Queensland Competition Authority

Draft determination

Supplementary review Regulated retail electricity prices 2020–21

Regional Queensland

August 2020

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1 ABOUT THIS REVIEW

1.1 What have we been asked to do?

We received two delegations from the Minister for Natural Resources, Mines and Energy (the Minister) asking us to set supplementary regulated retail electricity prices (supplementary notified prices) to apply in regional Queensland in 2020–21.

We are delegated this task in accordance with the *Electricity Act 1994* (Electricity Act).[1]

Supplementary notified prices

New load control tariffs

On 24 June 2020, we received a delegation from the Minister to set three new load control tariffs:

- a primary load control tariff for small business customers
- a primary load control tariff for large business customers
- a secondary load control tariff for large business customers.

These new load control retail tariffs are to apply in regional Queensland from 1 November 2020.

Suite of eight additional retail tariffs

On 3 August 2020, we received a delegation from the Minister to set eight additional retail tariffs:

- a residential transitional demand tariff
- a residential demand tariff
- a residential time-of-use energy tariff
- a small business wide inclining fixed tariff
- a small business transitional demand tariff
- a small business demand tariff
- a small business time-of-use energy tariff
- a large business time-of-use demand tariff.

The suite of eight additional retail tariffs are to apply in regional Queensland from 1 January 2021.

The supplementary notified prices we have been asked to set are based on new network tariffs for Energex and Ergon Distribution recently approved by the Australian Energy Regulator (AER) as part of the network reforms (discussed further in section 3.1).

1.2 Scope of this review

This review is limited to setting the supplementary notified prices listed in section 1.1, having regard to the relevant legal framework. The framework is contained in the Electricity Act and sets out factors we must have regard to when making a price determination. [2] These are:

[1] Section 90AA of the Electricity Act.
[2] Section 90(5) of the Electricity Act.

- 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 we are required by delegation to consider.

We may also have regard to any other matter we consider relevant.[3]

Matters we must consider under the delegation

New load control tariffs

The Minister's delegation for the new load control tariffs includes the terms of reference, containing particular details and matters relevant to this price determination, namely:

- the period—the price determination for the new tariffs applies from 1 November 2020 to 30 June 2021
- the timeframes for publishing reports—including making the final price determination by 16 October 2020)
- particular policies or principles—we are to set notified prices having regard to, among other matters, the Queensland Government's Uniform Tariff Policy (UTP)
- pricing methodology—we are to set notified prices having regard to the network plus retail (N+R) cost build-up methodology
- consultation—we are required to consult with stakeholders before making the final price determination and, taking into account the consultation already undertaken in developing the relevant network tariffs, consider the merits of additional consultation (including holding stakeholder workshops) on identified key issues.

A copy of the delegation, including the terms of reference, is provided in Appendix A.

Suite of eight additional retail tariffs

The Minister's delegation for the suite of new opt-in tariffs includes the terms of reference, containing particular details and matters relevant to this price determination, namely:

- the period—the price determination for the new tariffs applies from 1 January 2021 to 30 June 2021
- the timeframes for publishing reports—including making the final price determination by 30 November 2020)
- particular policies or principles—we are to set notified prices having regard to, among other matters, the government's UTP (noting the Minister has included clarifications to the definition of the UTP—see section 3.2)
- pricing methodology—we are to set notified prices having regard to the N+R cost build-up methodology
- consultation—we are required to consult with stakeholders before making the final price determination and consider the merits of additional consultation (including holding stakeholder workshops) on identified key issues.

[3] Section 90(5)(b) of the Electricity Act.

A copy of the delegation, including the terms of reference, is provided in Appendix A.

1.3 Review process and consultation

This draft determination is the first step in this review. It provides draft supplementary notified prices, presented as bundled prices appropriate to the retail tariff structure, to be added to the 2020–21 tariff schedule.

Given the timeframes, similar interested stakeholders and related subject matter contained in the two delegations, this draft determination sets out our analysis for both the new load control and suite of additional retail tariffs.

This draft determination has had regard to relevant factors in the Electricity Act and matters set out in the delegations.

As the new tariffs are intended to supplement the existing suite of notified prices in place, this determination takes into account relevant aspects of the final determination of 2020–21 notified prices, including stakeholder comments made during that review (to the extent they are relevant).

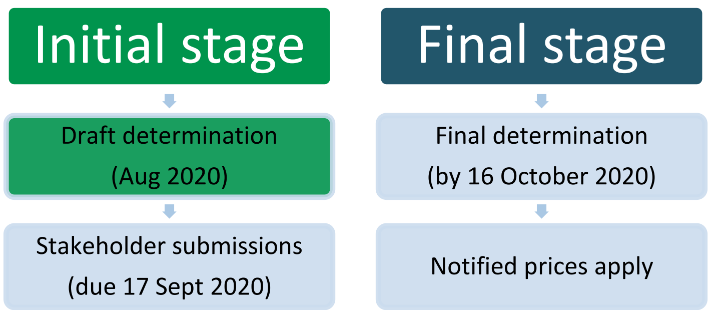
The scope of this review, under the delegation, is specifically related to setting new retail tariffs to be added to the 2020–21 tariff schedule. This does not extend to reassessing the retail tariffs we set in our recent 2020–21 notified prices determination, which was published on 25 June 2020 (the June 2020 determination).

This draft determination uses, where appropriate, the same approaches and inputs for relevant cost components as those recently considered and used in the June 2020 determination. This provides consistency between the supplementary and existing notified prices set in the June 2020 determination. It also ensures customers accessing new tariffs are not advantaged (or disadvantaged) compared to customers on the existing tariffs, purely based on the new tariffs applying from a later date (during 2020–21).

Key dates

Stakeholders are invited to provide submissions on this draft determination by 17 September 2020. Information on making a submission is available on our website.[4]

All stakeholder submissions, along with other relevant information, will be considered in making the final determination.



[4] See https://www.qca.org.au/submissions/ for further information on making submissions.

1.4 Structure of this paper

This report is structured as follows:

- Indicative bill impacts of additional notified prices (chapter 2)
- Overarching framework—policy and pricing matters (chapter 3)
- Cost build-up components—individual cost elements (chapter 4)
  - Network component (section 4.1)
  - Retail component (section 4.2)
    - Energy costs (section 4.2.1)
    - Retail costs (section 4.2.2)
- Other costs and pricing issues (chapter 5)
- Draft supplementary notified prices (chapter 6).

1.5 Supporting documents

An information booklet accompanies this report. It provides an 'at a glance' overview of the price setting process and draft supplementary notified prices (as contained in this report). It aims to help stakeholders become quickly informed of key issues and is designed to be read in conjunction with the draft determination report (not as a substitute).

