



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

Ref CTS 14180/20

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Professor Flavio Menezes
Chair
Queensland Competition Authority
GPO Box 2257
BRISBANE QLD 4001

QLD COMPETITION AUTHORITY

- 3 AUG 2020

DATE RECEIVED

Dear Professor Menezes

Pursuant to section 90AA of the *Electricity Act 1994* (the Act), I have delegated to the Queensland Competition Authority (QCA) my functions under section 90(1) of the Act for the determination of new retail standard tariffs to be added to the second amended 2020–21 Tariff Schedule.

The process of determining regional prices for the 2020–21 period has been somewhat anomalous to previous years. I have previously noted the challenges experienced by the Australian Energy Regulator (AER) in making its decisions about the 2020–25 Energex and Ergon Energy distribution regulatory control period and the resulting delays. I also recognised that the QCA would not be able to create new retail tariffs to apply from 1 July 2020 that are based on the new network tariffs recently approved in the AER's final decisions.

I note that the QCA is currently expediting the development of three new controlled load tariffs for regional businesses in accordance with my delegation of 17 June 2020. These are expected to assist some businesses transition away from outdated legacy tariffs.

In addition, a broader range of new network tariffs has also been developed in consultation with businesses and stakeholders. They form a key part of Energy Queensland's strategy to assist other customers' transition from legacy business tariffs to standard business tariffs and it is important that these be implemented at the retail level as soon as practical.

However, in consideration of outcomes for customers, it is important to differentiate retail tariffs from network tariffs. While certain terms and conditions are practical at a network level, in many cases they don't make sense in the retail context and if treated the same, could have adverse impacts for customers. For example, 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.

Specifically, the assignment condition contained in the new small business wide inclining fixed network tariff, that small business customers with basic metering using more than 20 megawatt hours per year, be assigned to the tariff by default, is not reasonable at the retail level and should not be passed through in the retail version. This then allows customers to make the choice about which retail tariff best suits their individual needs.

I also consider that the two default retail tariff assignments made by the QCA in its 25 June 2020 decision should remain in place as the only default tariff assignment criteria.

Network tariff reform should be progressed but it should not be expected that those reforms be directly mirrored at the retail level as a matter of course. Retailers will balance the reforms with the expectations and needs of their customers in many different ways and those responses can inform future regulated pricing decisions.

This delegation is limited to the development of additional new regulated standard retail tariffs that support the remaining new network tariffs approved by the AER on 5 June 2020, those applying from 1 July 2020. The new retail tariffs are to take effect from 1 January 2021, after which they will be reviewed for 2021–22 as part of the usual tariff year price setting process.

The attached delegation and terms of reference are generally consistent with the approaches in my previous delegation for the development of three new controlled load retail tariffs for 2020–21. Similarly, these new retail tariffs will be additions to the 2020–21 Tariff Schedule. Given these new retail tariffs are supplementary to the 2020–21 regulated tariffs determined on 25 June 2020, I consider that the QCA should use approaches and estimates that are consistent in setting them.

The government's uniform tariff policy (UTP) and costs to consumers are important considerations when setting regulated retail electricity prices in regional Queensland. As such, the government notes that standard contracts continue to provide additional value to small customers compared to market contracts, for example, through additional protections contained in the terms and conditions of standard contracts that cannot be set aside. I consider that the standing offer adjustment applied by the QCA in its final 2020–21 price determination, before any adjustments were made to account for an equivalent Default Market Offer, appropriately reflects this additional value.

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. This has been within the intent of the UTP as set out in my last two delegations to the QCA, and for clarity, should be applied in the QCA's interpretation and considerations under my 17 June 2020 delegation.

Public consultation is a vital part of the QCA's process for determining retail electricity prices. In considering the limited scope of this delegation, and recognising the significant public consultation already undertaken in developing the new network tariffs, I have not included the usual requirement for the QCA to issue an Interim Consultation Paper. This will enable the QCA to move quickly to a draft decision, undertake consultation and deliver new retail prices before the end of 2020.

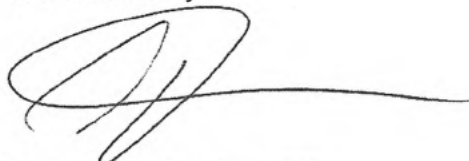
The government is committed to delivering lower electricity bills and ensuring regional customers continue to benefit from the protections provided by the UTP, and these new retail tariffs will provide customers more ways to better manage their electricity bills.

