

Queensland Competition Authority

Interim consultation paper

Regulated retail electricity prices for 2022–23

December 2021

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Submissions

Closing date for submissions: 19 January 2022

Public involvement is an important element of the decision-making processes of the Queensland Competition Authority (QCA). Therefore submissions are invited from interested parties concerning its assessment of regulated retail electricity prices for regional Queensland in 2022–23. The QCA will take account of all submissions received within the stated timeframes.

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

Confidentiality

In the interests of transparency and to promote informed discussion and consultation, the QCA intends to make all submissions publicly available. However, if a person making a submission believes that information in the submission is confidential, that person should claim confidentiality in respect of the document (or the relevant part of the document) at the time the submission is given to the QCA and state the basis for the confidentiality claim.

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 ABOUT OUR REVIEW

1.1 What have we been asked to do?

We have received a delegation from the Minister for Energy, Renewables and Hydrogen (the Minister) to set regulated retail electricity prices (notified prices) to apply in regional Queensland in 2022–23. The delegation was issued in accordance with section 90AA of the *Electricity Act 1994* (Qld) (Electricity Act).

1.2 Scope of this review

The purpose of our review is to determine notified prices for 2022–23, in accordance with the requirements in the Electricity Act. We must have regard to the following matters when making our price determination:¹

- 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.²

The delegation states the terms of reference for our price determination³, including:

- the period—the price determination is to apply from 1 July 2022 to 30 June 2023
- the timeframes—for publishing reports and making the draft and final price determinations (noting the final price determination must be made by 31 May 2022)
- particular policies or principles—we are to set notified prices having regard to, among other matters, the Queensland Government's uniform tariff policy
- the 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 at various stages before making the final determination.

1.3 Review process and consultation

Consultation is an integral part of our decision-making process, and we invite all stakeholders, including members of the community, to participate in our review. Stakeholders are invited to make a submission on the issues raised in this paper, or any other issues relevant to our review. Information on making a submission, as well as our online submission form, is available on our [website](#).⁴

¹ Section 90(5)(a) of the Electricity Act.

² We may also have regard to any other matter we consider relevant (s. 90(5)(b) of the Electricity Act).

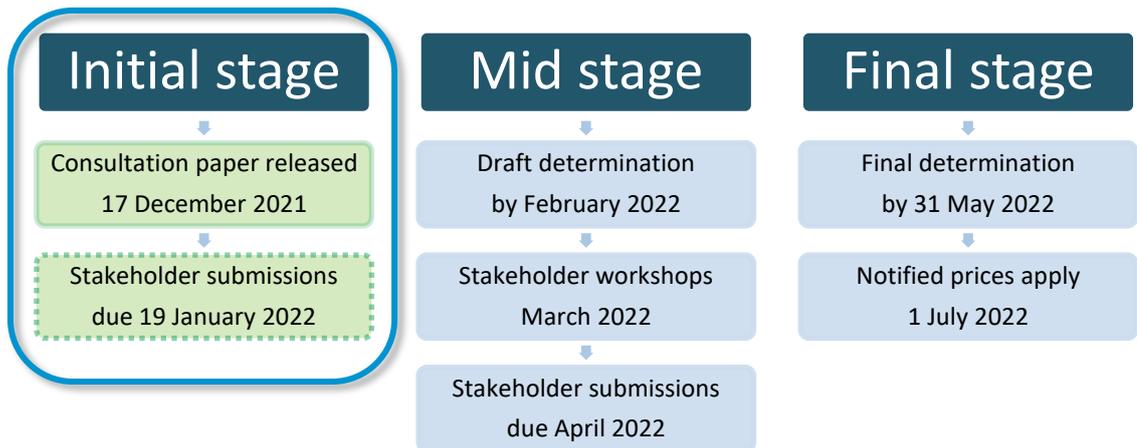
³ The delegation, including the terms of reference, is provided in Appendix A.

⁴ Our submission policy is available at <https://www.qca.org.au/submission-policy/>. Our online submission form is available at <https://www.qca.org.au/submissions/>.



Submissions are due by **19 January 2022**.

The dates below provide an indication of when we will publish reports, hold stakeholder workshops and seek further stakeholder submissions. We encourage stakeholders to subscribe to our email alerts to keep up to date with the latest developments on our review.⁵



⁵ <https://www.qca.org.au/email-alerts/>.