Technical appendices

The following appendices provide supporting and other information:

- Appendix A: Minister's delegations
- Appendix B: References
- Appendix C: Energy cost approach
- Appendix D: DMO bill comparison and adjustment
- Appendix E: Data used to estimate customer impacts
- Appendix F: Build-up of draft notified prices
- Appendix G: Draft gazette notice.

2 INDICATIVE BILL IMPACTS OF DRAFT PRICES

This chapter provides charts on potential bill impacts and may assist customers to understand the implications of shifting onto new retail tariffs.

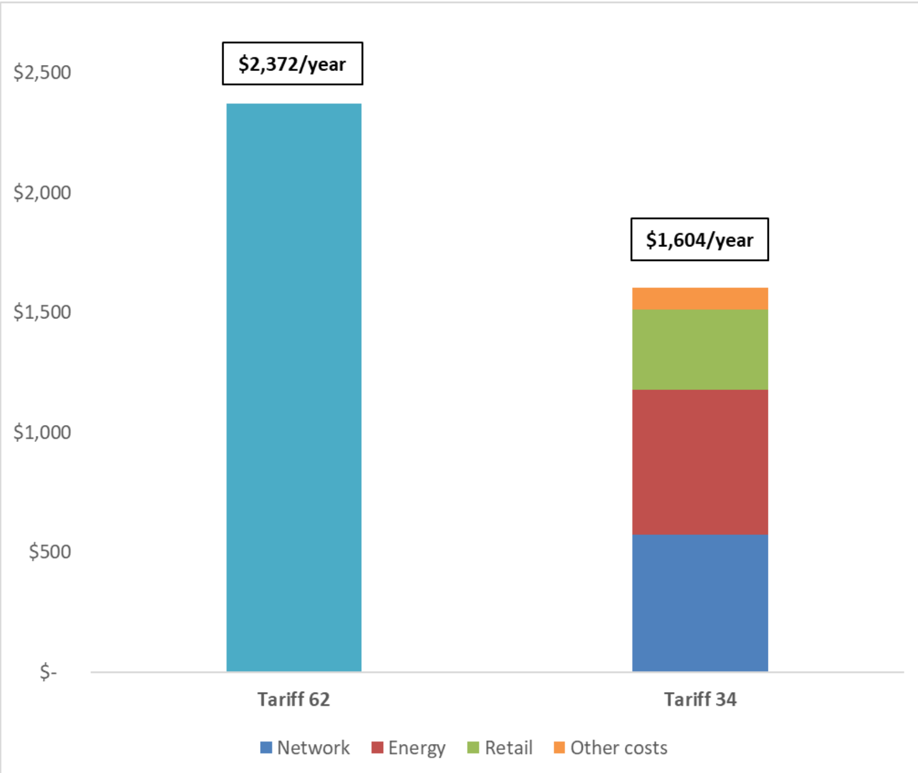
The Minister's letter noted that the new load control network tariffs 'have been developed in consultation with businesses, including those on obsolete tariffs' and also that these tariffs 'form a key part of Energy Queensland's strategy to assist customers' transition to standard business tariffs'.

As such, the following charts provide an indication of the electricity bill that a typical customer[5] would pay under an obsolete tariff compared to the bill under the new small business load control tariff (tariff 34).[6]

However, it is important to note that:

- tariff 34 is only available to small business customers
- unlike tariffs 62 to 65, tariff 34 is a load control tariff with availability of supply controlled by the distribution business
- customers with different levels or patterns of usage, compared to the typical customer, may have different bill impacts.

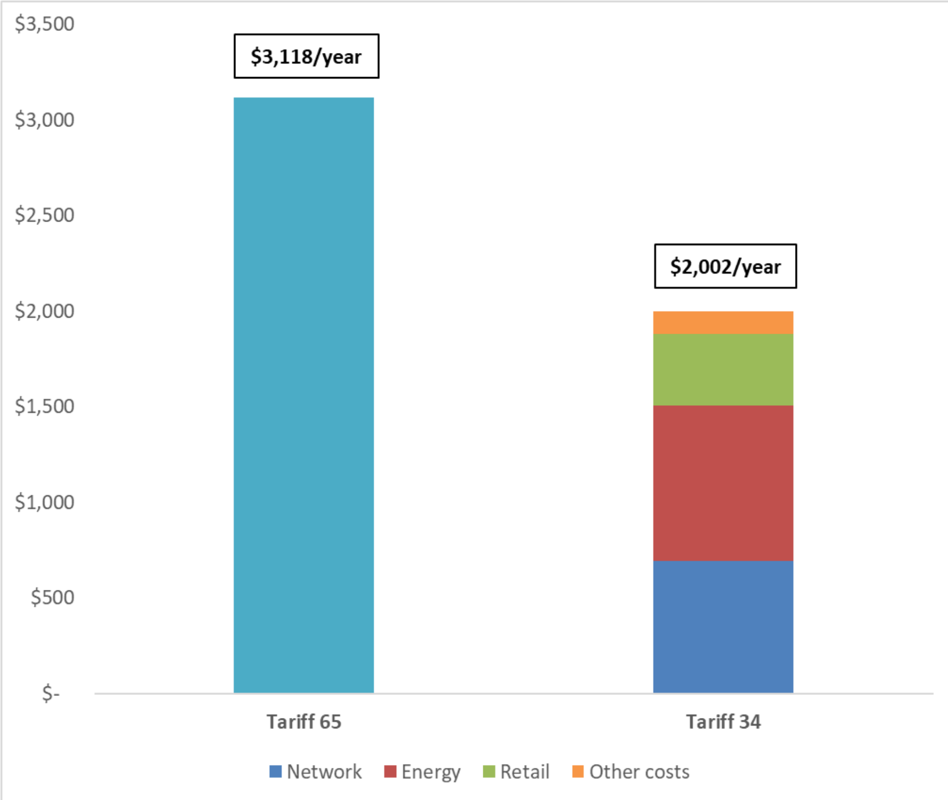
Figure 1 Bill of a typical customer on tariff 62 moving to tariff 34 (GST inclusive)



Note: Amounts are rounded to the closest dollar.