Future changes in how we all use electricity will continue to drive the need for new retail tariffs. My department will work with the QCA and retailers, including Ergon Energy retail, to propose a cost-based methodology to enable the future development of new retail tariffs such as for example, a solar-soaker tariff which will reward customers to export solar into the grid at peak periods.

My department will consult with the QCA as appropriate on specific wording for inclusion in the new Tariff Schedule.

If you have any questions, [REDACTED] Chief of Staff, will be pleased to assist you and can be contacted on telephone [REDACTED]

Yours sincerely

A handwritten signature in black ink, consisting of a large, stylized initial 'A' followed by a long horizontal line extending to the right.

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

Att

DEPARTMENT OF NATURAL RESOURCES, MINES AND ENERGY

Electricity Act 1994

ELECTRICITY (MINISTERIAL – QCA) DELEGATION (NO. 2) 2020

Background

1. On 9 December 2019, The Honourable Anthony Lynham MP, Minister for Natural Resources, Mines and Energy made the Electricity (Ministerial – QCA) Delegation (No. 1) 2019 (the **2019 delegation**) pursuant to which the Minister delegated to the Queensland Competition Authority (**QCA**) the functions of the Minister under section 90(1) of the *Electricity Act 1994* (the **Act**), subject to certain limitations.
2. On 17 June 2020, the Minister made the Electricity (Ministerial – QCA) Delegation (No. 1) 2020 (the **2020 controlled load delegation**) pursuant to which the Minister delegated to the QCA the functions of the Minister under section 90(1) of the Act, in relation to three new controlled load tariffs (the **controlled load tariffs**).
3. Pursuant to the 2019 delegation, the QCA published its final price determination for tariff year 1 July 2020 to 30 June 2021 (the **2020/21 tariff year**), in the form of a tariff schedule (the **2020/21 tariff schedule**), on 25 June 2020. On 29 June 2020 the Minister published an amended 2020/21 tariff schedule (the **first amended tariff schedule**) which superseded the 2020/21 tariff schedule published by the QCA.
4. Pursuant to the 2020 controlled load delegation, the QCA is expected to publish its final price amendment determination for the 2020/21 tariff year, which includes the controlled load tariffs, in the form of a further amended tariff schedule for the 2020/21 tariff year (the **second amended tariff schedule**), by no later than 16 October 2020.
5. However, the Australian Energy Regulator approved new network tariffs and prices in June 2020. Accordingly, further new retail tariffs will need to be added to the second amended tariff schedule after it is published in the Queensland Government Gazette. Accordingly, the Minister wishes to delegate the Minister's functions under section 90(1) of the Act in relation to those new retail tariffs to the QCA pursuant to the terms of this delegation.

Power to delegate

6. Under section 90AA(1) of the Act, the Minister may delegate to the QCA all or any of the Minister's functions under section 90(1) of the Act.

Powers delegated

7. Subject to the limitations and requirements listed in paragraph 8, I delegate the functions of the Minister under section 90(1) of the Act to the QCA for the 2020/21 tariff year.
8. The functions of the Minister specified in paragraph 7 above must only be exercised for the purpose of:

- (a) developing the following new retail standard tariffs, to be included in the second amended tariff schedule, based on new network tariffs in Ergon Energy Corporation Limited's (EECL) and Energex's approved 2020-25 Tariff Structure Statements:
- (i) a residential transitional demand tariff;
 - (ii) a residential demand tariff;
 - (iii) a residential time of use energy tariff;
 - (iv) a small business wide inclining fixed tariff;
 - (v) a small business transitional demand tariff;
 - (vi) a small business demand tariff;
 - (vii) a small business time of use energy tariff; and
 - (viii) a large business time of use demand tariff,
- (together, the **new retail tariffs**).
- (b) deciding the prices, or the methodology for fixing the prices, for the new retail tariffs that a retail entity may charge its Standard Contract Customers in Queensland (other than Standard Contract Customers in the Energex distribution area) for the new retail tariffs; and
- (c) adding the new retail tariffs to the second amended tariff schedule pursuant to section 90(3)(c) of the Act.
9. The new retail tariffs must take effect on 1 January 2021, and will remain in force until the end of the 2020/21 tariff year.
10. Pursuant to section 90(5)(a)(iii) of the Act, in exercising the functions specified in paragraphs 7 and 8 above, the QCA must have regard to the terms of reference in the schedule.