2 OVERARCHING APPROACH AND NEW ISSUES

This chapter identifies overarching matters that determine the cost level and availability of tariffs for notified prices. Many of these matters are identified in the delegation, which we must consider when setting notified prices.

The delegation is largely consistent with previous years. However, we have been asked to consider a few new issues this year. We particularly seek stakeholders' comments and views on these issues.

2.1 Our overarching approach to setting notified prices

The delegation is largely consistent with previous years. Consistent with the delegation, we intend to continue to apply the same broad approach to setting notified prices, which is to apply the uniform tariff policy and use the N+R cost build-up methodology.

Uniform tariff policy

The Queensland Government's uniform tariff policy (UTP) 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 common price structures, regardless of their geographic location.

In previous determinations, we applied the UTP by:

- basing notified prices for residential and small business customers on the cost of supply in south east Queensland
- basing notified prices for large business customers on the Ergon region with the lowest cost of supply⁶
- maintaining existing retail tariffs (including those without underlying network tariffs) and introducing 15 new retail tariffs (underpinned by newly introduced network tariffs).

We intend to continue to apply this approach in terms of cost levels. However, we have been asked to review the current suite of retail tariffs with a view to rationalising and removing any tariffs no longer considered appropriate (section 2.2).

The UTP benefits customers in regional Queensland because notified prices for most customers are set at a lower level than the actual costs of supply. The cost difference is met by the Queensland Government through the payment of a community service obligation subsidy to Ergon Energy Queensland of approximately \$500 million each year.⁷

N+R methodology

We intend to continue to apply the N+R methodology to determine notified prices for each retail tariff. We do this by passing through the network costs (the N component), and estimating energy and retail costs (the R component) for each tariff. We then apply a standing offer adjustment to

⁶ This is the Ergon Distribution east zone, transmission region one (which is the region with the lowest cost of supply that is connected to the NEM).

⁷ Queensland Government, *Queensland Budget 2021–22, Budget Strategy and Outlook*, Budget Paper No. 2, June 2021, p. 35.

residential and small business customer tariffs to reflect the additional value and protections of terms and conditions in standard contracts.

Further considerations and details regarding the individual components that make up a retail tariff are discussed in chapter 3.

2.2 New issues for this review

The new matters we have been asked to consider this year are the potential rationalisation of existing retail tariffs and the compatibility of retail tariffs with the electric vehicle rollout.

Rationalising existing tariffs

We have been asked to review existing retail tariffs with a view to rationalising and removing any tariffs no longer considered appropriate.⁸ We have also been asked to consider appropriate transitional arrangements for any customers impacted by the removal of tariffs.⁹ The Minister's covering letter provided further context and guidance as follows:

The QCA should consider if individual tariffs are meeting customer needs, and balance competing factors including the impact extinguishing a tariff would have on customers and their options, along with other matters the QCA considers relevant. Consistent with [the] application of the [uniform tariff policy], this should be informed by the price structures commonly available in the deregulated [south east Queensland] electricity market and with a view to future needs for a variety of tariffs to be available as customer preferences, needs and technologies change.¹⁰

However, in accordance with the Minister's request¹¹, we intend to retain the existing flat-rate and controlled load tariffs for both residential and small business customers. When reviewing the appropriateness of existing tariffs, we intend to consider whether these tariffs are meeting customer needs by, for example, evaluating the uptake of these tariffs using customer data from Ergon Retail.

To develop transitional arrangements, we need to establish a basis for an appropriate transition period. For example, the transition period for the obsolete irrigation tariffs was based on the depreciable life of irrigation infrastructure (developed in consultation with irrigators). We seek stakeholder input on an appropriate basis for any proposed transitional arrangements.



Question 1

We seek stakeholders' views on whether any retail tariffs should be removed and appropriate transitional arrangements.

Electric vehicle rollout—compatibility with retail tariffs

We have been asked to consider the compatibility of retail tariffs with the rollout of electric vehicles, given the state-wide rollout and integration of electric vehicles into Queensland is a key focus of the government's upcoming 10-year Energy Plan and the Zero Emissions Vehicle Strategy:

I would greatly appreciate QCA considering how tariffs could be structured to better guide customer behaviour. This will be critical in encouraging the charging of EVs in periods of low network demand and high renewable energy generation. It is important to manage costs to

⁸ The current list of retail tariffs is available on our [website](#).

⁹ Appendix A: Minister's delegation, terms of reference, paragraph 2(b).

¹⁰ Appendix A: Minister's delegation, covering letter.