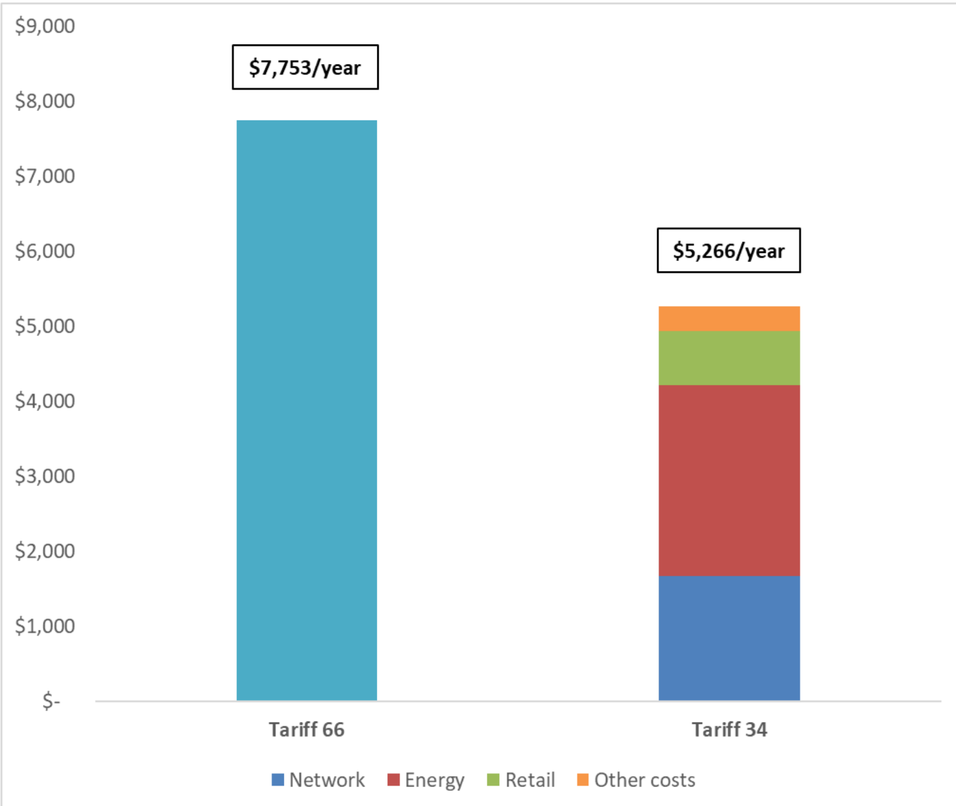
[5] The typical customer for a given tariff is the median or middle customer in terms of consumption among all customers on the same tariff in regional Queensland (see Appendix E).
[6] Metering charges are excluded from the bill impact analysis.

Figure 2 Bill of a typical customer on tariff 65 moving to tariff 34 (GST inclusive)



Note: Amounts are rounded to the closest dollar.

Figure 3 Bill of a typical customer on tariff 66 moving to tariff 34 (GST inclusive)



Note: Amounts are rounded to the closest dollar.

3 OVERARCHING FRAMEWORK–POLICY AND PRICING MATTERS

This chapter sets out the context and overarching framework matters relevant to this price determination. It discusses the:

- supplementary price review context (section 3.1)
- approach for setting supplementary notified prices (section 3.2).

3.1 Supplementary price review context

In December 2019, we commenced the review to set notified prices to apply in 2020–21. We released a number of reports and consulted with stakeholders on key issues relevant to setting the 2020–21 notified prices. This review was finalised recently, with our final determination published on 25 June 2020 (the June 2020 determination).

During that review, we noted the substantial reforms underway in the electricity sector, including the ongoing network tariff reforms that are part of the Australian Energy Regulator's (AER's) regulatory decisions on network costs and tariffs for the Queensland electricity distributors, Energex and Ergon Distribution. The complex and evolving nature of the network reforms, including the delays to the AER's regulatory process timeframes, meant there was less certainty around the network tariff structures and prices that would apply in 2020–21.

The AER published its final revenue and network tariff determinations for Energex and Ergon Distribution on 5 June 2020. The AER subsequently approved the 2020–21 network pricing proposals of Energex and Ergon Distribution on 25 and 30 June 2020 respectively.

A number of new network tariffs were introduced as part of the reforms:

- for the Energex area—four new demand tariffs, two new time-of-use (TOU) tariffs, new load control tariffs for small and large business customers and a new tariff, a wide inclining fixed tariff (WIFT[7]), for small business customers
- for the Ergon area—three new transitional network tariffs for customers on obsolete retail tariffs, three new TOU tariffs, five new demand tariffs, new load control tariffs for small and large business customers, and a WIFT for small business customers.

More details on the AER's network regulatory determinations can be found on the AER's website.

Most, but not all, of the new network tariffs are reflected in the supplementary notified prices we are setting as part of this review.[8]

3.2 Approach for setting supplementary notified prices

We received two delegations to set supplementary notified prices. The terms of the delegations include largely similar matters for us to consider. We have discussed aspects of the terms of reference specific to a particular delegation where relevant to matters considered in this draft determination.

[7] The WIFT is a network tariff with an inclining block structure for fixed charges.

[8] The Minister's delegations do not include several new network tariffs, which are not scheduled to commence within 2020–21.

3.2.1 Matters in the delegations

The terms of the delegations require us to consider:

- the Queensland Government's UTP—which provides that, wherever possible, customers of the same class should pay no more for their electricity, and should pay for their electricity via similar price structures, regardless of their geographic location
- use of the network (N) plus retail (R) cost build-up methodology when setting notified prices, where the N component (network cost) is treated as a pass-through and the R component (energy and retail costs) is determined by the QCA.

In the August 2020 delegation, the Minister provided further information about the intended application of the UTP on this matter. Specifically, that the UTP 'should not limit standard contract customers outside the Energex distribution area accessing a wider choice of prices and price structures than may be available within the Energex distribution area'.[9] Further, the Minister said:

> A key aspect of the UTP is that regional customers, at a minimum, continue to be able to access price structures commonly available in South East Queensland (SEQ) regardless of underlying network tariff changes. Importantly, this should not limit the development and continued offering of additional retail price structures, even if those are not available in SEQ.[10]

The Minister said this has been the intent of the UTP as set out in previous delegations, including the delegation for setting the three new load control tariffs.[11]

3.2.2 Analysis and draft position

Having regard to the relevant factors, we applied the UTP and N+R methodology to set the supplementary notified prices in this draft determination. The following key matters are relevant to this assessment:

- availability of tariffs
- tariff structures
- price levels.

Availability of tariffs

Under the N+R methodology for setting notified prices, network tariffs are used as the basis for setting retail tariffs. As noted above significant changes arose from the network reforms to the underlying network tariffs for retail tariffs—particularly those in respect of small customers.

