



Minister for Energy, Renewables and Hydrogen
Minister for Public Works and Procurement

Our Ref: CTS 24465/20

8 JAN 2021

Professor Flavio Menezes
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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 regulated retail electricity prices in regional Queensland for 2021–22.

The attached delegation and terms of reference for 2021–22 are generally consistent with the approaches of previous delegations, however there are some important additional considerations. Many of these are associated with managing impacts on retail customers of the last of the changes to network tariffs. These changes stem from the Australian Energy Regulator's (AER) 2020-25 Tariff Structure Statement decisions for Queensland's electricity distributors. A balance between the continued advancement of network tariff reform and positive retail customer experience is essential.

The government's uniform tariff policy (UTP) and costs to consumers are important considerations when setting regulated retail electricity prices in regional Queensland. The delegation and terms of reference maintain this long-standing policy. Consistent with the arrangements in 2020-21, this includes a requirement to adjust for the additional value provided by standard contracts compared to market contracts, while also ensuring that the Default Market Offers set by the AER for south east Queensland act as a ceiling on regional prices. The QCA should again consider including an adjustment similar to that applied in 2020-21 that appropriately reflects this additional value.

In consideration of outcomes for customers, it is important to differentiate retail tariffs from network tariffs and there are some elements of the delegation which provide policy guidance in this regard.

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. Market 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. 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 passed through, could have adverse impacts for customers.

Another important policy consideration relates to the equitable pricing of metering services for customers. Under national Power of Choice reforms, all new and replacement meters must be advanced digital meters. I note that the Australian Energy Market Commission has recently opened a review of these arrangements, but the Queensland Government remains concerned about the cost of digital meter services for small customers. In particular the slow progress toward benefit realisation by the electricity supply industry as identified by the QCA in 2019. It is not appropriate that some customers pay more simply because they have an advanced digital meter (ADM). While some customers may initiate actions that result in an ADM being installed, such as installing a solar PV system, upgrading their switchboard to improve its safety, or simply connecting a new house, other customers have their meter replaced because of age or failure. None of these represent genuine customer choice about the meter they have.

Further, and in consideration of the QCA's September 2019 advice to the government on the realisation of benefits from ADM, it is apparent that the current approach to ADM deployment, particularly by the distribution businesses, will likely result in loss of the opportunity to realise most of the value from ADM. While the government is working with Energy Queensland to identify ways to maximise these opportunities, customers should not be expected to foot this shortfall. As such, I consider the appropriate charges for small customer metering services, be they ADM or standard, continue to be those that the AER has approved for Energex's small customer standard metering services. The QCA is to consider those charges as they apply to ADM.

I have also included a number of other matters for the QCA's consideration in the delegation's Terms of Reference.

Public consultation is a vital part of the QCA's process for determining retail electricity prices. In this regard, the terms of reference set out the consultation needs and requires the QCA to publish its draft determination by the end of March 2021 and its final determination by 11 June 2021.

Delivering affordable electricity bills for households and businesses and driving economic recovery in the wake of the COVID-19 pandemic is a core commitment of this government. My department will be available to consult with the QCA on specific wording for the 2021–22 gazette notice and Tariff Schedule, ensuring regional customers continue to benefit from the electricity cost protection provided by the UTP and the benefits of owning our electricity assets.

If you have any questions, [REDACTED] Executive Director, Policy, Department of Energy and Public Works will be pleased to assist you and can be contacted on telephone [REDACTED]

Yours sincerely



Mick de Brenni MP
Minister for Energy, Renewables and Hydrogen
Minister for Public Works and Procurement

DEPARTMENT OF NATURAL RESOURCES, MINES AND ENERGY

Electricity Act 1994

ELECTRICITY (MINISTERIAL – QCA) DELEGATION (NO. 3) 2020

Power to delegate

1. Under section 90AA(1) of the *Electricity Act 1994* (the Act), the Minister may delegate to the Queensland Competition Authority (QCA) all or any of the Minister's functions under section 90(1) of the Act.