¹¹ Appendix A: Minister's delegation, covering letter.

customers and minimise the need for new electricity infrastructure to cope with the switch from petroleum fuels to electricity as Queensland's EV fleet grows. The QCA may include commentaries about the need for new retail tariffs with different structures to those currently available and also incentives for customers to respond to stronger pricing signals with tariffs.¹²

Based on this request, we intend to consider whether price signals in existing retail tariffs encourage customers to charge electric vehicles when network demand is low and renewable energy generation is high. We also intend to comment on whether those price signals should be strengthened or whether new tariffs should be introduced. However, we do not anticipate any impact on notified prices for 2022–23 as part of this price determination, because we have not been asked to introduce new retail tariffs at this stage and the uptake of electric vehicles is currently low. The Minister has indicated we might be issued with a separate delegation in future for new tariffs suitable for EV customers.



Question 2

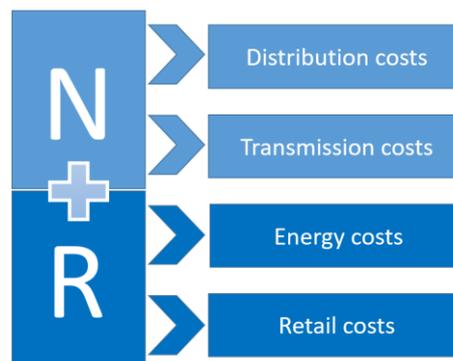
We seek stakeholders' views on the role and compatibility of retail tariffs with the electric vehicle rollout.

¹² Appendix A: Minister's delegation, covering letter.

3 INDIVIDUAL COMPONENTS

This chapter identifies key matters relevant to the individual components that make up a retail tariff. Many of these matters are identified in the delegation, which we must consider when setting notified prices. These components include:

- the N component—distribution and transmission costs associated with transporting electricity to customers (section 3.1)
- the R component—the costs of buying and selling electricity to customers (section 3.2)
- other adjustments and price matters—the standing offer adjustment and metering charges (section 3.3).



3.1 Network component

The prices charged for transporting electricity through transmission and distribution networks are regulated by the Australian Energy Regulator (AER). In addition to recovering their own distribution network costs, distributors also pass through Powerlink's transmission network charges (also approved by the AER) to customers as part of the network prices.

The terms of the delegation require us to consider determining the N component in a manner that is consistent with the overarching framework—that is, the UTP and N+R methodology (see chapter 2). More specifically, we are also required to consider basing:¹³

- for small customers on:
 - flat and secondary load control tariffs—on the relevant Energex network prices (being the charges and tariff structures levied by Energex that apply in south east Queensland)
 - tariffs 12A, 14, 22A and 24—on the N component used in the 2020–21 price determination, adjusted using a price indexation methodology (on the basis these tariffs no longer have an underlying network tariff)
 - tariffs 62A, 65A and 66A (limited access obsolete tariffs)—on the relevant network prices for Ergon Distribution's east zone, transmission region one
 - all other retail tariffs—on the price level of the relevant Energex charges but utilising Ergon Distribution tariff structures
- for large customer retail tariffs—on the relevant network prices for Ergon Distribution's east zone, transmission region one.¹⁴

The delegation is broadly consistent with previous years. Subject to stakeholder views, we intend to apply the same approach as our previous review when setting the N component, specifically:

- for existing retail tariffs with an underlying network tariff, passing through the relevant network prices approved by the AER (as identified above)

¹³ Appendix A: Minister's delegation, terms of reference, paragraph 2(d).

¹⁴ Being the Ergon Distribution pricing region with the lowest cost of supply that is connected to the NEM.

- for existing retail tariffs with no underlying network tariffs (tariffs 12A, 14, 22A and 24), using a price indexation methodology, specifically an 'X-factor' approach,¹⁵ which would allow for the pass-through of AER-approved changes in network costs.¹⁶

Stakeholders should note we will be reviewing the existing suite of retail tariffs with a view to rationalising and extinguishing any tariffs no longer considered appropriate (see chapter 2). As such, the approaches outlined above may not apply if the relevant tariff will be removed and not included in the 2022–23 tariff schedule.



Question 3

We seek stakeholders' views on the issues we identified for setting the N component of notified prices, as well as any other matters considered relevant.

3.2 Retail component

3.2.1 Energy costs

Energy costs relate to the costs that retailers incur when purchasing electricity to meet the demands of customers. These costs include wholesale energy costs, other energy costs (including the Renewable Energy Target) and energy losses.