In the June 2020 determination, we decided not to introduce these new network tariffs at the retail level. This was primarily on the basis that we were unable to anticipate how retailers in south east Queensland (SEQ) would respond to the new network tariffs and package them into SEQ customer retail tariffs, particularly given the extent of the network tariff reforms. We considered this particularly relevant, given the UTP, as expressed in that delegation, provided that, among other things, customers of the same class should pay for their electricity via similar price structures, regardless of their geographic location. It was therefore not clear that introducing new retail tariffs based on the new network tariffs would be consistent with tariffs offered by retailers in SEQ.

[9] Appendix A, section 2, delegation, schedule, cl. 2(a).
[10] Appendix A, section 2, Minister's letter, p. 2.
[11] Appendix A, section 2, Minister's letter, p. 2.

However, we note the clarifications provided by the Minister about the intended application of the UTP on this matter. In consideration of those clarifications, we propose to introduce the supplementary notified prices based on the new load control retail tariffs and the suite of eight additional retail tariffs based on the equivalent network tariffs. These network tariffs are available in both the Energex and Ergon Distribution area and as such, we are of the view the introduction of these supplementary notified prices is consistent with the UTP.

We note a number of stakeholders expressed support for the introduction of these new tariff options at the retail level during our 2020–21 notified prices review.[12] Further, as these new retail tariffs are supplementary to those set in our June 2020 determination, they will provide customers with additional choice and not affect the retail tariffs already in effect.

We have not proposed to make the new load control tariffs available in the Essential Energy distribution area in regional Queensland. This is because there is no equivalent network tariff for these load control tariffs in the Essential Energy area— Energex and Ergon Distribution's network tariffs do not apply in this area.

Table 1 List of proposed new retail tariffs

Proposed new retail tariff	***Underlying network tariff***
Tariff 12B—residential time-of-use primary tariff	Residential time-of-use energy tariff
Tariff 14A—residential time-of-use monthly demand primary tariff	Residential transitional demand tariff[13]
Tariff 14B—residential time-of-use monthly demand primary tariff	Residential demand tariff
Tariff 22B—small business time-of-use inclining-band primary tariff	Small business time-of-use energy tariff
Tariff 23—small business inclining-band primary tariff	Small business wide inclining fixed tariff
Tariff 24A—small business time-of-use monthly demand primary tariff	Small business transitional demand tariff[14]
Tariff 24B—small business time-of-use monthly demand primary tariff	Small business demand tariff
Tariff 34—small business flat-rate primary tariff with interruptible supply	Small business primary load control tariff
Tariff 50A—large business time-of-use monthly demand primary tariff	Large business time-of-use demand tariff
Tariff 60A—large business flat-rate primary tariff with interruptible supply	Large business primary load control tariff
Tariff 60B—large business flat-rate secondary tariff with interruptible supply	Large business secondary load control tariff

[12] See, for example, final determination of regulated retail electricity prices for 2020–21, pp. 10–11.
[13] This network tariff has the same structure as the residential demand network tariff but differs in terms of the rates (see, for example, AER, *Ergon Energy Distribution Determination 2020 to 2025–Amended Tariff Structure Statement*, final decision, June 2020, pp. 12–13; AER, *Energex Determination 2020 to 2025–Amended Tariff Structure Statement*, final decision, June 2020, pp. 12–13).
[14] This network tariff has the same structure as the small business demand network tariff but differs in terms of the rates (see, for example, AER, *Ergon Energy Distribution Determination 2020 to 2025–Amended Tariff Structure Statement*, final decision, June 2020, pp. 12–13; AER, *Energex Determination 2020 to 2025–Amended Tariff Structure Statement*, final decision, June 2020, pp. 12–13).

Tariff structures

The tariff structures for the supplementary notified prices in this determination are based on the corresponding network tariff structures the AER approved. This is consistent with the approach we took in previous price determinations.

However, we propose not to introduce the default network tariff assignment criteria for these new tariffs (e.g. those that establish particular network tariffs as default tariffs for certain customers, such as the small business WIFT).

As part of our June 2020 determination, we established default retail tariffs for small customers who do not nominate a tariff upon establishing an electricity account.[15] We do not propose any changes to those default retail tariff assignments in this determination.

Accordingly, we propose to make the new retail tariffs to be added to the 2020–21 tariff schedule available to customers within the relevant customer class on an opt-in basis, provided those customers have a meter compatible with the relevant tariff. This will allow customers to select the tariff that best meets their individual circumstances.

We note this is consistent with the view expressed by the Minister that 'it is important that retail customers are not constrained or treated differently simply as a result of the type of meter they have, provided the metering is appropriate for the tariff; or their level of consumption within a retail customer class'.[16] It is also consistent with the Minister's view that the existing default retail tariff assignments should not be changed.[17]

With regard to the new load control tariffs, the terms and conditions of these tariffs that the AER approved[18] have been incorporated into the draft gazette notice where necessary (see Appendix G). In addition, we propose to amend parts of our notice in the Queensland Government Gazette to clarify certain obligations and requirements that reflect existing energy laws or other distribution requirements.

Further, as a consequence of the introduction of a small business primary load control tariff (tariff 34), we propose to amend the conditions of tariff 33 so that retailer discretion to make this tariff available to small customers as a primary tariff is limited to residential customers only. Any small business customers accessing tariff 33 as a primary tariff will then need to be transferred to tariff 34 if the customer wants to maintain a primary load control tariff.

It will be important that retailers engage with any affected small business customers and assist their transition from tariff 33. For clarity, this should only affect small business customers that access tariff 33 as a primary tariff—these customers will continue to be able to access tariff 33 as a secondary tariff.

Price levels

We propose to set the supplementary notified prices having regard to the UTP, basing prices on:

- for small customers—the costs of supplying small customers in SEQ

[15] For residential customers, the default retail tariff is tariff 11 (residential flat-rate primary tariff); for small business customers, the default retail tariff is tariff 20 (small business flat-rate primary tariff).
[16] Appendix A, section 2, Minister's letter, pp. 1–2.
[17] Appendix A, section 2, Minister's letter, pp. 1–2.
[18] Ergon Distribution, *Final Initial Pricing Proposal: Distribution services for 1 July 2020 to 30 June 2021*, June 2020, Appendix B; Energex, *Final Initial Pricing Proposal: Distribution services for 1 July 2020 to 30 June 2021*, June 2020, Appendix B.

- for large customers—the costs of supplying large customers in the Ergon Distribution area with the lowest cost of supply that is connected to the National Electricity Market (NEM) (i.e. east zone, transmission region one).

