provides that, wherever possible, non-market customers of the same class should pay no more for their electricity, regardless of their geographic location'.⁹

The Minister's covering letter clarifies that for residential and small business customers (small customers):

*regulated prices in regional Queensland for small customers should broadly reflect the expected prices for customers on standing offers in south east Queensland.*¹⁰

For small customer time-of-use and demand tariffs (i.e. tariffs 12A, 14, 22A and 24) we must also consider basing the network cost component on the price level of Energex's network charges, but utilising the relevant Ergon Distribution network tariff structures. Adopting this approach would still mean that network charges are below cost, although using Ergon Distribution's tariff structures would improve price signals and encourage customers to reduce usage during peak periods, as pointed out in the delegation.

For large business customer tariffs, we must consider using Ergon Distribution's network charges. This is the approach we have adopted in previous decisions.

We are also required to consider maintaining transitional arrangements for transitional and obsolete tariffs (e.g. farming and irrigation tariffs).

2.2 Pricing framework

The matters we are required to consider according to the Electricity Act and the objects of the Electricity Act indicate that cost-reflective prices and promoting retail competition are important guiding principles. Cost reflectivity is important for efficiency and equity reasons. Previous determinations have also been designed to support retail competition, particularly in south east Queensland, and among retailers serving large customers in regional Queensland.

These principles conflict with the Government's UTP.

2.2.1 Residential and small business customers

Given that we are required to consider conflicting matters in making our price determination, we have explored a spectrum of possible pricing approaches. These range from setting fully cost-reflective prices to our previous approach of basing notified prices on the cost of supply in south east Queensland.

Cost base

Setting cost-reflective notified prices (i.e. prices that reflect the costs of supplying customers in each region of Ergon Distribution's area) would avoid the need to subsidise electricity prices and promote retail competition. However, network costs vary across regional Queensland. Setting cost-reflective prices would result in notified prices for customers that varied among different regions, which would be inconsistent with the Government's UTP. It would also mean significant price increases, particularly for customers in western parts of the state and those supplied by isolated systems.¹¹

⁹ Section 5(b) of the Minister's delegation (Appendix A).

¹⁰ Covering letter to the delegation (Appendix A).

¹¹ A typical tariff 11 customer paying cost-reflective prices in 2015–16 would pay around 120% more in western Queensland than customers on notified prices in south east Queensland.

Another approach would be to set notified prices that reflect the lowest costs of supply in regional Queensland¹², which is the approach we have used to set notified prices for large business customers since 2012. This approach would mitigate adverse price impacts for some customers and maintain uniform tariffs. Compared to our approach in previous determinations this would improve cost-reflectivity and reduce the subsidy paid by taxpayers to subsidise electricity prices. However, it would be inconsistent with the Government's definition of the UTP, and may result in significant price increases. For example, in 2015–16, the costs of supplying residential customers in the east pricing zone were about 23% higher¹³ than in south east Queensland.

At the other end of the spectrum, notified prices could continue to be based on the costs of supply in south east Queensland. This would be consistent with the UTP and the requirement in the delegation to consider basing the network cost component on Energex price levels. However, it would result in customers continuing to pay much less than the cost of supply, potentially leading to inefficient investment and decision-making, as well as ongoing costs to taxpayers.

Cotton Australia, Ergon Energy Queensland (Ergon Retail), Master Electricians Australia and the Queensland Farmers' Federation (QFF) supported an approach based on south east Queensland costs.

QCA position

Our draft decision is to continue to base notified prices for residential and small business customers on the cost of supply in south east Queensland. We consider this reasonable because it is consistent with the Government's UTP and avoids the potentially large price increases associated with the other approaches.

Framework to determine notified prices

To establish an appropriate framework for setting notified prices based on the costs of supply in south east Queensland, we have considered the Government's policy that notified prices for small customers in regional Queensland should broadly reflect the expected prices for customers on standing offers in south east Queensland.¹⁴

Customers on standing offers are supplied on a standard retail contract¹⁵, as defined under the National Energy Customer Framework (NECF). In areas where there is retail competition customers may opt for a market contract. Market contracts often have different terms and conditions to standard retail contracts, and prices under market contracts can be lower than standing offer prices.

Customers who do not, or cannot, opt for market contracts are, by default, supplied under standing offers. In markets without price regulation, as we expect will be the case in south east Queensland from 1 July 2016, standing offer prices are set by retailers.

Ergon Retail supported setting notified prices based on expected standing offer prices in south east Queensland, in line with the Government's UTP. However, Canegrowers, Canegrowers Isis and QCOSS argued that notified prices should be set below expected standing offer prices in

¹² Ergon Distribution's east pricing zone, transmission region one

¹³ This is the estimated impact in 2015–16 on a typical tariff 11 customer in the Ergon Distribution east pricing zone (transmission region one) paying cost-reflective notified prices.

¹⁴ Covering letter to the delegation (Appendix A).

¹⁵ Schedule 1, National Energy Retail Rules.

south east Queensland. QCOSS considered that it would be a more accurate reflection of the UTP to base notified prices somewhere between market contract prices and standing offer prices. Canegrowers Isis argued that prices should be based on a weighted average of all prices available in south east Queensland.

QCA position

Our draft decision is to determine notified prices based on expected standing offer prices in south east Queensland. The cover letter to the delegation¹⁶ makes it clear that setting prices below expected standing offer prices in south east Queensland, as suggested by some stakeholders, would be inconsistent with the UTP.

In addition, market contracts generally have different terms and conditions to standard retail contracts so their prices are not directly comparable. Like notified prices, standing offer prices in south east Queensland will apply to customers on standard retail contracts.

We will estimate the costs of supply for each retail tariff in accordance with an N+R cost build-up approach, where we treat the N (network cost) component as a pass-through and determine the R (energy and retail cost) component.

2.2.2 Large business customers

As noted above, we have previously determined notified prices for large business customers based on the lowest cost of supplying customers in regional Queensland. This approach has the benefit of being more cost-reflective than an approach based on south east Queensland costs, which supports the development of competition among retailers for large business customers in the lower-cost areas of regional Queensland. It is also consistent with the requirement in the delegation to consider basing the network cost component on Ergon Distribution's network charges.

Ergon Distribution, Ergon Retail and Origin Energy supported this approach. Cotton Australia supported basing all notified prices on south east Queensland costs.

QCA position

Consistent with the requirements under the Minister's delegation, and previous determinations, our draft decision is to set notified prices for large business customers based on the lowest costs of supply in regional Queensland, which is Ergon Distribution's east pricing zone, transmission region one. We will also continue to estimate the costs of supply for each retail tariff in accordance with an N+R cost build-up approach. This is consistent with our approach to setting notified prices for residential and small business customers, as discussed above.

¹⁶ See Appendix A.

3 NETWORK COSTS

A retailer incurs network costs when electricity is supplied to its customers. These costs are associated with transporting electricity through the transmission and distribution networks and account for around 50 per cent of the final cost of electricity for small customers.

As regulated monopoly businesses, Powerlink, Energex and Ergon Distribution earn regulated revenues that are determined by the Australian Energy Regulator (AER). In addition to recovering their own distribution network costs, Energex and Ergon Distribution pass Powerlink's transmission network costs on to customers in network charges that are approved by the AER as well.

This chapter sets out our draft decisions on the network charges to be used as the basis of notified prices for 2016–17. In summary, we have decided to:

- base the flat rate retail tariffs and controlled load retail tariffs for residential and small business customers on Energex's network tariff structures and prices (consistent with our previous determinations)*
- base the time-of-use retail tariffs for residential and small business customers (tariffs 12A and 22A) on Ergon Distribution's network tariff structures and Energex's price levels (consistent with our 2015–16 determination)*
- base the obsolete time-of-use retail tariff for small business customers (tariff 22) on Energex's network tariff structures and prices (consistent with our 2015-16 determination)*
- base the seasonal time-of-use demand retail tariffs for residential and small business customers (tariffs 14 and 24) on Ergon Distribution's network tariff structures and Energex's price levels (consistent with our 2015–16 determination)*
- base all retail tariffs for large business customers on Ergon Distribution's network tariff structures and prices (consistent with our previous determinations)*
- retain retail tariffs 41, 47 and 48.*

3.1 Introduction

A retailer incurs network costs when electricity is supplied to its customers. Network costs are the costs associated with transporting electricity through transmission and distribution networks.

In the 'Network plus Retail' (N+R) cost build-up approach that we use to set notified prices, the network cost component is treated as a pass-through. To determine the network cost component to be passed through to retail customers, the QCA must decide:

- the level at which network charges should be set (Energex levels or Ergon Distribution levels)
- the network tariff structure on which the network cost component should be based.

Network tariff structures can include, for example, combinations of fixed charges, demand charges and usage charges.

3.2 Network tariffs for residential, small business and unmetered supply customers

This section discusses our approach to setting the network cost components of retail tariffs for residential, small business and unmetered supply customers (excluding street-lighting customers—see Section 3.3 below).

For the 2016–17 determination, we are only setting notified prices for regional Queensland; in particular, the delegation requires that we consider:

- for residential and small business customer retail tariffs (except tariffs 12A, 14, 22A and 24), basing the network cost component on Energex network charges and tariff structures
- for residential and small business customer time-of-use retail tariffs (tariffs 12A and 22A) and time-of-use demand retail tariffs (tariffs 14 and 24), basing the network cost component on Energex network charges, but using the relevant Ergon Distribution network tariff structures.

Adopting the approach proposed in the delegation would be consistent with our approach in the 2015–16 determination. Under this approach, the network cost component of each retail tariff broadly reflects the costs of supplying customers in south east Queensland, but the network tariff structures used as the basis for setting those retail tariffs vary, with the network cost components of:

- flat rate retail tariffs (retail tariffs with usage charges that do not vary with the time and/or level of consumption) based on Energex’s network tariff structures
- time-of-use and time-of-use demand retail tariffs (retail tariffs with usage and other charge rates that vary with the time and/or level of consumption) based on Ergon Distribution’s network tariff structures.

This section explains our draft decision to continue with this approach in our 2016–17 determination. We also explain our draft decision to continue to use Energex network tariff structures for the obsolete time-of-use retail tariff for small business customers (tariff 22) and to retain tariff 41.

3.2.1 Energex or Ergon Distribution network price levels

In determining the network cost components of regulated retail tariffs, the first issue we must consider is the level at which network charges should be set (Energex levels or Ergon Distribution levels).

As discussed in Chapter 2, our draft decision is to base notified prices for residential and small business customers on south east Queensland costs. Consistent with this decision, we will set network charges to reflect Energex cost levels. Setting network charges at Energex cost levels means that customers in regional Queensland will, generally, pay the same for network services as customers in south east Queensland.

3.2.2 Energex or Ergon Distribution network tariff structures

The second issue we must consider is whether to use the network tariff *structures* of Energex or Ergon Distribution.

There are some key differences between the Energex and Ergon Distribution network tariff structures, including:

- the proportion of costs recovered through fixed charges

- the approach to usage charge rates (for example, flat usage rates versus three-part inclining block tariffs)
- the applicable time-of-use and demand charging periods (for example, different peak and off-peak periods)
- the methodology for calculating demand charges.

Further information on differences between the network tariff structures is provided in Appendix D.

The delegation directs us to consider using Energex network tariff structures for the residential and small business flat rate retail tariffs and controlled load tariffs, and Ergon Distribution network tariff structures for the residential and small business time-of-use retail tariffs (tariffs 12A and 22A) and time-of-use demand retail tariffs (tariffs 14 and 24).

Consistent with our approach in the 2015–16 determination and with the delegation, we have decided to continue to use a mix of Energex and Ergon Distribution network tariff structures as the basis for setting retail tariffs. Ergon Retail, Toowoomba Regional Council and the Queensland Consumers' Association supported this approach.

We consider that using Ergon Distribution's network tariff structures for the time-of-use and time-of-use demand retail tariffs (excluding tariff 22, which is an obsolete tariff) would be more cost-reflective than using Energex's network tariff structures. We also consider that it is more important that time-of-use and time-of-use demand retail tariffs reflect Ergon Distribution's network tariffs structures, than that flat rate retail tariffs do so, as the first-mentioned tariffs send signals to customers about the costs to retailers that arise due to the time or level of electricity consumption. As pointed out by the Queensland Productivity Commission (QPC), time-of-use and time-of-use demand tariffs are more efficient than single rate and inclining block tariffs.¹⁷ The delegation also points out that using Ergon Distribution's network tariff structures for time-of-use and time-of-use demand retail tariffs would encourage customers to reduce consumption during peak periods on Ergon Distribution's network.

Ergon Distribution and Origin were both of the view that we should base all residential and small business customer retail tariffs on Ergon Distribution's network tariff structures, on the basis that it would be a further step towards improving cost-reflectivity. However, this would result in a change of network tariff structure for residential and small business flat rate retail tariffs, and controlled load tariffs, as these tariffs were based on Energex's network tariff structures in the 2015–16 determination. This change would have significant distributional impacts on the customers on these tariffs, with lower-usage customers in particular likely to face substantially higher bills.¹⁸ QCOSS did not support using Ergon Distribution's network tariff structure for the main residential flat rate retail tariff (tariff 11) as it considered that the change in the network tariff structure would create confusion and impact adversely on smaller usage customers.

We also note that Ergon Distribution has acknowledged that its inclining block network tariffs will, over time, need to be phased out in favour of network tariffs that better satisfy the pricing principles in the National Electricity Rules (NER).¹⁹ This suggests that there may be some uncertainty about the future of these network tariff structures. We consider it would be

¹⁷ Queensland Productivity Commission, *Draft Report – Electricity Pricing Inquiry*, February 2016, pp. 76–79.

¹⁸ See Appendix D for more information on the customer impacts.

¹⁹ Ergon Distribution, *Tariff Structure Statement 2017–18 to 2019–20*, November 2015, p. 36.

preferable to have more certainty about future network tariff structures before making major changes that would affect nearly all regional customers.

For the reasons above, we do not agree with the suggestion that we should adopt Ergon Distribution's network tariff structures for the flat rate retail tariffs and controlled load tariffs.

Tariff 22

Tariff 22 is an obsolete tariff that is based on an Energex network tariff structure. Consistent with our 2015–16 determination, we will continue to make this tariff available to customers until 30 June 2017, when it will be replaced by tariff 22A (which is based on the Ergon Distribution network tariff structure).²⁰ Tariff 22 will also continue to be closed to new regional customers.

Customers may move to tariff 22A (or another retail tariff that suits their needs) earlier than 30 June 2017 if they choose.²¹

QCA position

Our draft decision is for 2016–17 to use:

- Energex's network tariff structures as the basis for setting the network cost components of flat rate retail tariffs, tariff 22 and controlled load tariffs
- Ergon Distribution's network tariff structures as the basis for setting the network cost components of time-of-use and time-of-use demand retail tariffs.

3.2.3 Adjusting Ergon Distribution network tariff structures to Energex price levels

As discussed, our draft decision is to use Ergon Distribution's tariff structures as the basis for setting time-of-use and time-of-use demand retail tariffs for residential and small business customers (excluding tariff 22), while reducing the overall level of prices to Energex levels.

To adjust these network tariff structures to Energex price levels, we have decided to use the same adjustment process as in our 2015–16 determination. This process involves adjusting:

- the residential time-of-use retail tariff (tariff 12A) by adopting the Ergon Distribution usage charges and reducing the Ergon Distribution fixed charge towards Energex's price level (as far as possible)
- the small business time-of-use retail tariff (tariff 22A) by adopting the Energex fixed charge and reducing the Ergon Distribution usage charges
- the residential and small business time-of-use demand retail tariffs (tariffs 14 and 24) by uniformly decreasing the Ergon Distribution fixed and usage charges.

We have adopted different adjustment approaches for the four tariffs to prevent our adjustments resulting in adjusted network prices being set higher than the levels that may be approved by the AER.

The only difference from our approach in 2015–16 is in the mechanics of adjusting the Ergon Distribution network charges to align with Energex price levels. These changes are required due to changes in data availability and reliability.

²⁰ In our 2015–16 determination, we decided to make tariff 22 available to customers until 30 June 2017 due to customer impacts and metering issues.

²¹ This is subject to customers having appropriate metering in place and meeting the terms and conditions of their chosen retail tariff.

Appendix D provides more information on the adjustment approach.

QCA position

Our draft decision is for 2016–17 to adjust:

- the residential time-of-use retail tariff (tariff 12A) by adopting the Ergon Distribution usage charges and reducing the Ergon Distribution fixed charge towards Energex's price level (as far as possible)
- the small business time-of-use retail tariff (tariff 22A) by adopting the Energex fixed charge and reducing the Ergon Distribution usage charges
- the residential and small business time-of-use demand retail tariffs (tariffs 14 and 24) by uniformly decreasing the Ergon Distribution fixed and usage charges.

3.2.4 New controlled load tariff

In the interim consultation paper, we noted that Ergon Distribution was proposing to introduce a new controlled load tariff from 1 July 2016. If approved, this tariff would only have been available in conjunction with the residential time-of-use demand tariff. Ergon Distribution has subsequently advised that this tariff will not be introduced in 2016–17. Therefore, we do not propose creating a new retail controlled load tariff.

3.2.5 Removal of tariff 41

In the interim consultation paper, we indicated that we were considering removing tariff 41 on the basis that Ergon Distribution does not have an equivalent network tariff available for small business customers with this structure and there were fewer than 300 customers on this tariff.²² Tariff 41 is a low voltage demand tariff that has fixed, usage and demand charges and is based on an Energex network tariff. While Energex designates this network tariff as a large business customer network tariff, it is made available to small business customers on a voluntary basis.

Ergon Retail advised that it has customers on this tariff that it will need to transition to other tariffs, and considered that the tariff should be closed to new customers and phased out by 30 June 2017.

QCA position

Given that our approach is to use Energex tariff structures for flat rate tariffs and that the Energex tariff is available to small business customers in south east Queensland, our draft decision is to retain tariff 41.

3.2.6 Network tariffs and charges for 2016–17

Our draft decision is to base regulated retail tariffs for residential, small business and unmetered supply customers on:

- Energex network tariffs and charges for tariffs 11, 20, 31, 33, 41 and 91
- Energex network tariffs and charges for obsolete tariff 22, which will be available until 30 June 2017

²² Based on data from Ergon Retail.

- calculated network tariffs and charges for retail tariffs 12A and 22A, which are based on Ergon Distribution's seasonal time-of-use network tariffs. To maintain the uniform tariff policy, the level of charges has been reduced to a level where regional customers will, on average, pay the same as they would pay on tariffs 11 and 20
- calculated network tariffs and charges for retail tariffs 14 and 24, which are based on Ergon Distribution's seasonal time-of-use demand network tariffs. As with tariffs 12A and 22A, the level of charges has been reduced to a level where regional customers will, on average pay the same as they would pay on tariffs 11 and 20 in south east Queensland.

Our draft decision on the network charges to apply to each retail tariff is presented in the following tables. It should be noted that these tables are based on draft network tariffs and charges, and may be revised based on updated data in our final determination.

Table 2 Draft decision—Energex network charges for 2016–17 for retail tariffs 11, 20, 22 (obsolete), 31, 33, 41 and 91 (GST exclusive)

<i>Retail tariff</i>	<i>Energex network tariff code</i>	<i>Fixed charge^a c/day</i>	<i>Demand charge \$/kW/month</i>	<i>Usage charge (flat or off-peak) c/kWh</i>	<i>Usage charge (peak) c/kWh</i>
Tariff 11—Residential (flat rate)	8400	50.200		11.290	
Tariff 20—Business (flat rate)	8500	72.000		12.399	
Tariff 22—Business (time-of-use, obsolete)	8800	72.000		9.593	14.305
Tariff 31—Night rate (super economy)	9000			6.088	
Tariff 33—Controlled supply (economy)	9100			9.353	
Tariff 41—Low voltage (demand, obsolete) ^b	8300	532.100	23.588	1.839	
Tariff 91—Unmetered	9600			10.354	

a. Charged per metering point.

b. The kVA equivalent demand charge for tariff 41 is \$21.175/kVA/month. A conversion factor of 0.898 has been used, as advised by Energex.

Table 3 Draft decision—Calculated network charges for 2016–17 for retail tariffs 12A, 14, 22A and 24 (GST exclusive)

<i>Retail tariff</i>	<i>Fixed charge^a c/day</i>	<i>Usage charge (flat or off-peak) c/kWh</i>	<i>Usage charge (peak) c/kWh</i>	<i>Demand charge (off-peak) \$/kW/month</i>	<i>Demand charge (peak) \$/kW/month</i>
Tariff 12A—Residential (time-of-use)	61.250	7.192	38.400		
Tariff 22A—Business (time-of-use)	72.000	10.137	30.472		
Tariff 14—Residential (time-of-use demand)	24.020	3.212		9.280	52.283
Tariff 24— Business (time-of-use demand)	26.470	4.279		11.526	71.606

a. Charged per metering point.

3.3 Network tariffs for large business and street lighting customers

For the 2015–16 determination, we based retail tariffs for large business customers and street lighting customers on the network tariffs and charges applying to Ergon Distribution’s east pricing zone, transmission region one. We propose to continue with this approach for 2016–17 because it is consistent with our draft decision, discussed in Chapter 2, to set notified prices for large business customers based on the lowest costs of supply in regional Queensland.

There was support in submissions from Toowoomba Regional Council, Ergon Distribution and Ergon Retail to maintain this approach for 2016–17. While Origin supported maintaining this approach, it considered that there was merit in transitioning large business prices to more cost-reflective levels to satisfy the NER pricing principles. Cotton Australia did not support maintaining this approach and considered that notified prices should be based on south east Queensland costs.

3.3.1 Tariffs 47 and 48

In its submission on the interim consultation paper, Ergon Distribution requested that we consider amending the eligibility requirements for tariff 47 so that it is not available to new customers from 1 July 2016. Ergon Distribution also proposed that we use different network tariff(s) as the basis for tariff 48. Ergon Distribution proposed these changes because it intends to phase out its Standard Access Customer (SAC) Large Demand High Voltage network tariff, which underpins tariffs 47 and 48, in 2017–18.

As these changes were not canvassed in the interim consultation paper, our draft decision is to leave the eligibility requirements for tariff 47 unchanged and to continue to base tariff 48 on the SAC Large Demand High Voltage network tariff. We consider that any changes to tariff 48 in particular should be the subject of more extensive consultation, given the potentially significant adverse impacts on some customers.

We also note that the QPC, in its Electricity Pricing Inquiry draft report, considered that there was not a strong case for allowing very large customers to continue to have access to notified prices.²³

3.3.2 Network tariffs and charges for 2016–17

Our draft decision is to continue to base retail tariffs for large business customers and street lighting customers on the network tariffs and charges applying to Ergon Distribution's east pricing zone, transmission region one.

Our draft decision on the network charges to apply to each retail tariff is presented in Table 4. It should be noted that the information in this table is based on draft network tariffs and charges, and may be revised based on updated data in our final determination.

²³ Queensland Productivity Commission, *Draft Report—Electricity Pricing Inquiry*, 3 February 2016, p. 169.

Table 4 Draft decision—Ergon Distribution network charges for 2016–17 large business and street lighting customer retail tariffs (GST exclusive)

<i>Retail tariff</i>	<i>Ergon Distribution network tariff code</i>	<i>Fixed charge^a c/day</i>	<i>Demand charge (flat/off-peak) \$/kW/month</i>	<i>Demand charge (peak) \$/kW/month</i>	<i>Usage charge (off-peak) c/kWh</i>	<i>Usage charge (peak) c/kWh</i>
Tariff 44—over 100 MWh small (demand)	EDSTT1	4,628.300	35.148		2.175	
Tariff 45—over 100 MWh medium (demand)	EDMTT1	14,883.400	28.792		2.258	
Tariff 46—over 100 MWh large (demand)	EDLTT1	40,300.700	26.150		2.315	
Tariff 47—high voltage (demand)	EDHTT1	37,700.700	23.193		2.196	
Tariff 48—over 4 GWh high voltage (demand)	EDHTT1	37,700.700	23.193		2.196	
Tariff 50—seasonal time-of-use (demand)	ESTOUDCT1	3,849.500	13.293	55.101	4.683	1.744
Tariff 71—street lighting ^b	EVUT1	0.600			21.402	

a. Charged per metering point.

b. The fixed charge for street lighting applies to each lamp.

4 ENERGY COSTS

A retailer incurs energy costs when purchasing electricity to meet the electricity demand of its customers. Energy costs can be split into three general categories:

- (1) *wholesale energy costs*
- (2) *other energy costs*
 - (a) *Renewable Energy Target (RET) costs*
 - (b) *National Electricity Market (NEM) participation fees and ancillary services charges*
 - (c) *prudential capital costs*
- (3) *energy losses.*

As with previous determinations, we have determined energy costs based on advice from our consultant, ACIL Allen. ACIL Allen has estimated that overall energy costs will increase for all customers in 2016–17, with increases being driven primarily by increased wholesale energy costs and Large-scale Renewable Energy Target (LRET) costs.

An overview of how each energy cost component was calculated is provided below. A more detailed explanation appears in ACIL Allen's draft report, which is available on our [website](#).²⁴

4.1 Wholesale energy costs

Retailers incur wholesale energy costs when purchasing electricity from the National Electricity Market (NEM) to meet the electricity demand of their customers. The NEM is a volatile market where prices are settled every half hour and can range from –\$1000 per MWh to \$14,000 per MWh.²⁵ Retailers use the following strategies to reduce price volatility risk:

- pursuing a 'hedging strategy' by purchasing financial derivatives like swaps and options
- entering long-term power purchase agreements with generators
- investing in their own electricity generators.

In 2015–16, ACIL Allen estimated wholesale energy costs using a hedging strategy approach. We considered that ACIL Allen's approach was transparent and best reflected the actual costs retailers incur when purchasing electricity from the NEM. Hedging strategy approaches have been endorsed by the Australian Energy Market Commission (AEMC) as best practice²⁶ and have been adopted by other Australian regulators.

In their submissions to the 2016–17 interim consultation paper, Ergon Retail and QCOSS supported using ACIL Allen's hedging strategy approach used in 2015–16 to determine wholesale energy costs for 2016–17. Origin Energy raised some technical concerns with regard to ACIL Allen's approach to estimating contract prices and generating load profiles.

²⁴ <http://www.qca.org.au/Electricity/Regional-consumers/Reg-Electricity-Prices>

²⁵ Minimum spot price is defined in clause 3.9.6(b) of the National Electricity Rules. The Market Price Cap is published by the AEMC every February ([http://www.aemc.gov.au/News-Center/What-s-New/Announcements/AEMC-publishes-the-Schedule-of-Reliability-Set-\(4\)](http://www.aemc.gov.au/News-Center/What-s-New/Announcements/AEMC-publishes-the-Schedule-of-Reliability-Set-(4)))

²⁶ AEMC, *Final Report, Advice on best practice retail price methodology*, 27 September 2013.

In its draft report, ACIL Allen has estimated wholesale energy costs using a hedging strategy approach, which is consistent with previous years. ACIL Allen has provided a detailed explanation of its calculation of wholesale energy costs in Chapter 4 of its draft report and addressed issues raised in submissions in Chapter 3.

In its draft report, ACIL Allen estimated that wholesale energy costs will increase for all retail tariffs. The overall increase in prices has been driven by an increase in electricity demand from Queensland-based liquefied natural gas (LNG) projects and higher fuel costs for gas-fired generation.

In addition, increased solar generation is continuing to reduce daytime demand but has no effect on peak demand²⁷, which is resulting in the net system load profile (NSLP) becoming peakier and more expensive to hedge.

As a result, ACIL Allen estimated:

- Wholesale energy costs for the Ergon Energy NSLP will increase by \$8.52 per MWh (15.3%) compared to 2015–16, which is slightly less than the increase in the Energex NSLP (\$9.94 per MWh or 15.6%). The outcomes are slightly different because the load profile of the Ergon Energy NSLP is less peaky than the Energex NSLP
- Wholesale energy costs for controlled load tariffs will also increase. Tariff 31 will increase by \$5.45 per MWh (15.1%) compared to 2015–16, while tariff 33 will increase by \$4.65 per MWh (9.2%). The difference in outcomes is due to the load profile for tariff 33 becoming flatter compared to previous years, resulting in a smaller increase.

QCA position

We consider that ACIL Allen's methodology adequately takes into account the issues raised in submissions and produces estimates that reflect the efficient costs of supply. Retaining this approach for 2016–17 will also provide certainty to stakeholders.

We accept ACIL Allen's advice on this matter and its wholesale energy cost estimates, which are outlined in Table 5. We expect ACIL Allen to update these cost estimates for the final determination based on the latest available data.

Table 5 Estimated wholesale energy costs at the Queensland regional reference node for 2016–17

<i>Settlement class</i>	<i>Retail tariff</i>	<i>\$/MWh</i>	<i>% change from 2015–16</i>
Energex NSLP and unmetered supply	11, 12A, 14, 20, 22A, 24,, 41, 91	\$73.67	15.6%
Energex Controlled Load 9000	31	\$41.55	15.1%
Energex Controlled Load 9100	33	\$55.04	9.2%
Ergon Energy NSLP and streetlights	44, 45, 46, 47, 48, 50, 71	\$64.22	15.3%

Source: ACIL Allen, *Estimated Energy Costs for 2016–17*, 16 February 2016, p 26.

²⁷ Peak demand generally occurs between 6:30pm and 8:30pm.

4.2 Other energy costs

In addition to wholesale energy costs, we must consider other energy costs that retailers incur when purchasing electricity from the NEM, which are:

- Renewable Energy Target (RET) costs
- NEM participation fees and ancillary services charges
- prudential capital costs.

4.2.1 Renewable Energy Target costs

The RET scheme, comprised of the Large-scale Renewable Energy Target (LRET) and Small-scale Renewable Energy Scheme (SRES), provides incentives for the electricity sector to increase generation from renewable sources and reduce greenhouse gas emissions. The costs of these incentives are paid by retailers who are required to purchase large-scale generation certificates (LGCs) and small-scale technology certificates (STCs).

LRET costs

The LRET sets annual targets for the amount of electricity that must be sourced from large-scale renewable energy projects like wind farms, with an ultimate target of generating 33,000 GWh of electricity from large-scale renewable sources in 2020.²⁸ Retailers must purchase a set number of LGCs according to the amount of electricity they have sold to customers in the calendar year.

For the 2015–16 final determination, ACIL Allen estimated LRET costs using a market-based approach. This approach based LGC prices on forward prices for certificates published by the Australian Financial Markets Association (AFMA). ACIL Allen used the 2015 renewable power percentage (RPP) for the first half of the pricing period and the latest published 2016 LRET target for the second half of the pricing period.

In its submission to the 2016–17 interim consultation paper, Ergon Retail supported calculating LRET costs using a market-based approach. However, it highlighted that the 2014 RET review had reduced LRET prices during the review period and that more weight should be given to recent market data, which it considered to be more representative of retailers' costs.

In its draft report, ACIL Allen forecast LRET costs using an approach consistent with previous years. ACIL Allen has provided a detailed explanation of its calculations in Chapter 4 of its draft report, along with information on LGC prices and assumptions underpinning the implied RPPs used. Chapter 3 of ACIL Allen's report addressed issues raised in submissions. ACIL Allen examined market prices over a number of years and considers that its market-based approach, whereby retailers purchase LGCs over a two-year period to satisfy their obligations, provides the best estimate of LRET costs for the purposes of setting notified prices for 2016-17.

ACIL Allen's draft report showed that there has been a significant increase in forward LGC prices since the revised 33,000 GWh LRET target was implemented in June 2015. ACIL Allen explained that this is due to a hiatus in new renewable energy project construction. As a result, ACIL Allen forecast that LRET costs for 2016–17 will be \$7.27 per MWh for all retail tariffs, compared to \$4.38 per MWh in 2015–16.

²⁸ S. 40, *Renewable Energy (Electricity) Act 2000*.

QCA position

We remain of the view that ACIL Allen's market-based approach, using the most up-to-date targets and price information published by AFMA, is likely to produce the most reliable estimate of LRET costs to be incurred by retailers in 2016–17. Retaining a consistent approach for 2016–17 will also provide certainty to stakeholders.

We accept ACIL Allen's advice on this matter and its LRET cost estimates, which are outlined in Table 6. We expect ACIL Allen to update these cost estimates in its final report based on the binding RPP for 2016.

SRES costs

The SRES provides an incentive for individuals and small businesses to install eligible small-scale renewable energy systems such as solar panel systems, small-scale wind systems, small-scale hydro systems, solar hot water systems and heat pumps. Customers installing these systems receive STCs, which retailers must purchase according to the amount of electricity they have sold to customers.

For the 2015–16 determination, ACIL Allen estimated SRES costs using the final 2015 small-scale technology percentage (STP) target for the first half of the pricing period and the latest available non-binding 2016 STP target for the second half of the pricing period. STC prices were based on the clearing house price.

In its draft report, ACIL Allen has estimated SRES costs using the same approach for 2015–16. ACIL Allen's draft report forecast a decrease in SRES costs of \$0.37 per MWh (8.5%) compared to 2015–16. This estimate is based on the latest available non-binding STP targets.

QCA position

We remain of the view that ACIL Allen's approach is likely to produce the most reliable estimate of SRES costs to be incurred by retailers in 2016–17. Retaining a consistent approach for 2016–17 will also provide certainty to stakeholders.

We accept ACIL Allen's advice on this matter and its SRES cost estimates, which are outlined in Table 2. We expect ACIL Allen to update these cost estimates in its final report using the final STP for 2016, which is due to be published by 31 March 2016, and the latest non-binding STP for 2017.

NEM participation fees and ancillary services charges

NEM participation fees are levied on retailers by the Australian Energy Market Operator (AEMO) to cover the costs of operating the NEM and funding Energy Consumers Australia. Ancillary services charges cover the costs of the services used by AEMO to manage power system safety, security and reliability.

As with the 2015–16 determination, ACIL Allen used AEMO budget and fee projections to estimate draft NEM participation fees for 2016–17. Its draft ancillary services charges were based on the average historical costs observed over the preceding 52 weeks.

QCA position

We remain of the view that ACIL Allen's approach is likely to produce the most reliable estimate of NEM participation and ancillary services costs to be incurred by retailers in 2016–17. Retaining a consistent approach for 2016–17 will also provide certainty to stakeholders.

