ERGON ENERGY RETAIL
Part of Energy Queensland

420 Flinders Street, Townsville QLD 4810
PO Box 1090, Townsville QLD 4810

ergon.com.au

28 April 2025

Mr Charles Millsteed
Chief Executive Officer
Queensland Competition Authority
GPO Box 2257
Brisbane QLD 4001

Dear Mr ~~Millsteed~~ Charles

Ergon Energy Retail submission to the Regulated Retail Electricity Prices for 2025-26 Draft Determination

Ergon Energy Queensland Pty Ltd (EEQ) welcomes the opportunity to provide comment to the Queensland Competition Authority (QCA) on its Regulated Retail Electricity Prices for 2025-26 Draft Determination (Draft Determination).

EEQ provides the following comments in relation to the draft determination, proposing refinements to the inputs used to determine the Notified Prices and suggestions for the tariff suite.

1. Wholesale Energy Costs (WEC) Allowance

ACIL Allen theoretical exposure methodology

EEQ acknowledges that all determinations since 2023-24 have incorporated Advanced Digital Meter data in the residential and small business load shape, combining it with the net-of-solar Net System Load Profile data to form load profiles for the determination of WEC settlement class price. From the 2024-25 determination, inclusions of the Advanced Digital Meter data moved from a net-of-solar basis to a gross basis. This means the profiles now used in residential and small business WEC settlement class pricing are hybrids of a net and gross position and are meant to represent the most appropriate estimate of customer shape on the path to full digital meter penetration.

While EEQ understand the current hybrid approach seeks to use the best available data to estimate the gross position, greater granularity of load data is now available from the Australian Energy Market Operator following implementation of the Integrating Energy Storage Systems rule change. This data separates import (load) and export (solar) data which may prove valuable to the QCA.

Given EEQ's unique load shape (largely residential with an increasing penetration of installed rooftop solar), EEQ seeks to work with the QCA and ACIL Allen to test the load data to ensure the most appropriate load shape for a prudent retailer is used in determining the WEC.

Retailers hedge net exposure not gross

While EEQ understands the theory behind pricing based on each settlement class on a separated gross basis (i.e. load separate from embedded generation), in practice a retailer builds their hedge book on net exposure, i.e. consumed load and solar generation combined. In determining the customer load shape for a representative retailer comprising residential, small to medium enterprise load and rooftop solar photovoltaic (PV) generation, ACIL Allen should account for net exposure by recognising the significant reduction in customer load during the middle of the day, and the significant peak in load during the evening.

Hedge product mix

As a retailer faced with hedging the net exposure of all settlement class loads, including embedded generation, EEQ considers that ACIL Allen's hedge product mix may not be representative of a prudent retailer.

EEQ is concerned that this product mix could reduce competition due to the considerable upfront premiums required to fund the $300/MWh Cap volume of the product mix, and the negative Contract for Difference payments on the flat base futures volume that occur during the solar generation period. When evening peak exposure is considered, the hedging ACIL Allen employs will result in a retailer being short in the evening peak above the base futures level and below the cap strike price. This introduces significant risk to the retailer which, in practice, is a risk that retail participants would attempt to avoid.

EEQ suggests there are significant challenges in sourcing hedge products that appropriately hedge customer load shape, either in terms of transacting products more fitting to the load shape, or in using ACIL Allen's product mix which result in significant and costly length being carried to spot during daylight periods.

The product mix employed by ACIL Allen also makes implementation problematic, particularly the volume of caps suggested as:

a) The volume of caps required to be purchased is more than the volume currently available in the market;

b) Purchasing the volume of caps in the ACIL Allen portfolio would increase the price of caps significantly higher than modelled price levels; and

c) The risk adjusted return on the suggested hedge portfolio, if calculated, is likely to result in levels of risk that may exceed risk appetite thresholds.