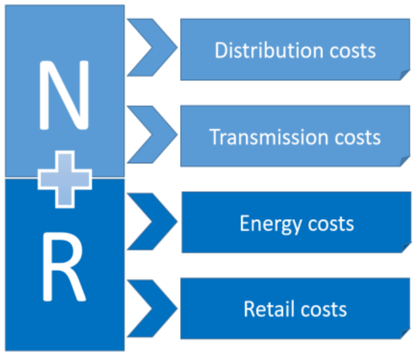
This approach is consistent with previous price determinations, including the June 2020 determination, and has benefitted most customers who would otherwise pay higher electricity prices (due to the higher cost of supplying electricity in regional Queensland).

As noted in the June 2020 determination, using the N+R approach to estimate the costs of supply can be challenging as the electricity sector undergoes substantial reforms. At this stage, only a limited number of retailers in SEQ have introduced tariffs based on the newly approved network tariffs. This means that there is limited load and cost data available for the setting of the new retail tariffs. Further, it is unclear how retailers in SEQ will pass-through charges of the more complex new network tariffs, considering that customers are likely to prefer more simple pricing structures.

4 INDIVIDUAL COST BUILD-UP COMPONENTS

This chapter sets out our draft position on individual cost build-up components under the N+R approach, which we use to set the supplementary notified prices. The cost components discussed are:

- the network (N) component—distribution and transmission costs associated with transporting electricity to customers
- the retail (R) component—the costs of buying electricity from the NEM and on-selling it to customers.



4.1 Network

Network costs include the costs of transporting electricity through transmission and distribution networks. These costs are regulated by the AER.

The AER also regulates jurisdictional scheme charges, which form a component of network costs. In Queensland, these charges generally include the Solar Bonus Scheme (SBS) and AEMC levy costs. The approved network prices for 2020–21 include jurisdictional scheme charges.

4.1.1 Analysis and draft decision

Having regard to the relevant factors, we propose to determine the N component of the supplementary notified prices by passing through the 2020–21 network prices that the AER approved. Consistent with the government's UTP, this means using:

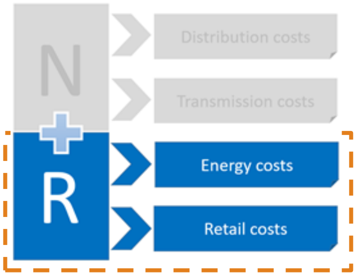
- for the new small customer retail tariffs, the relevant Energex network prices (being the prices that applies in SEQ)
- for the new large customer retail tariffs, the relevant network prices for Ergon Distribution's east zone, transmission region 1 (being the Ergon pricing zone connected to the NEM that has the lowest cost of supply).

This approach is consistent with the N+R methodology that has typically been applied in previous determinations, including the majority of the retail tariffs in the June 2020 determination.

The network prices we have used are those the AER approved for Energex and Ergon Distribution on 25 and 30 June 2020 respectively. These approved network charges include the jurisdictional scheme amounts (such as the Solar Bonus Scheme (SBS) costs).[19]

[19] For detail on the inclusion of SBS costs in notified prices for 2020–21, see section 3.3.1 of the final determination of regulated retail electricity prices for 2020–21.

4.2 Retail component



The R component consists of energy and retail costs. These include the costs of retailers purchasing electricity to supply to their customers, the costs of running their general operations, and a return for the risk they face by operating in the market.

Given this is a supplementary determination, we propose to use the same approach to estimate the R component as the one adopted for the June 2020 determination.

4.2.1 Energy costs

Energy costs are a key cost component of notified prices and include costs associated with wholesale energy costs (the costs of purchasing electricity from the NEM), other energy costs (including those associated with the Renewable Energy Target (RET)) and energy losses.

For this supplementary price review, we engaged ACIL Allen to provide expert advice to inform our review and energy cost estimates.[20]

Wholesale energy costs

Retailers incur wholesale energy costs when purchasing electricity from the NEM to meet the electricity demand of their customers. Retailers typically adopt a range of strategies to reduce their exposure to volatile wholesale electricity prices (spot price risk) when purchasing from the NEM, including pursuing hedging (financial), contractual and operational strategies.

For the June 2020 determination, we set wholesale energy costs based on ACIL Allen's estimates that use:

- a market hedging approach—to simulate expected spot prices that a retailer faces (having regard to the likely variation in demand profiles and generation/supply costs) and then estimate wholesale energy costs for a retailer that hedges spot price risk (through exchange-traded energy financial derivatives, i.e. ASX energy futures)
- market data up until May 2020—to take into account the most current information (including developments that occurred over the summer period) and the potential impacts of covid-19 on the NEM, specifically through the incorporation of ASX contract data (these ASX contract prices reflect the market participants' views of any impacts of covid-19, as well as other drivers, on the NEM).

In doing so, we considered that this approach is likely to produce robust estimates that best reflect the actual costs retailers incur when purchasing electricity from the NEM—among other reasons, because it uses the latest available market data at the time.

Analysis and draft decision

Suite of eight new retail tariffs (excluding the new load control tariffs)

For these new retail tariffs, we propose to determine the wholesale energy cost estimates based on the estimates used to set the 2020–21 notified prices. The approach for determining these new supplementary tariffs is therefore consistent with how we determined the existing tariffs in

[20] ACIL Allen's draft report is available on our website.

June 2020. Our approach and cost estimates were determined recently and can be readily applied in setting these new tariffs.

To maintain consistency with the UTP requirements (see chapter 3), we propose to set wholesale energy costs for these new retail tariffs based on:

- for small customers—the Energex net system load profile (NSLP)
- for large customers—the Ergon NSLP.

More details on the wholesale energy costs estimated in the June 2020 determination can be found in Appendix E and ACIL Allen's final report for this determination.

New load control retail tariffs

For new retail tariffs without existing observable load profiles (i.e. the new load control tariffs), we need to estimate representative load profiles for the purpose of determining wholesale energy costs. As the availability (and load profiles) of these tariffs are controlled by Energex and Ergon Energy Network, we have requested Energy Queensland's (EQ's) assistance to estimate the appropriate representative profiles.

EQ advised that, unlike tariff 33 (where availability is determined through time-of-day load control), the availability of the new load control tariffs is determined through targeted and localised load control, for which EQ may undertake manual load switching of specific loads. Therefore, there is unlikely to be a regular pattern of load control for each individual customer, which makes it challenging to estimate a representative profile. Considering the difficulties in deriving a representative profile, EQ is of the view that the load profile of tariff 33 could be used to develop wholesale energy cost estimates for the new load control tariffs.