We accept ACIL Allen's advice on this matter and its cost estimates, which are outlined in Table 6.

Prudential capital costs

Prudential capital costs are the costs a retailer incurs to provide financial guarantees to AEMO and to lodge initial margins with hedge providers for futures contracts. These costs must be accounted for, as futures contracts are relied upon to derive wholesale energy cost estimates.

In the 2015–16 determination, prudential capital costs were considered as part of retail operating costs, as they were implicitly included in the retail operating cost benchmark we used, which was set by IPART. However, as discussed in Chapter 5, these costs vary according to the amount of electricity being purchased by the retailer, as well as the level of volatility in the electricity market. As such, ACIL Allen considered they should be included in the energy cost allowance. To avoid double counting, prudential costs have been excluded from the retail cost allowance. QCOSS supported the QCA's approach to account for prudential capital costs as part of the energy cost allowance provided these costs were separated out from retail operating costs.

As with the 2014–15 determination, ACIL Allen calculated prudential capital costs for 2016–17 in line with the latest published AEMO requirements and margin requirements for trading in the futures market.

QCA position

We remain of the view that ACIL Allen's approach is likely to produce the most reliable estimate of prudential capital costs to be incurred by retailers in 2016–17. As discussed in Chapter 5 and ACIL Allen's report on efficient retail operating costs and margin, these costs are not included within the retail cost allowance, so they are not double counted.

We accept ACIL Allen's advice on this matter and its prudential capital cost estimates, which are outlined in Table 6.

Summary of other energy costs for 2016–17

Table 6 sets out the draft estimates of other energy costs for 2016–17, which will be added to the wholesale energy cost components for all retail tariffs.

Table 6 Other energy costs (excluding losses)—all retail tariffs

<i>Cost component</i>	<i>\$/MWh</i>	<i>% change from 2015–16</i>
LRET	\$7.27	65.9%
SRES	\$3.97	-8.5%
NEM Fees	\$0.49	4.2%
Ancillary services	\$0.38	5.5%
Prudential capital	\$0.93	na ^a
Total	\$13.04	36.4%^b

^a Prudential capital costs were considered as part of the retail operating cost allowance in 2015–16.

^b As other energy costs in 2016–17 includes an additional allowance for prudential capital costs, the percentage change between 2015–16 and 2016–17 is greater than the sum of changes in each individual component of other energy costs.

Note: Totals may not add due to rounding.

Source: ACIL Allen, *Estimated Energy Costs for 2016–17*, 16 February 2016, pp. 30–33.

4.3 Energy losses

Some electricity is lost when it is transported across transmission and distribution networks. As a result, retailers must purchase sufficient electricity to supply its customers' load and allow for losses. As with previous determinations, ACIL Allen has accounted for these losses by applying transmission and distribution loss factors published by AEMO in a manner that aligns with AEMO's settlement process.

QCA position

We are satisfied with ACIL Allen's approach and accept its loss factor calculations, which are outlined in Table 7. These losses are based on AEMO's 2015–16 published loss factors, as loss factors for 2016–17 have not been published. We expect ACIL Allen will use AEMO's 2016–17 loss factors in its final report.

4.4 Total draft energy cost allowances for 2016–17

Table 7 summarises our draft decision on energy cost allowances for each retail tariff for 2016–17.

Table 7 Draft decision—total energy cost allowances for 2016–17

Settlement class	Retail tariff	Wholesale energy	Other energy ^a	Energy losses	Total energy allowance		Change from 2015–16 ^b
		\$/MWh	\$/MWh	%	\$/MWh	c/kWh	%
Energex NSLP and unmetered supply	11, 12A, 14, 20, 22A, 24, 41, 91	\$73.67	\$13.04	6.5%	\$92.35	9.235	18.3%
Energex Controlled Load 9000	31	\$41.55	\$13.04	6.5%	\$58.14	5.814	19.6%
Energex Controlled Load 9100	33	\$55.04	\$13.04	6.5%	\$72.51	7.251	13.6%
Ergon Energy NSLP—small, medium and large demand and streetlights	44, 45, 46, 50, 71	\$64.22	\$13.04	12.0%	\$86.53	8.653	18.1%
Ergon Energy NSLP—high voltage demand and customers over 4 GWh	47, 48	\$64.22	\$13.04	6.3%	\$82.13	8.213	18.1%

a Other energy costs include an allowance for prudential capital costs. Prudential costs were considered as part of the retail operating cost allowance in 2015–16.

b As other energy costs in 2016–17 include an additional allowance for prudential capital costs the percentage change between 2015–16 and 2016–17 is greater than the sum of changes in each individual component of energy costs.

Note: Totals may not add due to rounding.

Source: ACIL Allen, *Estimated Energy Costs for 2016–17*, 16 February 2016, p. 34.

5 RETAIL COSTS

The second element of the R component is retail costs, which include retail operating costs and a retail margin.

In previous decisions, we have benchmarked other regulatory decisions to set retail operating costs and margins. However, we consider it may no longer be appropriate to continue with this approach, given that many comparable jurisdictions (including NSW and South Australia) have removed retail price regulation in recent years. We consider it is timely to review these cost components and have engaged ACIL Allen Consulting (ACIL) to undertake a comprehensive review of retail costs based on market observations and confidential data supplied by electricity retailers.

In summary, our draft decision is to:

- adopt separate retail cost allowances for residential, small business, large business and very large business customer tariffs*
- estimate total retail cost allowances for residential and small business customer tariffs based on benchmarking observations, applied as fixed and variable components*
- for large and very large business customers, maintain the 2015–16 retail cost allowances in real terms.*

5.1 Overview

Retail costs include retail operating costs (ROC) and a retail margin.

ROC are the costs associated with services provided by a retailer to its customers, which typically include customer administration, call centres, corporate overheads, billing and revenue collection, IT systems, regulatory compliance, and customer acquisition and retention costs (CARC).

The retail margin represents the return to investors for retailers' exposure to systematic risks associated with providing retail electricity services. The margin can also include other costs incurred by retailers such as depreciation, amortisation, interest payments and tax expenses.

In previous determinations, we have estimated allowances for ROC based on publicly reported data and benchmark observations of other regulatory decisions, predominantly those of IPART. For the retail margin, we applied an allowance of 5.7 per cent of total costs, which was based on the retail margin adopted by IPART in its 2013–16 decision on regulated retail electricity prices in NSW.²⁹

We consider it may no longer be appropriate to rely on benchmarking of other regulators' decisions to estimate retail costs, given that many comparable jurisdictions (including NSW and South Australia) have removed retail price regulation in recent years. Reliance on other regulatory decisions also generates circulatory which will lead to regulatory error over time. For these reasons, we have decided to conduct a comprehensive review of this cost component.

²⁹ IPART, *Review of regulated retail prices and charges for electricity from 1 July 2013 to 30 June 2016*, June 2013, chapter 7.

We engaged ACIL Allen Consulting (ACIL) to provide advice on efficient retail costs for our 2016–17 determination. As a first step, ACIL prepared a methodology paper outlining its proposed approach, which we released along with our interim consultation paper in December 2015.

5.1.1 Submissions

In response to the interim consultation paper, consumer groups (QCOSS and the Queensland Consumers Association) supported a comprehensive review of retail operating costs and margins. QCOSS noted:

It is timely to undertake a more thorough assessment of these costs as the QCA had previously used a 2013 IPART estimate as the benchmark. The Victorian market has been deregulated since 2009 and prices in NSW and South Australia have been deregulated more recently. Tariffs and retailers' cost structures will have changed since 2013 as retail markets become more mature.³⁰

In contrast, Origin Energy considered the QCA's existing approach was sufficient, if augmented by benchmarking against actual retailer data:

Origin's preferred approach to determine a representative retailer's costs is to use the current Queensland retail operating cost benchmark and to escalate this allowance on an annual basis. To give the QCA confidence in its own benchmark, Origin believes the QCA can construct an indicative retail operating cost for a representative retailer based on indicative data provided by retailers.³¹

Ergon Retail also preferred to largely retain the existing approach:

EEQ supports the continuation of the benchmarking approach employed in 2015/16. As ACIL Allen has clearly stated the intention to use both a benchmarking and bottom-up approach, EEQ requests the QCA give consideration to the continuing evolution of the regulatory and market environment. This should include recognition of the characteristics of the retail electricity supply to regional Queensland when setting prices for 2016–17 and subsequent periods.³²

Both Origin and Ergon Retail acknowledged the problems in relying solely on bottom-up retailer data due to different cost allocation approaches and cost categorisation:

Origin believes that relying on data provided by retailers to determine an appropriate retailer operating cost is problematic as retailers have different accounting methodologies and how they allocate costs to electricity and gas customers [sic].

...

We thus believe a benchmarking approach with some comparison to actual costs to assure validity is the most effective mechanism to determine these costs.³³

Similarly, Ergon Retail submitted:

EEQ generally supports ACIL Allen's approach to estimating retail margin. EEQ does however acknowledge, and agree with the concerns raised by other market participants, that a bottom-up approach may have some practical barriers to being an effective method of estimating ROC and margin. EEQ is also concerned that relying too heavily on a bottom-up methodology for

³⁰ QCOSS, *Submission to QCA Interim Consultation Paper on regulated retail electricity prices 2016–17*, n. pag

³¹ Origin Energy, *Submission to Interim Consultation Paper*, 29 January 2016, p. 3.

³² Ergon Energy Queensland, *Submission to QCA Interim Consultation Paper regulated retail electricity prices 2016–17*, 20 January 2016, p. 7.

³³ Origin Energy, *Submission to Interim Consultation Paper*, p. 3.

*estimating ROC may distort the estimation of efficient costs. This is true for ROC allowances for both small and large customers.*³⁴

With regard to the retail margin component of total retail costs, Origin supported a retail margin based on a percentage of total costs as previously adopted. Origin considered a margin of at least 5.7 per cent is appropriate.³⁵

The Queensland Consumers Association questioned how the cost of capital would be calculated and included in any estimates of retail costs and margin. We note that, while this was a component of IPART's assessment of the retail margin, ACIL's benchmarking approach for 2016–17 does not hinge on estimates of the cost of capital.³⁶

5.2 Approach to estimating retail costs for 2016–17

We have considered ACIL's advice and stakeholder feedback when making our draft decisions.

ACIL used a combination of bottom-up and benchmarking methods to estimate retail costs, informed by analysis of publicly available data, observed retail market offers, and detailed confidential information provided by retailers.

ACIL has analysed competitive retail market offers available across several competitive jurisdictions to derive the implied level of retail costs incurred by retailers. This analysis was conducted on both flat rate (non-time-of-use) residential tariff offers, and flat rate small business tariff offers.

ACIL estimated the retail costs in each market offer by deconstructing the components of retail tariffs that are available in jurisdictions with competitive retail electricity markets, and benchmarking the retailer costs. ACIL started with total average customer bills based on retailer market offers, before deducting network costs and estimated energy purchase costs. The residual amount reflects the total retail cost component of each tariff.

ACIL normalised the data for known cost differences between jurisdictions, for example, costs associated with state-based energy efficiency schemes, and the estimated higher costs of smart metering in Victoria. This normalisation process has produced retail cost observations that, as far as possible, can be compared on a like-for-like basis across retailers and distribution regions.³⁷

ACIL's approach is explained in detail in its methodology paper and preliminary report, which are available on the QCA's website.

While ACIL was engaged to estimate retail costs for small, large and very large business customers, it was not possible to benchmark competitive market prices available to large and very large businesses, as retailers tend to develop tailored offers for these customers. As a result there is no useful information on competitive market prices for these segments. Our

³⁴ Ergon Energy Queensland, *Submission to QCA Interim Consultation Paper regulated retail electricity prices 2016–17*, 20 January 2016, p. 10.

³⁵ Origin Energy, *Submission to Interim Consultation Paper*, p. 4.

³⁶ Discount rates, using a weighted average cost of capital methodology are however necessary for estimating the time value of money associated with amortising discounts (see, ACIL Allen's preliminary report.) and some components of wholesale energy purchase costs.

³⁷ For a comprehensive explanation of ACIL's methodology, please see its methodology paper (December 2015) and preliminary report (March 2016) which are available on the QCA website: www.qca.org.au

considerations of estimating retail costs for large and very large business customers are set out at section 5.7.

Nonetheless, there are significant data on market offer prices available to residential and small business customers, which has allowed ACIL to perform useful benchmarking analysis in these market segments.

To support ACIL's benchmarking analysis, the QCA issued formal information requests under the Electricity Act to retailers operating in Queensland, requiring them to supply cost data. This data is commercially sensitive and cannot be reproduced in this draft report.

While useful for validation purposes, the information provided by retailers was not sufficiently robust for ACIL to use it as the primary basis for estimating efficient retail costs. The data was of varying quality and completeness' and highlighted significant differences in the way retailers categorise costs.

This outcome was not unexpected and confirms our and ACIL's view that the benchmarking approach should be the primary method of establishing efficient retail costs, with the bottom-up assessment used to test the reasonableness of the benchmark market observations.

5.3 Summary of ACIL's analysis - Residential and small business tariffs

5.3.1 Market data benchmarking

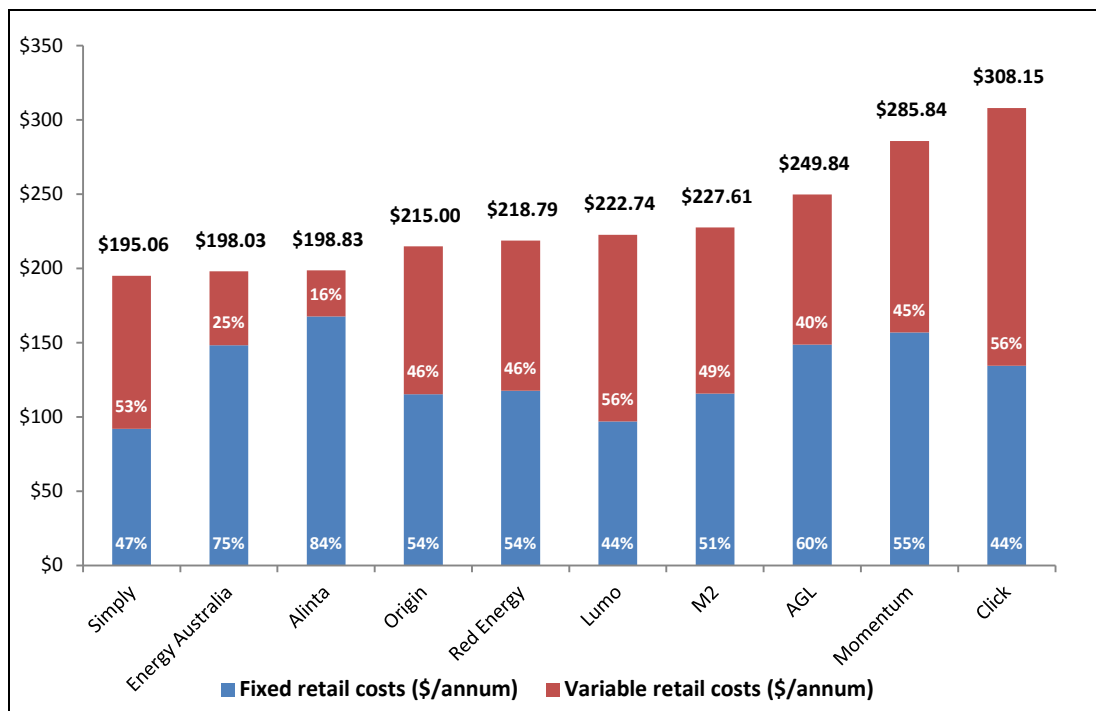
In summary, ACIL's analysis indicates that:

- Average total retail costs for residential retail tariffs are close to the QCA's existing allowance. However, retailers appear to recover more of these costs from the variable component of retail tariffs than previously assumed.
- Average total retail costs are higher for small business customers than for residential customers. As is the case for residential tariffs, the market data indicates that retailers recover a greater proportion of retail costs from the variable component of small business tariffs, compared to our previous assumptions.
- There are significant differences in how retailers allocate retail costs between fixed and variable components. This also differs across customer tariff classes. For example, the data indicates that a greater proportion of retail costs are recovered through variable charges on small business tariffs than is the case for residential customer tariffs.

Residential customers

Figure 4 illustrates the total retail costs derived from residential tariff observations, and the allocations between fixed and variable components by retailer, based on an average usage of 4,640 kWh per year.

Figure 4 Benchmark average total retail costs by retailer - Residential customers



Note: Assumes average annual consumption of 4,640 kWh.

Based on this analysis, the total average retail cost ranges from \$195 to \$308 per customer per year for an average-usage residential customer, with the majority of observations falling between \$200 and \$230 per year. Across the entire sample of observations, the average total retail cost component is \$232 per year. This compares closely with the equivalent total allowance in the QCA's 2015–16 determination of \$246.³⁸

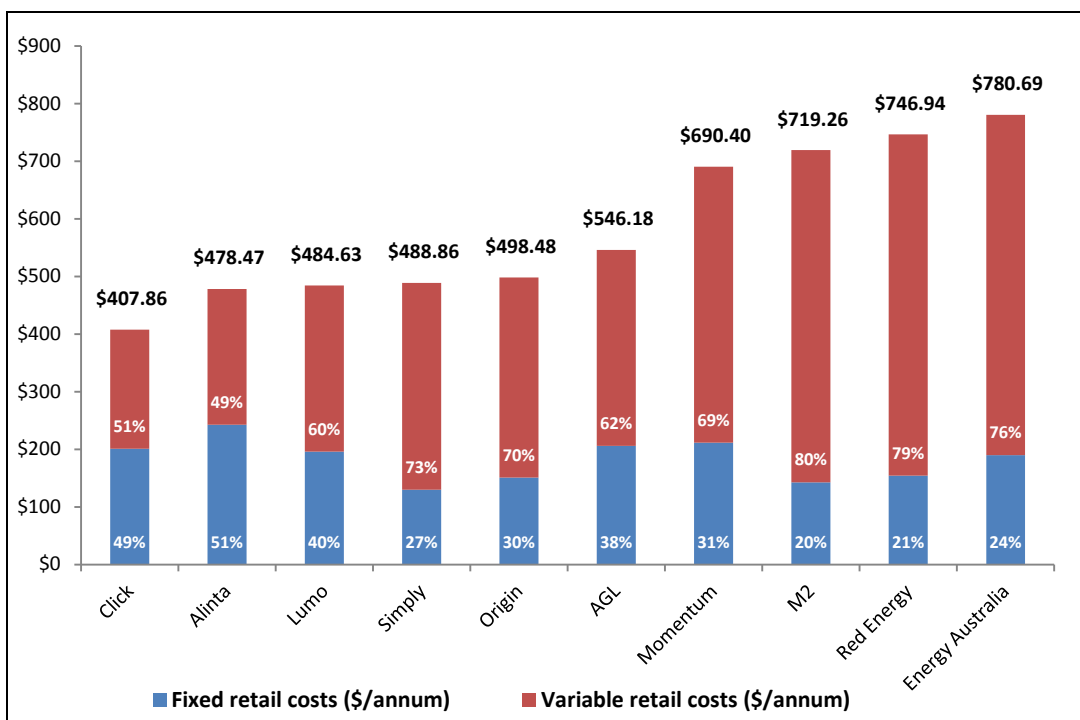
The fixed component of total retail costs ranges from \$92 to \$168 per customer per year, and variable component between 0.67 and 3.74 cents per kWh.

Small business customers

Figure 5 illustrates the total retail costs derived from small business tariff observations, and the allocations between fixed and variable components by retailer, based on an average usage of 16,370 kWh per year.

³⁸ Based on the total retail operating costs, and margin costs incurred by a tariff 11 customer consuming 4,640 kWh per year, consistent with ACIL's average usage assumptions.

Figure 5 Benchmark average total retail costs by retailer - Small business customers



Note: Assumes average annual consumption of 16,370 kWh.

Based on this analysis, the total average retail cost ranges from \$408 to \$781 per customer per year for an average-usage small business customer. Across the complete sample of observations, the average total retail cost component is \$604 per year. The fixed component of total retail costs ranges from \$130 to \$242 per customer per year, and variable component between 1.26 and 3.62 cents per kWh.

This analysis indicates that the retail costs of serving customers on small business tariffs are higher than residential customers on average. Possible reasons for this difference include:

- different customer risk profiles and potentially a greater likelihood of default for small business customer - as a result, retailers may require a higher return on their small business customers
- the need for different marketing approaches and customer acquisition and retention strategies - for example, small businesses may be 'stickier', which might require retailers to adopt more intensive and costly marketing approaches to win new customers.
- greater use of manual processes and more individual contact with small business customers compared to residential customers.

The analysis also suggests that retailers recover a greater proportion of retail costs through variable charges from small business customers, compared to residential customers. This is not unexpected as small businesses typically have a higher usage than residential customers, which means the fixed component tends to be a smaller proportion of the overall bill than it is for residential customers.

QCA position

ACIL's analysis presents a range of benchmark retail cost allowances that could be adopted, along with approaches for allocating these costs to fixed and variable tariff components. Based

on ACIL's analysis, we have adopted the following approach to estimate retail costs for 2016–17 small customer notified prices:

- (1) Establish an efficient total retail cost amount (inclusive of retail operating costs and margin), based on ACIL's recommended range of benchmark retail costs.
- (2) Determine how the total efficient retail cost allowance should be allocated to the fixed and variable components of retail tariffs, based on ACIL's analysis of competitive market data.
- (3) Assign a retail cost allowance, and assumed fixed/variable allocation assumption to each regulated retail tariff.

This approach differs from our previous methodology, and that used by IPART in its 2013–16 determination. However, we consider this is a robust and transparent approach as it relies heavily on outcomes observed in competitive retail markets.

Our approach means that the retail margin cannot be isolated from any other component of the overall total retail cost. However, we do not consider it necessary to estimate an efficient retail margin, or any other discrete retail cost component. Rather, our approach focuses on estimating an efficient total level of retail costs, which implicitly includes some retail margin, portions of which are recovered through fixed and variable charges. The relationship between total retail costs and the implied retail margin is further explained in section 4.2 of ACIL's Preliminary Report.³⁹

5.4 Determining efficient total retail cost allowances

ACIL's analysis has produced a range of potential efficient total retail cost allowances based on market data. However, we need to determine point estimates from this data to establish efficient benchmark retail cost allowances to apply to small customer notified prices.

5.4.1 Representative retailer characteristics

We have previously applied a 'representative retailer' model when considering retail cost allowances. This approach established a hypothetical retail entity with specific characteristics, which could be used to inform a decision on the efficient level of costs. This approach was used on the assumption that certain business characteristics, such as scale and integration, are likely to influence overall retail costs.

However, it is not clear that the representative retailer concept remains useful when establishing efficient levels of retail costs, for two reasons. First, very few retailers have the characteristics of the QCA's representative retailer, and benchmarking the costs incurred by these businesses only is unlikely to deliver robust results. Second, as illustrated in Figures 4 and 5, ACIL's analysis does not suggest any clear relationship between the overall level of retail costs and retailer characteristics, particularly in terms of size. In fact, some of the smaller retailers appear to have lower retail costs than some larger incumbents.

For these reasons, we do not consider it necessary to strictly observe the previous definition of a 'representative retailer' when determining efficient retail cost allowances. Instead we consider it appropriate to include the entire sample of observations from ACIL's analysis, rather

³⁹ ACIL Allen, *Estimating the efficient retailer costs*, preliminary report, 17 March 2016.

than limiting our analysis to observations from those retailers that satisfy our definition of a 'representative retailer'.

5.4.2 Total retail cost allowances

Having established that the representative retailer is now less relevant, we consider using the average of the derived retail costs from ACIL's market observations is an appropriate method of estimating efficient retail cost allowances for serving small customers.

ACIL's analysis reveals there is a marked difference between the average retail costs of serving small business and residential customers. We consider this difference is sufficient to warrant separate retail cost allowances. This will mean that typical small business customers will pay a higher retail cost than typical residential customers on average, compared to 2015–16.

Inflating retail costs to 2016–17 values

ACIL's market observations reflect retail costs from 2015–16 prices. As a result, we need to consider whether those values should be indexed to 2016–17 dollar terms before applying them in notified prices.

ACIL has proposed that the fixed retail costs be held at the 2015–16 level for 2016–17. ACIL formed this view after reviewing confidential information provided by retailers, and published results which suggest that the expected growth in wages and materials costs in 2016–17 appears to be offset by expected productivity improvements.

Our draft decision is to accept ACIL's advice that the 2015–16 benchmark retail costs should be applied without escalation in 2016–17 notified prices. In future years, we will need to revisit this issue and decide on an appropriate amount by which to escalate each allowance. This is discussed in section 5.7.

QCA position

Our draft decision is to establish two separate retail cost estimates to reflect the efficient costs of supplying residential and small business customers, based on the averages of ACIL's benchmarking observations. Table 8 sets out the total retail cost allowances for residential and small business customer tariffs for 2016–17 notified prices. These are based on the average market observations derived from ACIL's benchmarking analysis of market observations, summarised in Figures 4 and 5.

Table 8 Benchmark average retail costs - residential and small business customers

<i>Tariff class</i>	<i>Total retail costs (\$/annum)</i>
Residential	\$232.21
Small business	\$603.79

Note: Based on average annual consumption of 4,640 kWh for residential tariffs and 16,370 kWh for small business tariffs. These averages represent averages across the entire data samples, and do not represent averages of the values depicted in Figures 4 and 5.

5.5 Determining fixed and variable retail cost components

Having determined an aggregate retail cost amount based on an average level of consumption, we need to consider whether these costs should be recovered through fixed or variable charges, or a combination of both.

Generally, the principle of cost reflectivity informs the decision on where the retail cost allowances should apply in each tariff. If retail costs are mostly fixed, they should generally be applied to the fixed tariff component; if they are mostly variable (they change with the level of usage) they should generally apply to the variable tariff components. In previous determinations, we have allocated the retail operating costs allowances to the fixed component of retail tariffs only, as we had no strong evidence to conclude that these costs varied with energy usage. The retail margin was applied as a percentage of total costs, which means it had a fixed and variable component.

Stakeholders expressed mixed views on how retail costs should be allocated between fixed and variable components. In response to the interim consultation paper, the Queensland Consumers Association submitted:

The Association emphasises the need for these to be accurately and fairly allocated given that they have major impacts on the bills of different types of consumers and on incentives to change consumption.

In this regard the Association requests that the review of [retail operating costs] establish the extend [sic] to which any significant retail costs, for example financing costs, are volume related and take these into account when deciding whether to continue to regard all retail costs as fixed and to add them to the daily charge.⁴⁰

In contrast, Toowoomba Regional Council considered that:

...the [retail operating costs] should be a fixed rate for each account and should not be linked with consumption and hence the variable component.⁴¹

Ergon Retail also considered the majority of retail costs are fixed, stating:

EEQ supports the principle of cost reflectivity, in the application of [retail operating costs] ROC, to fixed and variable charges. In EEQ's view, a majority of the costs included in the QCA's definition of [retail operating costs] represent fixed charges. Applying the [retail operating costs] to the fixed component of notified prices is likely to be the most appropriate approach. However, consideration should be given to the impact of fixed charges on customers with low usage, in particular, those who are vulnerable or experiencing financial hardship.⁴²

Ergon Retail also noted, in the context of estimating the retail margin, that amortisation and depreciation should be captured in the fixed retail cost component, rather than the variable (margin) component. Ergon Retail noted:⁴³

Many retailers are reducing the number of acquired assets and instead using service arrangement for their systems and required assets (e.g. IT systems, buildings, etc). The reclassification of depreciation and amortisation expenses from retail margin to [retail operating costs] will assist with future benchmarking process.

The preference for higher fixed charges among retailers is understandable as it provides greater revenue certainty, particularly when consumption is declining. It is also understandable that large customers would prefer a fully fixed retail cost allowance, as this means retail costs would likely represent a relatively smaller portion of their overall bill.

⁴⁰ Queensland Consumers Association, *Submission on QCA Interim Consultation Paper on regulated retail electricity prices for 2016–17*, 18 January 2016, p. 2.

⁴¹ Toowoomba Regional Council, *Submission*, 17 December 2015, p. 2

⁴² Ergon Energy Queensland, *Submission to QCA Interim Consultation Paper regulated retail electricity prices 2016–17*, 20 January 2016, p. 9.

⁴³ Ergon Energy Queensland, *Submission to QCA Interim Consultation Paper regulated retail electricity prices 2016–17*, 20 January 2016, p. 9.

In practice, fixed and variable retail costs are closely related and dependent on retailer preferences, as ACIL noted:

The allocation of costs between the two categories may sometimes be arbitrary and for a given retailer may change over time. A retailer could, for example, invest in IT and increase the level of automation in the business, which may decrease the fixed retailer cost (the costs to serve a customer) and increase the variable retailer cost (the return on and of the IT assets).⁴⁴

In setting its fixed retail cost allowance at the mid-point of the estimated range for its 2013–16 determination, IPART also acknowledged this trade-off between fixed and variable costs:⁴⁵

[setting the retail operating cost allowance at the mid-point]...takes account of the fact that retailers' capital expenditure decisions are not captured in the methodology used to estimate the retail margin. If retailers have lower [retail operating costs] because of higher capital expenditure, then setting [retail operating costs] at the low end of the range may understate their total costs given our method for estimating the retail margin. Further, choosing the lower end of the range may place too much weight on one retailer's data, given that the differences across retailers' data are driven partly by differences in their reporting and cost allocation methods.

5.5.1 Market data benchmarking

Our previous methodology for applying retail costs implies recovery of around 77 per cent of total retail costs (retail operating costs and margin) through the fixed component for residential and around 50 per cent for small business tariffs.⁴⁶ However, ACIL's analysis indicates the fixed component is generally smaller on average.

For residential customers, the market data analysis reveals that 45 per cent of retail costs are recovered through variable charges and 55 per cent through fixed charges, on average. This allocation is quite different for small business tariffs, where around 30 per cent of costs are recovered through fixed retail charges, and 70 per cent through variable charges, on average. This is understandable, as small businesses typically have higher usage than residential customers, which means the fixed component tends to be a smaller proportion of the overall bill than it is for residential customers.

ACIL's analysis also reveals differences in how individual retailers recover retail costs from fixed and variable tariff components. Notwithstanding these differences, there is a clear inverse relationship between the two components; higher fixed retail costs tend to be offset by lower variable retail costs charges, and vice versa.

5.5.2 Confidential retailer data - Bottom-up analysis

Confidential data supplied by retailers was varied and did not allow us to draw any firm conclusions on the appropriate allocation of retail costs between fixed and variable components. However, it provides some guidance on the likely reasonable range of the fixed retail component.

ACIL analysed the confidential retailer data and derived a reasonable range for the fixed component of retail costs for small customers of between \$80 and \$175 per customer, per year.

⁴⁴ ACIL Allen, *Preliminary Report, Regulated retail prices for 2016–17: Estimating the efficient retailer costs*, 17 March 2016.

⁴⁵ IPART, *Review of regulated retail prices and charges for electricity from 1 July 2013 to 30 June 2016*, June 2013, p. 105.

⁴⁶ Based on 2015–16 tariff 11 notified prices with the average annual usage of 4,640 kWh, and 2015–16 tariff 20 notified prices with annual average usage of 16,370 kWh.

This range effectively reflects the upper and lower limit of costs that could potentially be treated as fixed retail costs by a retailer. The lower limit includes only those costs that are typically considered to be directly related to customer numbers such as call centres, billing and revenue collection and customer acquisition and retention costs. The upper limit includes those same costs and others that could be considered fixed, but which retailers may choose to recover through variable charges. These costs include depreciation, amortisation, tax and interest payments, which have typically been considered as recovered through the variable retail component (the retail margin).

The mid-point of the estimated range of the fixed retail cost component derived from the retailer data is \$127.50. This is very close to the average fixed component of residential retail costs derived from the market data analysis, which supports the validity of the benchmarking observations.

QCA position

We consider using the allocation implied by the average fixed and variable retail cost allowances derived from ACIL's market observations is a reasonable approach to allocating total benchmark retail costs. Details on how this has been applied are set out in Appendix J.

Adopting the average benchmark allocation between fixed and variable components would see residential and small business notified prices 'rebalanced' to place greater weight on recovery of costs through variable charges. For tariff 11 customers, this would result in a reduction in the fixed daily charge of around 17 cents per day, and an increase in the variable charge of 1.04 cent per kWh. For small business customers this would result in a reduction in the fixed daily charge of around 3.8 cents per day, and an increase in the variable charge of 1.36 cents per kWh.⁴⁷

The allocation between fixed and variable components has distributional implications for different customers. Recovering a larger proportion of retail costs from the fixed component will have a proportionally greater impact on low-usage customers (as fixed costs are a relatively larger part of their bill), while recovering more costs through the variable component will have relatively greater impact on high-usage customers.

5.6 Assigning fixed and variable retail costs to small customer tariffs

After establishing the total retail cost allowances, and the benchmark allocation between fixed and variable components, we need to decide how to assign these allowances to each individual retail tariff.

Flat-rate tariffs - tariffs 11, 12A, 20, 22 and 22A

Tariffs 11 and 12A can be accessed by residential customers and small business customers. However, they can only be accessed by small business customers in conjunction with a primary small business tariff. Likewise, tariff 22 can be accessed by residential customers in some circumstances. However, the predominant users of tariffs 11 and 12A are residential customers, and small business customers are the predominant users of tariff 22. As such we will apply the small business retail cost allowance to tariffs 20, 22 and 22A, and the residential retail cost to tariffs 11 and 12A.

⁴⁷ This represents the impact on the retail cost component only and assumes all other costs are held constant.

Demand tariffs - tariffs 14, 24, 41

Tariff 14 is a residential tariff and tariffs 24 and 41 are small business tariffs. We have applied the corresponding retail cost allowance to each of these tariffs.

In previous decisions we have applied the retail margin equally (on a percentage basis) to all components of each retail tariff, including demand charges. We consider this approach remains appropriate for apportioning variable retail costs to tariff components that are not volume related, such as demand charges. We have applied the relevant variable retail cost percentage allocators set out in Table 33, column E (Appendix J) to the demand and usage components to each of these tariffs.

