

Issues paper

Review of the maximum fees in Schedule 8 of the Electricity Regulation 2006

June 2020

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SUBMISSIONS

Closing date for submissions: 7 August 2020

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

Queensland Competition Authority
GPO Box 2257
Brisbane Q 4001

Tel (07) 3222 0555
Fax (07) 3222 0599

www.qca.org.au/submissions

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The assessment of confidentiality claims will be made by the QCA in accordance with the *Queensland Competition Authority Act 1997*, including an assessment of whether disclosure of the information would damage the person's commercial activities and considerations of the public interest.

Claims for confidentiality should be clearly noted on the front page of the submission. The relevant sections of the submission should also be marked as confidential, so that the remainder of the document can be made publicly available. It would also be appreciated if two versions of the submission (i.e. a complete version and another excising confidential information) could be provided.

A confidentiality claim template is available on request. We encourage stakeholders to use this template when making confidentiality claims. The confidentiality claim template provides guidance on the type of information that would assist our assessment of claims for confidentiality.

Public access to submissions

Subject to any confidentiality constraints, submissions will be available for public inspection at our Brisbane office, or on our 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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1 THIS REVIEW AND SCHEDULE 8

1.1 What have we been asked to do?

We have been directed by the Minister for Natural Resources, Mines and Energy (the Minister) to undertake a review of the operation of the price caps in Schedule 8 of the Electricity Regulation 2006 (the Regulation). We are required to provide our advice to the Minister by 12 February 2021.

The Queensland Government sought stakeholder comment on the role, benefits and disadvantages of Schedule 8 as part of its review of Queensland's energy legislation. However, in the options paper for that review¹, the government advised it had received insufficient feedback to inform the development of options for Schedule 8. It also indicated that it would separate Schedule 8 from that review and refer it to the QCA for further investigation.

A copy of the Minister's direction notice is provided in Appendix A.

1.2 What does Schedule 8 regulate?

Schedule 8 sets out, in four parts, the maximum prices that customers can pay for certain services, including:

- special meter reads and testing of meters by Energex and Ergon Energy (Part 1)
- disconnection and reconnection of supply of electricity to premises in some circumstances, both during business hours and outside business hours (Part 2)
- some temporary connections of a supply of electricity (Part 3)
- some services for premises that are connected to a long rural feeder or an isolated feeder (Part 4).²

A copy of Schedule 8 is provided in Appendix B. It provides more detailed information on the services that are subject to the price caps.

While the price caps in Parts 1 to 3 of Schedule 8 are specific dollar values, the price cap in Part 4 simply caps the prices of the relevant services at 'the maximum charge approved by QCA for the service for customers connected to urban feeders'. Information on the services covered by Part 4 and the Schedule 8 prices that apply to these services is included in the Alternative Control Services price list that Ergon Energy publishes each year on its website.³

1.3 Does the Australian Energy Regulator (AER) have any role in setting the prices in Schedule 8?

The services covered by Schedule 8 are also regulated by the AER. Every year, Ergon Energy and Energex submit pricing proposals to the AER that include proposed prices for services covered by

¹ Department of Natural Resources, Mines and Energy, *Review of Queensland Energy Legislation, Part 1: Options paper*, October 2019, p. 16, https://www.dnrme.qld.gov.au/__data/assets/pdf_file/0011/1459730/options-paper-part1.pdf.

² Under section 226 of the Regulation, the Schedule 8 fee is the maximum amount payable regardless of whether the fee is charged under the Act, a distribution network code or a contract. The caps apply to amounts payable by a customer to a retailer or distribution entity or by a retailer to a distribution entity.

³ <https://www.ergon.com.au/network/network-management/network-pricing/price-list-for-alternative-control-services>.

Schedule 8. The proposed prices are cost-reflective and are generally calculated consistent with the AER's standard methodology for this type of service.⁴ The AER reviews these prices and approves them if they are consistent with the National Electricity Rules.

While the AER has general responsibility for regulating the services covered by Schedule 8, it has no role in setting the Schedule 8 price caps. The Queensland Government is responsible for these price caps and it sets them independent of the AER process, generally at levels that are below the AER-approved prices for these services. As price caps in Schedule 8 take precedence over the AER-approved prices, the final prices charged by Ergon Energy and Energex reflect the Schedule 8 price caps.