Small business load control retail tariff

EQ provided us with load data of small business customers on load control tariffs (obtained as part of tariff trials). It suggested that these data provide an indication of the load profiles of the new load control tariffs and the type of customers that would find these new tariffs attractive. However, EQ advised against the use of these data for the purpose of estimating wholesale energy costs, as they are derived from a limited trial/sample and the load profiles would evolve over time as more customers move to these new load control tariffs.

It is not possible to know with absolute certainty whether the tariff trial load data would be more representative of the load profile of the new small business load control tariff than the current tariff 33 load profile. However, we note the following:

- Unlike tariff 33 (which is primarily designed for residential load)[21], this new tariff is designed for small business customers with relatively large interruptible load such as irrigation pumps and motors.
- The tariff trial undertaken by EQ targeted small business customers who expressed an interest in a load control tariff. Therefore, compared to the load profile of tariff 33, the tariff trial data are more likely to capture the type (and load profiles) of customers that would potentially move to this new tariff.

[21] This includes load associated with hot water heating (outside of peak periods) and interruptible residential pool pumps. For more details, see Energex Tariff Structure Statement 2020–25—https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/energex-determination-2020-25/final-decision.

- The load of this new tariff is unlikely to exhibit the load switching pattern of tariff 33. As discussed, the load for this new tariff is determined through a localised and targeted control, while the load for tariff 33 is determined through a time-of-day control.
- EQ cautioned against the use of the tariff trial data, partly because these data were derived from a sample. We note that the load profiles of the tariff trial and tariff 33 are based on a sample of 80 and 200 customers respectively. Consequently, the fact that the trial tariff dataset is a sample does not necessarily mean that it is inferior to the load data of tariff 33.
- We agree with EQ that load profiles for the new load control tariffs would evolve over time as more customers switch to these new tariffs. However, this in itself should not be a reason to dismiss the tariff trial data, as any aggregate load profile evolves over time. For example, the Energex and Ergon NSLPs have changed considerably in the last seven years due to the substantial uptake of rooftop solar photovoltaic.

On this basis, we consider that the tariff trial data are likely to be more representative of the load profile of the new small business load control tariff than the current tariff 33 load profile published by the Australian Energy Market Operator (AEMO).

Using the tariff trial load data, with ACIL Allen's assistance, we estimated the 2020–21 wholesale energy costs to be $68.59 per megawatt hour for the small business primary load control retail tariff. To undertake this analysis, ACIL Allen used the same approach and identical inputs as those adopted in the June 2020 determination. Such an approach ensures that the wholesale energy costs estimated using the tariff trial data will be consistent with those of the existing 2020–21 regulated tariffs. This is important, as the new load control retail tariff is supplementary to the 2020–21 regulated tariffs set as part of the June 2020 determination.

The wholesale energy cost estimate for the small business load control tariff is approximately 5 per cent higher than the estimate for tariff 33. This is primarily due to the tariff trial load profile being peakier and more volatile hour by hour, relative to the load of tariff 33.

Our draft decision is to determine the wholesale energy costs for the small business load control tariff using the tariff trial load data and the same approach as adopted in the June 2020 determination. A more detailed explanation of our considerations and ACIL Allen's approach can be found in Appendix C and ACIL Allen’s draft report.

Large business load control retail tariff

Due to a tight timeframe, EQ did not manage to provide suitable load data for large customers on load control tariffs in time for us to undertake a proper analysis. Further, EQ advised that the tariff trials were only open to small business customers. As such, the tariff trial data are unlikely to be representative of the types and load profiles of large customers who would be interested in these new load control tariffs. In the absence of more reliable load data, we propose to accept EQ's advice of using the load profile of tariff 33 to develop wholesale energy cost estimates for the large business load control tariffs.

However, we note that the following factors may result in an actual load profile for large business load control tariffs that is different from tariff 33:

- Unlike the load profile of tariff 33 (which reflect the consumption pattern of customers in the Energex area), the load profile for large business load control tariffs would reflect the consumption pattern of customers in the Ergon area.
- These new load control tariffs are designed for large customers with interruptible load, while tariff 33 is primarily designed for residential load.

- The load of these new load control tariffs is unlikely to exhibit the load switching pattern of tariff 33. The loads for these new tariffs are controlled through a localised and targeted mechanism, while the load for tariff 33 is determined through a time-of-day control.

For our draft decision, we propose to determine the wholesale energy costs for the large business load control tariffs using the 2020–21 estimates for tariff 33 (as adopted in our June 2020 determination). However, we invite stakeholders to comment on this topic, given the issues raised.

Other energy costs and losses

Retailers incur other energy costs[22] and losses when purchasing electricity from the NEM, namely:

- RET costs—associated with the purchase of certificates to meet the targets mandated under the RET[23]
- NEM management fees and ancillary services charges—the costs levied by AEMO to cover the cost of operating the NEM and services used to manage power system safety, security and reliability
- prudential capital costs—the costs of providing financial guarantees to AEMO and lodging initial margins with the ASX for futures contracts.
- costs associated with energy losses—this is because retailers need to purchase more electricity than is demanded by customers to allow for losses that occur when electricity is transported (via transmission and distribution networks).

For the June 2020 determination, we determined other energy costs and losses based on ACIL Allen's advice, which involved the following:

RET costs	•**Large-scale Renewable Energy Target (LRET) costs**—estimated using forward prices for large-scale generation certificates and renewable power percentage values derived from mandated LRET targets and estimates of electricity acquisitions •**Small-scale Renewable Energy Scheme (SRES) costs**—estimated using the clearing house price for small-scale technology certificates and small-scale technology percentages that reflect the most recent expected uptake in small-scale renewable energy systems and the estimated carryover of surplus certificates from 2019
NEM fees and ancillary charges	•**NEM management fees**—estimated using AEMO's budget and fee projections •**Ancillary services charges**—estimated using the average ancillary service payment observed over the preceding 52 weeks
Prudential costs	•**Prudential costs**—estimated using AEMO's prudential requirements and margin requirements for trading in the ASX futures market
Energy losses	•**Energy losses**—estimated by applying transmission and distribution loss factors published by AEMO, in a manner that aligned with AEMO's settlement process

[22] Retailers may also incur costs associated with the Reliability and Emergency Reserve Trader (RERT) scheme. These charges are levied by AEMO to cover the costs of maintaining power system reliability and security using reserve contracts. For 2020–21, we estimated that no RERT costs will be incurred in Queensland. For more details on the RERT scheme, refer to Appendix E and ACIL Allen’s final report for our June 2020 determination.

[23] The RET, 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.

We considered these approaches to be appropriate and likely to produce the most reliable estimates of other energy costs incurred by retailers. The underlying methodologies are aligned with how retailers incur these costs in practice, and use the best available data, where appropriate, to enhance the accuracy of the estimates.