Controlled load tariffs - tariffs 31 and 33

Tariffs 31 and 33 are available to both residential and small business customers. However, we understand the majority of customers accessing these tariffs are classed as residential. On this basis we propose to apply the benchmark retail cost allowance for residential customers.

We have previously decided not to apply fixed retail cost allowances to the controlled load retail tariffs because we assumed that customers accessing those tariffs would also access another general supply tariff (e.g., tariff 11 or 20) and pay their fixed retail costs through that tariff.

In 2016–17, we propose to continue with this approach and apply only a variable retail cost to tariffs 31 and 33.

Unmetered loads - Tariff 91

Tariff 91 is available for other small unmetered supplies as approved by the distribution business. This tariff is primarily used for loads that are predictable and reasonably calculated without metering, or where it would not be cost-effective to install a meter. As tariff 91 is intended for small loads, we have applied the small business variable cost percentage allocator to the usage charge of tariff 91.

In previous decisions, we have not applied a fixed retail cost component to unmetered tariffs tariff 91, because customers accessing this tariffs are also likely to be supplied under another general supply business tariff. We propose to continue this approach in 2016–17.

QCA position

Our draft decision is to apply the total retail cost allowances to the fixed and variable components of retail tariffs based on the average allocation derived from ACIL's analysis (see Table 8), and the variable cost percentage allocators set out in Table 33 (Appendix J). Table 34 (Appendix J) summarises the application of these costs to each retail tariff. Consistent with our previous determinations, secondary retail tariffs do not attract a fixed retail cost allowance.

5.7 Large and very large business customer tariffs

For the reasons set out in section 5.2, ACIL has advised that there is no compelling evidence that the retail costs for large and very large business customers should vary from the QCA's previous allowances.

Stakeholders expressed differing views on the appropriate level of retail costs for large business customers. Toowoomba Regional Council stated:

Council questions the finding that the costs to serve large and very large customer is higher than for small and residential customers. In fact Council believes the opposite to be true. Large and very large accounts are likely to be controlled by organisations with multiple accounts and hence

*availing themselves of electronically issued consolidated invoices. Whereas small and residential customers are invoiced on paper for each individual account [sic]. Council considers that the cost to administer a large or very large account would be similar if not less than the cost to administer a small account, and hence does not support the proposal to continue to charge larger accounts with a higher ROC.*⁴⁸

In contrast, Ergon Retail submitted that large customers are more costly to serve than small customers and supported separate allowances for large customers:

The requirements of large and very large customers often result in more tailored product offerings and bespoke servicing. This impacts operational activities across multiple functions within a business including:

- *Customer administration (call centre specialists and dedicated customer service representatives)*
- *Trading*
- *Billing and revenue collection*
- *CARC.*⁴⁹

We note Toowoomba Regional Council's suggestion that retail costs should be lower for large and very large customers. While potential cost savings could be made by consolidating billing for large customers with multiple accounts, there may also be other characteristics of the relationship between a retailer and large customer that lead to higher costs, as noted by Ergon Retail.

We also note that Frontier Economics previously examined this issue and found that it costs considerably more to serve large customers than small customers.⁵⁰ This was based on the higher costs of marketing, account management, and pricing of large customer loads.

QCA position

On balance, we consider there is no conclusive evidence to suggest that the retail cost allowances for large and very large business customers in 2016–17 should be materially different from those allowed in 2015–16.

Therefore, our draft decision is to base retail costs for large and very large customers on our 2015–16 allowances, with the fixed retail components escalated by forecast inflation to maintain them in real terms. Details on how we have applied retail costs to each pricing component are set out in Appendix J.

Table 11 sets out our draft decision on retail cost allowances for each large and very large business tariff.

5.8 Draft retail cost allowances for 2016–17

Tables 9 to 11 set out our draft decisions on the retail cost allowances for each regulated retail tariff for 2016–17. Each fixed retail cost component includes an allowance for QCA regulatory fees, which reflects the allowance included in 2015–16 notified prices, as set out in Table 37 of

⁴⁸ Toowoomba Regional Council, Submission to Interim Consultation Paper, 17 December 2015, p. 2

⁴⁹ Ergon Energy Queensland, *Submission to QCA Interim Consultation Paper regulated retail electricity prices 2016–17*, 20 January 2016, p. 8.

⁵⁰ Frontier Economics, *Retail Operating Costs - A Report Prepared for the Economic Regulation Authority of Western Australia*, February 2012.

Appendix J. These allowances will be updated for actual 2016–17 regulatory fees for our final determination.

Table 9 Draft determination – Retail costs for residential customers for 2016–17 (GST exclusive)

<i>Retail tariff</i>	<i>Pricing component</i>				
	Fixed retail component (c/day)	Usage (c/kWh)		Demand (\$/kW/month)	
		Peak	Off-peak/Flat	Peak	Off-peak/Flat
T11	35.085		2.247		
T12A	35.085	5.216	1.799		
T14	35.085		1.363	5.725	1.016
T31	n/a		1.303		
T33	n/a		1.818		

Table 10 Draft determination - Retail costs for small business customers for 2016–17 (GST exclusive)

<i>Retail tariff</i>	<i>Pricing component</i>				
	Fixed retail component (c/day)	Usage (c/kWh)		Demand (\$/kW/month)	
		Peak	Off-peak/Flat	Peak	Off-peak/Flat
T20	49.768		2.579		
T22A	49.768	4.734	2.310		
T24	49.768		1.611	8.537	1.374
T41	49.768		1.320		2.812
T91			2.335		
T22 (Transitional)	49.768	2.807	2.245		

Table 11 Draft determination - Retail costs for large, very large business and street lighting customers for 2016–17 (GST exclusive)

<i>Retail tariff</i>	<i>Pricing component</i>				
	Fixed retail component (c/day)	Usage (c/kWh)		Demand (\$/kW/month)	
		Peak	Off-peak/Flat	Peak	Off-peak/Flat
T44	495.047		0.654		2.125
T45	1122.896		0.660		1.740
T46	2646.004		0.663		1.581
T47	2383.847		0.629		1.402
T48	2801.480		0.629		1.402
T50	459.384	0.628	0.806	3.331	0.804
T71			1.817		

5.9 Updating the retail cost allowances from year to year

A thorough bottom-up and benchmark review of the efficient retail cost allowance represents a time consuming and costly exercise, and places a significant reporting burden on electricity retailers. We consider that the cost of doing this exercise on a yearly basis would most likely outweigh any incremental benefit over the short term. Rather, we envisage that a thorough review of retail costs for the 2016–17 determination should produce robust estimates that can then be updated annually using a defined escalation method.

Any form of annual escalation could not be conducted indefinitely, and a further detailed review of retail costs would need to be conducted in due course. This would become particularly important if there were material changes in cost drivers that flowed through to retail costs.

QCA position

With the exception of retail costs for large and very large business customer tariffs, the escalation of benchmark retail cost allowances is not necessary in 2016–17. For this reason we propose to defer our consideration of this issue to next year, should we be delegated the task of setting notified prices.

6 OTHER ISSUES

This chapter sets out our draft decisions on the inclusion of an additional allowance above the estimated efficient costs of supply, and the cost pass-through mechanism. Our draft decisions are to:

- *provide an allowance for headroom of five per cent of the estimated efficient costs of supply for all large business customer retail tariffs, consistent with our 2015–16 determination*
- *include a five per cent allowance above the estimated efficient costs of supply in south east Queensland for all residential and small business customer tariffs, to reflect the difference between the expected level of market offer prices and standing offer prices in 2016–17*
- *consider the pass-through of over- or under-recovered Small-Scale Renewable Energy Scheme (SRES) costs incurred during 2015–16, at the time of making our final determination.*

6.1 Allowances above the efficient costs of supply

Under section 90(5)(a) of the Electricity Act, we are required to have regard to the effect of our price determination on competition in the Queensland retail electricity market. We must also have regard to the objects of the Electricity Act, which include:

- (a) establishing a competitive electricity market in line with the national electricity industry reform process
- (b) taking into account national competition policy requirements.

Where it is effective, we consider that competition provides the best means of delivering the goods and services that customers demand at prices that reflect efficient costs. In previous determinations, we have included an allowance for 'headroom' to facilitate the development of retail competition in south east Queensland for residential and small business customers, and in regional Queensland for large business customers. The headroom allowance is an amount, in addition to the estimated efficient cost of providing customer retail services, included in notified prices for the purpose of encouraging customers to engage in the market and seek out more attractive market offers. Since the 2012–13 determination, we have set this allowance at five per cent of total estimated efficient costs.

Retail competition in the residential market is very limited outside of south east Queensland. This is largely because the Queensland Government's UTP delivers a subsidy to Ergon Retail to supply electricity at notified prices which are, in most cases, well below the true cost of supply. Other retailers cannot access this subsidy and therefore typically cannot compete with Ergon Retail's subsidised notified prices. While headroom has performed the function of encouraging competition in the south east Queensland market where there is a choice of retailers, the inclusion of headroom in notified prices for small customers in regional Queensland is the result of the UTP, rather than a means of promoting competition.

While we are setting notified prices to apply in regional Queensland only, where competition is limited, headroom remains a relevant issue for 2016–17. Firstly, headroom is an important consideration when setting notified prices for large and very large customers in the Ergon Distribution area, where many of these customers do have access to competition. This is discussed further in section 6.1.2.

Headroom is also a relevant concept when determining the expected level of standing offer prices for small customers in south east Queensland. Conceptually, headroom can be likened to the increment of standing offer prices over market offer prices where we assume that market offers are based on the efficient costs of supply.

Some stakeholders including Canegrowers Isis, Canegrowers, Cotton Australia, QCOSS, and QFF opposed the inclusion of headroom on the basis that it increases prices for regional customers, most of whom do not have access to competitive market offers. Origin Energy supported the continued use of a headroom allowance.

6.1.1 Estimating price differentials in south east Queensland—residential and small business customers

Notwithstanding some stakeholders' opposition to headroom, the Queensland Government's definition of the UTP leads the QCA to set 2016–17 notified prices for small customers in regional Queensland that broadly reflect the expected level of standing offer prices in south east Queensland (see section 2.2.1). As discussed below, market prices in south east Queensland generally reveal that most retailers' standing offer prices are higher than their best market offers, albeit by varying amounts. In essence, these price differentials represent a form of 'headroom' reflecting the amount the retailers are willing to compete away through conditional and non-conditional discounts.

The QCA uses an N+R bottom-up approach to derive the estimated efficient costs of supplying small customers in south east Queensland. In broad terms, this produces price levels that we would expect to reflect efficient market offer prices. To estimate the expected level of standing offer prices, it is necessary to add an amount that represents a reasonable expectation of the difference between expected efficient market offer prices and expected standing offer prices.

Why is there a difference between market and standing offer prices?

There are a number of possible reasons why standing offer prices tend to be higher than market offer prices. In many cases, the difference reflects the fact that standing offers often provide terms and conditions that are more favourable to the customer. In this case, the premium included in standing offer prices could be considered compensation to the retailer for accepting the additional costs and risks associated with providing those terms and conditions.

Through market offers, retailers are able to adopt different terms and conditions designed to reduce their direct costs or risks, which may enable them to offer a better price or other incentives to the customer. For example:

- Incentivising customers to pay on time can reduce a retailer's bad debt risk, improve its cash flow position and reduce costs.
- Requiring customers to use direct debit payment methods achieves a similar outcome, and many retailers will offer discounts to customers who use it, to reflect the lower risk of default and bad debts.
- Requiring customers to subscribe to online-only (paperless) billing allows retailers to save on printing and postage costs.

The difference between market and standing offer prices may also be an indication of differential pricing strategies, whereby retailers target different customer segments with different prices, according to their sensitivity to price changes. As Canegrowers Isis observed:⁵¹

Standing offer prices will most likely be taken up by non-price-sensitive customers (e.g. Solar bonus scheme and small consumers) and as such will be set artificially high.

What is an appropriate price differential to apply to efficient costs?

In previous price determinations, when notified prices were also being set for south east Queensland customers, we estimated the efficient cost of providing retail electricity services and increased that amount by five per cent to reflect the headroom allowance. However, when setting small customer notified prices for the 2016–17 determination, our aim is to estimate the expected price differential between market offers and expected standing offers, and build that amount onto our estimate of the efficient costs of supply in south east Queensland to arrive at an expected standing offer price level. We have considered the following matters when estimating this expected price differential:

- the potential effect of deregulation on retail prices
- the experience in other deregulated jurisdictions
- observed price differentials in the south east Queensland market.

Price deregulation

From 1 July 2016, retail electricity prices will be deregulated in south east Queensland and retailers will be able to set standing offer prices at levels of their own choosing, rather than notified prices. This clearly has the potential to influence the differential between market and standing offer prices in 2016–17.

There are differing views on the likely effect of price deregulation on standing offer prices in 2016–17. Canegrowers considered that standing offer prices would fall following deregulation, noting:

the change to price monitoring in south east Queensland is likely to trigger further changes to prices and innovation in the value propositions that retailers offer customers connected to the Energex network. It is likely that 'standing offer prices' in south east Queensland will be below existing price levels and well below the prices foreshadowed in QCA's [2016–17] draft determination.⁵²

A contrasting view is that deregulation will lift the constraints on standing offer prices allowing retailers to potentially increase prices. However, there are countervailing factors which may influence retailers' pricing decisions. First, the legislative provisions which give effect to price deregulation in south east Queensland from 1 July 2016 include provisions for independent price monitoring, and the option for the Queensland Government to reinstate retail price regulation if necessary. Both of these factors are likely to moderate incentives to increase standing offer prices significantly in 2016–17.

Second, there is likely to be some circularity between the notified prices we determine for regional Queensland and standing offer prices that eventuate in the deregulated south east Queensland market in 2016–17. As the QPC noted:

⁵¹ Canegrowers Isis, Submission to interim consultation paper, 18 January 2016, p. 1.

⁵² Canegrowers, *Submission to the QCA Regulated Retail Price Determination 2016–17*, p. 4.

The QCA's approach to setting regulated retail electricity prices in regional Queensland based on the cost of supplying customers in south east Queensland is also likely to provide a benchmark price for standing offers in south east Queensland going forward.⁵³

Therefore, while retailers may have plausible reasons to avoid increasing their standing offer prices significantly in 2016–17, these reasons do not provide a sufficient basis to predict how standing offer prices might change immediately after deregulation.

Experience in other deregulated jurisdictions

Jurisdictional experience of standing offer price movements following retail market deregulation is mixed. In Victoria, where the electricity retail market was deregulated in 2009, the difference between market and standing offers has increased considerably in the eight years since deregulation, reaching up to 18 per cent in some cases.⁵⁴ This is likely indicative of increased rivalry in a more mature market, with increased discounting made possible by differential pricing and a base of price-insensitive or 'sticky' customers remaining on standing offers. In South Australia and New South Wales, where the governments have deregulated more recently (February 2013 and July 2014, respectively), standing offer prices in the early years of deregulation have been influenced by other factors and are not representative of expected outcomes in the south east Queensland market in 2016–17.

When the South Australian retail market was deregulated on 1 February 2013, the South Australian Government reached an agreement with AGL (the incumbent first tier retailer) to lower its residential standing offer prices by 9.1 per cent and small business tariffs by 4.5 per cent following deregulation, and to cap increases in the retail component of the standing offers for two years.⁵⁵ Preliminary observations of South Australian market prices from early March 2016, immediately after the controls on standing offers were lifted, indicate that the difference between standing and market offer prices for residential customer tariffs ranges between zero and 20 per cent, with an average of around 8 per cent.⁵⁶

Similarly, when the NSW retail market was deregulated on 1 July 2014, small customers who were on a regulated contract were moved to a 'transitional tariff' for up to two years, after which they would be required to move to a market offer. In the first year of deregulation, the NSW Government approved arrangements that would see the transitional tariff decrease by at least 1.5 per cent from existing standing offer prices. In the second year, average increases in the retail component of the transitional tariff were capped at CPI.

Evidence of price differentials in south east Queensland

To estimate the expected difference between market and standing offer prices that might emerge in south east Queensland, we analysed standing offers and market offers available to customers using the AER's 'Energy Made Easy' online price comparison facility. Standing offers are basic contracts with regulated terms and conditions. In markets with price regulation (such as south east Queensland in 2015–16), standing offer prices are the notified prices. In markets

⁵³ Queensland Productivity Commission, *Draft Report—Electricity pricing inquiry*, 3 February 2016, p. 124.

⁵⁴ See AER, *State of the Energy Market 2015*, p. 137.

⁵⁵ Government of South Australia, *Lower prices for South Australia*, media release, 18 December 2012. Available at http://archives.premier.sa.gov.au/images/news_releases/12_12Dec/energyprice.pdf, accessed 19 February 2016.

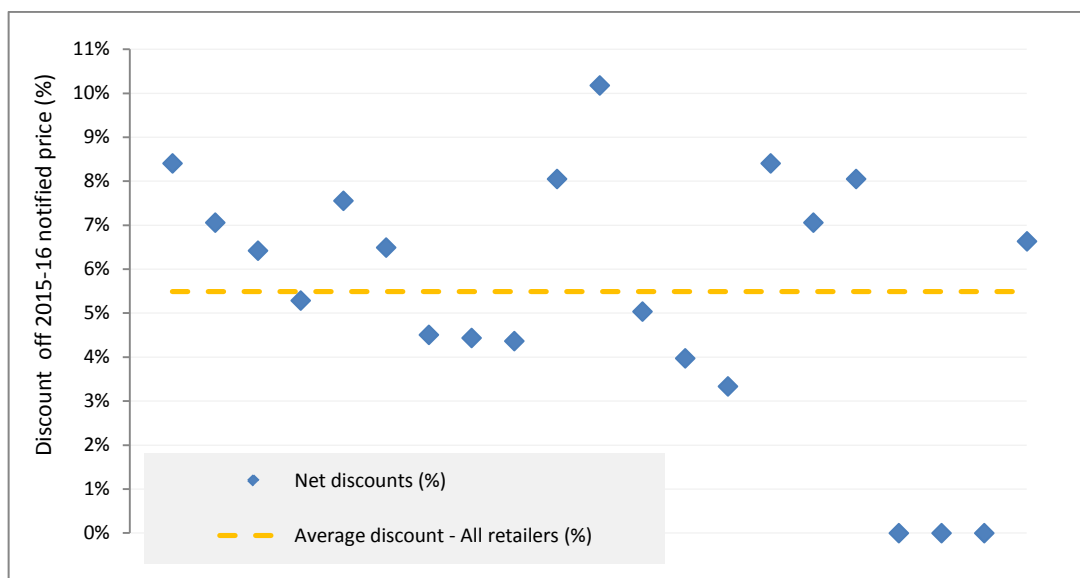
⁵⁶ QCA analysis of results from <https://www.energymadeeasy.gov.au/>, accessed on 11 March 2016. Based on typical annual residential usage of 3,870 kWh and excluding zero-discount offers, except where they are the only tariff offered by the retailer.

without price regulation, standing offers are set by the retailer. They also tend to be the benchmark price from which retailers offer discounted market prices.

From our analysis, it is clear that the market offers of most south east Queensland retailers are materially lower than standing offers set at 2015–16 notified price levels. At the time of our observations in early February 2016, net discounts off a typical annual residential bill based on a flat tariff (i.e. tariff 11 equivalent) ranged from zero to 10.2 per cent⁵⁷, with an average of around 5.5 per cent.⁵⁸

A similar analysis we conducted on offers available to small businesses in south east Queensland yielded similar results. Based on the sample of market offers available to small businesses on a flat tariff (i.e. a tariff 20 equivalent), net discounts off a typical annual small business customer bill are in the range of zero to 10 per cent, with an average of 5.6 per cent. Figures 6 and 7 illustrate the results of this analysis.

Figure 6 Discounts available in south east Queensland at February 2016: Residential flat tariffs

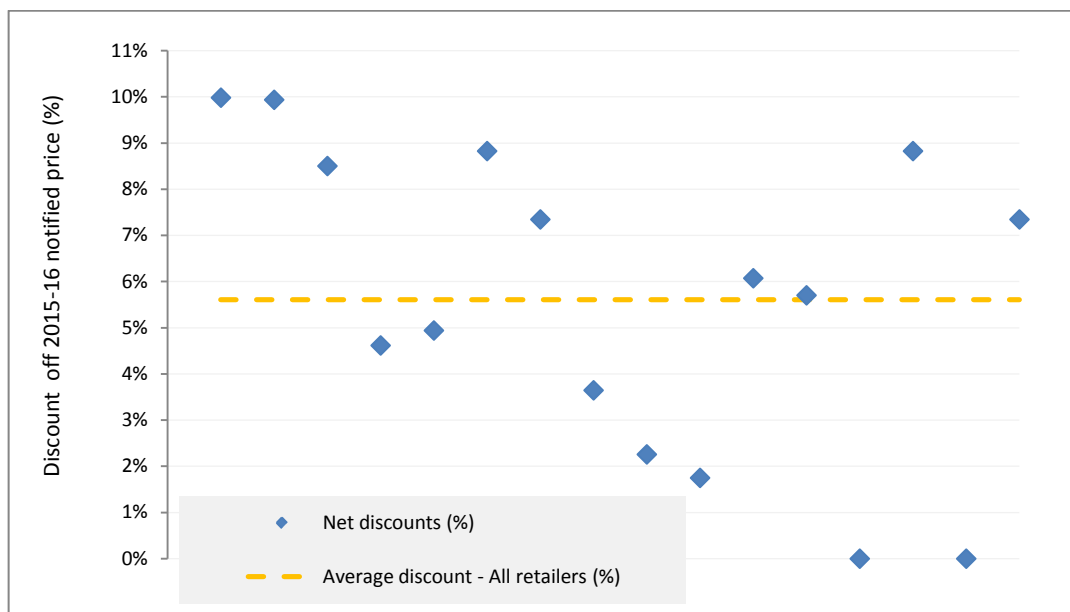


Note: Discounts are calculated based on the estimated annual bill of a typical customer consuming 3,860 kWh per year and paying the 2015–16 tariff 11 notified price.

⁵⁷ QCA analysis of data from www.EnergyMadeEasy.com as at 3 February 2016. This analysis assumes a typical annual usage of 3,860 kWh. 'Effective net discounts' are calculated as the net impact of one-off sign-up bonuses, conditional and non-conditional discounts, as well as any account establishment or connection fees which might offset some of the headline discount available. This analysis does not take account of those market offers that feature prices higher than the notified prices. These offers have been excluded from our analysis as it is not clear that a significant number of customers would take up these offers.

⁵⁸ We note that the AER has published market discount analysis in its 2014 and 2015 State of the Energy Market reports which suggest lower average discounts, closer to two per cent. However, we do not have access to the underlying assumptions of this analysis and as such have been unable to replicate these results.

Figure 7 Discounts available in south east Queensland at February 2016: Small business flat tariffs



Note: Discounts are calculated based on the estimated annual bill of a typical customer consuming 6,470 kWh per year and paying the 2015–16 tariff 20 notified price.

This analysis is indicative only and has some limitations. Most notable is the constraint created by regulated prices in 2015–16, which means that retailers' standing offers are set at notified price levels. As a result, the differential between market and standing offer prices can only be driven by reducing market offer prices. In deregulated markets, retailers are able to change the level of both their standing offer and market offer prices.⁵⁹ Other limitations of this analysis include:

- Point-in-time observations such as these taken from price comparison websites do not capture market offers that some customers may currently be receiving, but are no longer available (or advertised) to new customers.
- We do not have sufficient information to determine how many customers are receiving each market offer, so it is not possible to determine a weighted-average effective discount across the whole market, which would offer a more representative estimate of the level of price differentiation in the market.
- This analysis is sensitive to the annual usage assumptions, particularly given that most retailers offer discounts off the usage component only, rather than the whole bill. Usage only discounts mean that high-usage customers tend to receive discounts that represent a relatively larger proportion of their overall bill than low-usage customers.

It is also important to note that each individual retailer's capacity to discount is highly dependent on its own underlying costs. These costs can vary significantly between businesses due to many factors, including degrees of efficiency, scale, productivity, risk profile, marketing strategies and other characteristics. We have not attempted to normalise the samples for these

⁵⁹ In the absence of temporary price controls or other negotiated outcomes, such as those seen in New South Wales and South Australia.

differences. These different characteristics are likely to be major drivers of the variation seen in the level of discounts across the samples, as illustrated in Figures 6 and 7.

QCA position

Based on the information available, the QCA considers that differentials between market offer and standing offer prices will prevail in south east Queensland for small customer tariffs in 2016–17. Ultimately, the size of the differential between market and standing offer prices immediately following deregulation is uncertain and will likely be the result of individual retailers' pricing strategies, changes in underlying costs of supply, and other incentives created by the regulatory and legislative environment.

As we cannot predict the likely size of this price differential with any certainty, we consider it reasonable to assume it will remain at a level similar to that seen in the south east Queensland market at the moment.

Analysis of the existing differential between notified price standing offers and retailer market offers reveals the average level of effective net discounting is around five to six per cent for a typical small customer's total annual bill. We consider this is not materially different from the headroom allowance of five per cent which has previously been applied to small customer tariffs.

We note the suggestion made by QCOS to set notified prices at a level somewhere between the difference in market and standing offer prices. However, taking this approach would be inconsistent with the Queensland Government's definition of the UTP for the 2016–17 price determination. That is, that notified prices for small customers should broadly reflect the expected prices for customers on standing offers in south east Queensland, as discussed in section 2.2.1.

There is no compelling evidence to conclude that the price differential between market and standing offers in 2016–17 will be any higher or lower than the level observed in the market in 2015–16. On this basis, our draft decision is to add an amount above the efficient costs of supply in south east Queensland that would deliver a similar average price differential in 2016–17, all other things being constant. We consider that an amount of five per cent of total costs—equal to the headroom allowance applied in previous years' determinations—is a reasonable estimate of the amount required to deliver similar price differentials to those observed in 2015–16.

6.1.2 Estimating headroom for large business customer tariffs

Competition in regional Queensland

While there is very limited competition in the small customer market in regional Queensland, the large customer segment shows greater promise of developing further effective competition, particularly in areas where notified prices more closely reflect the actual costs of supply. Competition in this market segment can be supported by applying an appropriate level of headroom to notified prices with the aim of encouraging customers to engage in the market and seek out better offers. Since our 2012–13 determination, we have been including an allowance for headroom of five per cent of efficient costs to facilitate and encourage competition in the large customer market in regional Queensland.

The use of a headroom allowance is a generally accepted approach to stimulating competition and customer engagement in emerging competitive markets. The QPC highlighted the role that headroom plays in supporting competition in regional Queensland:

Evidence demonstrates that some level of headroom is needed in electricity prices to support the development of a competitive retail market. Competition is already in effect in certain customer segments in regional Queensland. The number of large and very large customers on market contracts is a direct result of competitive market offers made possible through the retail headroom allowance. Removing the headroom component of notified prices for regional customers would effectively preclude any further development of regional competition. It also would raise issues around customers who have already taken up market offers.⁶⁰

How much headroom should be included?

It is difficult to assess the impact of more cost-reflective notified prices and the inclusion of headroom on competition. There has only been a small increase in the proportion of large regional customers on market contracts over the last few years. As at 30 June 2015, around 28 per cent of large regional customers were supplied under a market contract.

However, in the Ergon Distribution east pricing zone, transmission region one—where notified prices are based on the estimated efficient costs of supply—the proportion of large customers on market contracts is higher and has been increasing. In 2012–13, around 44 per cent of large customers in this area were on market contracts; that number has increased to 47 per cent as of June 2015. Notwithstanding this increase, some barriers to the development of widespread competition in the regional large customer market remain:

- Setting uniform retail tariffs means that customers in higher-cost areas of regional Queensland are not paying cost-reflective notified prices and very large customers are paying a notified price based on a network charge for high-voltage demand customers (rather than their site-specific network charge).
- Many customers are still accessing obsolete and transitional tariffs, which are not cost-reflective.
- Once large business customers accept a market contract, they are not allowed to return to Ergon Retail, which may discourage them from accepting a market offer.⁶¹

Even if headroom is set at a reasonable level, these barriers will likely continue to limit the extent to which competition develops throughout regional Queensland in the foreseeable future. However, we consider that it is appropriate to continue to include an allowance for headroom so that the level of notified prices does not create a barrier to competition—to the extent possible—and to encourage customers to engage in the market and actively seek out better offers.

QCA position

In the absence of any further information, or compelling reasons to change the level of headroom, our draft decision is to continue to include an allowance for headroom in notified prices for large business customers and to maintain the allowance at five per cent of total efficient costs.

⁶⁰ Queensland Productivity Commission, *Draft Report—Electricity pricing inquiry*, 3 February 2016, p. 159.

⁶¹ This restriction also applies to any future occupants of that premises (e.g. if the premises is sold or occupied by a new tenant).

6.2 Cost pass-through mechanism

Cost pass-through mechanisms are used by regulators to mitigate the risk that the costs allowed for in regulated prices are higher or lower than actual efficient costs. Cost pass-through mechanisms are usually restricted to events that are outside the control of the regulated entity.

We applied a cost pass-through mechanism for the first time in our 2014–15 determination to pass through an under-recovery of costs in 2013–14 associated with the SRES.⁶² We also decided that the mechanism could be used to account for material differences in network charges, in the event that the charges billed to retailers (usually the AER-approved charges) differed from those used to set notified prices. However, this application of the mechanism has not been needed to date.

6.2.1 Pass-through arrangements for 2015–16

As set out in Chapter 2, consistent with the Government's stated intent of the UTP for 2016–17, our draft decision is to continue to base notified prices for residential and small business customers on the costs of supply in south east Queensland. Not allowing a 'true-up' of costs resulting from particular events that are outside retailers' control may result in notified prices being out of alignment with estimated efficient costs, which may not be consistent with the intent of the UTP.

The continuation of a pass-through mechanism was supported by Origin Energy and Ergon Retail. No other stakeholders commented on this issue.

QCA position

Consistent with the approach adopted in our 2015–16 determination, we will consider passing through differences in SRES costs, where the amounts provided in the 2015–16 determination are found to be materially understated or overstated as a result of differences between the non-binding and binding STPs. We will revisit the need for any pass-through adjustment in our final determination when the binding STP for 2016 is known, and the materiality of any over- or under-recovery can be determined. Consistent with our position in previous determinations, we do not consider that it is necessary to prescribe a fixed materiality threshold.

As stated above, we have previously considered the cost pass-through mechanism could be used to account for material differences in network charges. However, as the final 2015–16 network charges billed to retailers did not differ from those used to set 2015–16 notified prices, no adjustment is required.

Depending on the regulatory framework that will apply to future price determinations and on whether any changes are made to the UTP or the subsidy arrangements underpinning it, the pass-through provisions discussed here may or may not remain appropriate in the future. Therefore, we cannot commit to the continued availability of a cost pass-through mechanism beyond this price determination.

⁶² See Chapter 4 for details on how SRES costs are estimated.

7 TRANSITIONAL ARRANGEMENTS

The delegation requires that we consider maintaining transitional arrangements for tariffs classed as transitional or obsolete, which include farming and irrigation tariffs.

Our draft decision is to:

- *maintain the transitional arrangements for most tariffs classed as transitional or obsolete because there would be significant price impacts for some customers moving to standard business tariffs*
- *continue to allow all customers access to transitional tariffs*
- *increase transitional and obsolete tariffs in line with increases in standard business tariffs, and apply an escalation factor of 1.1 to limit charges for transitional and obsolete tariffs from falling further below cost in dollar terms.*

7.1 Transitional arrangements for obsolete and transitional tariffs

Some business customers are supplied under transitional or obsolete tariffs. These include farming and irrigation tariffs.⁶³

In previous determinations, we decided that most of these tariffs should continue to be available for a transitional period of several years because many customers would face significant financial impacts if they were moved to a standard business tariff.

The delegation requires that we consider maintaining these transitional arrangements and continuing to allow all customers access to transitional tariffs.

QCA position

Our draft decision is to maintain transitional arrangements for 2016–17. We consider it appropriate to maintain transitional arrangements, as analysis from Ergon Retail (see Appendix E) shows that while a significant number of customers on transitional and obsolete tariffs may face lower electricity bills on standard business tariffs, some customers are paying electricity bills significantly below their cost of supply and would face significant price impacts if they were immediately moved to the standard business tariffs which all other businesses in regional Queensland must pay.

7.1.1 Transitional periods

We established transitional periods for each transitional and obsolete tariff in our 2013–14 determination. In subsequent determinations we decided to maintain these periods. Tariffs 20 (large), 21, 22 (small and large), 37, 62, 65 and 66 were made available until 2020 to allow time for businesses to prepare for the transition to standard business tariffs and recoup some of the value of investments made to suit the level and structure of these tariffs.⁶⁴

⁶³ We note that the QPC is examining issues around transitional and obsolete tariffs as part of its electricity pricing inquiry, and has made a draft recommendation for the government to develop an industry assistance arrangement to help businesses on transitional and obsolete tariffs to adjust to standard business tariffs. See www.qpc.qld.gov.au for further information on the QPC's electricity inquiry.

⁶⁴ Tariffs 41 (large) and 43 (large) were made available until 30 June 2015, on the basis that a significant number of customers would be better off on a standard business tariff.

Toowoomba Regional Council supported allowing transitional periods to run their full course to allow customers to continue to explore options to adapt their operations to standard business tariffs. Cotton Australia and the QFF did not support transitional and obsolete tariffs being removed in 2020, with Cotton Australia arguing for transitional tariffs to remain available to existing customers indefinitely. Cotton Australia highlighted that electricity costs for some of their members would triple if they were to move to standard business tariffs.

QCA position

Our draft decision is to maintain the existing transitional periods established in our 2013–14 final determination. We consider this will provide certainty to businesses and allow them to prepare for moving to standard business tariffs. We do not propose to remove transitional tariffs earlier than scheduled as, based on customer impact analysis (see Appendix E), some customers would experience significant price impacts if they moved to a standard business tariff immediately.

We do not propose to extend existing transitional periods beyond 2020 for two reasons. Firstly, as explained in previous determinations, we decided on the transitional period by taking the Australian Taxation Office's defined depreciable life of an irrigation pump of 12 years as a starting point and then reduced it, because we considered that most investments of this type would have been partly, if not fully, depreciated. Secondly, continuing to subsidise prices beyond already subsidised UTP levels indefinitely will encourage further uneconomic investment by businesses and networks.