Wholesale energy costs

Retailers incur wholesale energy costs when purchasing electricity from the National Electricity Market (NEM) to meet the electricity demand of their customers. They typically adopt a range of hedging strategies to reduce their exposure to rapidly changing wholesale electricity prices when purchasing from the NEM, including through the purchase of ASX financial derivatives.¹⁷

In previous determinations, we estimated wholesale energy costs using a market hedging approach, which takes into account retailers' hedging strategies. We consider this approach best reflects the actual costs retailers incur when purchasing electricity from the NEM.¹⁸ This approach is also adopted by the AER in determining its default market offers (DMOs) and endorsed by the Australian Energy Market Commission (AEMC).¹⁹

For our standard draft determinations, we used market data up until January. This allowed us to account for the most current information (including any developments that occurred over the potentially volatile summer period), while still meeting our draft determination deadline.

¹⁵ As part of the revenue determination process, the AER produces five X-factors for the purposes of revenue smoothing (the X-factor for the first year is also known as P0). Mathematically, X-factors are weights that are applied to allowable revenue for one year to calculate the allowable revenue for the next year using a price formula of the form $-(CPI-X)$.

¹⁶ Specifically, we propose to use the N component set for these tariffs as part of our 2020–21 determination as the starting point, which will then be indexed by using the relevant AER X-factors and the CPI minus X price formula. For further details on how we set the N component for these tariffs in our 2020–21 price determination, see Appendix C of our 2020–21 notified prices final determination.

¹⁷ Generally, the purchase of ASX financial derivatives enables retailers to lock in a price, or a maximum price (in the case of caps), at which a given volume of electricity will be transacted at a future date.

¹⁸ For further information on how these costs were estimated, see Appendix C and ACIL's reports for the 2021–22 determination, which are available on our website, www.qca.org.au.

¹⁹ AEMC, *Advice on best practice retail price methodology*, final report, September 2013.

Subject to stakeholder views, we intend to adopt similar approaches for 2022–23.

Due to recent market developments, we also intend to consider the impacts of the following factors for 2022–23:²⁰

- the effects of the continued roll-out of smart meters on customer demand profiles
- the manner in which the potential effects of covid-19 are taken into account when estimating wholesale energy costs.

Other energy costs and losses

Retailers incur other energy costs²¹ when purchasing electricity from the NEM, namely:

- Renewable Energy Target (RET) costs—costs associated with the purchase of certificates to meet the targets mandated under the RET²²
- NEM management fees and ancillary services charges—the costs levied by the Australian Energy Market Operator (AEMO) to cover the cost of operating the NEM and services used to manage power system safety, security and reliability
- Reliability and Emergency Reserve Trader (RERT) scheme charges—charges levied by AEMO to cover the costs of maintaining power system reliability and security using reserve contracts. The RERT scheme allows AEMO to contract for emergency reserves, such as generation or demand response outside of the NEM
- prudential capital costs—the costs a retailer incurs to provide financial guarantees to AEMO and to lodge initial margins with the ASX for futures contracts.

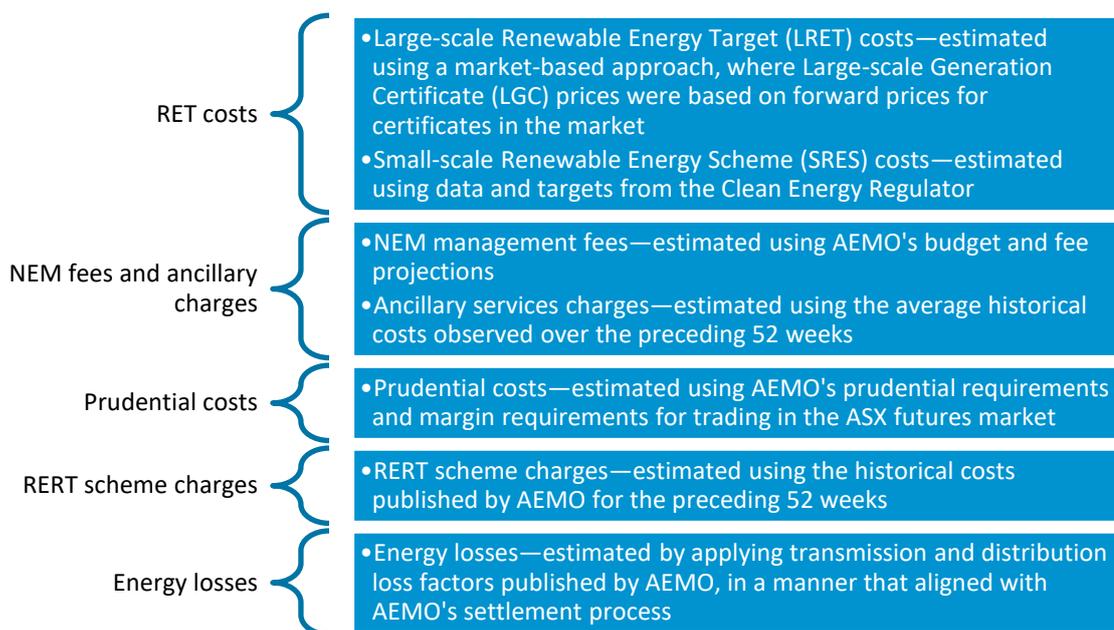
Also, retailers incur costs associated with energy losses. This is because retailers need to purchase more electricity than is demanded by customers to allow for losses that occur when electricity is transported (via transmission and distribution networks).