Revocation

11. Unless earlier revoked in writing, this delegation ceases upon publication of a further amended tariff schedule for 2020/21 which includes the new retail tariffs in the Queensland Government Gazette.
12. For the avoidance of doubt, this delegation is in addition to, and does not revoke, vary or otherwise affect, the 2020 controlled load delegation.

This delegation is made by **The Honourable Anthony Lynham MP**, Minister for Natural Resources, Mines and Energy:

Signed:



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

Dated: 22nd July 2020

SCHEDULE
Terms of Reference
Sections 90(5)(a)(iii) and 90AA of the Act

These Terms of Reference apply to the price determination for the new retail tariffs.

Period for which the price determinations will apply (section 90AA(3)(a) of the Act)

1. The price determination for the new retail tariffs takes effect from 1 January 2021 and remains in force until the end of the 2020/21 tariff year.

Policies, principles and other matters the QCA must consider when working out the notified prices and making the price determinations (sections 90(5)(a)(iii), 90AA(3)(c) and 90AA(3)(d) of the Act)

2. The policies, principles and other matters that the QCA is required by this delegation to consider are:
 - (a) Uniform Tariff Policy — the Government's Uniform Tariff Policy, which provides that, wherever possible, customers of the same class should pay no more for their electricity, and should be able to pay for their electricity via similar price structures, regardless of their geographic location. However, this 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. Additionally, as residential and small business customers paying notified prices are on standard retail contracts, the Government is of the view that the QCA must consider incorporating into notified prices, an appropriate value reflecting the more favourable terms and conditions of standard retail contracts compared to market contracts. Should the application of this value result in a bill that exceeds an equivalent Default Market Offer as set by the Australian Energy Regulator for southeast Queensland (**DMO**), that value should be discounted so that the resulting bill does not exceed the equivalent DMO. For the avoidance of doubt, if the appropriate value is discounted to zero and the resulting bill is still greater than the equivalent DMO, no further discount should be applied;
 - (b) Framework – use of 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 the QCA;
 - (c) When determining the N components for the new retail tariffs:
 - (i) For residential and small business retail tariffs - basing the network cost component on the price level of the relevant Energex network charges to be levied by Energex, but utilising the relevant EECL tariff structure;

- (ii) For large business retail tariffs for customers who consume 100MWh or more per annum - basing the network cost component on the relevant EECL network charges to be levied by EECL in the 'East distribution pricing zone - Transmission pricing zone T1'.

Consultation Requirements (section 90AA(3)(e) of the Act)

Consultation Timetable

- 3. The QCA must publish a consultation timetable within one week of the date of this delegation, which can be revised at the discretion of the QCA, detailing any proposed additional public papers and workshops that the QCA considers would assist the consultation process.

Workshops and Additional Consultation

- 4. As part of the consultation process and in consideration of public consultation already undertaken in developing the relevant network tariffs, the QCA must consider the merits of additional public consultation (workshops and papers) on identified key issues.

Draft Price Determination

- 5. The QCA must investigate and publish its draft price determination on the new retail tariffs, with each tariff to be presented as bundled prices appropriate to the retail tariff structure.
- 6. The 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 the QCA about issues relevant to the draft price determination.
- 7. The 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

- 8. The QCA must investigate and publish its final price determination on the new retail tariffs, with each tariff to be presented as bundled prices appropriate to the retail tariff structure, and gazette the retail tariffs.

Time frame for QCA to make and publish reports (section 90AA(3)(b) of the Act)

- 9. The QCA must make its reports available to the public and, at a minimum, publicly release the papers and price determinations listed in paragraphs 3 to 8 of the terms of reference.

10. The QCA must publish the draft price determination for the new retail tariffs by no later than 30 September 2020.
11. The QCA must publish the full 2020/21 tariff schedule, amended to include the new retail tariffs, in the Queensland Government gazette no later than 30 November 2020.

(SCHEDULE ENDS)