7.1.2 Access to obsolete tariffs

The delegation requires that we consider continuing to allow all customers access to transitional tariffs.

In the 2013–14 determination, we decided that all business customers should have access to transitional tariffs throughout the transitional period, subject to individual tariff terms and conditions. The transitional tariffs are tariffs 20 (large), 21, 22 (small and large), 62, 65, and 66.⁶⁵ We made this decision so that all businesses are treated equitably. In subsequent determinations we noted that we would consider closing access to transitional tariffs to new customers if there was a significant increase in the number of customers accessing transitional tariffs, and thereby an increase in the subsidy paid by taxpayers. However, as we found no significant increase we decided to continue to allow open access.

Origin suggested that access to transitional tariffs should only be available to those customers that made investments on the expectation that these tariffs would remain.

QCA position

Our draft decision is to continue to allow all business customers to have access to transitional tariffs. Our analysis shows that there has not been a significant increase in the number of customers accessing transitional tariffs. We consider that limiting transitional tariff access to customers based on their expectations at the time of making their investments, as suggested by Origin, would not be equitable and may prevent customers from moving to a standard business tariff.

⁶⁵ New customers cannot access tariffs classified as obsolete. We made this decision on the basis that they had been obsolete for some time (tariff 37) or that they would be removed in a shorter timeframe (tariffs 41 (large) and 43 (large) were removed on 30 June 2015).

7.1.3 Escalation of transitional and obsolete tariffs

Transitional and obsolete tariff charges are not determined using an N+R approach like other tariffs. In past determinations our general approach to setting charges for each transitional and obsolete tariff was to escalate the charges based on the percentage increase in the charges in the standard business tariff that customers would otherwise pay. We then applied additional escalation factors to these increases to limit charges for transitional and obsolete tariffs falling further below cost in dollar terms.⁶⁶ Escalation factors of 1.1, 1.25 or 1.5 were applied, depending on the gap between customer bills under transitional and obsolete tariffs and corresponding standard business tariffs. Where most customer bills would likely be impacted by 10 per cent or less an escalation factor of 1.1 was applied; where impacts were between 10 per cent and 100 per cent an escalation factor of 1.25 was applied; and where impacts exceeded 100 per cent an escalation factor of 1.5 was applied.

In the 2015–16 determination the charges in standard business tariffs fell slightly. We determined that maintaining charges in transitional and obsolete tariffs at their 2014–15 levels would be sufficient to limit these charges from falling further below cost in dollar terms.

Bundaberg Regional Irrigators Group, Canegrowers and Canegrowers Isis highlighted the impact of significant price increases in previous years on their members' operations. Canegrowers and Cotton Australia stated that further increases in transitional tariffs were unjustified, with Canegrowers also disputing that transitional and irrigation tariffs (T62, T65 and T66) do not cover the costs of supplying electricity to the state's irrigators.

QCA position

Our draft decision is to increase transitional and obsolete tariffs in line with increases in standard business tariffs, and apply an escalation factor of 1.1 to limit charges for transitional and obsolete tariffs falling further below cost in dollar terms.

Table 12 maps transitional and obsolete tariffs to small and large customer tariffs and shows the percentage increase in the standard business tariffs in 2016–17. Unlike previous determinations, we have used only small business tariff 20 as the basis for escalating small customer transitional tariffs 21, 62, 65 and 66, rather than the combination of tariff 20 and tariff 22. This is because tariff 22 is no longer suitable as a benchmark, as it is now an obsolete tariff which customers currently on transitional tariffs are not able to access. While small business customers on obsolete and transitional tariffs also have access to an optional seasonal time-of-use tariff, tariff 22A, we also do not consider this to be an appropriate benchmark, as charges under this tariff are adjusted by the QCA based on the price level of tariff 20.⁶⁷

⁶⁶ As any given percentage increase in a higher (such as a standard business tariff) bill will be greater expressed in dollar terms than the same percentage increase in a smaller (such as a transitional or obsolete tariff) bill. For example, if two bills of \$1,000 and \$2,000 each increased by 10% to \$1,100 and \$2,200 respectively, the dollar difference between would increase from \$1,000 to \$1,100.

⁶⁷ See Chapter 3.

Table 12 Alignment of tariffs and underlying cost increases

<i>Standard business tariff</i>	<i>Standard business tariff annual bill increase</i>	<i>Transitional or obsolete tariff</i>
Tariff 20	9.33%	Tariffs 21, 62, 65, 66
Tariffs 44-46 ^a	10.43% ^b	Tariffs 20 (large), 22 (small and large), 37 ^c

a The most appropriate tariff depends on the customer's demand and voltage requirements.

b This is the average of bill increases across tariffs 44, 45 and 46. Tariffs 47 and 48 are omitted because there are only a very small number of customers on these tariffs, which may skew the results.

c Small customers on tariff 37 will most likely move to tariff 20 or 22A; however as most customers on this tariff are large, it is aligned with the large customer tariffs for this purpose.

Table 13 summarises the likely percentage impacts on electricity bills for customers on each transitional and obsolete tariff moving to an equivalent standard business tariff (see Appendix E for further details). Applying escalation factors consistent with previous determinations would result in the QCA applying escalation factors of 1.25 or 1.5 to 2016–17 standard business tariff increases for most transitional and obsolete tariffs.⁶⁸

Table 13 Likely impact on electricity bills for customers on transitional and obsolete tariffs moving to equivalent standard business tariffs

<i>Transitional tariff</i>	<i>Standard business tariff</i>	<i>Percentage of customers who would experience less than 10% impact on bills</i>	<i>Percentage of customers who would experience 10% to 100% impact on bills</i>	<i>Percentage of customers who would experience greater than 100% impact on bills</i>
Tariff 20 (large)	Tariff 44 to 46 ^a	26.8%	73.2%	0.0%
Tariff 21	Tariff 20	16.0%	39.0%	45.0%
Tariff 22 (large)	Tariff 44 to 46 ^a	8.1%	91.9%	0.0%
Tariff 37	Tariff 20	57.0%	39.0%	4.0%
	Tariff 22A	83.5%	13.0%	3.5%
	Tariff 44 to 46 ^a	0.0%	100.0%	0.0%
Tariff 62	Tariff 20	45.6%	53.8%	0.6%
	Tariff 22A	49.6%	48.2%	2.2%
	Tariff 44 to 46 ^a	6.2%	93.8%	0.0%
Tariff 65	Tariff 20	59.7%	40.0%	0.3%
	Tariff 22A	73.9%	24.9%	1.2%
	Tariff 44 to 46 ^a	1.6%	98.4%	0.0%
Tariff 66	Tariff 20	70.8%	29.2%	0.0%
	Tariff 22A	92.1%	7.8%	0.1%
	Tariff 44 to 46 ^a	0.0%	100.0%	0.0%

a standard tariff determined based on individual customer usage and demand levels.

Note: Ergon Retail data applies a derived demand profile for customers where demand data is unavailable. Cost impacts may be over- or under-stated for individual customers depending on their unique demand profile.

Source: QCA analysis of Ergon Retail data.

⁶⁸ Tariffs 62 and 65 would have an escalation factor of 1.1 under the approach in previous determinations.

We disagree with suggestions that transitional and obsolete tariffs should not be increased at all. As discussed in section 7.1, Ergon Retail analysis shows that there are some customers on transitional tariffs that pay significantly less than they would pay on standard business tariffs. As standard business tariffs are estimated to increase in 2016–17, leaving transitional and obsolete tariffs unchanged would result in charges for most of these tariffs falling further below cost and risk encouraging further uneconomic investment.

Having said that, we acknowledge stakeholder concerns about price increases in previous years and the impact that further price increases may have on their businesses. For this reason, we have decided not to apply the higher escalation factors of 1.25 and 1.5 used previously, and instead apply only the lower escalation factor of 1.1 to all transitional and obsolete tariffs. We note that this will result in more customers facing price increases at the end of the transition period than if higher escalation factors were applied.

7.2 Conclusion on transitional arrangements

A summary of our draft decision on transitional arrangements for 2016–17 is provided in Table 14.

Table 14 Draft decision—transitional arrangements for 2016–17

<i>Obsolete or transitional tariff</i>	<i>Period to be retained</i>	<i>Proposed 2016–17 price increase</i>
Tariff 20 (large) –transitional	4 years	11.5%
Tariff 21–transitional	4 years	10.3%
Tariff 22 (small and large) –transitional	4 years	11.5%
Tariff 37–obsolete	4 years	11.5%
Tariff 62–transitional	4 years	10.3%
Tariff 65–transitional	4 years	10.3%
Tariff 66–transitional	4 years	10.3%

8 DRAFT DETERMINATION

This chapter sets out our draft determination of regulated retail electricity prices (notified prices) to apply from 1 July 2016 to 30 June 2017, as well as expected customer impacts.

Under the network plus retail (N+R) approach, retail tariffs are aligned with network tariffs approved by the AER. For the purposes of this draft determination, Energex and Ergon Energy have provided preliminary 2016–17 network tariffs and charges. The network tariffs used to develop retail tariffs are discussed in Chapter 3.

Chapters 4, 5 and 6 set out our draft decisions on energy costs, retail costs and other costs, which comprise the R component of the tariff calculation.

Chapter 7 sets out our draft decisions on notified prices and transitional arrangements for retail tariffs that have been declared transitional or obsolete.

The regulated retail tariffs and notified prices are published in a tariff schedule, which includes other information, including the eligibility criteria and terms and conditions for each tariff. The draft tariff schedule for 2016–17 is provided in Appendix G.

The following tables set out our draft determination of regulated retail tariffs and prices for 2016–17. All tariffs are presented exclusive of goods and services tax (GST).

Table 15 2016–17 Draft regulated retail tariffs and prices for residential customers (excl GST)

<i>Retail tariff</i>	<i>Fixed charge^a</i>	<i>Usage charge (peak)</i>	<i>Usage charge (flat/off-peak)</i>	<i>Demand charge (peak)</i>	<i>Demand charge (off-peak)</i>
	<i>c/day</i>	<i>c/kWh</i>	<i>c/kWh</i>	<i>\$/kW/mth</i>	<i>\$/kW/mth</i>
Tariff 11 - Residential (flat rate)	89.549		23.911		
Tariff 12A - Residential (time-of-use) ^b	101.147	55.493	19.136		
Tariff 14 - Residential (time-of-use demand) ^c	62.058		14.501	60.908	10.811
Tariff 31 - Night rate (super economy)			13.865		
Tariff 33 - Controlled supply (economy)			19.343		

a. Charged per metering point.

b. Peak – 3:00pm to 9:30pm (December, January and February); off peak - all other times.

c. Peak – 3:00pm to 9:30pm (December, January and February); off peak - 3:00pm to 9:30pm (March to November).

Table 16 2016–17 Draft regulated retail tariffs and prices for small business and unmetered supply customers, other than street lighting (excl GST)

Retail tariff	Fixed charge ^a	Usage charge (peak)	Usage charge (flat/off-peak)	Demand charge (peak)	Demand charge (off-peak/flat)
	c/day	c/kWh	c/kWh	\$/kW/mth	\$/kW/mth
Tariff 20 - Business (flat rate)	127.856		25.424		
Tariff 22 - Business (time-of-use) ^b	127.856	27.663	22.126		
Tariff 22A - Business (time-of-use) ^c	127.856	46.663	22.765		
Tariff 24 - Business (time-of-use demand) ^d	80.049		15.881	84.151	13.545
Tariff 41 - Low voltage (demand)	610.961		13.014		27.720
Tariff 91 - Unmetered			23.020		

a. Charged per metering point.

b. Peak - 7:00am to 9:00pm, weekdays; off-peak - all other times. This tariff is only available to customers who were supplied under Tariff 22 at 30 June 2015.

c. Peak - 10:00am to 8:00pm on weekdays (December, January and February); off-peak - all other times.

d. Peak - 10:00am to 8:00pm on weekdays (December, January and February); off peak - 10:00am to 8:00pm on weekdays (March to November).

Table 17 2016–17 Draft regulated retail tariffs and prices for large business and street lighting customers (excl GST)

Retail tariff	Fixed charge	Usage charge (peak)	Usage charge (flat/off-peak)	Demand charge (peak)	Demand charge (off-peak/flat)
	c/day	c/kWh	c/kWh	\$/kW/mth	\$/kW/mth
Tariff 44 - Over 100 MWh small (demand)	5379.515		12.056		39.136
Tariff 45 - Over 100 MWh medium (demand)	16806.610		12.149		32.059
Tariff 46 - Over 100 MWh large (demand)	45094.039		12.212		29.117
Tariff 47 - High voltage (demand)	42088.775		11.590		25.825
Tariff 48 - Over 4 GWh high voltage (demand)	42527.289		11.590		25.825
Tariff 50 - Over 100 MWh seasonal time-of-use (demand) ^a	4524.329	11.577	14.849	61.353	14.801
Tariff 71 - Street lighting ^b	0.630		33.465		

a. Peak demand charged on maximum metered demand exceeding 20 kilowatts on weekdays between 10:00am to 8:00pm in Summer months (December, January and February). Off-peak demand charged on maximum metered demand exceeding 40 kilowatts during non-summer months (March to November). Peak usage charged on all usage in Summer months (December, January and February). Off-peak usage charged on all usage during non-summer months (March to November).

b. The fixed charge for street lighting applies to each lamp.

Table 18 2016–17 Draft transitional and obsolete regulated retail tariffs and prices (excl GST)

<i>Retail tariff</i>	<i>Fixed charge</i>	<i>Min Charge</i>	<i>Usage rate 1^b</i>	<i>Usage rate 2^c</i>	<i>Usage rate 3^d</i>	<i>Usage rate (flat)</i>	<i>Capacity (Up to 7.5kw)</i>	<i>Capacity (Over 7.5kw)</i>
	<i>c/day</i>	<i>c/day</i>	<i>c/kWh</i>	<i>c/kWh</i>	<i>c/kWh</i>	<i>c/kWh</i>	<i>\$/kW/yr</i>	<i>\$/kW/yr</i>
Tariff 37 ^a		28.032	19.963		49.930			
Tariff 20 (lge)	70.357					34.416		
Tariff 21		67.876	46.125	43.338	32.992			
Tariff 22	169.092		45.606		16.059			
Tariff 62	73.314		43.470	36.761	15.371			
Tariff 65	73.314		34.676		19.100			
Tariff 66	161.582					18.175	35.249	105.982

a. Tariff 37 became obsolete on 1 July 2007. It is only available to customers taking supply under tariff 37 on 30 June 2007.

b. Tariff 21 – first 100 kWh, tariff 22 – 7am-9pm M-F, tariff 37 – 10:30pm-4:30pm, tariff 62 – 7am-9pm M-F first 10,000kWh, tariff 65 – 12hr peak.

c. Tariff 21 – 101-10,000 kWh, tariff 62 – 7am-9pm M-F over 10,000kWh.

d. Tariff 21 – over 10,000 kWh, tariff 22 – all other times, tariff 37 – 4:30pm-10:30pm, tariffs 62, & 65 – all other times.

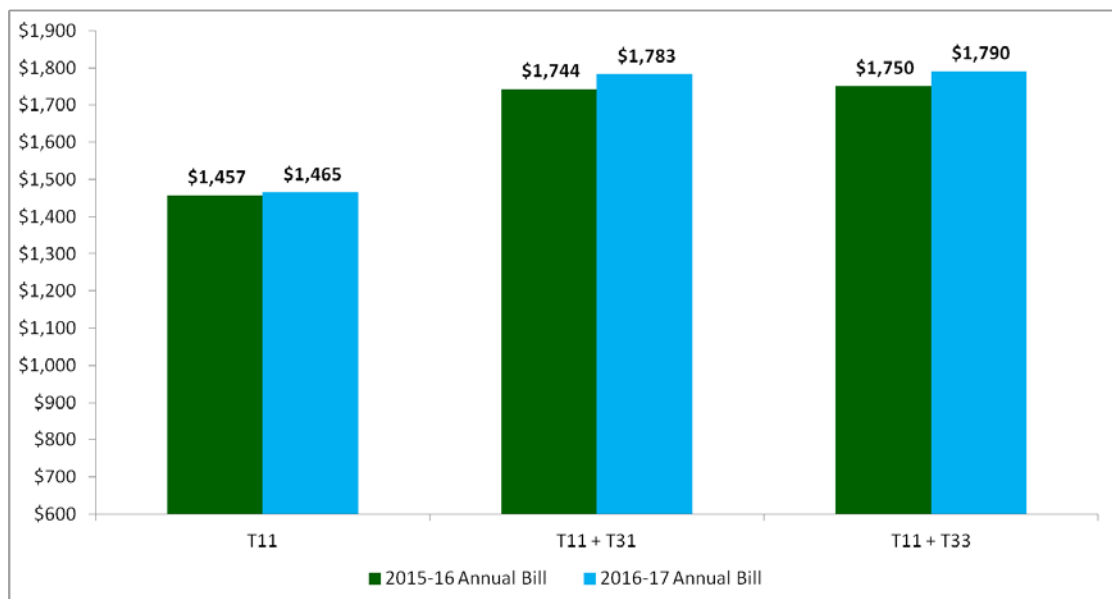
8.1 Customer impacts

Impacts on residential customers⁶⁹

In 2016–17, the annual bill for a typical customer on tariff 11 is expected to increase by 0.6 per cent from \$1,457 to \$1,465. For a typical customer on a combination of tariffs 11 and 31 or tariffs 11 and 33, the expected increase will be slightly higher at 2.3 per cent. However, the impact on individual customers will vary depending on their consumption. Customers with lower consumption than the typical customer face decreases or smaller increases while higher consumption customers face larger increases.

The increase in typical tariff 11 customer bills is primarily due to higher energy costs. Our consultant, ACIL Allen, advised that the rise in energy costs is driven largely by increasing demand from liquefied natural gas plants, and higher Renewable Energy Target costs. Some of the impact of higher energy costs has been offset by a decrease in network costs. For lower consumption customers, the outcome of the review of retail costs has also helped to offset the impacts of higher energy costs as it has reduced the level of fixed retail costs.

⁶⁹ The bill impacts presented are based on a typical level of consumption using data from Ergon Retail.

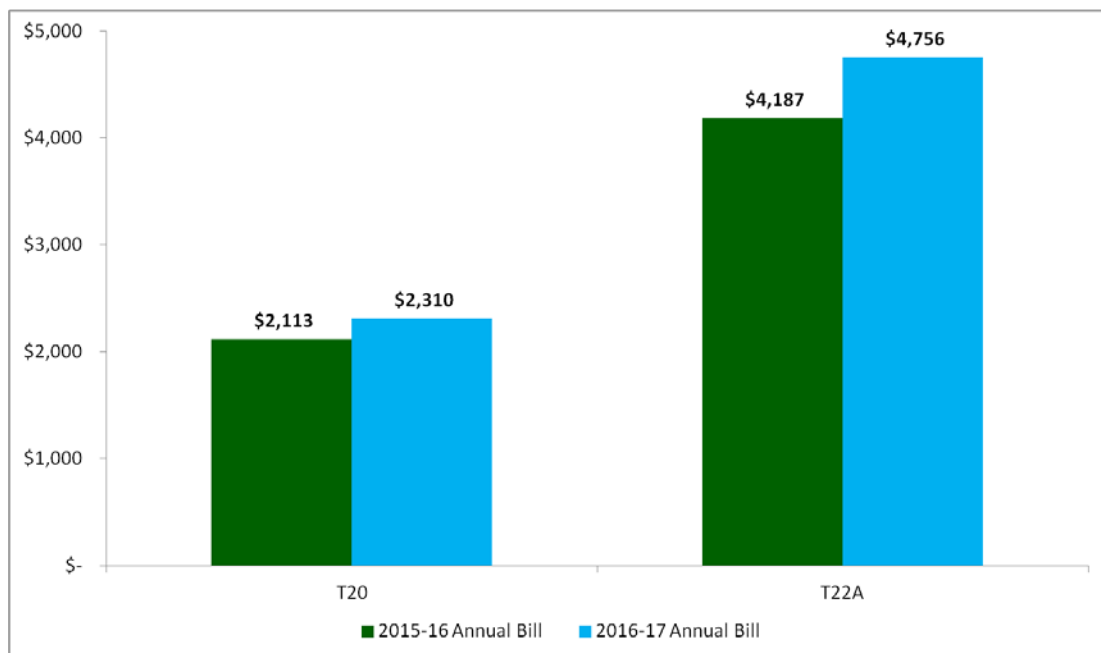
Figure 8 Annual bills for typical residential customers (GST inclusive)**Table 19 Tariff 11 charges (GST exclusive)**

	<i>2015-16 Final Determination</i>	<i>2016-17 Draft Determination</i>	<i>Change (%)</i>
Fixed charge (cents/day)	106.73	89.55	-19.2%
Variable charge (cents/kWh)	22.24	23.91	7.0%

Impacts on small business customers⁷⁰

In 2016-17, typical customers on the main small business tariff (tariff 20) can expect an increase of \$197 or 9.3 per cent in their annual bill. Typical small business customers on the seasonal time-of-use tariff (tariff 22A) can expect an increase of \$569 or 13.6 per cent. These increases have been driven primarily by higher energy costs and retail costs. Bill impacts will vary depending on each individual customer's level and pattern of consumption.

⁷⁰ The bill impacts presented are based on typical levels and patterns of consumption using data from Ergon Retail.

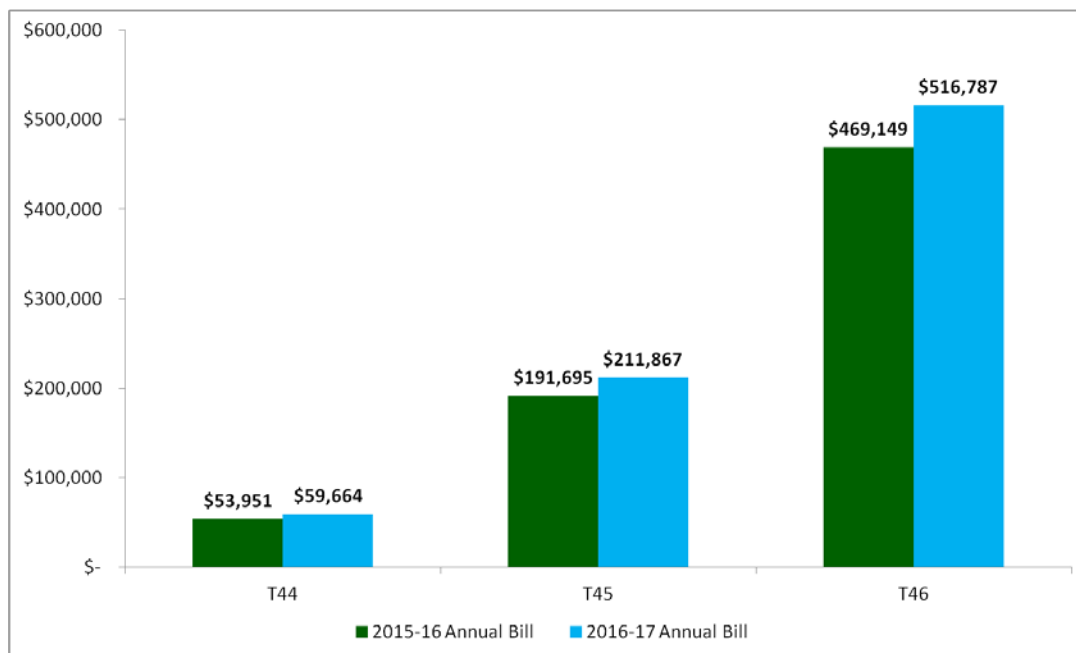
Figure 9 Annual bills for typical small business customers (GST inclusive)

Impacts on large business customers⁷¹

In 2016–17, typical large business customers can expect increases in their annual bills of between 10.2 per cent and 10.6 per cent. The increases have been driven primarily by higher energy costs and network costs. Bill impacts will vary depending on each individual customer's level and pattern of consumption.

⁷¹ Based on typical levels and patterns of consumption using data from Ergon Retail.

Figure 10 Annual bills for typical large business customers (GST inclusive)



Arrangements for customers on obsolete and transitional tariffs

In 2013–14, we established transitional arrangements for customers on most of the existing obsolete tariffs. These tariffs, which include farming and irrigation tariffs, were made available for several years to allow customers to transition to standard business tariffs and recoup some of the investments made to suit the level and structure of transitional or obsolete tariffs. Based on the latest information from Ergon Retail, many customers on these tariffs may face lower electricity bills if they moved to a standard business tariff but some customers would face much higher bills.

We propose to maintain transitional arrangements for 2016-17. Our general approach in past determinations has been to increase the charges in each transitional and obsolete tariff in line with the percentage increases in the standard business tariffs customers would otherwise pay. We have then generally applied an additional escalation factor to limit charges for transitional and obsolete tariffs falling further below cost in dollar terms.

Standard business tariffs are expected to increase in 2016-17 so transitional and obsolete tariffs will also need to increase. Under our general approach in previous determinations, the escalation factors for most of these tariffs in 2016-17 would be 1.25 or 1.5.

However, given the substantial price increases that customers on transitional and obsolete tariffs have experienced in recent years and that customers on these tariffs are more than halfway through the transition to standard business tariffs, we have decided to apply the minimum escalation factor of 1.1. This means customers on these tariffs will face increases of between 10.3 percent and 11.5 percent in 2016-17 rather than between 11.7 percent and 15.6 percent if the higher escalation factors were applied.

New customers will also continue to be allowed to access transitional tariffs.

Table 20 Draft decision - transitional arrangements for 2016–17

<i>Obsolete or transitional tariff</i>	<i>Period to be retained</i>	<i>Proposed 2016–17 price increase</i>
Tariff 20 (large) – transitional	4 years	11.5%
Tariff 21 – transitional	4 years	10.3%
Tariff 22 (small and large) – transitional	4 years	11.5%
Tariff 37 – obsolete	4 years	11.5%
Tariff 62 – transitional	4 years	10.3%
Tariff 65 – transitional	4 years	10.3%
Tariff 66 – transitional	4 years	10.3%

ACRONYMS

A

AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
AFMA	Australian Financial Markets Association

C

CARC	Customer acquisition and retention costs
CPI	Consumer Price Index
c/day	cents per day

E

Ergon Distribution	Ergon Energy Corporation Limited (electricity distribution arm)
Ergon Retail	Ergon Energy Queensland (electricity retail arm)
Electricity Act	<i>Electricity Act 1994</i> (Qld)

F

G

GST	Goods and services tax
GWh	Gigawatt hour
Government	Queensland Government

I

IPART	Independent Pricing and Regulatory Tribunal
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K

kWh	kilowatt hour
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L

LGC	Large-scale generation certificate
LNG	Liquefied natural gas
LRET	Large-scale Renewable Energy Target

M

Minister	Minister for Energy and Water Supply
MWh	Megawatt hour

N

N	Network cost
NECF	National Energy Customer Framework
NEM	National Electricity Market
Notified prices	Regulated retail electricity prices
NSLP	Net System Load Profile
N + R	Network + Retail cost build-up methodology
NSW	New South Wales

O

Origin Origin Energy

P**Q**

QCA Queensland Competition Authority
QCOSS Queensland Council of Social Services
QPC Queensland Productivity Commission

R

R Energy and retail cost
RET Renewable Energy Target
ROC Retail operating costs
RPP Renewable power percentage

S

SAC Standard Asset Customer
SBS Solar Bonus Scheme
SRES Small-scale Renewable Energy Scheme
STC Small-scale technology certificate
STP Small-scale technology percentage

U

UTP Uniform Tariff Policy

APPENDIX A: MINISTERIAL DELEGATION AND COVER LETTER



Minister for Main Roads, Road Safety and Ports
Minister for Energy and Water Supply

Our Reference: CTS 27888/15

30 NOV 2015

Level 15 Capital Hill Building
85 George Street Brisbane 4000
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Queensland 4001 Australia
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Email mainroads@ministerial.qld.gov.au
Website www.tmr.qld.gov.au

Professor Roy Green
Chair
Queensland Competition Authority
Level 27, 145 Ann Street
BRISBANE QLD 4000

Dear Professor Green

Re: Regulated Retail Electricity Prices 2016-17

I write to you to issue a Delegation and Terms of Reference to the Queensland Competition Authority (QCA) for the determination of regulated retail electricity prices for 2016-17 under Section 90AA(1) of the *Electricity Act 1994*.

As you will be aware, the Government made a decision to delay the introduction of price deregulation in South East Queensland (SEQ). While the Government has requested that the Queensland Productivity Commission (QPC) assess the costs and benefits of deregulation as part of its Electricity Pricing Inquiry, without further legislative changes, deregulation of retail electricity prices in SEQ will occur from 1 July 2016. As a result, this delegation applies to retail electricity prices for customers in regional Queensland only.

Given this delegation applies only to regional Queensland, considerations regarding the Uniform Tariff Policy (UTP) and competition in regional Queensland are important. I note that these issues are also under active investigation by the QPC. The Government is committed to maintaining the UTP and will not be considering any options to improve the current arrangements until we have addressed any recommendations from the QPC. The Terms of Reference, therefore, reflects a consistent approach to my delegation for 2015–16.

The removal of price regulation for small customers in SEQ removes a reference point for the determination of prices in regional Queensland. In order to maintain consistency with the regulation of prices in previous years, the Government considers that regulated prices in regional Queensland for small customers should broadly reflect the expected prices for customers on standing offers in SEQ.

Public consultation is a vital part of the QCA's process for determining retail electricity prices and I understand this delegation has been issued later than would normally be the case. As such, the Terms of Reference seeks for the Draft Determination to be issued by 25 March 2016. I trust this provides sufficient time to undertake the necessary consultation to support the Draft Determination and to allow for the Final Determination to be delivered by 31 May 2016.

Yours sincerely



Mark Bailey MP
**Minister for Main Roads, Road Safety and Ports and
Minister for Energy and Water Supply**

Att: Delegation and Terms of Reference – Determination of Regulated Retail Electricity Prices for
2016-17

ELECTRICITY ACT 1994
Section 90AA(1)

DELEGATION

I, Mark Bailey, the Minister for Energy and Water Supply, in accordance with the power of delegation in section 90AA(1) of the *Electricity Act 1994* (the Act), delegate to the Queensland Competition Authority (QCA) the function under section 90(1) of the Act of deciding the prices that a retail entity may charge its non-market customers for customer retail services in the Ergon Energy Corporation Limited (EECL) distribution area for the tariff year 1 July 2016 to 30 June 2017.

The following are the Terms of Reference of the price determination:

Terms of Reference

1. These Terms of Reference apply for the tariff year 1 July 2016 to 30 June 2017.
2. The QCA is to calculate the notified prices and publish an annual price determination, in the form of a tariff schedule, in accordance with these Terms of Reference.
3. In accordance with section 90(5)(a) of the Act, in making a price determination for each tariff year QCA must have regard to the matters set out in paragraph 5 of these Terms of Reference.
4. In accordance with section 90(5)(b) of the Act, QCA may have regard to any other matter that QCA considers relevant.
5. The matters that QCA is required by this delegation to consider are:
 - (a) Without further legislative change, from 1 July 2016, price regulation in the Energex distribution area will be removed for small customers. This will mean that notified prices will only apply to customers in the EECL distribution area;
 - (b) Uniform Tariff Policy - QCA must consider the Government's Uniform Tariff Policy, which provides that, wherever possible, non-market customers of the same class should pay no more for their electricity, regardless of their geographic location;
 - (c) Framework - QCA must use the Network (N) plus Retail (R) cost build-up methodology when working out the notified prices and making the price determination, where N (network cost) is treated as a pass-through and R (energy and retail cost) is determined by QCA;

DELEGATION TO QCA

- (d) When determining the N components for each regulated retail tariff, QCA must consider the following:
- (i) For residential and small business customer tariffs (with the exception of Tariffs 12A, 14, 22A and 24) - basing the network cost component on the network charges to be levied by Energex and the relevant Energex tariff structures;
 - (ii) For Tariff 12A (residential time-of-use), Tariff 14 (residential seasonal time-of-use), Tariff 22A (small business time-of-use tariff) and Tariff 24 (business seasonal time-of-use demand) - basing the network cost component on the price level of network charges to be levied by Energex, but utilising the relevant EECL tariff structures, in order to strengthen or enhance the underlying network price signals and encourage customers to switch to time-of-use and demand tariffs and reduce their energy consumption during peak times; and
 - (iii) For large business customers in who consume 100MWh or more per annum - basing the network cost component on the network charges to be levied by EECL.
- (e) Transitional Arrangements - QCA must consider:
- (i) maintaining transitional arrangements for tariffs classed as transitional or obsolete (i.e. farming, irrigation, declining block, non-domestic heating and large business customer tariffs), and
 - (ii) continuing to allow all EECL customers access to tariffs designated as transitional in 2013-14.

Interim Consultation Paper

6. QCA must publish an interim consultation paper identifying key issues to be considered when calculating the N and R components of each regulated retail electricity tariff and transitioning relevant retail tariffs.
7. QCA must publish a written notice inviting submissions about the interim consultation paper. The notice must state a period during which anyone can make written submissions to QCA about issues relevant to the price determination.
8. QCA must consider any submissions received within the consultation period and make them available to the public, subject to normal confidentiality considerations.

DELEGATION TO QCA

Consultation Timetable

9. QCA must publish an annual consultation timetable within two weeks after submissions on the interim consultation paper are due, which can be revised at the discretion of QCA, detailing any proposed additional public papers and workshops that QCA considers would assist the consultation process.

Workshops and additional consultation

10. As part of the interim consultation paper and in consideration of submissions in response to the interim consultation paper the QCA must consider the merits of additional public consultation (workshops and papers) on identified key issues.

Draft Price Determination

11. QCA must investigate and publish its draft price determination on regulated retail electricity tariffs, with each tariff to be presented as a bundled price.
12. QCA must publish a written notice inviting submissions about the draft price determination. The notice must state a period during which anyone can make written submissions to QCA about issues relevant to the draft price determination.
13. QCA must consider any submissions received within the consultation period and make them available to the public, subject to normal confidentiality considerations.