²⁰ In our previous determination, we have considered the effects of the five-minute settlement reform on wholesale energy costs, especially its impact on the availability of ASX cap contracts. This reform commenced recently on 1 October 2021, and we will continue to monitor the ongoing implications of this reform as part of this review.

²¹ Retailers may also incur costs related to the Retailer Reliability Obligation (RRO). The RRO is designed to assist with managing the risk of declining reliability of generation supply. When the RRO is triggered for a given quarter and NEM region, retailers are required to secure sufficient qualifying contracts to cover their share of the peak demand. For 2021–22, the RRO has not been triggered for Queensland, and therefore no RRO costs have been incurred. For a more information, refer to Appendix C and ACIL's final report for our 2021–22 determination.

²² The RET, comprising 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.

In previous determinations, we estimated other costs and losses based on reliable sources of information to ensure these costs appropriately reflected those likely to be incurred by retailers²³:



Subject to stakeholder views, we intend to adopt similar approaches for 2022–23.



Question 4

We seek stakeholders' views on our approach for estimating energy costs, as well as any other matters considered relevant.

3.2.2 Retail costs

Retail costs are the costs of running a retail electricity business. They include:

- retail operating costs, such as administrative costs and costs related to operating call centres, operating billing systems and collecting revenue
- a retail margin, which is the return to investors for retailers' exposure to systematic risks associated with providing retail electricity services.

Last year, we undertook a fulsome review of retail cost allowances for small and large customers. This review used market data and took into account potential changes in costs resulting from productivity improvements and covid-19.²⁴ As a result of this review, we have:

- updated the retail cost allowances for residential and small business customers to take account of recent market information

²³ For further information on how these costs were estimated, see Appendix C and ACIL's reports for the 2021–22 determination, which are available on our website, www.qca.org.au.

²⁴ For further information on this methodology, see Appendix C and ACIL's reports for the 2021–22 determination, which are available on our website, www.qca.org.au.

- maintained the existing retail cost allowance for large customers (adjusted for inflation), as there was insufficient evidence to vary the allowance for this customer class.

Given the recency of the retail cost review, we are considering maintaining our existing retail cost allowances but potentially adjusting these allowances to account for recent developments such as inflation and covid-19.



Question 5

We seek stakeholders' views on the on our approach for determining retail costs and any other matters we should consider.

3.3 Other adjustments and pricing matters

3.3.1 Standing offer adjustment

Consistent with previous years, the Minister has asked us to consider the costs and benefits associated with standing offers in south east Queensland and the effects of the AER's DMO on notified prices.²⁵ In our previous determinations, such considerations led us to:

- incorporate a standing offer adjustment (SOA) in notified prices for residential and small business customers. This adjustment was intended to reflect the value of more favourable terms and conditions in standard contracts relative to market contracts.

In our last determination, we applied an adjustment of 3.6 per cent (of total costs) based on an assessment of the potential fees incurred by small customers on market contracts in south east Queensland. These fees served as an appropriate proxy for the value of the SOA as they represented the costs that customers would avoid by being on a standard contract relative a market contract.²⁶

- compare the notified price bill (including a SOA) to the equivalent DMO reference bill in south east Queensland. We would consider discounting the value of the SOA if this value resulted in a notified price bill that exceeded the equivalent DMO bill (provided that this value is not discounted below zero).