The difference between the two sets of prices can be material (as shown in Table 1).

Table 1 Comparison of the 2019–20 AER approved and Schedule 8 prices for disconnection (de-energisation) of a premises during business hours

	<i>AER approved price (\$)</i>	<i>Schedule 8 price (\$)</i>
Energex	74.26	0.00
Ergon Energy—urban/short rural feeder	113.73	0.00
Ergon Energy—long/isolated rural feeder	678.65	0.00

Note: The prices include GST.

Source: Schedule 8 of the Regulation; Energex, SCS and ACS prices, 1 July 2019 to 30 June 2020, Excel spreadsheet, attachment 1 to Energex pricing proposal 2019–20, April 2019; Ergon Energy, 2019–20 network tariffs, Excel spreadsheet, attachment 1 to Ergon Energy's pricing proposal 2019–20, updated April 2019.⁵

1.4 Why was Schedule 8 introduced?

According to the regulatory impact statement for the Regulation, the caps were a consumer protection measure, with prices set at levels that were not prohibitive for lower income households.⁶

1.5 What matters have we been asked to consider in providing our advice?

The Minister's direction notice sets out the matters that we should consider in undertaking our review. The matters include:

- whether the original intent of Schedule 8 is still being achieved
- how frequently the services covered by Schedule 8 are being accessed by customers; in particular, customers receiving a Queensland Government energy rebate or concession and/or customers located on a long rural feeder or isolated network
- the impact of digital smart meters on the provision of services covered by Schedule 8
- the impact on customers and entities in the electricity supply chain (e.g. retailers and distributors) if the services were provided at a price that is consistent with the relevant AER determinations

⁴ The Schedule 8 services are classified as alternative control services by the AER and its standard methodology for setting the price of such services generally provides the distribution business with a reasonable opportunity to recover the efficient costs.

⁵ The AER approved prices are available on the AER's website, www.aer.gov.au.

⁶ Department of Energy, *Electricity Regulation 2006, Regulatory Impact Statement for SL 2006 No. 200*, pp. 43-44, <https://www.legislation.qld.gov.au/view/html/asmade/sl-2006-0200/lh#creationhistory>.

- the potential implications that Schedule 8 may have in relation to the uptake of digital meters and on inefficiencies associated with the duplication of the AER determinations
- the impact of the removal of Schedule 8 on retail customers if the government's Uniform Tariff Policy was applied.

We can also consider any other matter that we consider is relevant.⁷

1.6 Consultation

We invite interested stakeholders to make a submission to our review. Public consultation is an important input to our decision-making processes. While we have prepared some questions for consultation (see section 2), stakeholders can make submissions on any matters that they consider are relevant to our review.⁸

⁷ See paragraph 1(f) of the terms of reference in the direction notice (Appendix A).

⁸ Details on how to make a submission are on page i of this issues paper.

2 QUESTIONS FOR CONSULTATION

- (1) Is the original intent of Schedule 8 (see section 1.4 of this paper) being achieved?
- (2) Are the services and customers covered by Schedule 8 consistent with the original intent of the Regulation?
- (3) Are the Schedule 8 price caps the most efficient and effective way to achieve the original intent of the Regulation?
- (4) What are the key benefits and costs of:
 - (a) Schedule 8
 - (b) shifting to the AER approved prices?
- (5) How would any shift from the Schedule 8 caps to AER-approved prices impact on:
 - (a) vulnerable residential customers (e.g. customers accessing the electricity rebate, customers on hardship plans and customers on isolated networks)
 - (b) residential customers more generally
 - (c) business customers?
- (6) Do you think the cost of any Schedule 8 services or the frequency at which customers use these services will be impacted by the uptake of digital meters?
- (7) Do you think that the price caps in Schedule 8 will slow the uptake of digital meters?
- (8) Are there any other matters that you think are relevant to this review?