Powers delegated

2. Subject to the limitations and requirements listed in paragraphs 3 and 4, I delegate the functions of the Minister under section 90(1) of the Act to the QCA.
3. The functions of the Minister specified in paragraph 2 above must only be exercised for the purpose of deciding the prices, or the methodology for fixing the prices, for the tariff year 1 July 2021 to 30 June 2022 that a retail entity may charge its Standard Contract Customers in Queensland, other than Standard Contract Customers in the Energex distribution area.
4. Pursuant to section 90(5)(a)(iii) of the Act, in exercising the functions specified in paragraphs 2 and 3 above, the QCA must have regard to the terms of reference in the schedule.

Revocation

5. All earlier delegations of the Minister's powers under section 90(1) of the Act are revoked.
6. Unless earlier revoked in writing, this delegation ceases upon gazettal by the QCA of its final price determination on regulated retail electricity tariffs for the 2021–22 tariff year under section 90AB of the Act.

This delegation is made by **The Honourable Mick de Brenni MP**, Minister for Energy, Renewables and Hydrogen:

Signed:



The Honourable Mick de Brenni MP
Minister for Energy, Renewables and Hydrogen
Minister for Public Works and Procurement

Dated: 7/1/21

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

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

1. These Terms of Reference apply for the tariff year 1 July 2021 to 30 June 2022.

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 (**value**). 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) Where one or more tariffs of a type (primary or secondary), within a customer class (residential or small business), is subject to comparison with a DMO and adjustment on the basis described in (a) above, the QCA must consider if it should also discount the value for other tariffs of the type available to the customer class that are not subject to comparison with a DMO. This is intended to maintain pricing relativity and the attractiveness of these tariff options for customers;

- (c) Making four new retail tariffs based on new network tariffs as approved by the Australian Energy Regulator, including grandfathering arrangements, and as described in EECL 2020-25 Tariff Structure Statement as:

- (i) Transitional Network ToU Energy Tariff 1 (small business);
- (ii) Transitional Network ToU Energy Tariff 2 (small business);
- (iii) Transitional Network ToU Energy Tariff 3 (small business); and
- (iv) Business customer (Basic)>100 MWh pa (large business).

To ensure that these tariffs are available to eligible customers across the Ergon network area, do not apply the Australian Energy Regulator's approved geographic limitations of the network tariffs set out in c(i) to (iii) above;

- (d) Not making a new retail tariff based on a new network tariff as approved by the Australian Energy Regulator and as described in EECL's 2020-25 Tariff Structure Statement as "Residential customer (Basic)>100 MWh pa" unless such a tariff would, in the view of the Queensland Competition Authority, satisfy a need for the new tariff at the retail level. This will avoid inequitable outcomes for large residential customers based on the type of meter they have and is appropriate given the range of tariffs already available to these customers. If made, the retail tariff should be accessible to eligible customers only on a voluntary basis;
- (e) 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;
- (f) When determining the N components for each regulated retail tariff:
- (i) For residential and small business customer Tariffs 11, 20, 31 and 33 - basing the network cost component on the relevant Energex network charges to be levied by Energex and the relevant Energex tariff structures;
 - (ii) For residential and small business customer Tariffs 12A, 14, 22A and 24, use of a price indexation methodology applied to the N component used in the 2020–21 price determination on the basis that these tariffs no longer have an underlying network tariff;
 - (iii) For all other residential and small business customer tariffs, except for those set out in f(iv) below - basing the network cost component on the price level of the relevant Energex network charges to be levied by Energex, but utilising the relevant Ergon Energy Corporation Limited (EECL) tariff structures, in order to strengthen or enhance the underlying network price signals and encourage customers to switch

to time-of-use and demand tariffs and reduce their energy consumption during peak times;