If this analysis led to a reduction in the SOA's value for a specific tariff, we would also consider adjusting the value for similar tariffs to maintain price relativity between these tariffs. In our last determination, no adjustment was necessary as none of the notified price bills exceed the equivalent DMO bills.²⁷

We plan to adopt this approach again to determine whether an adjustment of 3.6 per cent remains appropriate.

While the AER indicated it intends to publish its DMO final determination in May 2022, the publication date may be delayed in order to allow the AER to incorporate recommendations from

²⁵ Appendix A: Minister's delegation, covering letter.

²⁶ For further information on this methodology, see chapter 5 of the 2021–22 determination, which is available on our website, www.qca.org.au.

²⁷ For further information on this analysis, see Appendix F of the 2021–22 determination, which is available on our website, www.qca.org.au.

the review of the DMO Regulations.²⁸ We will consider the implications of any delay and update stakeholders in the draft determination.



Question 6

We seek stakeholders' views on the key issues raised in relation to the standing offer adjustment and DMO considerations.

3.3.2 Metering charges

Consistent with last year, the delegation requires us to consider basing charges for advanced digital metering (ADM) for small customers on the cost of standard (type 6) meters in south east Queensland.²⁹

In the previous determination, we have set these charges in the manner specified, resulting in customers paying less for ADM than the actual costs associated with supplying the service. We intend to continue applying this approach.



Question 7

We seek stakeholders' views on our approach to determining advanced digital metering charges for small customers.

²⁸ AER, *Default market offer prices*, Options paper, October 2021, p. 15.

²⁹ Appendix A: Minister's delegation, terms of reference, paragraph 2(f).

GLOSSARY

ADM	Advanced digital metering
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
CPI	Consumer price index
Delegation	The delegation issued by the Minister for Energy, Renewables and Hydrogen (see Appendix A)
DMO	Default market offer
Energex	Energex Distribution
Ergon Distribution	Ergon Energy Corporation Limited (electricity distribution arm)
Electricity Act	Electricity Act 1994 (Qld)
ICP	Interim consultation paper
LRET	Large-scale renewable energy target
N	Network costs
NEM	National Electricity Market
Notified prices	Regulated retail electricity prices
N+R	Network + retail cost build-up methodology
QCA	Queensland Competition Authority
R	Energy and retail costs
RERT	Reliability and Emergency Reserve Trader
RET	Renewable energy target
SRES	Small-scale renewable energy scheme
UTP	Uniform Tariff Policy

APPENDIX A: MINISTER'S DELEGATION



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

Our Ref: MN07763-2021

16 DEC 2021

Professor Flavio Menezes
Chair
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Dear Professor Menezes *Flavio*

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 2022-23.

The Queensland Government is committed to delivering affordable electricity for households and businesses which is fundamental to driving economic recovery in regional Queensland, especially given the ongoing COVID-19 pandemic.

I note the State-wide rollout and integration of electric vehicles (EVs) into Queensland will be an area of key focus in the upcoming 10-year Energy Plan and the Zero Emissions Vehicle Strategy. Pricing, infrastructure, network impacts and access to EVs will be considered as part of these strategies.

Charging is set to introduce new load onto the system and EV users will make decisions that will impact the electricity network in new ways. Uptake of EVs is growing quickly and Queensland wants to encourage this uptake in a sustainable way that limits adverse impacts on the system.

There is much uncertainty around technology costs, consumer preferences and the ability to positively manage the impacts of EVs on the system. Electricity tariffs are being deployed worldwide seeking to encourage the shift of load from peak periods to those of low demand. In Queensland, with the impressive uptake of solar power systems at both household and utility scale, demand is now consistently low during daylight hours. Modelling by the Australian Energy Market Operator suggests that if left unchecked this may present challenges to the reliability of our electricity network over the medium term.

With the introduction of Tariff 12B from 1 January 2021, regional Queensland is setting the pace in encouraging greater use of our abundant renewable energy. This new 'solar-soaker' tariff flips the old way of thinking about electricity prices with the cheapest rate of just 16.13 cents per kilowatt-hour (c/kWh) being available from 9:00am to 4:00pm. I am advised Tariff 12B has a cheap daytime off-peak network component of 4.24 c/kWh, however the energy cost component is flat across all time periods and does not reflect actual underlying energy cost structures that vary across the day. While this tariff will be reviewed under this delegation in a standard manner, I will also look to a new time-of-use tariff with improved price signals and I intend to provide a separate delegation in early 2022.