Analysis and draft decision

Our draft decision is to determine other energy costs and losses using the same estimates derived as part of the June 2020 determination. Such an approach is appropriate on the basis that the new retail tariffs will be in effect for 2020–21 and they are supplementary to the 2020–21 regulated tariffs set as part of our June 2020 determination (discussed in chapter 3). This approach also ensures that new retail tariffs will be consistent with the existing 2020–21 regulated tariffs.

Consistent with the approach adopted in the June 2020 determination, we propose to use:

- the Energex loss factors for the new small business retail tariffs
- the Ergon loss factors (of large customers) for the new large business retail tariffs.

More details on the other energy costs and losses estimated in the June 2020 determination can be found in Appendix E and ACIL Allen's final report for this determination.

4.2.2 Retail costs

The costs of running a retail business include costs of servicing existing customers, acquiring new customers and managing the risks associated with providing retail services.

In the June 2020 determination, we estimated retail costs by updating the benchmark allowances established in 2016–17. We considered this approach to be appropriate given the uncertain market environment, including the ongoing network reforms, the introduction of the default market offer (DMO) and the potential impacts of covid-19.

The terms of the delegations do not specify a particular approach for estimating retail costs. As such, for this determination, we have set the supplementary notified prices having regard to the approach and cost estimates used in the June 2020 determination.

Analysis and draft position

Having regard to relevant factors, our draft decision is to estimate retail costs using the same estimates derived as part of the June 2020 determination. That is, for:

- the new small customer retail tariffs—we used the same relevant fixed and variable retail costs estimates as when setting 2020–21 notified prices. For small customers, these are based on:
  - adjusting the 2019–20 fixed retail cost allowances by the Reserve Bank of Australia's forecast of the change in the consumer price index for 2020–21 (to maintain the fixed component in real terms)
  - maintaining the variable retail cost allocators at 11.27 per cent for residential customers and 12.80 per cent for small business customers—the same levels established in the 2016–17 price determination
- the new large customer retail tariffs—we used the same relevant fixed and variable retail costs estimates as when setting 2020–21 notified prices. These are based on:
  - the most appropriate fixed retail cost (discussed further below)

- maintaining the variable retail cost allocators at 6.0445 per cent (the same level established in the 2016–17 price determination).

Unlike tariffs for small customers, each large customer tariff has its own individual fixed retail cost component. As such, we used the most appropriate existing estimate derived in the June 2020 determination to set the fixed retail cost estimates for the new large customer retail tariffs:

- For the new large customer primary load control tariff (60A), we used the fixed retail costs estimated for an existing large business demand tariff (tariff 44). This is a conservative approach, as tariff 44 has the lowest fixed retail cost estimate among the most commonly accessed large business retail tariffs (among tariffs 44, 45 and 46).
- For the for the new time-of-use demand tariff (50A), we used the fixed retail costs estimated for the existing seasonal time-of-use demand tariff for large customers (tariff 50) given that they are tariffs of the same class.

We consider this approach to be appropriate in the circumstances, as it ensures existing and supplementary tariff notified prices are set in a consistent manner. A more detailed explanation of our considerations and approach to setting retail costs is available in section 4.2.2 of the June 2020 determination.

5 OTHER COSTS AND PRICING ISSUES

This chapter sets out the other costs and pricing issues relevant to the supplementary notified prices as follows:

- standing offer adjustment for small customers
- headroom for large customers
- cost pass-through
- large customer metering costs.

5.1 Standing offer adjustment—small customers

The terms of the delegations require us to consider:

- incorporating a standing offer adjustment amount into notified prices for residential and small business customers to reflect the additional value of more favourable terms and conditions of standard contracts
- maintaining the adjustment level previously applied (5 per cent of total costs), so long as the resulting electricity bill does not exceed the equivalent DMO reference bill.

The terms of the delegations are broadly similar, and they are consistent with the approach we applied in the June 2020 determination. As such, we intend to set supplementary notified prices having regard to the approach used in the June 2020 determination.

Analysis and draft position

Having regard to relevant factors, this draft decision applies the same approach as that used in the June 2020 determination—that is, it incorporates a standing offer adjustment of 5 per cent into the supplementary notified prices for the new small customer tariffs. In the June 2020 determination, we considered it appropriate to incorporate a 5 per cent standing offer adjustment into notified prices, as standard contracts typically contain more favourable terms and conditions compared to market contracts.

We have undertaken a comparison with the DMO reference bill as required under the delegation—noting this was only necessary for the residential time-of-use tariff (the other new small customer tariffs do not have an equivalent DMO reference bill).[24]

On that assessment, we have not reduced the level of the standing offer adjustment for the residential time-of-use tariff (as the equivalent bill did not exceed the DMO reference bill). Appendix D sets out further detail, including the comparison process described above to inform this decision.

A more detailed explanation of our considerations and approach to the standing offer adjustment appears in section 5.1 of the June 2020 determination.

[24] In the June 2020 determination, we reduced the standing offer adjustment incorporated into one of the small customer tariffs (tariff 11) to ensure the notified price bill did not exceed the equivalent DMO reference bill.

5.2 Competition and headroom—large customers

We are required to have regard to, among other things, the effect of it on competition in the Queensland retail electricity market.[25] Prior to the 2020–21 determination, we have included a headroom allowance of 5 per cent of total costs in notified prices for large and very large customers. The purpose of including headroom was to promote retail competition in this market segment by:

- incentivising retailers to enter the market and compete for customers
- encouraging customers to move off notified prices and seek out more attractive offers in the competitive market.[26]

The terms of the delegations do not specify a particular approach for estimating a headroom allowance. As such, in this determination we have set supplementary notified prices having regard to the approach used in the June 2020 determination.

Analysis and draft position

In the June 2020 determination, we considered there was no compelling evidence that headroom was effective in further promoting competition. We decided against including a headroom allowance in notified prices for large customers.

While including a headroom allowance may have promoted a degree of competition in areas where notified prices closely reflect the actual costs of supply, we identified issues that we considered may not support the further development of competition:

- Switching risk—once a large customer accepts a market contract, they can no longer access notified prices. This is likely to discourage customers from accepting a market offer in the first place.
- Continued access to below-cost tariffs—some large customers may be accessing tariffs that do not reflect the actual costs of supplying them, which limited the ability for other retailers to offer those customers a better deal on a market contract.
- Flexibility—regulated prices were not flexible enough to accommodate differences in individual customer preferences or to adjust to changing market conditions.
- Impact of regulation—there is a risk that the limited regulatory tools available to promote competition (like headroom) instead produce regulated prices that serve as a coordination device among retailers, potentially resulting in higher market prices than if price regulation were removed.[27]

Consistent with our June 2020 determination, we do not intend to include a headroom allowance in draft supplementary notified prices.