Final Price Determination

14. QCA must investigate and publish its final price determination on regulated retail electricity tariffs, with each tariff to be presented as a bundled price, and gazette the bundled retail tariffs.

Timing

15. QCA must make its reports available to the public and, at a minimum, publicly release the papers and price determinations listed in paragraphs 6 to 14.
16. QCA must publish the interim consultation paper for the 2016-17 tariff year no later than one month after the date of this Delegation.
17. QCA must publish the draft price determination on regulated retail electricity tariffs no later than 25 March 2016.
18. QCA must publish the final price determination on regulated retail electricity tariffs for the 2016-17 tariff year, and have the bundled retail tariffs gazetted, no later than 31 May 2016.

DELEGATION TO QCA

DATED this 30 day of November 2015.

SIGNED by the Honourable)
Mark Bailey,)
Minister for Energy and Water Supply)

_____)
(signature)



APPENDIX B: SUBMISSIONS

Submissions to the Interim Consultation Paper

Organisation

- Bundaberg Regional Irrigators Group
- Canegrowers
- Canegrowers Isis
- Cotton Australia
- Ergon Energy Corporation Ltd
- Ergon Energy Queensland Pty Ltd
- Master Electricians Australia
- Origin Energy
- Queensland Consumers' Association
- Queensland Council of Social Services
- Queensland Farmers' Federation
- Toowoomba Regional Council

APPENDIX C: RESPONSES TO ADDITIONAL ISSUES RAISED IN SUBMISSIONS

In this section we provide responses to a number of additional issues raised in submissions that were not addressed in our draft decision.

<i>Issue</i>	<i>Submitted by</i>	<i>QCA position</i>
Specific network tariffs should be introduced to cater for food and fibre producers.	Bundaberg Regional Irrigators Group Canegrowers	The QCA has no role in setting network tariffs. Network tariffs are established by distributors and approved by the Australian Energy Regulator. The Queensland Productivity Commission (QPC) is conducting an inquiry into electricity pricing and will make recommendations to Government on a range of electricity issues, including those relevant to agricultural customers. Further information can be found on the QPC's website . ⁷²
The QCA should recommend the regulated asset base of distributors be revalued.	Bundaberg Regional Irrigators Group	The QCA has no role in determining distributor regulated asset bases. This issue is a matter for the Australian Energy Regulator and the distribution businesses. The QPC is conducting an inquiry into electricity pricing and will make recommendations to Government on a range of electricity issues, including on network costs. Further information can be found on the QPC's website . ⁷³
The QCA should recommend the solar feed-in tariff be funded out of general government revenue.	Bundaberg Regional Irrigators Group Canegrowers	The QCA has no role in determining how the solar bonus scheme is funded. This is a matter for the Queensland Government and distribution businesses. We note that the QPC is conducting inquiries into electricity pricing and solar feed-in pricing and will make recommendations to Government on a range of issues around solar and its impact on other electricity users. Further information can be found on the QPC's website . ⁷⁴
The QCA should investigate the impact of Queensland energy companies gaming the system to maximise their profitability.	Bundaberg Regional Irrigators Group Canegrowers	The QCA has no role in regulating the conduct of generators in the National Electricity Market. The Australian Energy Market Commission (AEMC) has investigated reports of Queensland generator re-bidding, and has made changes to the National Electricity Rules in response. Further information can be found at the AEMC website . ⁷⁵ The QPC is also considering this issue as part of its inquiry into electricity pricing and will make recommendations to Government. Further information can be found on the QPC's website . ⁷⁶

⁷² <http://www.qpc.qld.gov.au/>

⁷³ <http://www.qpc.qld.gov.au/>

⁷⁴ <http://www.qpc.qld.gov.au/>

⁷⁵ <http://www.aemc.gov.au/>

⁷⁶ <http://www.qpc.qld.gov.au/>

<p>There needs to be further investigation into alternative tariffs for irrigated agriculture, including controlled supply options.</p>	<p>Canegrowers Isis</p>	<p>The QCA has no role in setting network tariffs or determining customer eligibility for specific network tariffs. Network tariffs, and their eligibility requirements, are established by the distributors and approved by the Australian Energy Regulator.</p>
<p>Costs for the solar bonus scheme should not be borne by irrigators as they do not have the ability to participate.</p>	<p>Canegrowers Isis</p>	<p>The QCA has no role in determining the funding arrangements for the solar bonus scheme. This is a matter for the Queensland Government and distribution businesses.</p> <p>The allocation of solar bonus scheme costs across tariff classes is determined by distributors and approved by the Australian Energy Regulator.</p>
<p>The requirement for controlled load appliances to be hard-wired to electrical systems should be removed to encourage greater take up of controlled load tariffs.</p>	<p>Master Electricians Australia</p>	<p>The terms and conditions of the controlled load retail tariffs reflect the terms and conditions of the underlying network tariffs.</p> <p>Network tariffs, and their eligibility requirements, are established by distributors and approved by the Australian Energy Regulator.</p>
<p>A tariff structure should be introduced to reward users of battery banks for solar PV. This tariff structure could be similar to a maximum demand tariff.</p>	<p>Master Electricians Australia</p>	<p>The QCA has no role in determining the availability, or structure, of retail demand tariffs. The availability and structure of network tariffs is determined by the distributors and approved by the Australian Energy Regulator.</p> <p>We note that the QPC is examining issues around solar PV and battery storage in its inquiries into electricity pricing and solar feed-in pricing and will make recommendations to Government. Further information can be found on the QPC's website.⁷⁷</p>

⁷⁷ <http://www.qpc.qld.gov.au/>

APPENDIX D: NETWORK TARIFF STRUCTURES

This appendix provides further information on decisions made in Chapter 3. This appendix compares Energex and Ergon Distribution network tariff structures and outlines how tariffs are adjusted to make them consistent with the UTP.

Comparison of Energex and Ergon Energy's tariff structures

Table 21 Comparison of Energex and Ergon Distribution residential and small business customer time-of-use and demand tariffs

<i>Distributor</i>		<i>Peak</i>	<i>Shoulder</i>	<i>Off-peak</i>
Residential (time-of-use)				
Energex (retail tariff 12)	Usage	4 pm–8 pm Mon–Fri 1,044 hours per year	7 am–4 pm, 8 pm–10 pm Mon–Fri 7 am–10 pm weekends 4,431 hours per year	10 pm–7 am every day 3,285 hours per year
Ergon Distribution (retail tariff 12A)	Usage	3 pm–9:30 pm any day of the week, summer ^a only 585 hours per year		All other times 8,175 hours per year
Residential (time-of-use and demand)				
Energex (to be introduced on 1 July 2016)	Usage	Flat usage charge		
	Demand	4 pm–8 pm weekdays 1,044 hours per year		
Ergon Distribution (retail tariff 14)	Usage	Flat usage charge		
	Demand	3pm–9:30 pm any day of the week, summer ^a months only 585 hours per year		3pm–9:30 pm any day of the week, non-summer ^a months 1755 hours per year
Small business (time-of-use)				
Energex (retail tariff 22)	Usage	7 am–9 pm, week days 3,654 hours per year		All other times 5,106 hours per year
Ergon Distribution (retail tariff 22A)	Usage	10 am–8 pm on summer ^a week days 540 hours per year		All other times 8,120 hours per year
Small business (time-of-use demand)				
Energex	No network tariff.			
Ergon Distribution (retail tariff 24)	Usage	Flat usage charge		
	Demand	10am- 8pm on summer ^a weekdays 540 hours per year		10am- 8pm weekdays in non-summer ^a months 1620 hours per year

^a Summer months are December, January and February.

Table 22 Comparison of Energex and Ergon Distribution non time-of-use tariffs

Type	Distributor	Fixed	Usage		
Residential (tariff 11)	Energex	c/day	Flat rate c/kWh		
	Ergon Distribution	c/day	c/kWh 1st 1,000 kWh/year	c/kWh next 5,000 kWh/year	c/kWh >6,000 kWh/year
Small business (tariff 20)	Energex	c/day	Flat rate c/kWh		
	Ergon Distribution	c/day	c/kWh 1st 1,000 kWh/year	c/kWh next 19,000 kWh/year	c/kWh >20,000 kWh/year
Small business demand (tariff 41)	Energex	c/day	Flat rate c/kWh	\$/kVa/month	
	Ergon Distribution	No network tariff			
Night controlled load (tariff 31)	Energex	n/a	Flat rate c/kWh		
	Ergon Distribution	c/day	Flat rate c/kWh		
Controlled load (tariff 33)	Energex	n/a	Flat rate c/kWh		
	Ergon Distribution	c/day	Flat rate c/kWh		
Unmetered (tariff 91)	Energex	n/a	Flat rate c/kWh		
	Ergon Distribution	c/day	Flat rate c/kWh		

Note: In the Interim Consultation Paper we advised that Ergon Distribution intended to introduce a new controlled load tariff on 1 July 2016. Ergon Distribution has now advised that this tariff will not be introduced in 2016-17.

Ergon Energy tariff structure options

This section outlines the methodology we used in section 3.2.3 to adjust Ergon Distribution network charges to reflect Energex price levels. Our approach to this task is generally consistent with that taken in the 2015–16 determination. The only difference in our approach from 2015–16 is that, due to changes in data availability and reliability, tariffs 11 and 20 have been used as the reference point for Energex price levels.

Establishing network prices

To calculate network prices that reflect Ergon Distribution tariff structures and Energex price levels, we use information on network charges provided by the distributors and customer usage data provided by Ergon Retail. Using this data, we then lower charges under the Ergon Distribution network tariff⁷⁸ to a level where the average customer pays the same as they would under the equivalent Energex network tariff.

This calculated network tariff is then used as the basis of a retail tariff.

Seasonal time-of-use tariffs

Ergon Distribution has seasonal time-of-use network tariffs for residential and small business customers. These form the basis of retail tariffs 12A (residential) and 22A (small business). To create retail tariffs that reflect Ergon Distribution network tariff structures, while broadly reflecting Energex price levels, the QCA

⁷⁸ The applicable network tariff for Ergon Distribution's east zone, transmission region one.

adjusted all charges under the Ergon Distribution network tariff so that the total network cost for the average customer was the same as the equivalent Energex flat-rate network tariff.

The results are shown in tables 23 and 24.

Table 23 Network prices for tariff 12A

	<i>Fixed c/day</i>	<i>Peak/flat c/kWh</i>	<i>Off-peak c/kWh</i>
Energex 8400	50.200	11.290	n/a
Ergon Distribution ERTOUT1	158.500	38.400	7.192
QCA adjusted Ergon Distribution ERTOUT1	61.246	38.400	7.192

Note: Based on data provided by Ergon Distribution, an annual usage of 5,093 kWh was used, with 10.6% peak usage and 89.4% off-peak.

Table 24 Network prices for tariff 22A

	<i>Fixed c/day</i>	<i>Peak/flat c/kWh</i>	<i>Off-peak c/kWh</i>
Energex 8500	72.000	12.399	n/a
Ergon Distribution EBTOUT1	158.500	35.180	11.703
QCA adjusted Ergon Distribution EBTOUT1	72.000	30.472	10.137

Note: Based on data provided by Ergon Distribution, an annual usage of 13,302 kWh was used, with 11.1% peak usage and 88.9% off-peak.

Time-of-use and demand tariffs

Ergon Distribution has seasonal time of use and demand tariffs for residential and small business customers. These form the basis of retail tariffs 14 (residential) and 24 (small business). To calculate network prices for these retail tariffs, we uniformly reduced all charges in the Ergon Distribution network tariff to equalise the average customer's network bill with the bill they would face on the equivalent Energex flat-rate network tariff. While Ergon Distribution considered that this option did not provide a sufficient differential between peak and off-peak demand charges for tariff 14, we considered that this approach preserves the relativities within the tariff structure and we do not consider that the differential between peak and off-peak demand charges needs to be adjusted under this option.

The resulting network prices are shown in tables 25 and 26.

Table 25 Network prices for tariff 14

	<i>Fixed c/day</i>	<i>Usage c/kWh</i>	<i>Peak demand \$/kW/mth</i>	<i>Off-peak demand \$/kW/mth</i>
Energex 8400	50.200	11.290	n/a	n/a
Ergon Distribution ERTOUDCT1	33.500	4.481	72.924	12.944
QCA adjusted Ergon Distribution ERTOUDCT1	24.018	3.212	52.283	9.280

Note: Based on data provided by Ergon Distribution, a peak demand of 1.38 kW per month, an off-peak demand of 3.48 kW per month, and a usage level of 5,093 kWh per annum were used.

Table 26 Network prices for tariff 24

	<i>Fixed c/day</i>	<i>Usage c/kWh</i>	<i>Peak demand \$/kW/mth</i>	<i>Off-peak demand \$/kW/mth</i>
Energex 8500	72.000	12.399	n/a	n/a
Ergon Distribution EBTUODCT1	33.500	5.416	90.624	14.587
QCA adjusted Ergon Distribution EBTUODCT1	26.470	4.279	71.606	11.526

Note: Based on data provided by Ergon Distribution, a peak demand of 2.9 kW per month, an off-peak demand of 6.02 kW per month, and a usage level of 13,302 kWh per annum were used.

Non time-of-use tariffs

As discussed in Chapter 3, the QCA examined the impact of using Ergon Distribution's inclining block tariff (IBT) structure as the basis for flat-rate retail tariffs 11 and 20. For the purposes of this assessment, we calculated network prices by uniformly reducing all charges in the Ergon Distribution network tariff to equalise the total network revenue recovered by Ergon Distribution under an inclining block tariff with the network revenue, it would have otherwise recovered under a flat rate tariff.

The resulting network prices and charts demonstrating the impact on consumers are shown below.

Table 27 Network prices for tariff 11

	<i>Fixed c/day</i>	<i>Flat/first block^a c/kWh</i>	<i>Second block^b c/kWh</i>	<i>Third block^c c/kWh</i>
Energex 8400	50.200	11.290	n/a	n/a
Ergon Distribution ERIBT1	158.500	4.616	10.777	14.384
QCA adjusted Ergon Distribution ERIBT1	108.407	3.146	7.346	9.805

- All usage under Energex network tariff, usage of less than 2.74 kWh per day under Ergon Distribution network tariff
- Usage greater than 2.74 kWh per day and less than 16.43 kWh per day (Ergon Distribution network tariff only)
- All usage above 16.43 kWh per day (Ergon Distribution network tariff only)

Figure 12 Impact on tariff 11 customers adopting Ergon Distribution inclining block tariff structure

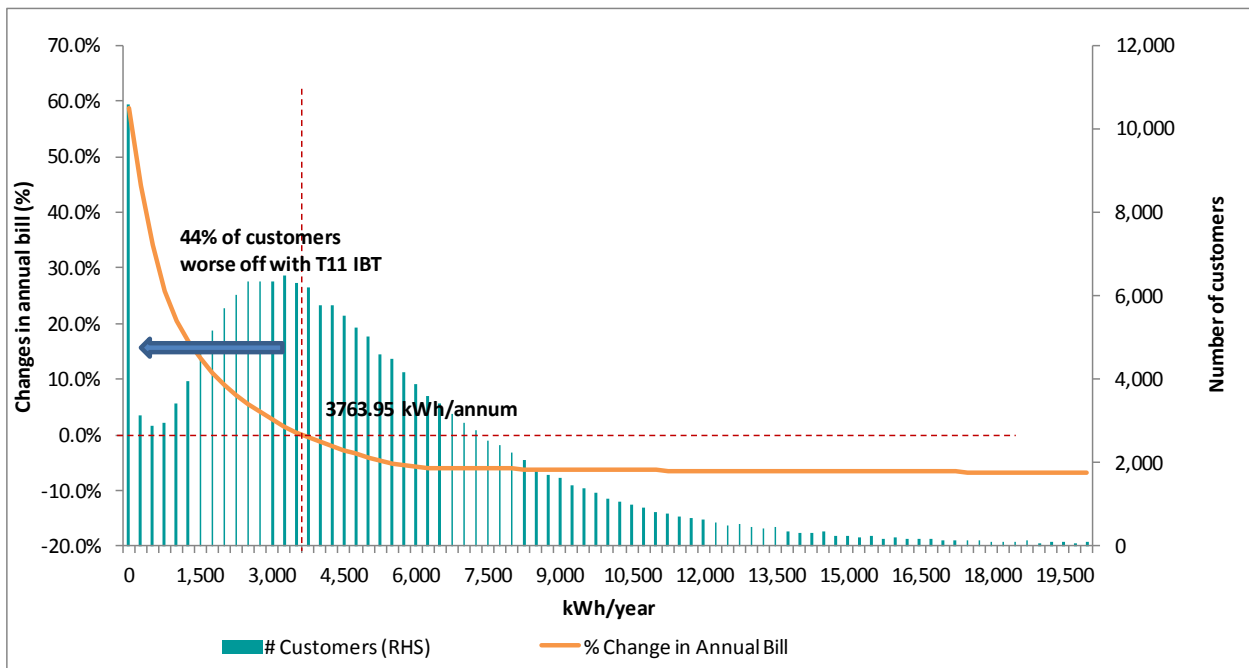


Table 28 Network prices for tariff 20

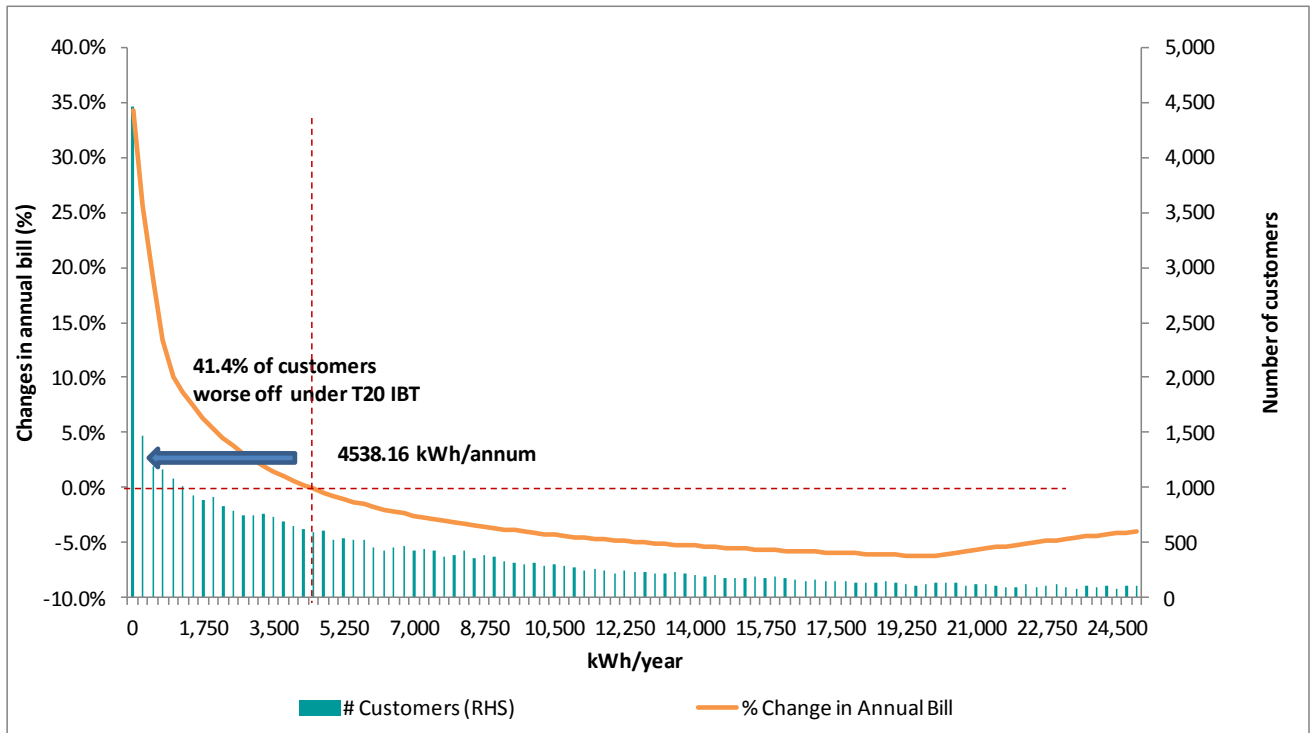
	<i>Fixed c/day</i>	<i>Flat/first block^a c/kWh</i>	<i>Second block^b c/kWh</i>	<i>Third block^c c/kWh</i>
Energex 8500	72.000	12.399	n/a	n/a
Ergon Distribution EBIBT1	158.500	4.616	13.882	17.966
QCA adjusted Ergon Distribution EBIBT1	119.886	3.491	10.500	13.589

a. All usage under Energex network tariff, usage of less than 2.74 kWh per day under Ergon Distribution network tariff

b. Usage greater than 2.74 kWh per day and less than 54.76 kWh per day (Ergon Distribution network tariff only)

c. All usage above 54.76 kWh per day (Ergon Distribution network tariff only)

Figure 13 Impact on tariff 20 customers adopting Ergon Distribution inclining block tariff structure



APPENDIX E: TRANSITIONAL AND OBSOLETE TARIFFS—CUSTOMER IMPACTS

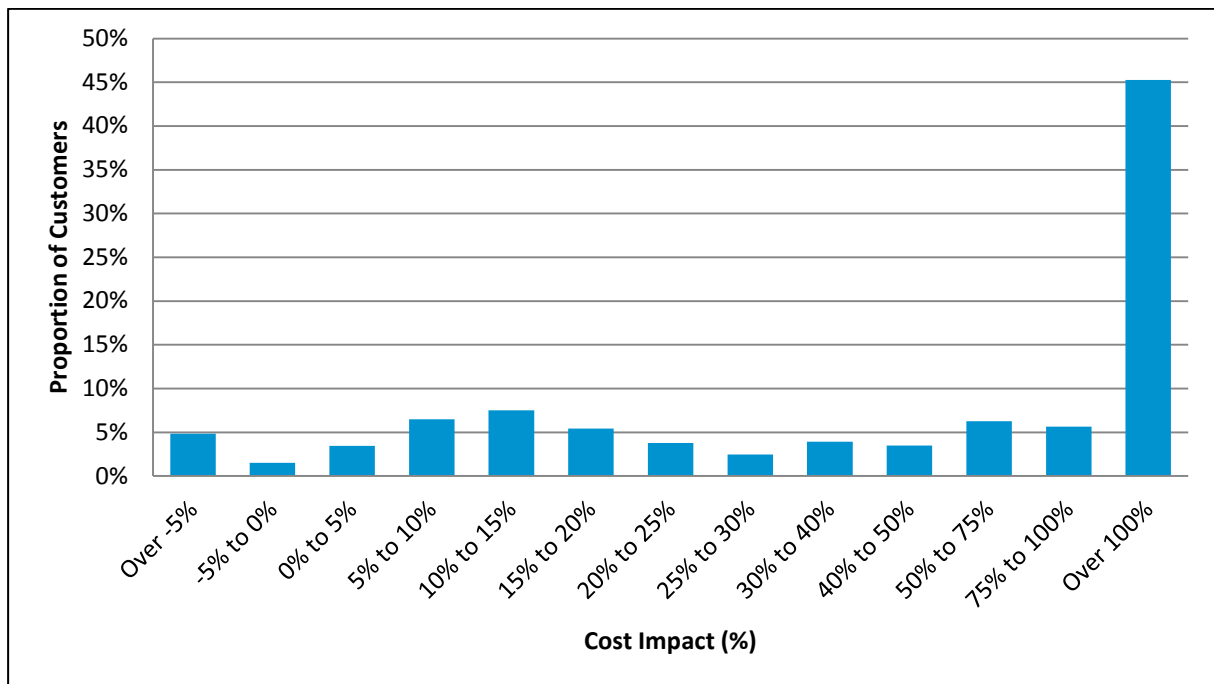
In Chapter 7 we discuss our draft decision on arrangements for customers on transitional and obsolete retail tariffs. This appendix contains the analysis of bill impacts for customers moving from their transitional or obsolete 2015–16 tariff to an alternative 2015–16 standard business tariff.

The customer impacts are calculated on an individual tariff basis. As some customers are supplied under multiple tariffs, the overall impact to an individual customer may be a combination of the impacts shown below.

Tariff 21

Tariff 21 is a declining block tariff that aligns with tariff 20 for small business customers. Figure 14 below shows the distribution of potential impacts for existing customers moving to this standard business tariff.

Figure 14 Change in electricity bills for small business customers on tariff 21 moving to tariff 20

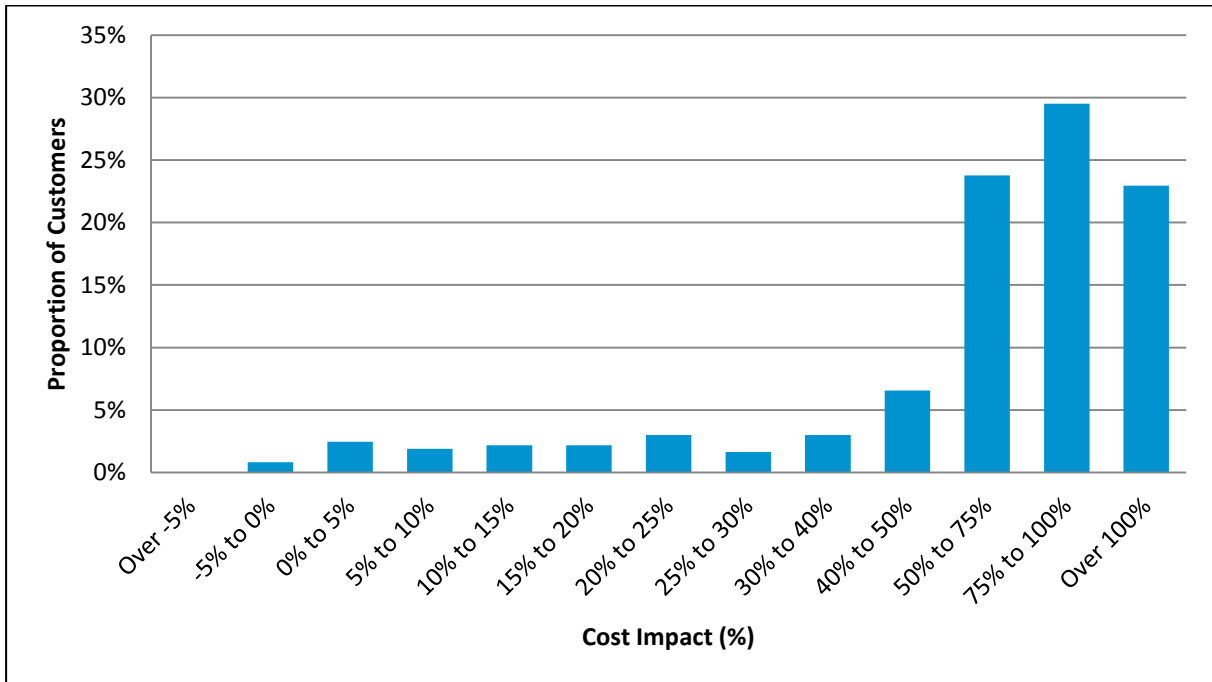


Source: Ergon Retail

Tariff 22

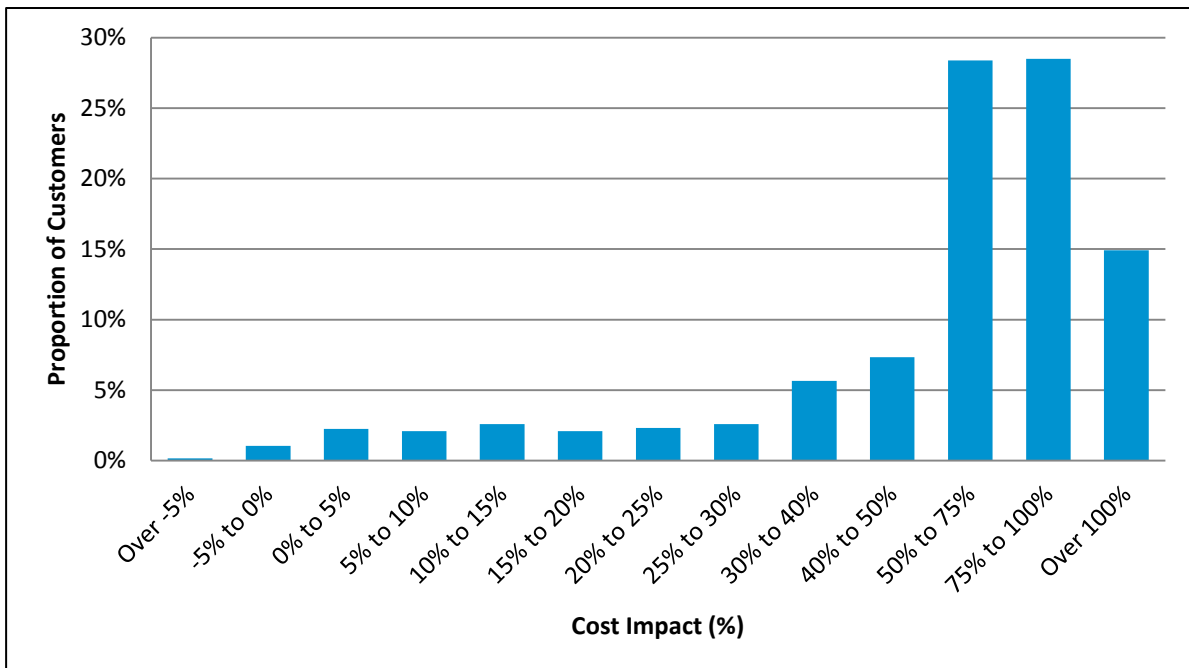
Tariff 22 is a time-of-use small business tariff which is based on an Energen tariff structure. This tariff is being phased out and will be replaced by tariff 22A, which is based on the equivalent Ergon Distribution seasonal time-of-use small business tariff structure. Depending on how they consume electricity customers may also opt to move to tariff 20, a flat rate tariff. Figures 15 and 16 below show the distribution of potential impacts for existing customers moving to tariff 20 or 22A.

Figure 15 Change in electricity bills for small business customers on tariff 22 moving to tariff 20



Source: Ergon Retail

Figure 16 Change in electricity bills for small business customers on tariff 22 moving to tariff 22A

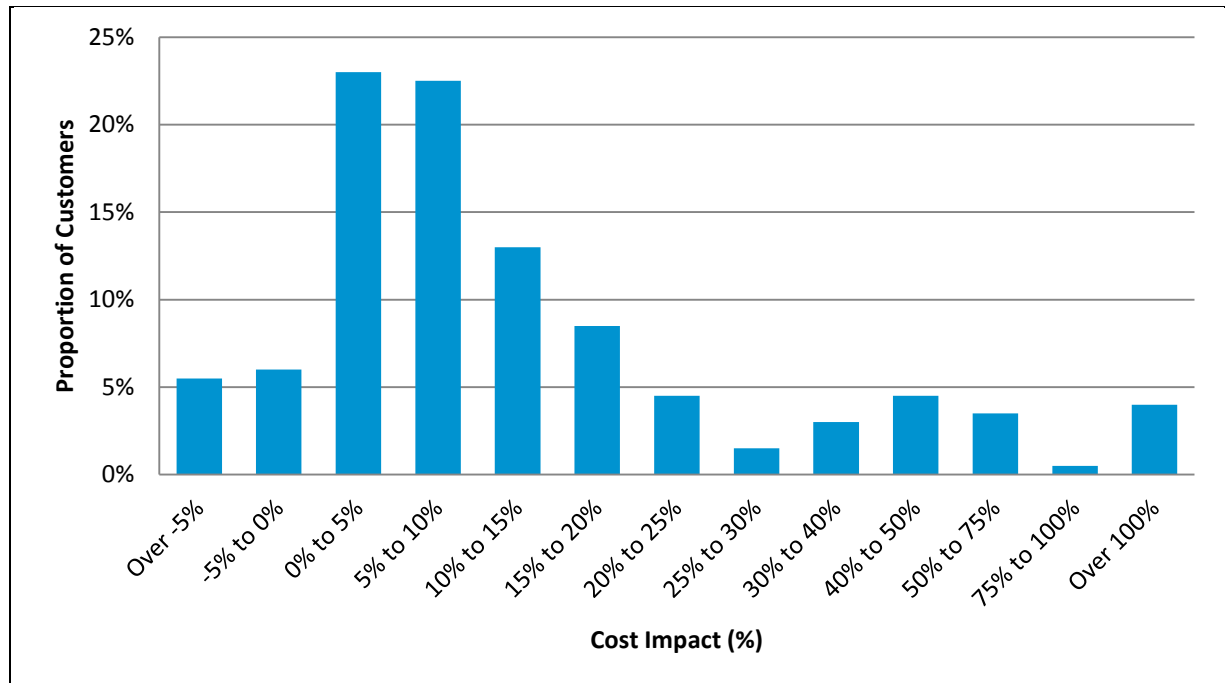


Source: Ergon Retail

Tariff 37

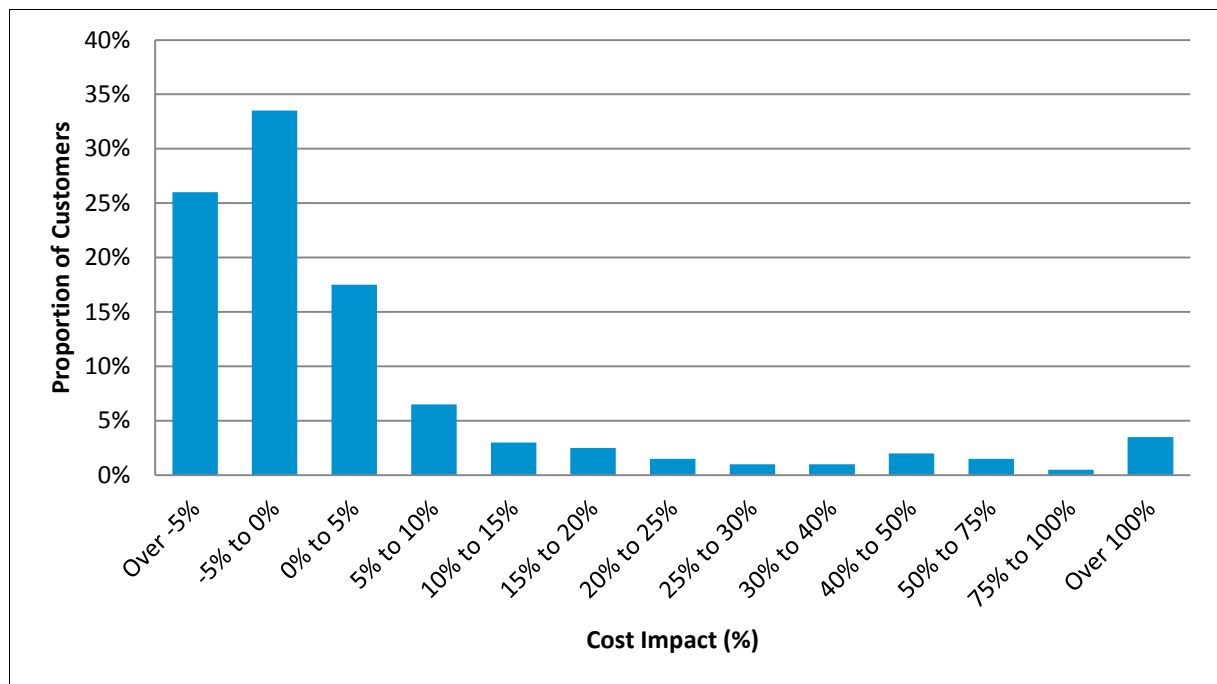
Tariff 37 is a business time-of-use tariff that aligns with tariff 20 or 22A for small business customers and one of tariffs 44 to 48 for large business customers. Figures 17–19 below show the distribution of potential impacts for existing customers moving to these standard business tariffs.