APPENDIX A: MINISTER'S DIRECTION NOTICE



The Hon Dr Anthony Lynham MP
Minister for Natural Resources, Mines and Energy

Ref CTS 04524/20

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Professor Flavio Menezes
Chair
Queensland Competition Authority
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BRISBANE QLD 4001

Dear Professor

I am writing to ask the Queensland Competition Authority (QCA) to undertake a review of the operation of price caps listed in the Electricity Regulation 2006 (the Regulation) and provide written advice to me by 12 February 2021.

The Queensland Government is committed to delivering stable and affordable electricity to all Queensland households and businesses, regardless of their location.

The Queensland Productivity Commission's 2016 Inquiry into Electricity Prices specifically noted distributor concerns that price caps in Schedule 8 of the Regulation can impede efficient price signals and act as a barrier to productivity opportunities.

In particular, the disconnection and reconnection costs for "move-in move-out" (MIMO) customers is set at zero in Queensland. This means it is less expensive and less risky, for a retailer to request that a distributor disconnect and then reconnect supply, than accept liability for any energy that could be used in MIMO situations.

The government published an issues paper on energy legislation reform in 2018 that sought comment on Schedule 8 price caps but the question received limited feedback.

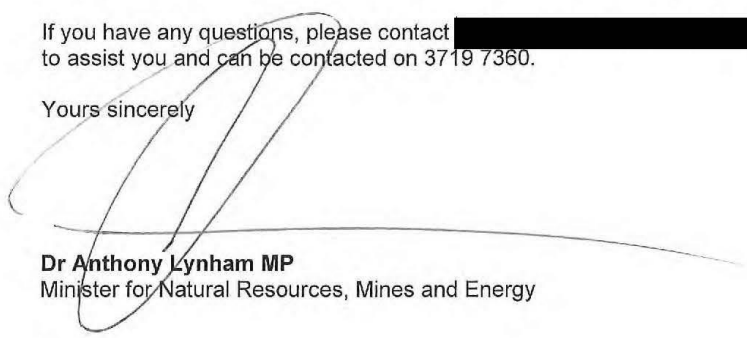
Given the lack of feedback received and the substantial changes to the energy market since Schedule 8 was introduced, additional investigation is required to understand the operation of Schedule 8 and any impacts associated with change. The government is therefore seeking QCA's advice on whether the original intent of the price caps in the Regulation is still being achieved.

Accordingly, I am issuing the attached direction notice, under section 253AA of the *Electricity Act 1994*, requesting QCA to provide advice. I request QCA publish this direction on its website.

When undertaking this review, QCA should consider the principle behind the government's Uniform Tariff Policy, under which regulated prices for regional customers reflect the cost of supplying equivalent customers in South East Queensland, rather than the actual cost of supply.

If you have any questions, please contact [REDACTED] who will be pleased to assist you and can be contacted on 3719 7360.

Yours sincerely



Dr Anthony Lynham MP
Minister for Natural Resources, Mines and Energy

Att

ELECTRICITY ACT 1994
Section 253AA

MINISTER'S DIRECTION NOTICE

Pursuant to section 253AA of the *Electricity Act 1994* (the Act), I hereby direct the Queensland Competition Authority (QCA) to provide a report on:

- whether the original intent of Schedule 8 of the *Electricity Regulation 2006* (the Regulation), as set out in Regulation Impact Statement introducing the Regulation, is still being achieved and in the most efficient manner
- The costs and benefits to each relevant party in the electricity supply chain, including customers currently incurred by the application of Schedule 8
- The impact on the electricity supply chain of removing Schedule 8 for some or all customer groups.