- 2 -

The Department of Energy and Public Works (the department) is already working with the QCA and other stakeholders on a new direction for tariffs that would inform and reflect this new approach. Vehicle to grid capability is also expected to further change how EVs and batteries interact with the network with two-way flows of electricity becoming more common. These represent valuable consumer-owned sources of flexible demand and supply.

As part of the price determination process, I would greatly appreciate QCA considering how tariffs could be structured to better guide customer behaviour. This will be critical in encouraging the charging of EVs in periods of low network demand and high renewable energy generation. It is important to manage costs to customers and minimise the need for new electricity infrastructure to cope with the switch from petroleum fuels to electricity as Queensland's EV fleet grows. The QCA may include commentaries about the need for new retail tariffs with different structures to those currently available and also incentives for customers to respond to stronger pricing signals within tariffs. This advice will inform a separate delegation for new tariffs suitable for EV customers which I intend to issue to the QCA in early 2022.

The 10-year Energy Plan and the Zero Emissions Vehicle Strategy will assist in setting direction for key stakeholders through to 2030. The department will work closely with its electricity distributors to ensure the right mix of network tariffs are in place, building the platforms from which regulated retail tariffs will be developed for regional Queensland, and market driven retail products developed for South East Queensland (SEQ).

Realising a future that benefits all electricity users hinges on providing effective motivations, rewards and incentives for customers to move their electricity consumption. Solar-soaker and time-of-use tariffs are critical policy levers that can be used to support integrating a range of technologies like EVs, batteries, solar power and home energy management systems into Queensland's electricity network.

The enclosed delegation and terms of reference for 2022-23 are generally consistent with the approaches of previous delegations. The Queensland Government's Uniform Tariff Policy (UTP) as described in the delegation continues to capture the need for consideration of the Default Market Offer (DMO) by QCA in its determination. Given the DMO process is currently under review at the national level, I consider it appropriate that QCA conduct its usual process to determine all the associated costs that contribute to notified prices under the Queensland Government's long standing UTP. For small customers, this also means considering all costs and benefits associated with standing offers in SEQ.

Customers and stakeholders in regional Queensland have a long-standing preference for simplicity and choice with regards to electricity pricing. However, it is important that the Tariff Schedule reflect and provide appropriate and meaningful tariff options for customers, relative to their tariff class. As such, I ask QCA to consider reviewing the existing tariff offers with a view to rationalising them as it considers appropriate as part its 2022-23 price setting process.

QCA should consider if individual tariffs are meeting customer needs, and balance competing factors including the impact extinguishing a tariff would have on customers and their options, along with other matters QCA considers relevant. Consistent with application of UTP, this should be informed by the price structures commonly available in the deregulated SEQ electricity market and with a view to future needs for a variety of tariffs to be available as customer preferences, needs and technologies change.

- 3 -

I consider it necessary to retain at a minimum the existing flat-rate and controlled load tariffs for both residential and small business customers, and careful consideration should be given to retaining any tariffs compatible with the future wide-spread uptake of EVs and other technologies. In the event any tariff is to be extinguished, QCA should consider setting a suitable phase-out period that affords affected customers reasonable time to assess their remaining tariff options and to choose the most suitable ongoing standard tariff for their circumstances.

Another important policy consideration relates to the equitable pricing of metering services for customers. Consistent with the 2021-22 financial year, I ask QCA to consider and set the charges that apply to the provision of advanced digital metering services.

Public consultation has long formed a vital part of QCA's process for determining retail electricity prices. The terms of reference set out the consultation needs and requires QCA to publish its draft determination in February 2022 and its final determination by 31 May 2022.

To ensure regional customers continue to benefit from the electricity cost protection provided by UTP, and the benefits of owning our own assets, the department will be available to consult with QCA on the 2022-23 price determination and Tariff Schedule.