Figure 17 Change in electricity bills for small business customers on tariff 37 moving to tariff 20



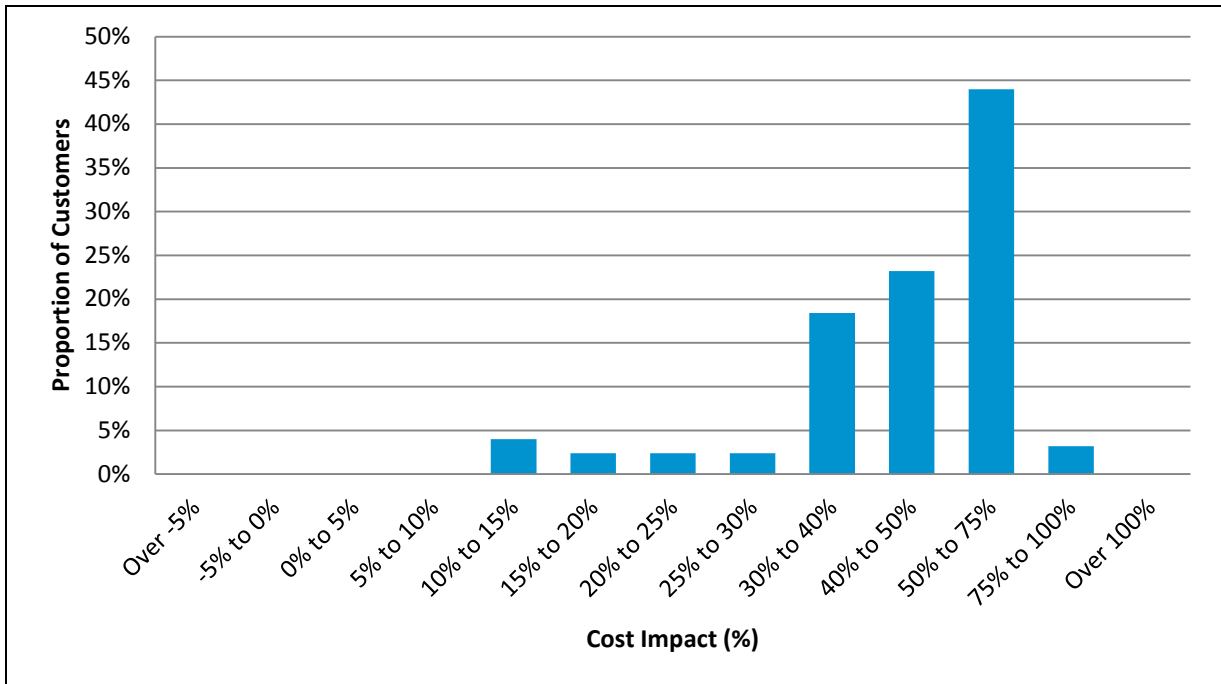
Source: Ergon Retail

Figure 18 Change in electricity bills for small business customers on tariff 37 moving to tariff 22A



Source: Ergon Retail

Figure 19 Change in electricity bills for large business customers on tariff 37 moving to one of tariffs 44 to 48



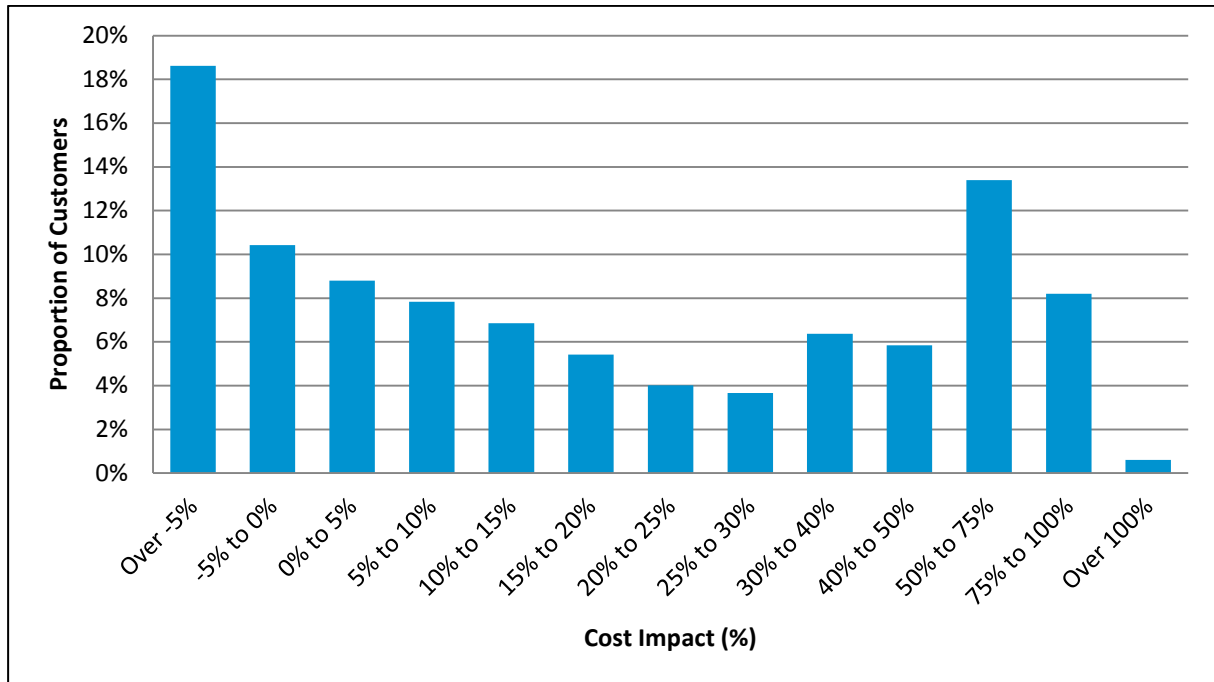
Note: For this analysis Ergon Retail has applied a derived demand profile for customers where demand data is unavailable. Therefore individual cost impacts may be over- or under-stated for individual customers depending on their unique demand profile.

Source: Ergon Retail

Tariffs 62 and 65

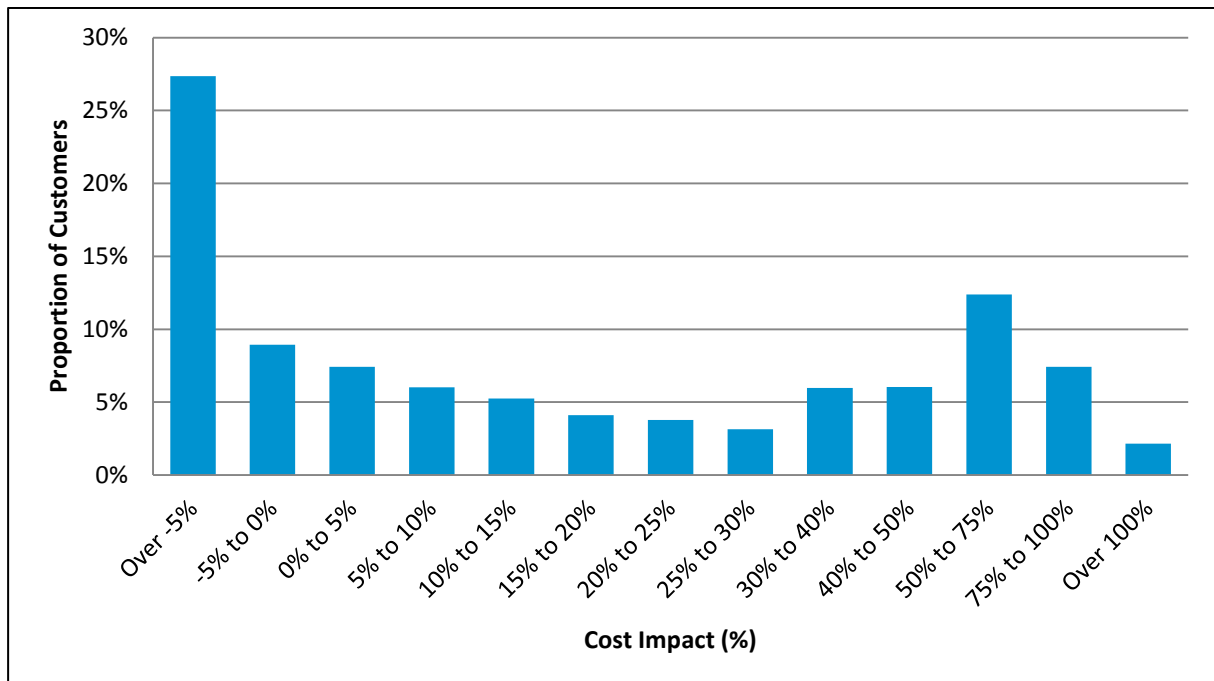
Tariffs 62 and 65 are time-of-use tariffs for farming and irrigation customers. These tariffs align with tariff 20 or 22A for small business customers and tariffs 44 and 45 for large business customers. Figures 20–25 below show the distribution of potential impacts for existing customers moving to these standard business tariffs.

Figure 20 Change in electricity bills for small business customers on tariff 62 moving to tariff 20



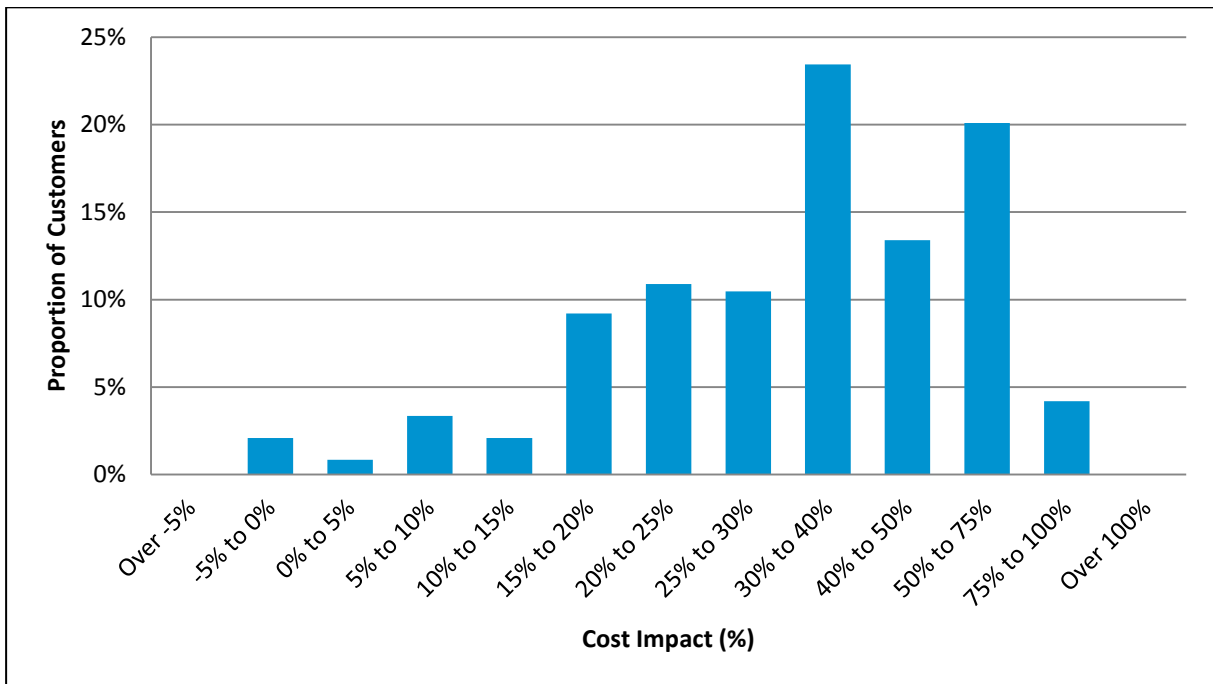
Source: Ergon Retail

Figure 21 Change in electricity bills for small business customers on tariff 62 moving to tariff 22A



Source: Ergon Retail

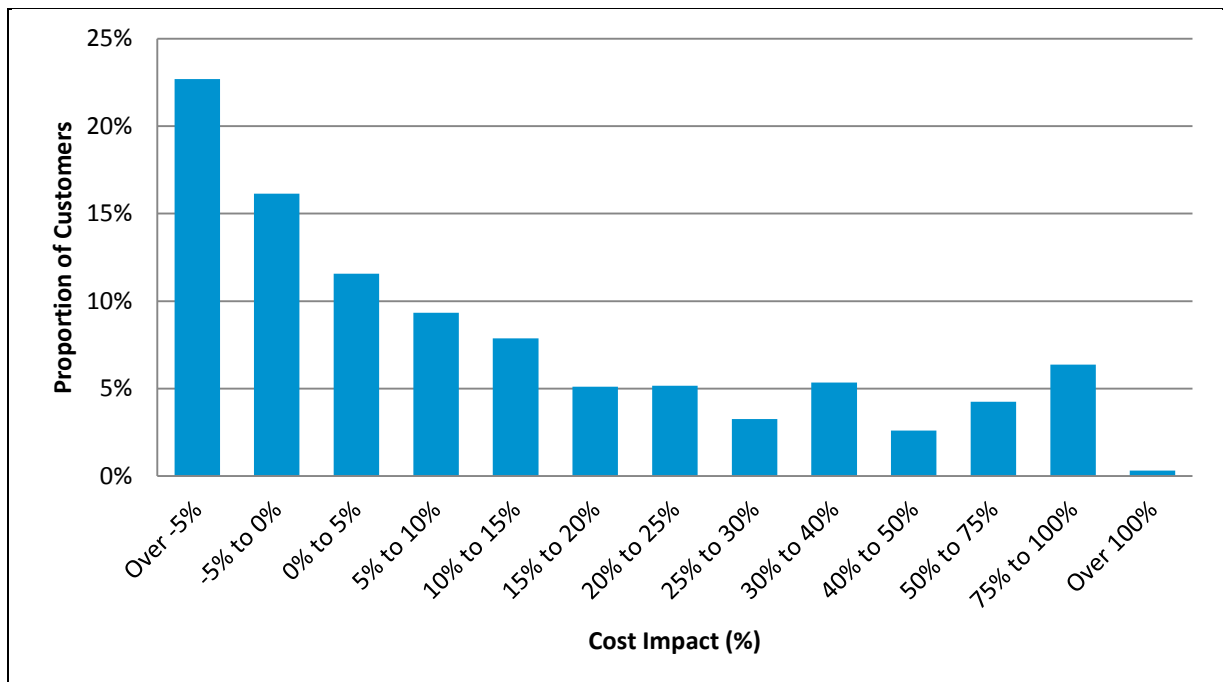
Figure 22 Change in electricity bills for large business customers on tariff 62 moving to tariff 44 or 45



Note: For this analysis Ergon Retail has applied a derived demand profile for customers where demand data is unavailable. Therefore individual cost impacts may be over- or under-stated for individual customers depending on their unique demand profile.

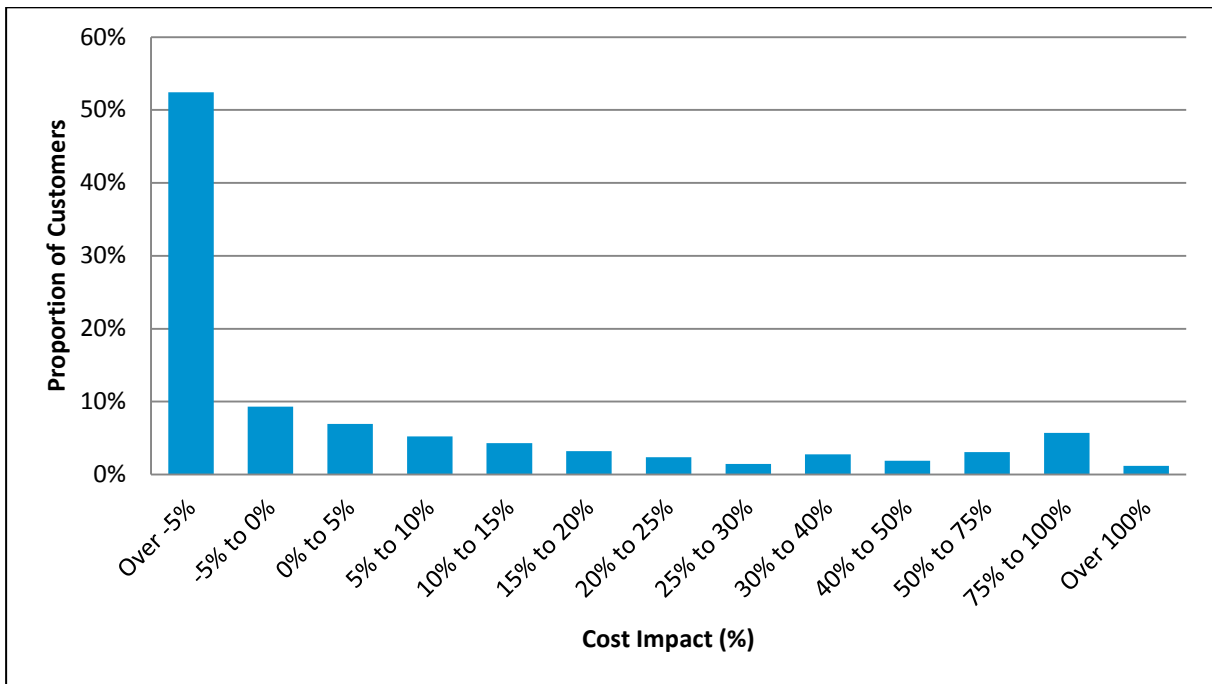
Source: Ergon Retail

Figure 23 Change in electricity bills for small business customers on tariff 65 moving to tariff 20



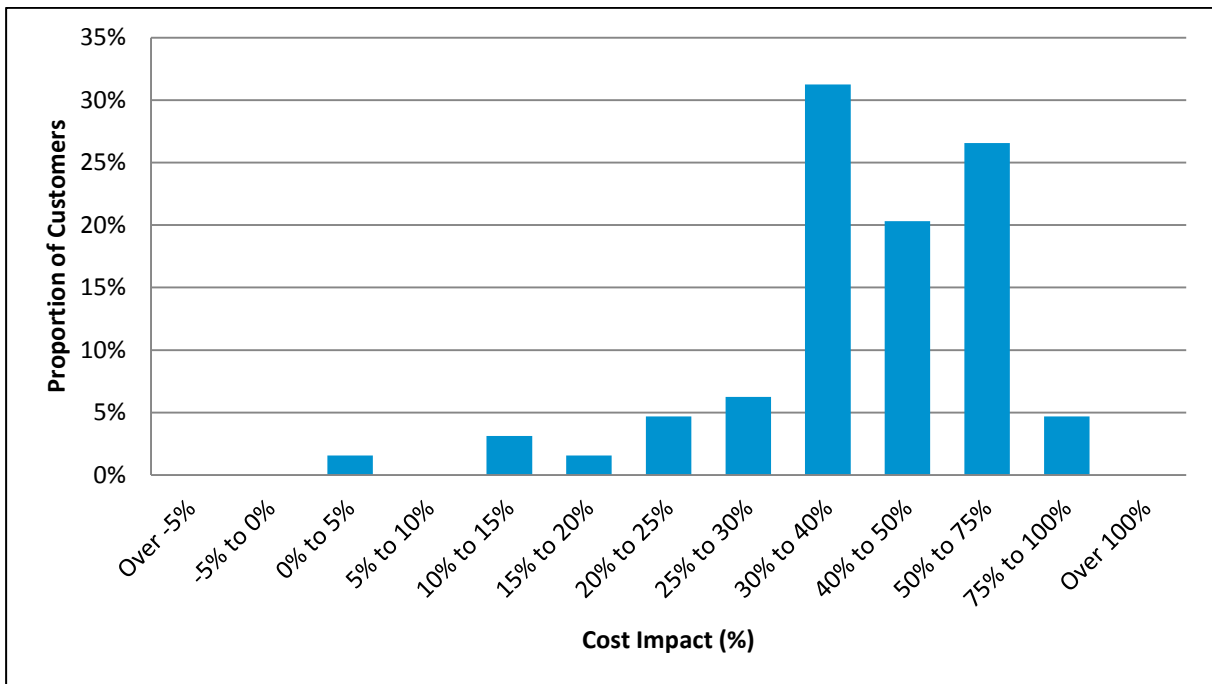
Source: Ergon Retail

Figure 24 Change in electricity bills for small business customers on tariff 65 moving to tariff 22A



Source: Ergon Retail

Figure 25 Change in electricity bills for large business customers on tariff 65 moving to tariff 44 or 45



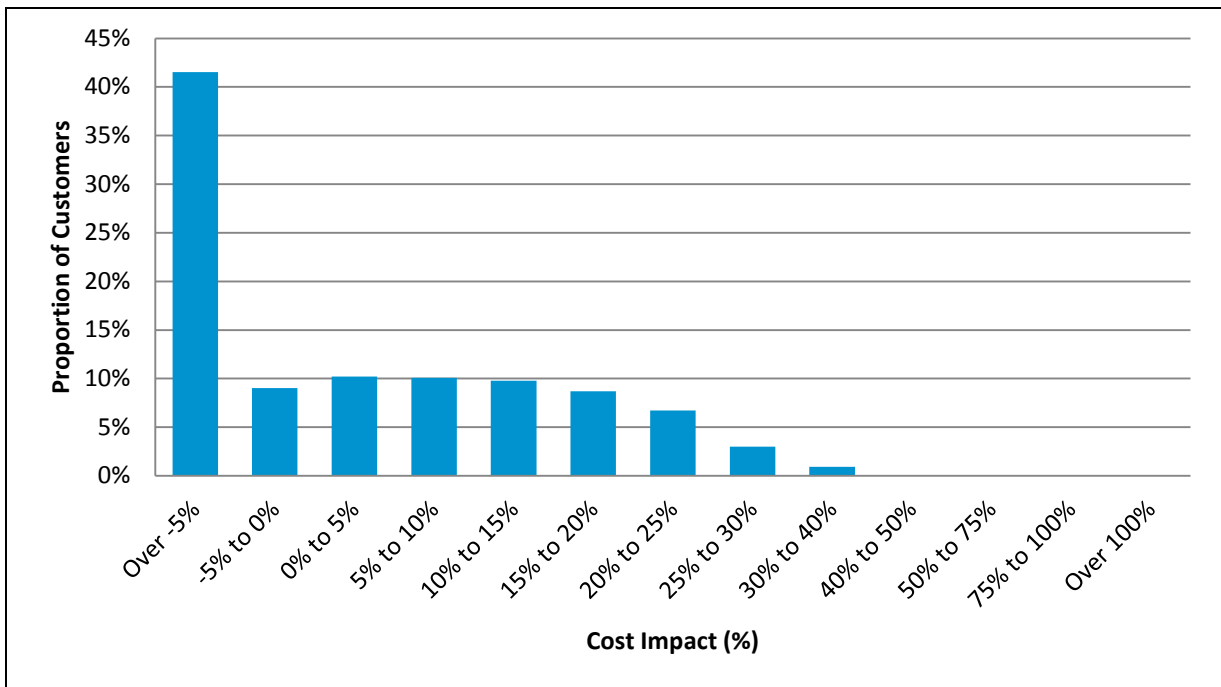
Note: For this analysis Ergon Retail has applied a derived demand profile for customers where demand data is unavailable. Therefore individual cost impacts may be over- or under-stated for individual customers depending on their unique demand profile.

Source: Ergon Retail

Tariff 66

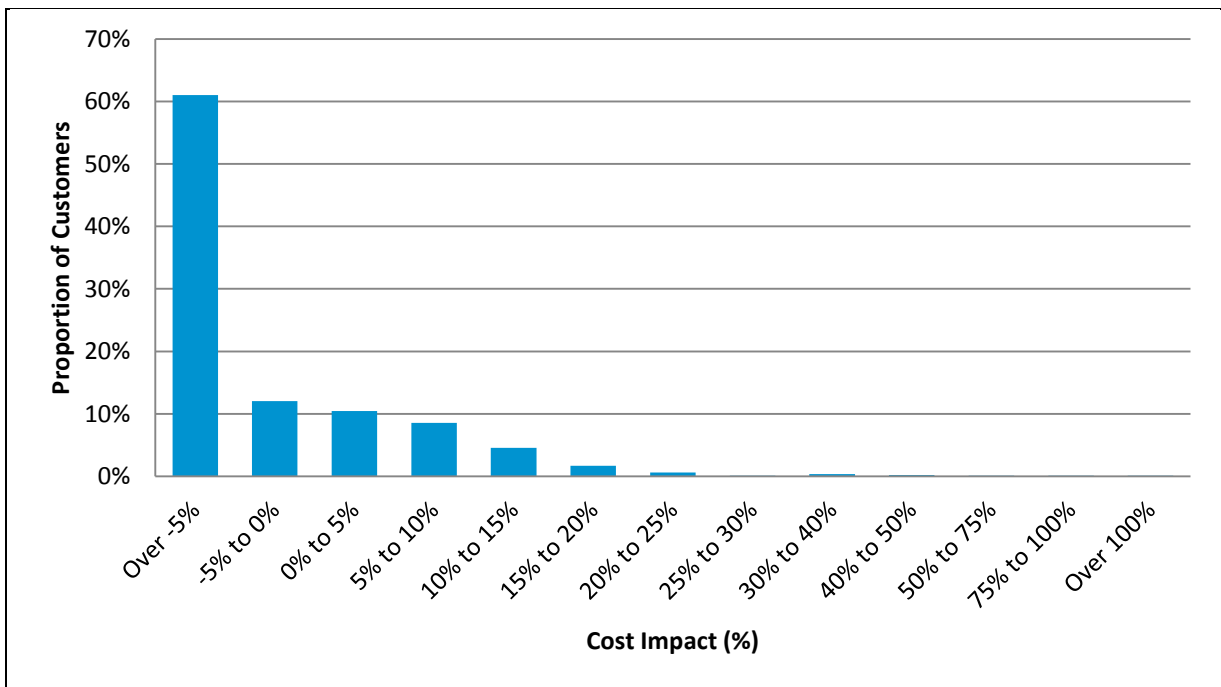
Tariff 66 is a flat-rate tariff for irrigation customers. This tariff aligns with tariff 20 or 22A for small business customers and tariffs 44 and 45 for large business customers. Figures 26–28 below show the distribution of potential impacts for existing customers moving to these standard business tariffs.

Figure 26 Change in electricity bills for small business customers on tariff 66 moving to tariff 20



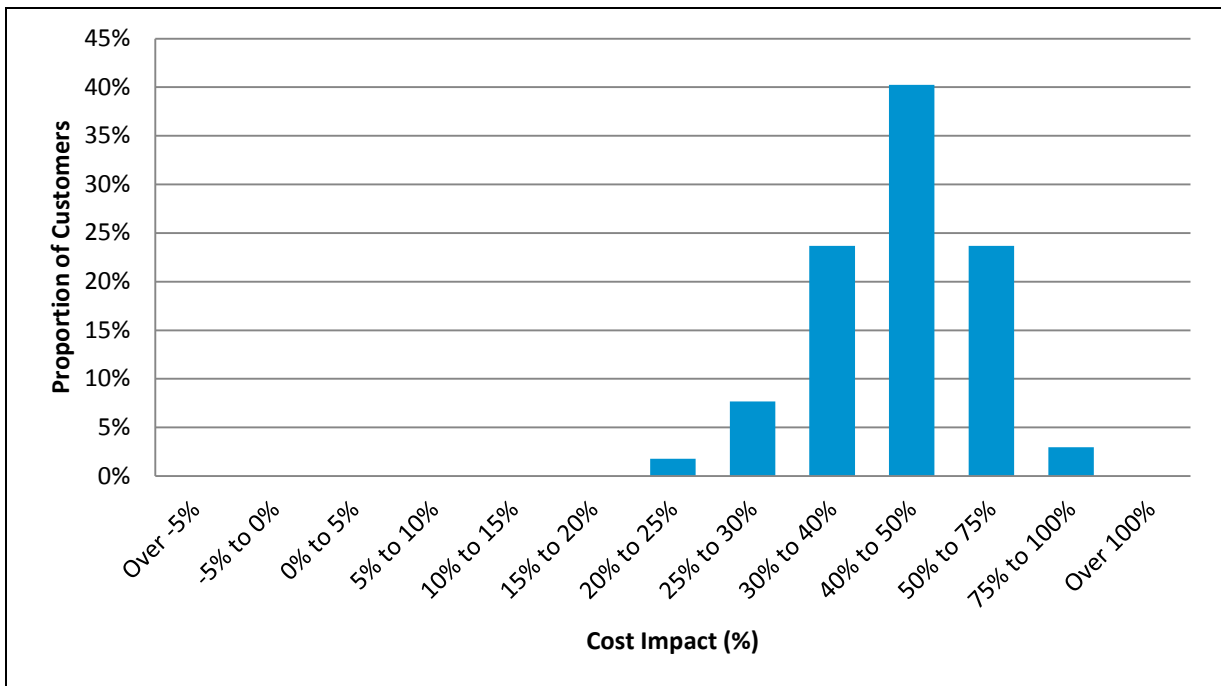
Source: Ergon Retail

Figure 27 Change in electricity bills for small business customers on tariff 66 moving to tariff 22A



Source: Ergon Retail

Figure 28 Change in electricity bills for large business customers on tariff 66 moving to tariff 44 or tariff 45



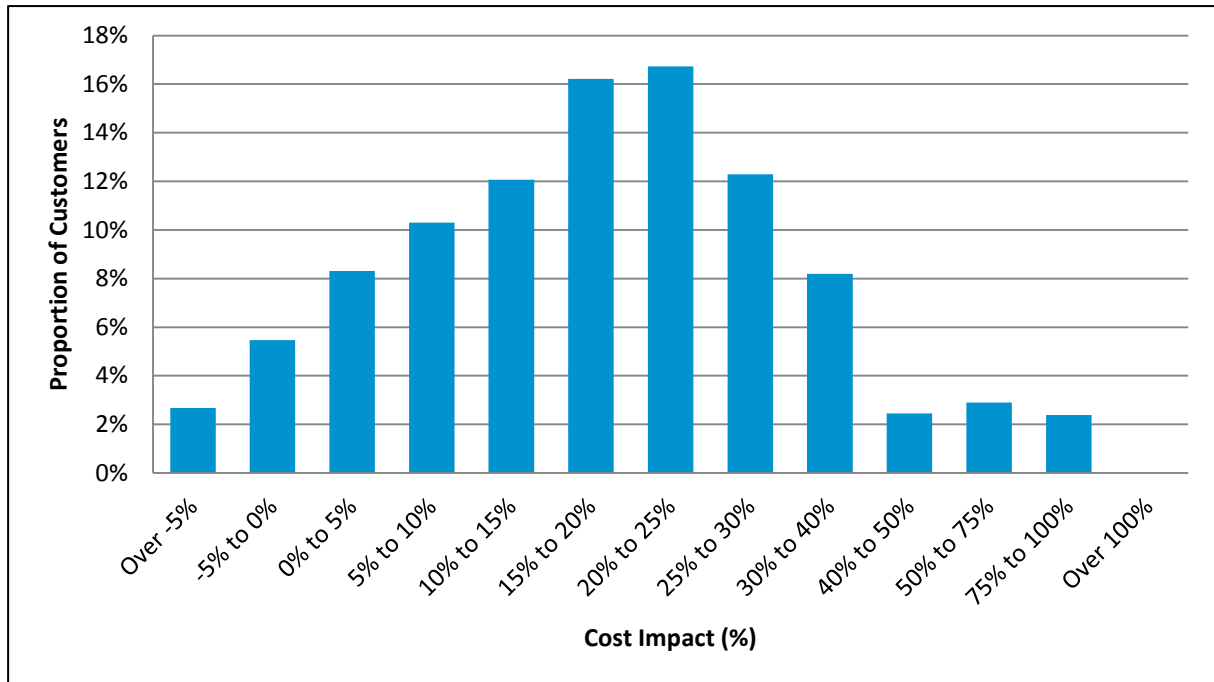
Note: For this analysis Ergon Retail has applied a derived demand profile for customers where demand data is unavailable. Therefore individual cost impacts may be over- or under-stated for individual customers depending on their unique demand profile

.Source: Ergon Retail

Large business customer tariffs

Transitional large tariffs 20 (large) and 22 (small and large) align with tariffs 44 to 48, which are based on Ergon Energy network tariffs and charges. Figures 29 and 30 show the likely impacts for large business customers moving from these transitional tariffs to the most appropriate of the standard large business customer tariffs.