- (iv) For the three new retail tariffs associated with the transitional network tariffs set out in c(i) to (iii) above – 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' to ensure pricing consistency with the application of the Australian Energy Regulator's approved network tariff transition pathway as customers move to more cost reflective tariffs.
- (v) 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'.
- (g) Retail Operating Costs – undertake a full review of these costs as used in the N plus R framework;
- (h) For all existing Standard tariffs as set out in Part 2 of the current Tariff Schedule – maintaining these tariffs including price structures and access criteria unless otherwise set out in this delegation;
- (i) Removing the retailer discretion that enables residential customers to access Tariff 33 as a primary tariff, and setting a sunset date by which all existing residential customers accessing Tariff 33 as a primary tariff must be transitioned to a suitable non-interruptible supply primary tariff;
- (j) Setting small customer advanced digital metering service charges at the Energex rate for standard Type 6 small customer metering services. This ensures that customers, who do not have any genuine choice as to the type of meter they receive, pay the same regardless of what is installed at their premises;
- (k) Default tariffs – maintaining the existing nomination of a primary tariff for each class of small customer to apply to a customer's electricity account in the event the customer does not nominate a primary tariff when opening an electricity account;
- (l) Updating the threshold amounts in the definitions of Connection Asset Customer and Individually Calculated Customer to generally reflect the equivalent network tariff thresholds;
- (m) The ongoing appropriateness of the discounts applied where supply is given and metered at high voltage and the tariff applied is not a designated high voltage tariff;

- (n) Removing expired transitional customer choice provisions on the application of kW and kVA demand charges;
- (o) Removing retailer, distributor, metering and other service provider discretions as far as is practicable;
- (p) Making the Tariff Schedule as stand-alone as is practicable by specifically including all reasonable and practical, from a retail perspective, network tariff requirements as applicable to each retail tariff, except those subject to other consideration in these Terms of Reference;
- (q) Continue enabling retailers to also charge Standard Contract Customers for the following customer retail services that are not included in regulated retail tariffs:
 - (i) Amounts in accordance with a program or scheme for the purchase of electricity from renewable or environmentally-friendly sources (whether or not those additional amounts are calculated on the basis of the customer's electricity usage), but only if:
 - (a) the customer voluntarily participates in such program or scheme;
 - (b) the additional amount is payable under the program or scheme; and
 - (c) the retailer gives the customer prior written notice of any change to the additional amount payable under the program or scheme;
- (r) Removing from the Tariff Schedule Ergon Energy Queensland Pty Ltd's EasyPay Reward scheme as this scheme has now ended.

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

Interim Consultation Paper

3. The QCA must publish an interim consultation paper identifying key issues to be considered when making the price determination.
4. The QCA must publish a written notice inviting submissions about the interim consultation paper. The notice must state a period during which anyone can make written submissions to the QCA about issues relevant to the price determination.
5. The QCA must consider any submissions received within the consultation period and make them available to the public, subject to normal confidentiality considerations.

Consultation Timetable

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

Workshops and Additional Consultation

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

Draft Price Determination

8. The QCA must investigate and publish its draft price determination on regulated retail electricity tariffs, with each tariff (to the extent practicable) to be presented as bundled prices appropriate to the retail tariff structure.
9. 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.
10. 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

11. The QCA must investigate and publish its final price determination on regulated retail electricity tariffs, with each tariff (to the extent practicable) to be presented as bundled prices appropriate to the retail tariff structure, and gazette the retail tariffs in the form of a Tariff Schedule.

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

12. 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 11.
13. The QCA must publish the interim consultation paper for the 2021–22 tariff year no later than one month after the date of this Delegation.
14. The QCA must publish the draft price determination on regulated retail electricity tariffs no later than March 2021.
15. The QCA must publish the final price determination on regulated retail electricity tariffs for the 2021–22 tariff year, and have the retail tariffs gazetted no later than 11 June 2021.

(SCHEDULE ENDS)