The following are the Terms of Reference of this direction:

Terms of Reference

1. This report should consider:
 - a. The frequency with which the services covered by Schedule 8 of the Regulation (Schedule 8 services) are provided to the Queensland customer base as a whole, and secondly, to the following groups:
 - i. customers receiving a Queensland Government energy rebate or concession;
 - ii. customers currently subject to a hardship payment plan with their retailer; or
 - iii. customers located on a long rural feeder or isolated network.
 - b. The expected changes to services covered by Schedule 8 of the Regulation as a result of the expected rise of digital smart meters, specifically:
 - i. any expected notable change in the cumulative number of Schedule 8 service requests
 - ii. any expected trends in the types of Schedule 8 services requested by retailers.
 - c. The expected annual financial impact on each relevant group (including the separate customer groups identified in (1a) as subsets of the general customer group) in the electricity supply chain if Schedule 8 services were provided at the cost reflective prices approved by the Australian Energy Regulator.
 - d. Any duplication or overlap of Schedule 8 with existing electricity regulation and the costs incurred at each stage of the electricity supply chain as a result of the duplication.
 - e. Which customer classes access the capped cost of \$0 for non-residential services such as temporary connections for short-term electricity use, in what proportions and what this costs distributors.
 - f. Any other matter the QCA considers relevant.
2. The report should set out potential direct and indirect costs and benefits of removing price caps for each relevant group in the electricity supply chain, including the customer sub-groups listed in 1a and where possible be supported by the QCA's consideration of:
 - a. The cost reflective price for each Schedule 8 service in the Ergon and Energex distribution areas and, if there appear to be significant differences due to the location in which the services are performed, the basis for the differences.
 - b. Whether the regulated prices potentially inhibit or disincentivise the take-up of digital smart meters.
 - c. As far as possible, how the projected uptake of digital smart meters could affect:
 - i. the costs incurred by distributors when performing Schedule 8 services
 - ii. the costs incurred by retailers when performing Schedule 8 services.
 - d. Whether the price caps on Schedule 8 services have resulted in market inefficiencies with regard to potential duplication from the Australian Energy Regulator's determination of prices for those services and if so, how those inefficiencies have affected each relevant entity in the electricity supply chain.
 - e. The outcome for each customer group referred to in section 1a above, if the price set reflected the equality principle in the Queensland Government's Uniform Tariff Policy (UTP) and the cost of the UTP to distributors of applying these prices.

Timing of advice

In accordance with section 253AA(2) of the Act, the QCA must provide me a final version of its written advice no later than 12 February 2021.

DATED this 6th day of April 2019.

SIGNED by the Honourable)



Dr Anthony Lynham MP)
Minister for Natural Resources,)
Mines and Energy)

(signature)

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APPENDIX B: SCHEDULE 8 OF THE ELECTRICITY REGULATION 2006

Electricity Regulation 2006

Schedule 8

Schedule 8 **Maximum fees payable to electricity entity**

section 226(2)

Part 1 **Meter reading and testing**

		\$
1	Special meter reading by Energex	39.25
2	Special meter reading by Ergon Energy	45.60
3	Testing of a meter by a distribution entity	21.10

Part 2 **Disconnection and reconnection**

		\$
1	Disconnection of supply of electricity to premises	nil
2	Reconnection of supply of electricity to a customer's (the <i>current customer's</i>) premises, after disconnection at a customer's request or under the National Energy Retail Rules, rule 119(1)(g) to (i)—	
	(a) if the reconnection is made during ordinary business hours	nil
	(b) if the reconnection is made outside ordinary business hours at the current customer's request	127.90
3	Reconnection of supply of electricity to a customer's premises other than as mentioned in item 2—	

Current as at 1 July 2019

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Authorised by the Parliamentary Counsel

Electricity Regulation 2006

Schedule 8

	\$
(a) if the reconnection is made during ordinary business hours	53.05
(b) if the reconnection is made outside ordinary business hours at the customer's request	127.90

Part 3 Temporary connections

	\$
1 Temporary connection of a supply of electricity to a building site by Ergon Energy during ordinary business hours (single-phase or multi-phase)	480.50
2 Temporary connection of a supply of electricity by Energex during ordinary business hours (current transformer or no current transformer)	480.50

Part 4 Other services

	\$
1 Service to a customer conducted by Ergon Energy that is an excluded service, other than a service mentioned in part 1, 2 or 3, if—	
(a) the service is for premises connected to a long rural feeder or an isolated feeder; and	

Electricity Regulation 2006

Schedule 8

	\$
(b) QCA has not approved for the service a maximum charge that is stated by QCA to be “price on application”	The maximum charge approved by QCA for the service for customers connected to urban feeders