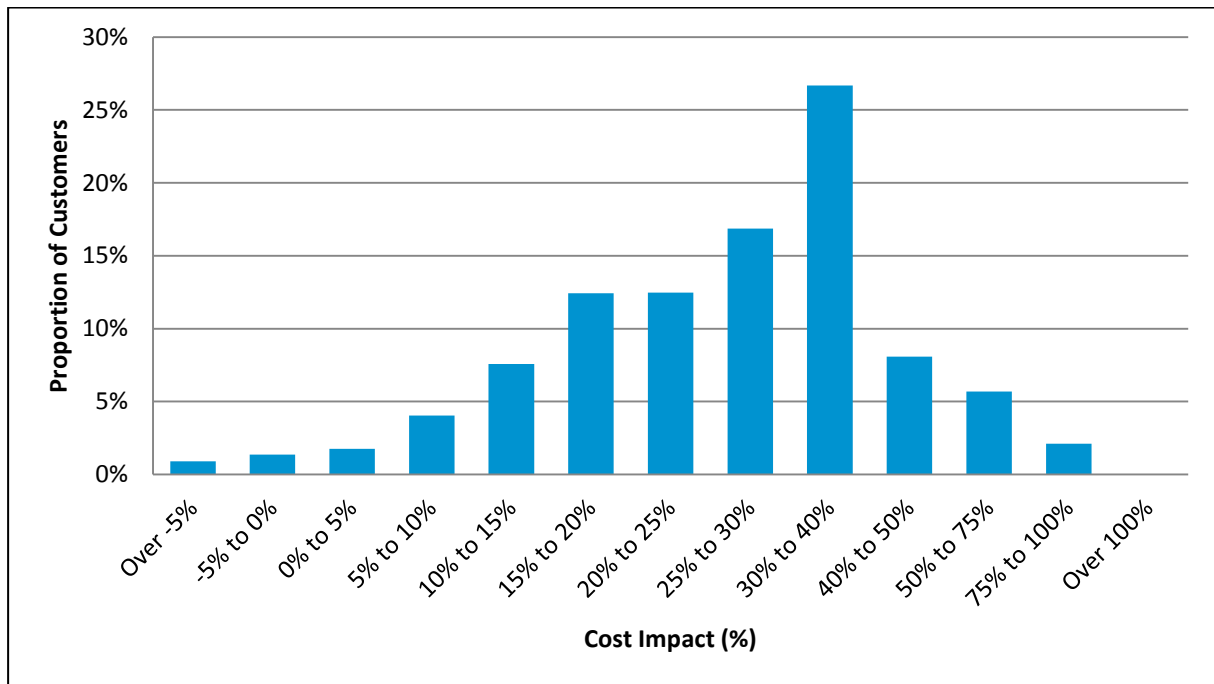
Figure 29 Change in electricity bills for business customers on tariff 20 (large) moving to one of tariffs 44 to 48



Note: For this analysis Ergon Retail has applied a derived demand profile for customers where demand data is unavailable. Therefore individual cost impacts may be over- or under-stated for individual customers depending on their unique demand profile.

Source: Ergon Retail

Figure 30 Change in electricity bills for business customers on tariff 22 (small and large) moving to one of tariffs 44 to 48



Note: For this analysis Ergon Retail has applied a derived demand profile for customers where demand data is unavailable. Therefore individual cost impacts may be over- or under-stated for individual customers depending on their unique demand profile.

Source: Ergon Retail

APPENDIX F: BUILD-UP OF PRICES

Table 29 Regulated retail tariffs and prices for residential customers (GST exclusive)

<i>Tariff</i>	<i>Tariff component</i>	<i>Fixed^a (c/day)</i>	<i>Peak usage (c/kWh)</i>	<i>Off- peak/flat usage (c/kWh)</i>	<i>Peak demand (\$/kW/month)</i>	<i>Off-peak demand (\$/kW/month)</i>
Tariff 11 (flat rate)	Network	50.200		11.290		
	Energy			9.235		
	Fixed Retail	35.085				
	Variable Retail			2.247		
	Standing offer adjustment	4.264		1.139		
	Total	89.549		23.911		
Tariff 12A (time-of-use)	Network	61.246	38.400	7.192		
	Energy		9.235	9.235		
	Fixed Retail	35.085				
	Variable Retail		5.216	1.799		
	Standing offer adjustment	4.817	2.643	0.911		
	Total	101.147	55.493	19.136		
Tariff 14 (time-of-use demand)	Network	24.018		3.212	52.283	9.280
	Energy			9.235		
	Fixed Retail	35.085				
	Variable Retail			1.363	5.725	1.016
	Standing offer adjustment	2.955		0.691	2.900	0.515
	Total	62.058		14.501	60.908	10.811
Tariff 31 (controlled load)	Network			6.088		
	Energy			5.814		
	Fixed Retail					
	Variable Retail			1.303		
	Standing offer adjustment			0.660		
	Total			13.865		
Tariff 33 (controlled load)	Network			9.353		
	Energy			7.251		
	Fixed Retail					
	Variable Retail			1.818		
	Standing offer adjustment			0.921		
	Total			19.343		

a. Charged per metering point.

Note: totals may not add due to rounding.

Table 30 Regulated retail tariffs and prices for small business and unmetered supply customers, except street lighting customers (GST exclusive)

<i>Tariff</i>	<i>Tariff component</i>	<i>Fixed^a (c/day)</i>	<i>Peak usage (c/kWh)</i>	<i>Off- peak/flat usage (c/kWh)</i>	<i>Peak demand (\$/kW/month)</i>	<i>Off-peak demand (\$/kW/month)</i>
Tariff 20 (flat rate)	Network	72.000		12.399		
	Energy			9.235		
	Fixed Retail	49.768				
	Variable Retail			2.579		
	Standing offer adjustment	6.088		1.211		
	Total	127.856		25.424		
Tariff 22 (time-of-use - obsolete)	Network	72.000	14.305	9.593		
	Energy		9.235	9.235		
	Fixed Retail	49.768				
	Variable Retail		2.807	2.245		
	Standing offer adjustment	6.088	1.317	1.054		
	Total	127.856	27.663	22.126		
Tariff 22A (time-of-use)	Network	72.000	30.472	10.137		
	Energy		9.235	9.235		
	Fixed Retail	49.768				
	Variable Retail		4.734	2.310		
	Standing offer adjustment	6.088	2.222	1.084		
	Total	127.856	46.663	22.765		
Tariff 24 (time-of-use demand)	Network	26.470		4.279	71.606	11.526
	Energy			9.235		
	Fixed Retail	49.768				
	Variable Retail			1.611	8.537	1.374
	Standing offer adjustment	3.812		0.756	4.007	0.645
	Total	80.049		15.881	84.151	13.545
Tariff 41 (low voltage - demand)	Network	532.100		1.839		23.588
	Energy			9.235		
	Fixed Retail	49.768				
	Variable Retail			1.320		2.812
	Standing offer adjustment	29.093		0.620		1.320
	Total	610.961		13.014		27.720
Tariff 91 (unmetered)	Network			10.354		
	Energy			9.235		
	Fixed Retail					
	Variable Retail			2.335		
	Standing offer adjustment			1.096		
	Total			23.020		

a. Charged per metering point.

Note: totals may not add due to rounding.

Table 31 Regulated retail tariffs and prices for large business and street lightning customers (GST exclusive)

<i>Tariff</i>	<i>Tariff component</i>	<i>Fixed^a (c/day)</i>	<i>Peak usage (c/kWh)</i>	<i>Off- peak/flat usage (c/kWh)</i>	<i>Peak demand (\$/kW/month)</i>	<i>Off-peak demand (\$/kW/month)</i>
Tariff 44 (over 100 MWh small (demand))	Network	4628.300		2.175		35.148
	Energy			8.653		
	Fixed Retail	495.047				
	Variable Retail			0.654		2.125
	Headroom	256.167		0.574		1.864
	Total	5379.515		12.056		39.136
Tariff 45 (over 100 MWh medium (demand))	Network	14883.400		2.258		28.792
	Energy			8.653		
	Fixed Retail	1122.896				
	Variable Retail			0.660		1.740
	Headroom	800.315		0.579		1.527
	Total	16806.610		12.149		32.059
Tariff 46 (over 100 MWh large (demand))	Network	40300.700		2.315		26.150
	Energy			8.653		
	Fixed Retail	2646.004				
	Variable Retail			0.663		1.581
	Headroom	2147.335		0.582		1.387
	Total	45094.039		12.212		29.117
Tariff 47 (high voltage (demand))	Network	37700.700		2.196		23.193
	Energy			8.213		
	Fixed Retail	2383.847				
	Variable Retail			0.629		1.402
	Headroom	2004.227		0.552		1.230
	Total	42088.775		11.590		25.825
Tariff 48 (over 4 GWh high voltage (demand))	Network	37700.700		2.196		23.193
	Energy			8.213		
	Fixed Retail	2801.480				
	Variable Retail			0.629		1.402
	Headroom	2025.109		0.552		1.230
	Total	42527.289		11.590		25.825
Tariff 50 (over 100 MWh time-of-use and demand)	Network	3849.500	1.744	4.683	55.101	13.293
	Energy		8.653	8.653		
	Fixed Retail	459.384				
	Variable Retail		0.628	0.806	3.331	0.804
	Headroom	215.444	0.551	0.707	2.922	0.705
	Total	4524.329	11.577	14.849	61.353	14.801
Tariff 71 (street lighting)	Network	0.600		21.402		
	Energy			8.653		
	Fixed Retail					
	Variable Retail			1.817		
	Headroom	0.030		1.594		
	Total	0.630		33.465		

a. Charged per metering point.

Note: totals may not add due to rounding.

APPENDIX G: GAZETTE NOTICE

Queensland Government Gazette

RETAIL ELECTRICITY PRICES FOR STANDARD CONTRACT CUSTOMERS

Electricity Act 1994

The notified prices are the prices decided under section 90(1) of the *Electricity Act 1994* (the Electricity Act).

A retailer must charge its Standard Contract Customers, as defined in the Electricity Act, the notified prices subject to the provisions of sections 91, 91A and 91AA of the Electricity Act, sections 22(2) and 23(2) of the *National Energy Retail Law (Queensland) Act 2014*, and sections 22A(2), 64D(2) and 64J(2) of the *National Energy Retail Law*.

Pursuant to the Certificate of Delegation from the Minister for Energy and Water Supply (dated 30 November 2015) and sections 90(2), 90(3)(a) and 90AB of the Electricity Act, I hereby state that the Queensland Competition Authority decided that, on and from 1 July 2016, the notified prices are the applicable prices set out in the attached Tariff Schedule.

The Tariff Schedule does not apply to any customers in Energex Limited's distribution area as from 1 July 2016, customers in this area do not have access to notified prices.

Eligible customers may access the transitional tariffs in Part 2 of the Tariff Schedule. These tariffs will be available for a set period of time as a transitional measure to assist customers in moving to the standard business tariffs in the future. Customers on the transitional tariffs may opt to transfer to the standard business tariffs in Part 1 of the Tariff Schedule at any time, subject to eligibility requirements.

This Tariff Schedule does not apply to Standard Contract Customers supplied by Origin Energy Electricity Limited connected to Essential Energy's New South Wales network (which extends into southern Queensland). These customers will generally pay no more for electricity than other Queensland Standard Contract Customers of similar usage categories or classes.

As required by section 90AB(4) of the Electricity Act, the notified prices are exclusive of the goods and services tax ('GST') payable under the *A New Tax System (Goods and Services Tax) Act 1999* (Cth) (the GST Act).

In addition to the applicable tariff, a retailer may charge a Standard Contract Customer an additional amount in accordance with a program or scheme for the purchase of electricity from renewable or environmentally-friendly sources (whether or not that additional amount is calculated on the basis of the customer's electricity usage), but only if –

- (a) the customer voluntarily participates in such program or scheme;
- (b) the additional amount is payable under the program or scheme; and
- (c) the retailer gives the customer prior written notice of any change to the additional amount payable under the program or scheme.

Dated this TBC day of May 2016.

Roy Green, Chairman
Queensland Competition Authority

TARIFF SCHEDULE

Part 1

TARIFFS FOR RESIDENTIAL, COMMERCIAL AND RURAL APPLICATIONS

Note 1: For the purposes of sections 90, 91, 91A and 91AA of the Electricity Act, the tariffs and other retail fees and charges in this Tariff Schedule are exclusive of GST payable under the GST Act.

Note 2: This Tariff Schedule replaces the Tariff Schedule published in the Queensland Government Gazette on 18 June 2015.

Note 3: This Tariff Schedule is structured in several Parts:

- Parts 1 to 5 (inclusive) apply to eligible Standard Contract Customers in Ergon Energy Corporation Limited distribution area, and large customers on a Standard Contract of Ergon Energy Queensland Pty Ltd; and
- Part 6 applies to eligible Standard Contract Customers of Ergon Energy Queensland Pty Ltd. Eligible customers of other retailers may apply directly to the Department of Energy and Water Supply for relief from electricity charges if a drought declaration is in force – see Part 6 for more detail.

Note 4: To ensure the correct application of the tariffs set out in this Tariff Schedule, the retailer and the customer must have regard to Part 4 (Application of Tariffs for Customers on Notified Prices – General).

Note 5: Any reference in this Tariff Schedule to a time is a reference to Eastern Standard Time.

Note 6: "NMI" means the National Metering Identifier and is applicable to the point at which a premises is connected to a distribution entity's network.

Note 7: A primary tariff is the tariff that reflects the primary use of the premises or the majority of the load, and is capable of existing by itself against a NMI. A secondary tariff is any other tariff.

Note 8: Only days that supply is connected are to be counted for billing of charges.

Note 9: A service fee is a fixed amount charged daily to cover the costs of maintaining electricity supply to a premises, including the costs associated with the provision of equipment and general administration. Retailers may use different terms for this charge, including Service Charge, Daily Supply Charge and Service to Property Charge.

Note 10: From 1 July 2015, metering charges are no longer included in notified prices. Metering charges will now be applied in addition to the notified prices contained in this gazette.

Note 11: Unless otherwise defined, the terminology used in this Tariff Schedule is intended to be consistent with the energy laws.

Tariff 11 – Residential (Lighting, Power and Continuous Water Heating) –

This tariff is applicable to a customer who is classified as residential by the relevant retailer and can be accessed by a business customer consuming less than 100MWh per annum providing it is in conjunction with a primary business tariff (Tariff 20, 21, 22, 22A, 24, 41, 62, 65 or 66) at the same NMI.

This tariff is also applicable to electricity used in separately metered common sections of residential premises consisting of more than one flat or home unit.

This tariff cannot be used in conjunction with Tariff 12A (Residential) (Time-of-Use) or Tariff 14 (Residential) (Seasonal Time-of-Use Demand) at the same NMI.

Where a NMI has multiple meters, the usage for all meters that record usage for Tariff 11 will be aggregated for billing purposes.

No large customers are eligible for this tariff.

All usage **23.911 c/kWh**

plus a Service Fee per metering point per day of **89.549 c**

Further applications of this tariff are described in Part 4 (Application of Tariffs for Customers on Notified Prices – General) and Part 5 (Concessional Applications of Tariffs 11, 12A and 14 (Residential)).

Tariff 12A – Residential (Lighting, Power and Continuous Water Heating) (Time-of-Use) –

This tariff is applicable to a customer in Ergon Energy Corporation Limited's distribution area who is classified as residential by the relevant retailer and can be accessed by a business customer consuming less than 100MWh per annum providing it is in conjunction with a primary business tariff (Tariff 20, 21, 22, 22A, 24, 41, 62, 65 or 66) at the same NMI.

This tariff is also applicable to electricity used in separately metered common sections of residential premises consisting of more than one flat or home unit.

This tariff cannot be used in conjunction with Tariff 11 or 14 (Residential) at the same NMI.

Where a NMI has multiple meters, the usage for all meters that record usage for Tariff 12A will be aggregated for billing purposes.

No large customers are eligible for this tariff.

Customers must have the appropriate metering installed in order to access this tariff.

Usage during Summer (December, January and February):

Peak
Electricity used between 3:00pm and 9:30pm inclusive
any day of the week **55.493 c/kWh**

Off-peak
All other times **19.136 c/kWh**

Non-summer usage (March - November)
All usage **19.136 c/kWh**

plus a Service Fee per metering point
per day of **101.147 c**

Further applications of this tariff are described in Part 4 (Application of Tariffs for Customers on Notified Prices – General) and Part 5 (Concessional Applications of Tariffs 11, 12A and 14 (Residential)).

Tariff 14 – Residential (Seasonal Time-of-Use Demand) –

This tariff is applicable to a customer in Ergon Energy Corporation Limited's distribution area who is classified as residential by the relevant retailer.

Customers must have the appropriate metering installed in order to access this tariff. Where a NMI has multiple meters, the usage for all meters that record usage for Tariff 14 will be aggregated for billing purposes.

This tariff is available at the absolute discretion of the retailer and the distribution entity.

Demand Charges

'Demand' refers to the import demand in kilowatts (No adjustment to import demand is made for export to the distribution network).

Peak Demand - demand between 3:00pm and 9:30pm, any day of the week, in summer months (December, January and February).

Off Peak Demand - demand between 3:00pm and 9:30pm, any day of the week, in non-summer months (March to November inclusive).

Peak Demand Calculation

Summer demand charges are calculated using the customer's top 4 demand days. The daily demand is based on the average demand the customer places on the network in the daily peak demand window (the 6.5 hour peak period on any day between 3.00 pm and 9.30 pm).

The peak demand charge will be applied to average kW demand calculated for the 52 half hour periods each month (i.e. 13 half hour intervals in each demand window on the 4 highest demand days)

\$60.908 per kilowatt per month of chargeable peak demand.

Off Peak Demand Calculation

Non summer demand charges are calculated using the customer's top 4 demand days. The daily demand is based on the average demand the customer places on the network in the daily demand window (the 6.5 hour peak period on any day between 3.00 pm and 9.30 pm).

The off peak demand charge will be applied to average kW demand calculated for the 52 half hour periods each month (i.e. 13 half hour intervals in each demand window on the 4 highest demand days)

The off peak demand quantity is subject to a minimum chargeable demand of 3kW. The off peak demand charge does not apply in summer months.

\$10.811 per kilowatt per month of chargeable off-peak demand.

All usage **14.501 c/kWh**

plus a Service Fee per metering point
per day of **62.058 c**

Further applications of this tariff are described in Part 4 (Application of Tariffs for Customers on Notified Prices – General) and Part 5 (Concessional Applications of Tariffs 11, 12A and 14 (Residential)).

Tariff 20 – Business General Supply –

This tariff cannot be accessed by large customers. Refer Part 2 for transitional tariffs for existing large customers.

Residential customers can access this tariff providing:

- the electricity is used in separately metered common sections of residential premises consisting of more than one flat or home unit; or
- it is in conjunction with a primary residential tariff at the same NMI.

All usage **25.424 c/kWh**

plus a Service Fee per metering point
per day of **127.856 c**

Tariff 22 – Business General Supply – Time-of-Use –

This tariff will be phased out no later than 30 June 2017 and no new customers will be supplied under this tariff. It is available only to customers taking supply under Tariff 22 at 30 June 2015.

This tariff cannot be accessed by large customers. Refer Part 2 for transitional tariffs for existing large customers.

Residential customers can access this tariff providing:

- the electricity is used in separately metered common sections of residential premises consisting of more than one flat or home unit; or
- it is in conjunction with a primary residential tariff at the same NMI.

Customers must have the appropriate metering installed in order to access this tariff.

For electricity used between the hours of 7.00 am and 9.00 pm, Monday to Friday inclusive -

All usage	27.663 c/kWh
For electricity used at other times -	
All usage	22.126 c/kWh
plus a Service Fee per metering point per day of	127.856 c

Tariff 22A – Business General Supply – Time of Use

This tariff is applicable to business customers consuming less than 100MWh per annum in Ergon Energy Corporation Limited's distribution area. This tariff cannot be accessed by large customers. Refer Part 2 for transitional tariffs for existing large customers.

Customers must have the appropriate metering installed in order to access this tariff.

Usage during Summer (December, January and February):

Peak Electricity used between 10:00am and 8:00pm inclusive on weekdays	46.663 c/kWh
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Off-peak All other times	22.765 c/kWh
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Non-summer usage (March - November)

All usage	22.765 c/kWh
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plus a Service Fee per metering point per day of	127.856 c
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Tariff 24 – Business (Seasonal Time-of-Use Demand)

This tariff is applicable to a customer in Ergon Energy Corporation Limited's distribution area who is classified as business by the relevant retailer. The tariff cannot be accessed by large customers.

Customers must have the appropriate metering installed in order to access this tariff. Where a NMI has multiple meters, the usage for all meters that record usage for Tariff 24 will be aggregated for billing purposes.

This tariff is available at the absolute discretion of the retailer and the distribution entity.

Demand Charges –

'Demand' refers to the import demand in kilowatts (No adjustment to import demand is made for export to the distribution network).

Peak Demand – demand between 10:00am and 8:00pm weekdays (Monday to Friday) in summer months (December, January and February)

Off Peak Demand - demand between 10:00am and 8:00pm weekdays (Monday to Friday) in non-summer months (March to November inclusive).

Peak Demand Calculation

Summer demand charges are calculated using the customers top 4 demand days. The daily demand is based on the average demand the customer places on the network in the daily peak demand window (the 10 hour peak period on any working day between 10.00 am and 8.00 pm).

The peak demand charge will be applied to average kW demand calculated for the 80 half hour periods each month (i.e. 20 half hour intervals in each demand window on the 4 highest demand days)

\$84.151 per kilowatt per month of chargeable peak demand.

Off Peak Demand Calculation

Non summer demand charges are calculated using the customer's top 4 demand days. The daily demand is based on the average demand the customer places on the network in the daily demand window (the 10 hour peak period on any working day between 10.00 am and 8.00 pm).

The off peak demand charge will be applied to average kW demand calculated for the 80 half hour periods each month (i.e. 20 half hour intervals in each demand window on the 4 highest demand days)

The off peak demand quantity is subject to a minimum chargeable demand of 3kW. The off peak demand charge does not apply in summer months.

\$13.545 per kilowatt per month of chargeable off-peak demand.

Energy Charge

All usage	15.881 c/kWh
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plus a Service Fee per metering point per day of	80.049 c
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Further applications of this tariff are described in Part 4 (Application of Tariffs for Customers on Notified Prices – General).

Tariff 31 – Night Rate (Super Economy) –

Eligible customers can access this tariff providing it is in conjunction with a residential or business tariff at the same NMI at the discretion of the distribution entity.

This tariff is not available to large customers in Ergon Energy Corporation Limited's distribution area.

This tariff is applicable when electricity supply is:

- permanently connected to apparatus; or
- connected to apparatus by means of a socket-outlet as approved by the distribution entity; or
- permanently connected to specified parts of apparatus;

as set out below (but not applicable, except as described in (c) below, if provision has been made to supply such apparatus or the specified part thereof under a different tariff during the restricted period) -

- (a) Electric storage water heaters with thermostatically controlled or continuously operating heating units and which comply with the construction and performance requirements of Australian Standard 1361 or 1056 or previous Standards superseded by these two Standards or similar electric water heaters which are approved for connection by the distribution entity.

Where the heating unit rating exceeds 1,800 watts, it shall not exceed 13.5 watts per litre of heat storage volume for heat exchange type water heaters or 15.5 watts per litre of rated hot water delivery for other storage type water heaters.

The following conditions shall apply to any booster heating unit fitted -

- (i) its rating shall not exceed that of the main heating unit;
 - (ii) it shall be connected so as to prevent it being energised simultaneously with the main heating unit;
 - (iii) electricity used by the booster heating unit shall be metered under and charged at the tariff applicable to general power usage at the premises concerned;
 - (iv) it shall be located in accordance with the provisions of the above Standards.
- (b) Solar-heated water heaters. Where the electric heating unit rating exceeds 1,800 watts, it shall not exceed 13.5 watts per litre of storage tank capacity. If a circulating water pump is fitted to the system, continuous supply will be available to the pump, and electricity used shall be metered under and charged at the tariff applicable to general power usage at the premises concerned.
- (c) One-shot boost for solar-heated water heaters with electric heating units as described in (b) above. A current held changeover relay may be fitted to the water heater to deliver, at the customer's convenience, a 'one-shot boost' supply to the electric heating element at times when supply is not available under this Tariff 31 (generally between the hours of 7.00 am and 10.00 pm). Such supply is subject to thermostatically controlled switchoff. Electricity used during operation of the one-shot boost shall be metered under and charged at the tariff applicable to general power usage at the premises concerned. Supply and installation of a current held changeover relay, including the cost of same, is the responsibility of the customer.
- (Reference in this Tariff Schedule to a 'booster heating unit' does not mean a current held changeover relay which is capable of delivering a 'one-shot boost'.)
- (d) Heat pump water heaters. Where the rated electrical input, as shown on the nameplate, exceeds 1,800 watts, it shall not exceed 13.5 watts per litre of storage tank capacity.
- (e) Heatbanks. Booster heating units are permitted in heatbanks in which the main element rating is

at least 2 kilowatts. The following conditions shall apply to any booster heating unit fitted -

- (i) its rating shall not exceed 70 percent of the rating of the main heating unit;
 - (ii) it shall be connected so as to prevent it being energised simultaneously with the main heating unit;
 - (iii) electricity used by the booster heating unit shall be metered under and charged at the tariff applicable to general power usage at the premises concerned.
- (f) Electric Vehicles, at the discretion of the distributor.
- (g) Loads other than water heaters and heatbanks, but is not applicable -
- (i) to arc or resistance welding plant;
 - (ii) where the apparatus is duplicated in order that supply may be obtained on a different tariff for the same purpose during the restricted period.

The distribution entity will provide and install load control equipment. Charges may apply for distribution services associated with the load control equipment, where the costs of the requested service are not included in the distribution entity's network charges.

Supply will be available for a minimum of 8 hours per day, but the times when supply is available is subject to variation at the absolute discretion of the distribution entity. In general, this supply will be between the hours of 10.00 pm and 7.00 am.

All usage

13.865 c/kWh

Tariff 33 – Controlled Supply (Economy) –

Eligible customers can access this tariff providing it is in conjunction with a residential or business tariff at the same NMI at the discretion of the distribution entity.

This tariff is not available to large customers or in conjunction with Tariff 24 in Ergon Energy Corporation Limited's distribution area.

This tariff is applicable when electricity supply is:

- (a) connected to apparatus (e.g. pool filtration system) by means of a socket-outlet as approved by the distribution entity; or
- (b) permanently connected to apparatus as set out below (but not applicable if provision has been made to supply such apparatus under a different tariff in the periods during which supply is not available under this tariff) –
 - (i) Electric storage water heaters with thermostatically controlled or continuously operating heating units and which comply with the construction and performance requirements of Australian Standard 1361 or 1056 or previous Standards superseded by these two Standards or similar electric water heaters which are approved for connection by the distribution entity.

Where the heating unit rating exceeds 1,800 watts, it shall not exceed 13.5 watts per litre of heat storage volume for heat exchange type water heaters or 15.5 watts per litre of rated hot water delivery for other storage type water heaters.

- (ii) Solar-heated water heaters. Where the electric heating unit rating exceeds 1,800 watts, it shall not exceed 13.5 watts per litre of storage tank capacity.
- (iii) Heat pump water heaters. Where the rated electrical input, as shown on the nameplate, exceeds 1,800 watts, it shall not exceed 13.5 watts per litre of storage tank capacity.
- (iv) Electric Vehicles, at the discretion of the distributor.
- (v) As a sole supply tariff at the absolute discretion of the distribution entity.
- (vi) Other individual loads in domestic installations, but is not applicable –
 - to arc or resistance welding plant;
 - where the apparatus is duplicated in order that supply may be obtained on a different tariff for the same purpose during the restricted period.

The distribution entity will provide and install load control equipment. Charges may apply for distribution services associated with the load control equipment, where the costs of the requested service are not included in the distribution entity's network charges.

Supply will be available for a minimum of 18 hours per day, but the times when supply is available is subject to variation at the absolute discretion of the distribution entity.

All usage **19.343 c/kWh**

Tariff 41 – Business Low Voltage General Supply (Demand) –

This tariff cannot be accessed by large customers. Refer Part 2 for transitional tariffs for large customers.

Demand Charge –

\$27.720 per kilowatt per month of chargeable demand.

Energy Charge –

All usage **13.014 c/kWh**

plus a Service Fee per metering point per day of **610.961 c**

The chargeable demand in any month shall be the maximum demand recorded in that month.

'Demand' shall mean the average demand over a period of 30 minutes, as measured on the distribution entity's meters.

Customers must have the appropriate metering installed in order to access this tariff.

Tariff 44 – Business Over 100MWh per annum (Demand Small)

This tariff can be accessed by customers classified as SAC >100MWh per annum by the distribution entity. The tariff is based on the Ergon Energy Corporation Limited network tariff of Demand Small.

A Standard Asset Customer - Large (SAC - Large) is a customer in Ergon Energy Corporation Limited's distribution area whose annual energy usage generally exceeds 100MWh.

This tariff cannot be used in conjunction with any other tariff at that NMI.

Demand Charge –

\$39.136 per kilowatt per month of chargeable demand.

Energy Charge –

All usage **12.056 c/kWh**

plus a Service Fee per metering point per day of **5,379.515 c**

The chargeable demand charge in any month will be the kW amount by which a customer's metered monthly maximum demand is greater than the demand threshold applicable to this tariff which is 30 kW.

Where the monthly metered maximum demand is less than the demand threshold, the chargeable demand is set to zero and no demand charge is payable for that month.

'Demand' shall mean the average demand in kilowatts over a period of 30 minutes, as measured on the meters at that NMI.

Customers must have the appropriate metering installed in order to access this tariff.

Tariff 45 – Business Over 100MWh per annum (Demand Medium)

This tariff can be accessed by customers classified as SAC >100MWh per annum by the distribution entity. The tariff is based on the Ergon Energy Corporation Limited network tariff of Demand Medium.

A Standard Asset Customer - Large (SAC - Large) is a customer in Ergon Energy Corporation Limited's distribution area whose annual energy usage generally exceeds 100MWh.

This tariff cannot be used in conjunction with any other tariff at that NMI

Demand Charge –

\$32.059 per kilowatt per month of chargeable demand.

Energy Charge –

All usage **12.149 c/kWh**

plus a Service Fee per metering point per day of **16,806.610 c**

The chargeable demand charge in any month will be the kW amount by which a customer's metered monthly maximum demand is greater than the demand threshold applicable to this tariff which is 120kW.

Where the monthly metered maximum demand is less than the demand threshold, the chargeable demand is set to zero and no demand charge is payable for that month.

'Demand' shall mean the average demand in kilowatts over a period of 30 minutes, as measured on the meters at that NMI.

Customers must have the appropriate metering installed in order to access this tariff.

Tariff 46 – Business Over 100MWh per annum (Demand Large)

This tariff can be accessed by customers classified as SAC >100MWh per annum by the distribution entity. The tariff is based on the Ergon Energy Corporation Limited network tariff of Demand Large.

A Standard Asset Customer - Large (SAC - Large) is a customer in Ergon Energy Corporation Limited's distribution area whose annual energy usage generally exceeds 100MWh.

This tariff cannot be used in conjunction with any other tariff at that NMI

Demand Charge –

\$29.117 per kilowatt per month of chargeable demand.

Energy Charge –

All usage	12.212 c/kWh
plus a Service Fee per metering point per day of	45,094.039 c

The chargeable demand charge in any month will be applied to the kW amount by which a customer's metered monthly maximum demand is greater than the demand threshold applicable to this tariff which is 400 kW.

Where the monthly metered maximum demand is less than the demand threshold, the chargeable demand is set to zero and no demand charge is payable for that month.

'Demand' shall mean the average demand in kilowatts over a period of 30 minutes, as measured on the meters at that NMI.

Customers must have the appropriate metering installed in order to access this tariff.

Tariff 47 – Business - High Voltage General Supply (Demand)

This tariff can be accessed by customers classified as SAC >100MWh per annum by the distribution entity. The tariff is based on the Ergon Energy Corporation Limited network tariff of Demand High Voltage.

A Standard Asset Customer - Large (SAC - Large) is a customer in Ergon Energy Corporation Limited's distribution area whose annual energy usage generally exceeds 100MWh.

This tariff cannot be used in conjunction with any other tariff at that NMI.

This tariff cannot be accessed by large customers who are classified as Connection Asset Customers or Individually Calculated Customers by the distribution entity.

Demand Charge –

\$25.825 per kilowatt per month of chargeable demand.

Energy Charge –

All usage	11.590 c/kWh
plus a Service Fee per metering point per day of	42,088.775 c

The chargeable demand charge in any month will be applied to the kW amount by which a customer's metered monthly maximum demand is greater than the demand threshold applicable to this tariff which is 400 kW.

Where the monthly metered maximum demand is less than the demand threshold, the chargeable demand is set to zero and no demand charge is payable for that month.

'Demand' shall mean the average demand in kilowatts over a period of 30 minutes, as measured on the meters at that NMI.

Supply under this tariff will be at a standard high voltage, the level of which shall be prescribed by the distribution entity. Credits for high voltage supply are not applicable to this tariff.

Customers must have the appropriate metering installed in order to access this tariff.

Tariff 48 – Business - General Supply (>4 Gigawatt Hours (GWh)) (Demand)

This tariff can only be accessed by large customers who are classified as Connection Asset Customers or Individually Calculated Customers by the distribution entity. The tariff is based on the Ergon Energy Corporation Limited network tariff of Demand High Voltage.

A Connection Asset Customer is a large business customer in Ergon Energy Corporation Limited's distribution area whose annual energy usage generally exceeds 4GWh.

An Individually Calculated Customer is a large business customer in Ergon Energy Corporation Limited's distribution area whose annual energy usage generally exceeds 40GWh.

This tariff cannot be used in conjunction with any other tariff at that NMI.

Demand Charge –

\$25.825 per kilowatt per month of chargeable demand.

Energy Charge –

All usage **11.590 c/kWh**

plus a Service Fee per metering point per day of **42,527.289 c**

The chargeable demand charge in any month will be applied to the kW amount by which a customer's metered monthly maximum demand is greater than the demand threshold applicable to this tariff which is 400 kW.

Where the monthly metered maximum demand is less than the demand threshold, the chargeable demand is set to zero and no demand charge is payable for that month.