A more detailed explanation of our considerations and approach to competition and headroom is available in section 5.2 of the June 2020 determination.

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[25] See s. 90(5) of the Electricity Act.

[26] The inclusion of headroom to promote competition is consistent with the AEMC's advice on best practice retail regulation (AEMC, *Advice on Best Practice Retail Price Regulation Methodology*, final report, September 2013) and is consistent with the past practice of other regulators, including IPART.

[27] Yarrow, G, *Report on the impact of maintaining price regulation*, Regulatory Policy Institute, Oxford, UK, January 2008, p. 71.

5.3 Cost pass-through mechanism

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

To continue to align notified prices with the UTP, we considered a cost pass-through mechanism is necessary to account for the under- or over-recovery of costs beyond the control of regulated entities. In previous determinations, we have provided a cost pass-through for SRES.

5.3.1 SRES cost pass-through

Retailers incur SRES costs based on the number of certificates that they are required to purchase and surrender to the Clean Energy Regulator (CER). The CER determines these SRES liabilities for each calendar year, but notified prices are determined for each financial year.

Generally, at the time of determining the final notified prices, only the SRES liabilities for the first half of the financial year are known, while liabilities for the second half are based on the forecasts from the CER. The CER typically determines the final SRES liabilities for the second half of the financial year about nine months after our final determination.

Such an arrangement can lead to an over- or under-recovery SRES costs if there are discrepancies between the CER's forecast and its final determination of the SRES liabilities. To account for the over- or under-recovery SRES costs, we have decided to apply a cost pass-through mechanism in the June 2020 determination.

5.3.2 Analysis and draft decision

Our draft decision is to determine the SRES cost pass-through using the same estimates derived as part of the June 2020 determination. Such an approach is appropriate, as the new retail tariffs will be in effect for 2020–21 and they are supplementary to the 2020–21 regulated tariffs set as part of our June 2020 determination (discussed in chapter 3). This approach also ensures that new retail tariffs will be consistent with the existing 2020–21 regulated tariffs.

More details on how the SRES cost pass-through was estimated in the June 2020 determination are in Appendix F of this determination.

5.4 Large customer metering costs

Consistent with previous determinations, we have

- separated the large customer metering costs for advanced digital meters from retail costs and estimated these metering charges separately
- estimated metering charges based on the latest confidential data provided by retailers.

Metering costs for customers accessing new primary and secondary tariffs will be applied under the same criteria as existing large customer tariffs; that is, metering charges differ depending on customer classification and each separately metered circuit will attract a separate metering charge.

The metering charges for large customers are set out in chapter 6.

6 DRAFT SUPPLEMENTARY NOTIFIED PRICES

This chapter sets the draft supplementary notified prices for:

- the new load control tariffs to apply from 1 November 2020 (**Table 2**)
- the suite of additional retail tariffs to apply from 1 January 2021 (**Table 3 to 5**).

Appendix F provides a breakdown of the prices by individual cost component.

Table 2 Draft notified prices for the new load control tariffs (excl. GST)

Retail tariffs	*Fixed charge*	*Usage charge*
	c/day	*c/kWh*
Tariff 34—small business flat-rate interruptible supply (primary)	118.081	17.295
Tariff T60A—large business flat-rate interruptible supply (primary)	4021.494	19.042
Tariff T60B—large business flat-rate interruptible supply (secondary)		19.042

Table 3 Draft notified prices—new residential and small business retail tariffs (excl. GST)

Retail tariff	*Fixed charge*	*Usage charge (off-peak/flat)*	*Usage charge (shoulder)*	*Usage charge (peak)*	*Demand charge (peak)*
	c/day	*c/kWh*	*c/kWh*	*c/kWh*	*$/kW/mth*
Tariff 12B—residential time-of-use[a]	93.112	17.039	18.859	28.998	
Tariff 14A—residential time-of-use demand[b]	91.852	19.401			2.610
Tariff 14B—residential time-of-use demand[b]	91.852	16.540			7.630
Tariff 24A—small business time-of-use demand[c]	126.586	22.064			2.239
Tariff 24B—small business time-of-use demand[c]	126.586	19.730			9.148

a *Peak usage—4 pm to 9 pm all days; shoulder usage—9 pm to 9 am all days; off-peak usage—9 am to 4 pm all days.* ***b*** *Peak demand—4 pm to 9 pm all days.* ***c*** *Peak demand—4 pm to 9 pm weekdays.*

Table 4 Draft notified prices—new large business retail tariffs (excl. GST)

Retail tariff	*Fixed charge*	*Usage charge (off-peak/flat)*	*Demand charge (peak)*	*Excess demand charge*
	c/day	*c/kWh*	*$/kVA/mth*	*$/kVA/mth*
Tariff 50A—large business time-of-use demand[a]	15774.697	12.012	13.282	2.656

a *Peak demand—4 pm to 9 pm weekdays.*

Table 5 Draft notified prices—additional small business time-of-use retail tariffs (excl. GST)

Retail tariff	*Fixed band 1**	*Fixed band 2**	*Fixed band 3**	*Fixed band 4**	*Fixed band 5**	*Usage charge (off-peak/flat)*	*Usage charge (shoulder)*	*Usage charge (peak)*
	c/day	*c/day*	*c/day*	*c/day*	*c/day*	*c/kWh*	*c/kWh*	*c/kWh*
Tariff 22B—small business time-of-use inclining-band	128.266	157.771	187.381	216.886	246.391	19.602	22.448	30.996
Tariff 23—small business inclining-band	128.266	157.771	187.381	216.886	246.391	23.258		

***Fixed band 1—0MWh to 20MWh annual consumption; fixed band 2—20MWh to 40MWh annual consumption; fixed band 3—40MWh to 60MWh annual consumption; fixed band 4—60MWh to 80MWh annual consumption; fixed band 5—80MWh to 100MWh annual consumption.*

***a** Peak—4 pm to 9pm weekdays; shoulder—9 pm to 9am weekdays, 4pm to 9 am weekends; off-peak—9 am to 4 pm all days.*

Table 6 Metering charges for large customers—advanced meters (excl. GST), 2020–21

Customer type	*Metering charge (c/day)*
Standard asset customer (annual usage of 750 MWh or less)	182.880
Standard asset customer (annual usage greater than 750 MWh)	217.109
Connection asset customer	430.155
Individually calculated customer	493.816

Source: Retailer data.