If you have any questions, [REDACTED] Executive Director, Energy Division, Department of Energy and Public Works, can be contacted on [REDACTED] or by email [REDACTED]

Yours sincerely



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

Encl: Section 90AA Delegation and Terms of Reference

DELEGATION TO QCA

DEPARTMENT OF ENERGY AND PUBLIC WORKS

*Electricity Act 1994*ELECTRICITY (MINISTERIAL) DELEGATION (NO. 1) 2021
to the Queensland Competition Authority (QCA)**Preliminary matters**

1. The preliminary matters form part of this delegation.
2. **QCA** means the Queensland Competition Authority established under the *Queensland Competition Authority Act 1997*.
3. Section 89A of the *Electricity Act 1994* (the Act) relevantly provides:
price determination see section 90(1).
pricing entity means—
 - (a) the Minister; or
 - (b) QCA, if the Minister delegates a function of the Minister under section 90(1) to QCA.
4. Section 90(1) of the Act provides:
*The Minister must, for each tariff year, decide (a **price determination**) the prices, or the methodology for fixing the prices, that a retailer may charge its standard contract customers for all or any of the following—*
 - (a) *customer retail services;*
 - (b) *charges or fees relating to customer retail services;**Examples—*
 - *charges or fees for late or dishonoured payments*
 - *credit card surcharges for payments for the services*
 - (c) *other goods and services prescribed under a regulation.*
5. Section 90(5) provides:
In making a price determination, the pricing entity—
 - (a) must have regard to all of the following—
 - (i) the actual costs of making, producing or supplying the goods or services;
 - (ii) the effect of the price determination on competition in the Queensland retail electricity market;
 - (iii) if QCA is the pricing entity—any matter the pricing entity is required by delegation to consider; and
 - (b) may have regard to any other matter the pricing entity considers relevant.
6. Section 90AA(1) of the Act provides that the Minister may delegate to the QCA all or any of the Minister's functions under section 90(1) of the Act.
7. Section 90AA(2) of the Act provides that delegation to the QCA may state the terms of reference of the price determination.
8. Section 90AA(3) of the Act provides what the terms of reference may specify and how the terms of reference may apply.

DELEGATION TO QCA

9. The terms of reference provided for in sections 90AA(2) and (3) of the Act are contained in the Schedule to this delegation and comprise the matters under section 90(5)(a)(iii) of the Act that the QCA as the pricing entity is required by delegation to consider.

Powers delegated

10. Subject to the conditions of this delegation, I delegate all of the Minister's functions under section 90(1) of the Act to the QCA for the tariff year 1 July 2022 to 30 June 2023.

Conditions of delegation

11. The delegated functions of the Minister must only be exercised for the purpose of deciding the prices, or the methodology for fixing the prices that a retail entity may charge its Standard Contract Customers in Queensland, other than Standard Contract Customers in the Energex distribution area.
12. In exercising the delegated functions under section 89A, the QCA, as the pricing entity, must have regard to all of the matters set out in section 90(5)(a) of the Act, which includes the terms of reference in the Schedule to this delegation.
13. In exercising the delegated functions, the QCA must have regard to all relevant statutory provisions, whether referred to in this delegation or not.

Revocation

14. All earlier delegations of the Minister's powers under section 90(1) of the Act are revoked.
15. 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 2022–23 tariff year under section 90AB of the Act.

Note to delegation

16. Statutory references are to be construed as including all statutory provisions consolidating, amending or replacing the statute referred to and all regulations, rules, by-laws, local laws, proclamations, orders, prescribed forms and other authorities pursuant thereto.

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

Signed:



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

Dated:

16/12/2021

DELEGATION TO QCA

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 2022 to 30 June 2023.

Policies, principles and other matters the QCA must consider when working out the notified prices and making the price determination (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 common price structures, regardless of their geographic location;
 - (b) Reviewing existing available tariffs with a view to rationalising and extinguishing any tariffs no longer considered appropriate, including the introduction of suitable transition arrangements for any impacted customers, if required;
 - (c) 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 generally treated as a pass-through and R (energy and retail cost) is determined by the QCA;
 - (d) When determining the N components for each regulated retail tariff, where retained:
 - (i) For residential and small business customer Tariffs 11 and 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 d(iv) below - basing the network cost component on the price level of the relevant Energex network charges to be levied by

DELEGATION TO QCA

Energex, but utilising the relevant Ergon Energy Corporation Limited (EECL) tariff structures;

- (iv) For tariffs 62A, 65A, 66A and all large customer tariffs – 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';
- (e) For all retained 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;
- (f) Setting small customer advanced digital metering service charges at the Energex rate for standard Type 6 small customer metering services;
- (g) 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;
- (h) 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.

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.
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DELEGATION TO QCA

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 2022–23 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 February 2022.
15. The QCA must publish the final price determination on regulated retail electricity tariffs for the 2022–23 tariff year and have the retail tariffs gazetted no later than 31 May 2022.

(SCHEDULE ENDS)