'Demand' shall mean the average demand in kilowatts over a period of 30 minutes, as measured on the meters at that NMI. Credits for high voltage supply are not applicable to this tariff.

Customers must have the appropriate metering installed in order to access this tariff.

Tariff 50 – Business - Seasonal Time of Use Demand (over 100MWh per annum)

This tariff can be accessed by customers classified as SAC >100MWh per annum by the distribution entity. The tariff is based on the Ergon Energy Corporation Limited network tariff of Seasonal Time of Use Demand for SAC Large.

A SAC - Large customer is a customer in Ergon Energy Corporation Limited's distribution area whose annual energy usage generally exceeds 100MWh.

This tariff cannot be used in conjunction with any other tariff at that NMI.

Customers must have the appropriate metering installed in order to access this tariff.

The chargeable demand charge for peak and shoulder periods in any summer month (December, January or February) will be applied to the kW amount by which a customer's metered monthly maximum demand is greater than the demand threshold of 20 kW.

The chargeable demand charge for all other months (ie from March through to November) will be applied to the kW amount by which a customer's metered monthly maximum demand is greater than the demand threshold of 40 kW.

Where the monthly metered maximum demand is less than the demand threshold, the chargeable demand is

set to zero and no demand charge is payable for that time period of that month.

'Demand' shall mean the average demand in kilowatts over a period of 30 minutes, as measured on the meters at that NMI.

Demand Charges –

Summer Demand (December, January and February)
Weekdays 10:00am to 8:00pm

\$61.353 per kilowatt per month of maximum metered demand exceeding 20 kilowatts.

Non-summer demand (March to November)

\$14.801 per kilowatt per month of maximum metered demand exceeding 40 kilowatts.

Energy Charge –

All usage during summer months (December, January and February) **11.577 c/kWh**

All usage during non-summer months (March to November) **14.849 c/kWh**

plus a Service Fee per metering point per day of **4,524.329 c**

Part 2

TRANSITIONAL TARIFFS FOR NEW AND EXISTING CUSTOMERS

The following tariffs are available as a transitional measure to assist new and existing customers in moving to standard business tariffs in the future. Transitional tariffs will be phased out no later than 30 June 2020.

Tariff 20 (Large) – Business General Supply (Transitional)

This transitional tariff is available to large customers in Ergon Energy Corporation Limited's distribution area and will be phased out no later than 30 June 2020.

This tariff cannot be accessed by small customers.

All usage **34.416 c/kWh**

plus a Service Fee per metering point per day of **70.357 c**

Tariff 21 – Business General Supply (Transitional)

This transitional tariff will be phased out no later than 30 June 2020.

This tariff can only be accessed by a residential customer if it is in conjunction with a primary residential tariff at the same NMI.

This tariff shall not apply in conjunction with Tariff 20, 22, 22A, 24 or 62.

First 100 kilowatt hours per month	46.125 c/kWh
Next 9,900 kilowatt hours per month	43.338 c/kWh
Remaining kilowatt hours per month	32.992 c/kWh
plus a Minimum Payment per day of	67.876 c

Tariff 22 - (Small and Large) – Business General Supply – Time-of-Use (Transitional)

This transitional tariff will be phased out no later than 30 June 2020.

This tariff can only be accessed by a residential customer if it is in conjunction with a primary residential tariff at the same NMI.

Customers must have the appropriate metering installed in order to access this tariff.

For electricity used between the hours of 7.00 am and 9.00 pm, Monday to Friday inclusive -

All usage	45.606 c/kWh
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For electricity used at other times -

All usage	16.059 c/kWh
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plus a Service Fee per metering point per day of	169.092 c
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Tariff 37 – Non-Domestic Heating – Time-of-Use (Obsolescent) –

This tariff will be phased out no later than 30 June 2020. No new customers will be supplied under this tariff. It is available only to customers taking supply under Tariff 37 at 30 June 2007.

Applicable to permanently connected –

- (a) Electric storage water heaters in non-domestic installations with thermostatically controlled or continuously operating heating units and which comply with the construction and performance requirements of Australian Standard 1361 or 1056 or previous Standards superseded by these two Standards or similar electric water heaters which are approved for connection by the distribution entity.

The heating unit rating shall not exceed 40.5 watts per litre of heat storage volume for heat exchange type water heaters or 46.5 watts per litre of rated hot water delivery for other storage type water heaters.

- (b) Apparatus for the production of steam.

- (c) Heating loads other than (a) and (b) above. The minimum total connected load under this section of this tariff is 4 kilowatts. Supplementary load that is permanently connected as an integral part of the installation may be supplied under this section provided that the aggregated rating of such supplementary load does not exceed 10 percent of the heating load.

For electricity used between the hours of 4.30 pm and 10.30 pm	49.930 c/kWh
For electricity used between the hours of 10.30 pm and 4.30 pm	19.963 c/kWh
Minimum Payment per day of	28.032 c

Tariff 62 - Farm - Time-of-Use (Transitional)

This transitional tariff will be phased out no later than 30 June 2020.

This tariff can only be accessed by a residential customer if it is in conjunction with a primary residential tariff at the same NMI.

This tariff shall not apply in conjunction with Tariff 20, 21, 22 22A or 24 at the same NMI.

For electricity used between the hours of 7.00 am and 9.00 pm, Monday to Friday inclusive –

First 10,000 kilowatt hours per month	43.470 c/kWh
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Remaining kilowatt hours	36.761 c/kWh
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For electricity used at other times -

All usage	15.371 c/kWh
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plus a Service Fee per metering point per day of	73.314 c
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Tariff 65 - Irrigation - Time-of-Use (Transitional)

This transitional tariff will be phased out no later than 30 June 2020.

This tariff can only be accessed by a residential customer if it is in conjunction with a primary residential tariff at the same NMI.

For electricity used in a fixed 12 hour daily pricing period (as agreed between the retailer and the customer from the range 7.00 am to 7.00 pm; 7.30 am to 7.30 pm; or 8.00 am to 8.00 pm) Monday to Sunday inclusive -

All usage	34.676 c/kWh
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For electricity used at other times –

All usage	19.100 c/kWh
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plus a Service Fee per metering point per day of	73.314 c
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No alteration to the selected daily pricing period shall be permitted until a period of twelve months has elapsed from the previous selection.

Tariff 66 – Irrigation (Transitional)

This transitional tariff will be phased out no later than 30 June 2020.

This tariff can only be accessed by a residential customer if it is in conjunction with a primary residential tariff at the same NMI.

Annual Fixed Charge (in respect of each point of supply) - per kilowatt of connected motor capacity used for irrigation pumping –

First 7.5 kilowatts **\$35.249 per kW**

Remaining kilowatts **\$105.982 per kW**

Energy Charge –

All usage **18.175 c/kWh**

plus a Service Fee per metering point per day of **161.582 c**

Minimum Annual Fixed Charge - As calculated for 7.5 kW (Note – 7.5 kW is equivalent to 10.05 h.p.)

Any customer taking supply under this tariff who requests a temporary disconnection will not be reconnected unless the outstanding balance of the Annual Fixed Charge for part of the year corresponding to the period of disconnection has been paid.

Part 3**TARIFFS FOR UNMETERED SUPPLY INCLUDING STREET LIGHTS, TRAFFIC SIGNALS, WATCHMAN LIGHTING AND TEMPORARY SERVICES****Tariff 71 – Street Lights –**

Notified prices for Tariff 71, published in accordance with section 90 of the Electricity Act, will only apply in Ergon Energy Corporation Limited's distribution area.

Street lighting customers are as defined in Queensland legislative instruments, being State or local government agencies for street lighting loads.

Street lights are deemed to illuminate roads. In Queensland, there are two main types of roads, being:

- **Local government roads** – roads for which a local government has control. These roads comprise land that is:
 - dedicated to public use as a road; or
 - developed for (or has as one of its main uses) the driving or riding of motor vehicles and is open to, or used by, the public; or
 - a footpath or bicycle path; or
 - a bridge, culvert, ford, tunnel or viaduct,
 and excludes State-controlled roads and public thoroughfare easements; and
- **State-controlled roads** – roads that are declared under the *Transport Infrastructure Act 1994* (Qld) to be a State-controlled road, for which the relevant

Minister for that Act has control (i.e. of the Department of Transport and Main Roads).

All usage will be determined in accordance with the metrology procedure issued by the Australian Energy Market Operator.

All usage **33.465 c/kWh**

plus a Service Fee per lamp per day of **0.630 c**

Tariff 91 - Other Unmetered Supply –

Unmetered electricity supply is available to other small loads, as approved by the distribution entity

Unmetered Supply applies where:

1. the load pattern is predictable;
2. for the purposes of settlements, the load pattern (including load and on/off time) can be reasonably calculated by a relevant method set out in the metrology procedure; and
3. it would not be cost effective to meter the connection point taking into account:
 - (i) the small magnitude of the load;
 - (ii) the connection arrangements; and
 - (iii) the geographical and physical location.

Charges are based on usage determined by the distribution entity.

All usage **23.020 c/kWh**

Charges for installation, maintenance and removal of supply to an unmetered installation may apply in addition to the above charge for electricity supplied. These charges are unregulated.

Part 4**APPLICATION OF TARIFFS FOR CUSTOMERS ON NOTIFIED PRICES – GENERAL**

Standard Contract Customers may choose to be charged on any of the tariffs that the retailer agrees are applicable to the customer's installation and provided that appropriate metering is in place.

Tariffs are applied to the electricity used at a connection point (as identified by a National Metering Identifier or NMI), as measured by the meter or meters at that connection point. The distribution entity is responsible for the establishment of connection points. Whilst customers have the ability to, at their expense if applicable, request additional meters at their connection point to enable particular tariff arrangements, the distribution entity will only create a new connection point where they have a legislative right or obligation to do so.

If there has been a material change of use at the customer's premises, such that the tariff on which the customer is being charged is no longer applicable, the retailer may require the customer to transfer to a tariff applicable to the changed use.

If a change to the customer's meter is required to support the applicability of a tariff to a customer, the customer may request the retailer to arrange for the required meter to be installed at the customer's cost.

For all tariffs customers have the option, on application in writing or another form acceptable to the retailer, of changing to any other tariff that the retailer agrees is applicable to the customer's installation. Customers shall not be entitled to a further option of changing to another tariff until a period of twelve months has elapsed from a previous exercise of option. However, a retailer at the request of a customer may permit a change to another tariff within a period of twelve months if –

- (i) a tariff that was not previously in force is offered and such tariff is applicable to the customer's installation;
- or
- (ii) the change does not require a change to the customer's network tariff and the customer meets certain costs associated with changing to another tariff;

Customers previously supplied under tariffs which have now been discontinued or redesignated (whether by number, letter or name) in their distribution area will be supplied under other tariffs appropriate to their installations.

The date of effect of a tariff change will be:

- for customers previously supplied under tariffs which have now been discontinued or redesignated (whether by number, letter or name) - the date the tariff is discontinued or redesignated; or
- the date of the last meter read (provided it is an actual meter read, not an estimated meter read); or
- if field work is required to support the change in tariff (e.g. a new meter is required to be installed), the date the field work is completed.

Billing information for application of monthly or annually based charges

The monthly or annual charges shall be calculated pro rata having regard to the number of days in the billing cycle that supply was connected (days) and one-twelfth of 365.25 days (to allow for leap years). That is:

$$Pa = \frac{P \times 12}{365.25} \times \text{days, for monthly charges}$$

$$Pa = \frac{P1}{365.25} \times \text{days, for annual charges}$$

Where Pa is the amount to be billed
P is the monthly charge
P1 is the annual charge
days is the number of days in the billing cycle that supply was connected

Supply Voltage

(a) Low Voltage

Except where otherwise stated, the tariffs in Parts 1 and 2 will apply to supply taken at low voltage (480/240 volts or 415/240 volts, 50 Hertz A.C., as required by the distribution entity).

(b) High Voltage

(i) Customer plant requirements

By agreement between the customer and the distribution entity, supply may be given and metered at a standard high voltage, the level of which shall be prescribed by the distribution entity.

Where high voltage supply is given, a customer shall supply and maintain all equipment including transformers and high voltage automatic circuit breakers but excepting meters and control apparatus beyond the customer's terminals.

(ii) Credits where L.V. tariff is metered at H.V.

Where supply is given in accordance with (i) above and metered at high voltage then, except in cases where high voltage tariffs are determined or provided by agreement to meet special circumstances, the tariffs applied will be those pertaining to supply at low voltage ("the relevant tariff"), EXCEPT THAT, after billing the energy and demand components of the tariff, a credit will be allowed of –

- 5 percent of the calculated tariff charge where supply is given at voltages of 11kV to 33 kV; and
- 8 percent of the calculated tariff charge where supply is given at voltages of 66 kV and above,

(provided that the calculated tariff charge after application of the credit must not be less than the Minimum Payment or other minimum charge calculated by applying the provisions of the relevant tariff.)

Card-operated Meters in Remote Communities

If a customer is an excluded customer (as defined in section 23 of the Electricity Act), the distribution entity may at its absolute discretion agree with:

- (a) the relevant local government authority on behalf of the customer; and
- (b) the customer's retailer, that the electricity used by the customer is to be measured and charged by means of a card-operated meter.

If, immediately prior to 1 July 2007, electricity being used by a customer at premises is being measured and charged by means of a card-operated meter, the electricity used at the premises may continue to be measured or charged by means of a card-operated meter.

The methodology for applying the appropriate tariffs to customers subject to card-operated meters is as follows:

- (a) If electricity supplied to a residential customer is measured and charged by means of a card-operated meter:
 - (i) for Tariff 11 (Residential – Lighting, Power and Continuous Water Heating), all usage shall be charged at the 'All usage' rate (**23.911 cents/kWh**), plus a Service Fee of **89.549 cents** per day shall apply;
 - (ii) for Tariff 31 (Night Rate – Super Economy), all usage shall be charged at the 'All usage' rate (**13.865 cents/kWh**); and

- (iii) for Tariff 33 (Controlled Supply – Economy), all usage shall be charged at the 'All usage' rate (**19.343 cents/kWh**).
- (b) If electricity supplied to a business customer is measured and charged by means of a card operated meter, all usage shall be charged at the 'All usage' rate under Tariff 20 (General Supply) (**25.424 cents/kWh**), plus a Service Fee of **127.856 cents** per day shall apply.

Other Retail Fees and Charges

A retailer may charge its Standard Contract Customers the following:

- (a) if, at a customer's request, the retailer provides historical billing data which is more than two years old – a maximum of **\$30**;
- (b) retailer's administration fee for a dishonoured payment – a maximum of **\$15**; and
- (c) financial institution fee for a dishonoured payment – no more than the **fee incurred** by the retailer.

Part 5

CONCESSIONAL APPLICATIONS OF TARIFFS 11, 12A and 14 (RESIDENTIAL)

In Ergon Energy Corporation Limited's distribution area Tariffs 11, Tariff 12A and Tariff 14 are available to customers where they satisfy the criteria set out in any one of A, B or C, below:

A. Those separately metered installations where all electricity used is used in connection with the provision of a Meals on Wheels service or for the preparation and serving of meals to the needy and for no other purpose.

B. Charitable residential institutions which comply with all the following requirements—

- (a) Domestic Residential in Nature. The total installation, or that part supplied and separately metered, must be domestic residential (i.e. it must include the electricity usage of the cooking, eating, sleeping and bathing areas which are associated with the residential usage). Medical facilities, e.g. an infirmary, which are part of the complex may be included as part of the total installation; and
- (b) Charitable and Non-Profit. The organisation must be:
 - (i) a deductible gift recipient under section 30-227(2) of the *Income Tax Assessment Act 1997* to which donations of \$2.00 and upwards are tax deductible; and
 - (ii) a non-profit organisation that:
 - A. imposes no scheduled charge on the residents for the services or accommodation that is provided (i.e. organisations that provide emergency accommodation facilities for the needy); or
 - B. if scheduled charges are made for the services or accommodation provided, then all residents must be pensioners or, if not pensioners, persons eligible for subsidised care under the *Aged Care Act 1997* or the *National Health Act 1953*.

C. Organisations providing support and crisis accommodation which comply with the following requirements—

The organisation must:

- (a) meet the eligibility criteria of the Specialist Homelessness Services (formerly known as Supported Accommodation Assistance Program) administered by the State Department of Housing and Public Works and is therefore eligible to be considered for funding under this program. (Funding provided to organisations under the Specialist Homelessness Services is subject to Part 3, Sections 10 to 13 inclusive, of the *Family Services Act 1987*); and
- (b) be a deductible gift recipient under section 30-227(2) of the *Income Tax Assessment Act 1997* to which donations of \$2.00 and upwards are tax deductible.

Part 6

RELIEF FROM ELECTRICITY CHARGES WHERE DROUGHT DECLARATION IN FORCE

Customers of Ergon Energy Queensland Pty Ltd

A Standard Contract Customer of Ergon Energy Queensland Pty Ltd who is a farmer in a drought declared area or whose property is individually drought declared under Queensland Government administrative processes may be eligible for one or more of the following forms of relief from electricity charges:

(A) Waiving of Fixed Charge Components of Electricity Charges

If a customer of Ergon Energy Queensland Pty Ltd who is a farmer in a drought declared area or whose property is individually drought declared, does not have access to, or has severely restricted access to, farm or irrigation water, the fixed components of the customer's electricity charges shall be waived. These fixed charge components include annual fixed charges under Tariff 66, service fees, and minimum payments, but exclude minimum demand charges.

Provided the drought declaration remains operative, the waiver applies to all eligible fixed charges applicable to any account being used for pumping water for farm or irrigation purposes. The waiver shall continue to apply until the drought declaration is revoked.

(B) Deferral of Payment

If a customer of Ergon Energy Queensland Pty Ltd who is a farmer in a drought declared area or whose property is individually drought declared cites financial difficulties as a result of the drought, the customer is entitled to defer payment of the customer's electricity accounts relating to farm usage.

Ergon Energy Queensland Pty Ltd may charge interest on deferred accounts. However, the rate of any interest charged must not be more than the Bank Bill reference

rate for 90 days, as published on the first business day of each quarter.

Subject to the maximum rate of interest that may be charged, the terms of the deferred payment and the repayment of deferred amounts following revocation of the drought declaration will be as agreed between Ergon Energy Queensland Pty Ltd and the customer concerned.

Eligibility for Relief

A customer of Ergon Energy Queensland Pty Ltd seeking relief from electricity charges on the basis that the customer is a farmer who is in a drought declared area or whose property is individually drought declared, must apply in writing to Ergon Energy Queensland Pty Ltd.

If required by Ergon Energy Queensland Pty Ltd, the customer must provide:

- (a) evidence that the customer's property is in a drought declared area or is individually drought declared, including the effective date of such drought declaration;
- (b) evidence of the water pumping restrictions applicable to the customer's property; and
- (c) for tariffs other than Tariffs 62, 65 and 66, a Statutory Declaration stating the specific account(s), and that the connection is being used primarily for pumping water for farm or irrigation purposes; and/or
- (d) a Statutory Declaration stating that the customer is experiencing financial difficulties as a result of the drought, the specific account(s) and that the connection is being used primarily for farm purposes.

Customers of other retailers

Customers of retailers other than Ergon Energy Queensland Pty Ltd who are farmers in drought declared areas or who have a property which is individually drought declared under Queensland Government administrative processes can apply directly to the Department of Energy and Water Supply for reimbursement of the fixed charge components of the customer's electricity charges.

These fixed charge components include annual fixed charges under Tariff 66, service fees, and minimum payments, but exclude minimum demand charges.

Provided the drought declaration remains operative, the reimbursement applies to all eligible fixed charges applicable to any account being used for pumping water for farm or irrigation purposes and ceases once the drought declaration is revoked.

APPENDIX H: ASSUMPTIONS USED TO DETERMINE CUSTOMER IMPACTS

<i>Retail tariff</i>	<i>Median consumption (kWh per year)</i>	<i>Demand threshold (kW per month)</i>	<i>Demand (kW per month)</i>	<i>Peak usage (%)</i>	<i>Off-peak usage (%)</i>
Tariff 11	4,203				
Tariff 12A	4,915			10.6%	89.4%
Tariff 31	1,792				
Tariff 33	1,666				
Tariff 20	6,422				
Tariff 22 ¹	26,970			48.7%	51.3%
Tariff 22A	15,619			11.1%	88.9%
Tariff 44	258,396	30	61		
Tariff 45	991,944	120	232		
Tariff 46	2,328,684	400	494		
Tariff 47	3,338,364	400	803		
Tariff 48	7,670,400	400	1,304		

1. Obsolete tariff

Source: Ergon Retail

APPENDIX I: SUMMARY OF CONCESSIONAL ARRANGEMENTS FOR ENERGY IN QUEENSLAND

Concession Name	Eligibility Criteria	Annual Amount
Electricity Rebate	Customers with a Pensioner Concession Card issued by either Centrelink or Department of Veterans' Affairs, a Department of Veterans' Affairs Gold Card (and recipient of the War Widow Pension or special rate TPI Pension) or a Queensland Government Seniors Card.	\$320.97
Reticulated Natural Gas Rebate	As for Electricity Rebate.	\$68.56
Medical Cooling and Heating Electricity Concession Scheme	Queensland residents with a qualifying medical condition requiring cooling or heating to prevent the decline of symptoms, who reside at their principal place of residence which has an air-conditioning unit.	\$320.97
Home Energy Emergency Assistance Scheme	Customers must either hold a current, eligible concession card, or have a base income of no more than the Commonwealth Government's maximum income rate for part-age pensioners, or be on their retailer's hardship program or payment plan.	Up to \$720 per household per year for a maximum of two consecutive years.
Electricity Life Support Concession Scheme	Customers must be medically assessed in accordance with the eligibility criteria determined by Queensland Health. In addition, oxygen concentrators must be provided rent-free by Queensland Health to persons who hold an eligible concession card and meet the eligibility criteria of the Medical Aids Subsidy Scheme. Kidney dialysis machines must be provided rent-free by Queensland Health to persons based on clinical needs and supplied through Queensland hospitals.	\$653.72 per year for each oxygen concentrator; \$437.76 for each kidney dialysis machine.
Drought relief	Certain farmers who use electricity for irrigation pumping during periods of very low or no water availability.	The fixed electricity charge is waived for Ergon Energy customers, and reimbursed by the Department of Energy and Water Supply for customers of other retail entities.

Note: Information current as of January 2016 and is provided as a guide only. Full details are available from: <http://www.dews.qld.gov.au/energy-water-home/electricity/rebates>.

APPENDIX J: RETAIL COST ALLOWANCES

This Appendix provides details on how we have derived the retail cost allowances for 2016–17 draft notified prices, as set out in Chapter 5. This Appendix addresses three issues:

- (1) How we have used the results of ACIL's benchmarking analysis to derive the draft retail cost allowances, specifically:
 - (a) determining benchmark total retail cost allowances
 - (b) determining the benchmark allocations between fixed and variable retail cost components
 - (c) applying these allocations to fixed and variable components of retail tariffs.
- (2) Estimation of retail costs allowances for large and very large customer tariffs.
- (3) Adjusting fixed retail costs for regulatory fees.

1. Deriving retail costs from ACIL's analysis

Determining the total retail cost allowances for small customer tariffs

We have taken the average of all total retail cost observations derived from ACIL's benchmarking analysis, in each sample, for small business tariffs and residential tariffs. These averages represent averages across all data points in each sample (residential and small business), and do not represent averages of the total retail costs depicted in Figures 8 and 9 (Chapter 5). The total average retail cost allowances used to set our draft retail costs are set out in Table 32.

Table 32 Benchmark average retail costs - residential and small business customers

<i>Retailer</i>	<i>Fixed retail costs (\$/annum)</i>	<i>Variable retail costs (\$/annum)</i>	<i>Total retail costs (\$/annum)</i>	<i>Fixed as a percentage of total retail costs</i>	<i>Variable as a percentage of total retail costs</i>
Residential	\$127.93	\$104.28	\$232.21	55%	45%
Small business	\$181.56	\$422.23	\$603.79	30%	70%

Note: Based on average annual consumption of 4,640 kWh for residential tariffs and 16,370 kWh for small business tariffs.

Determining the allocation between fixed and variable retail components

After deciding on the total benchmark retail cost allowance, we then determine how that should be applied to retail tariffs.

ACIL's analysis reveals differences in how individual retailers recover retail costs from fixed and variable tariff components. For residential tariffs, the amount of total retail costs recovered through fixed charges ranges from 44 per cent to 84 per cent across the sample. For small business tariffs, the allocation appears more biased toward recovery through variable components, with between 20 and 51 per cent of total retail costs recovered through fixed charges. Table 33 illustrates this variability across retailers' observations.

Table 33 Percentage of total retail costs recovered through fixed and variable charges

Retailer	Residential tariffs		Small business tariffs	
	Fixed (%)	Variable (%)	Fixed (%)	Variable (%)
Simply	47%	53%	27%	73%
Energy Australia	75%	25%	24%	76%
Alinta	84%	16%	51%	49%
Origin	54%	46%	30%	70%
Red Energy	54%	46%	21%	79%
Lumo	44%	56%	40%	60%
M2	51%	49%	20%	80%
AGL	60%	40%	38%	62%
Momentum	55%	45%	31%	69%
Click	44%	56%	49%	51%
Minimum	44%	16%	20%	49%
Maximum	84%	56%	51%	80%

Note: Based on ACIL's benchmarking analysis. These values represent the average recovery of retail costs from fixed and variable components, derived from the average of all market prices offered by each retailer.

This variation in how individual retailers recover their retail costs could be due to, among other things:

- underlying cost structures, for example, outsourcing of functions such as billing, customer service and energy trading could result in a different cost structure to a retailer that performs these functions in-house
- actual energy purchase costs, which are a function of the retailers exposure to the spot market, its appetite for risk and its hedging strategy
- accounting and reporting policies, including capitalisation policies – For example, some retailers treat depreciation and amortisation as fixed while others consider them variable, different marketing strategies, for example, electing to offer discounts off fixed daily charges and usage charges, or usage charges alone.

Using the market observations, ACIL derived estimated benchmark allocations between fixed and variable components based on the mathematical relationship between the size of the two components. These relationships were derived using regression analysis which establishes a line of best fit through each normalised sample. These relationships are discussed further in chapter 4 of ACIL's Preliminary Report.

We have not needed to use the regression relationships derived by ACIL to determine the variable retail component, as our draft decision applies the average fixed and variable allocation that corresponds to the average total retail cost based on ACIL's benchmarking analysis. These are the implied allocations that correspond to the average retail costs in Table 32.

Applying fixed and variable retail components to small customer retail tariffs

After deciding on the benchmark allocation of the total retail cost allowance to fixed and variable components, each component must be allocated to retail tariff components.

To allocate the fixed retail cost component, the total annual fixed benchmark retail cost (not including an allowance for regulatory fees) is divided by 365.25 days to derive a daily charge. This is expressed in cents per kWh and applied to the fixed component of retail tariffs.

To apply the variable retail cost components to each retail tariff, we have derived *variable retail cost allocators*, as set out in Table 34, column E below. These allocators represent the variable retail cost component (column B) as a percentage of total variable costs, excluding the variable retail cost component (column D). This approach generates percentage factors which allow us to apply the variable retail cost components evenly across tariff components, even when they are not expressed on a cents per kWh basis, such as demand charges. It also allows us to apply variable retail costs to time-of-use use tariff components, where the average cents per kWh estimate cannot be applied.

Table 34 Allocation of fixed and variable retail costs and variable cost allocators

<i>Cost item Tariff category</i>	<i>A- Benchmark fixed retail component (\$ per customer/yr)</i>	<i>B -Benchmark variable retail component (\$ per customer/yr)</i>	<i>C - Benchmark variable retail component (c/kWh)</i>	<i>D- Benchmark total variable cost (\$ per customer/yr)^a</i>	<i>E -Variable retail costs allocator^b</i>
Residential	127.93	104.28	2.25	952.34	10.95%
Small business	181.56	422.23	2.58	3,541.42	11.92%

a. The total variable cost excludes the variable retail cost, based on 2016–17 costs for an average tariff 11 customer consuming 4,640 kWh per year, and an average small business customer consuming 16,370 kWh per year.

b. The variable retail cost allocator (column E) is derived by dividing column B by column D.

An alternative to deriving the variable retail cost allocator is to divide the benchmark variable retail cost component (column B) by the average usage assumption, to generate a variable retail cost in cents per kWh (column C). However using the variable retail cost allocator is preferred as it allows us to apply the variable retail component to demand charges, which are not expressed in cents per kWh. This is consistent with our previous approach of applying the retail margin equally to all retail tariff components, including demand charges.

To derive the variable retail cost component of each tariff, we multiply the underlying variable cost component of each tariff (net of variable retail costs) by the appropriate variable retail cost allocator. The choice of allocator for each retail tariff is based on the category of customer accessing the tariff, as set out in Table 35.

Table 35 Allocation of total retail costs to fixed and variable components - small customer tariffs

<i>Tariff</i>	<i>Customer category for assigning retail cost allowance</i>	<i>Fixed retail component</i>	<i>Variable retail cost allocator</i>
Residential (T11, 12A & 14)	Residential	Yes	10.95%
Controlled loads (T31 & 33)	Residential	No	10.95%
Small business (T20, 22, 22A, 24 & 41)	Business - small	Yes	11.92%
Other Unmetered loads - T91	Business - small	No	11.92%

Table 36 illustrates the application of the variable retail cost allocators using tariff 24, which features usage and demand components.

Table 36 Example application of variable retail cost allocators - tariff 24

Tariff 24	Pricing component				
	Fixed (c/day)	Usage (c/kWh)		Demand (\$/kW/Month)	
		Peak	Off-peak/flat	Peak	Off-peak/flat
A - Base costs before variable retail costs ^a	26.470	-	13.514	71.606	11.526
B - Apply variable retail cost allocator (%)	-	-	11.92%	11.92%	11.92%
C - Fixed retail component	49.768	-	-	-	-
D - Variable retail component (A x B)	-	-	1.611	8.537	1.374
E - Variable charges including variable retail costs (A + C) ^b	76.238	-	15.125	80.144	12.900

a. Includes network and energy costs.

b. Before 5 per cent adjustment to escalate to standing offer price levels (see chapter 6).

2. Retail costs for large and very large customer tariffs

As ACIL was not able to benchmark retail costs for large and very large customers, we have decided to retain the 2015–16 large customer retail cost allowances in real terms.

We have escalated the 2015–16 estimated retail operating costs to 2016–17 values using forecast inflation consistent with our approach in previous years. We have assumed an inflation rate of 2.5 per cent which is consistent with the mid-range of the Reserve Bank of Australia's inflation forecast of 2 to 3 per cent for the 12 months to June 2017.⁷⁹

In previous determinations we estimated and applied retail operating costs and the retail margin as discrete components. Retail operating costs were considered a fully fixed cost. The retail margin was estimated and applied as a percentage of total costs, recovered through both fixed and variable tariff components.

To apply a methodology consistent with that applied to small customer tariffs, the retail operating cost (ROC) allowance is taken as the fixed retail cost component and the variable component is equal to the margin of 5.7 per cent that we applied in 2015–16. To allocate the variable component across the total variable costs we have used a variable retail cost allocator of 6.04 per cent of total variable costs, excluding variable retail costs. This allocator represents the percentage required to establish a variable retail cost component equal to 5.7 per cent of total variable costs, including the variable retail cost.

Fixed retail costs will be applied in the same way as in previous determinations, as set out in Table 37. All large and very large business tariffs will include both fixed and variable retail cost components, except Tariff 71 (street lighting) which is considered a secondary tariff and attracts a variable retail cost only.

⁷⁹ Reserve Bank of Australia, *Statement on Monetary Policy*, February 2016, p. 61.

Table 37 Allocation of total retail costs to fixed and variable components - large customer tariffs

Tariff	Customer category for assigning retail cost allowance	Fixed retail component	Variable retail cost allocator
Tariffs 44, 45, 46, 47 & 50	Business - large	Yes	6.04%
Tariff 71	Business - large	No	6.04%
Tariff 48	Business - very large	Yes	6.04%

3. Adjusting the fixed retail cost allowance for regulatory fees

We have previously included an allowance for the regulatory fees that we charge retailers to recover the costs of performing our regulatory functions in the electricity industry. These fees are legitimate costs incurred by retailers in Queensland. Regulatory fees are charged to retailers on the basis of customer numbers and are therefore applied to the fixed component of retail tariffs only.

As not all jurisdictions have equivalent regulatory fees, ACIL has adjusted the observed benchmark retail allowances to exclude any regulatory fees applying in each jurisdiction. For this reason it is appropriate to add the QCA's regulatory fees back into the benchmark retail estimates.

For 2015–16, we estimated retail costs based on south east Queensland retailers' costs, consistent with our interpretation of the UTP. As a result, we based the allowance for regulatory fees on the combined fees to be paid in 2015–16 by retailers operating in south east Queensland.

For 2016–17, we are estimating the costs of supply in south east Queensland for residential and small business customers and regional Queensland for large business customers. Therefore, we propose to base the allowance for regulatory fees for residential and small business customers on the combined fees to be paid in 2016–17 by retailers operating in south east Queensland, and the allowance for regulatory fees for large and very large business customers on the fees to be paid in 2016–17 by Ergon Retail.

Estimating the allowance for regulatory fees requires an estimate of the QCA's costs, and latest data on retailer customer numbers, which are not yet available. As a result, we have used the fees paid by retailers in 2015–16 for this draft determination. We will update the estimates of regulatory fees for our final determination when final fees are known. Table 38 sets out the regulatory fees we have assumed for the purposes of this draft determination.

Table 38 Regulatory fees for 2016–17 draft retail costs allowances

Customer/tariff category	Retail tariffs	Regulatory fees (\$ per customer per year)
Residential	11, 12A & 14	\$0.22
Small business (< 100 MWh per year)	20, 22, 22A, 24 & 41	\$0.22
Large business (100 MWh – 4 GWh per year)	44, 45, 46, 47 & 50	\$2.77
Very large business (> 4 GWh per year)	48	\$2.77

Note: Regulatory fees are not applied to tariffs 31, 33, 71 and 91 for the reasons discussed in sections 5.6 and this Appendix.