EEQ believes that the outright volume of caps implied by ACIL Allen's modelling is potentially unrealistic when open interest is considered for $300/MWh cap contracts. EEQ requests that ACIL Allen reconsider their approach and use the open interest volumes instead.

This is quantified by comparing the quarterly traded volumes to the open interest of each contract up to the pricing cutoff date. The data shows the actual volume of caps held as open interest ranges between 50 and 60 per cent of the traded volume for $300/MWh cap contracts. Open interest

provides a more realistic view of the volume of $300/MWh cap contracts held as hedges, and further demonstrates how difficult the modelled product mix would be to implement.

Large Scale Generation Certificates (LGC)

EEQ recommends that ACIL Allen modify the calculation of the LGC allowance to include spot LGC transactions. EEQ considers ACIL Allen is excluding a significant volume and price segment in the formation of the LGC component in building the LGC cost. By ignoring LGC spot transactions and only including the two-calendar year forward transactions, ACIL Allen is not capturing the full suite of LGC pricing retailers use to meet compliance obligations.

Whilst EEQ understands the methodology takes the average of two calendar years to infer a financial year price, this understates the importance of spot LGCs to a representative retailer's LGC bookbuild. Not including spot transactions also excludes LGCs tied to Power Purchase Agreements that retailers have in their portfolio.

2. Changes to Network Tariffs

As noted by the QCA, new Tariff Structure Statements for Energex Limited and Ergon Energy Corporation Limited (Ergon Network) will commence 1 July 2025. Given the N+R pricing methodology, EEQ acknowledges the QCA's draft determination proposes to immediately extinguish two retail tariffs and make ten retail tariffs obsolete for a period of 12 months from 1 July 2025. EEQ also acknowledges the QCA's intent to make structural changes to a further six retail tariffs.

EEQ supports this transitional approach and will shortly commence a campaign to communicate these changes to customers. EEQ offers a free tariff comparison tool within our MyAccount customer portal which enables customers to review the tariff options available to them. Upon publication of the QCA's final determination EEQ will upload the final prices into the MyAccount portal, our website and to the Australian Energy Regulator's (AER's) Energy Made Easy comparison website.

Changes to small customer tariffs

EEQ notes that the QCA proposes to make structural changes to three retail tariffs for small customers given changes to the structure of the network tariffs upon which the retail tariffs are based. This change in retail tariff structure requires a retailer to develop a new plan summary in accordance with the Better Bills Guideline as the plan is effectively changing. In addition, EEQ's billing platform does not allow for a tariff structure to be changed. EEQ therefore considers a more appropriate and transparent approach is to extinguish the existing tariffs on 1 July 2025 and immediately replace them with new retail tariffs based on the new underlying network tariff structure. EEQ recommends that this approach be applied to the following time-of-use (TOU) tariffs for which the TOU charging windows will change:

Existing tariff name	Proposed new tariff name
Tariff 12B Residential time-of-use primary tariff	Tariff 12D Residential time-of-use primary tariff
Tariff 12C Residential time-of-use primary tariff	Tariff 12E Residential time-of-use primary tariff
Tariff 14A Residential time-of-use monthly demand primary tariff	Tariff 14C Residential time-of-use monthly demand primary tariff

EEQ considers the creation of new tariffs designed specifically to reflect the new network tariff structures is important as it:

- promotes transparency for affected customers;
- avoids negative consequences for customers unaware of the structural changes; and
- encourages affected customers to again consider the most appropriate tariff for their circumstances.

EEQ seeks advice from the QCA in advance of the final price determination on this issue to provide the business sufficient opportunity to engage impacted customers and advise them of the tariff change and their retail tariff options. In accordance with the Retail Price Gazette, where a customer does not notify EEQ of their preferred replacement tariff by 30 June 2025, EEQ will transfer the customer to an applicable standard tariff (likely to be the new replacement tariff) on 1 July 2025.

EEQ also notes minor changes to the approach to pricing the controlled load tariffs 31[1], 33[2] and 60B[3] which rebalance the recovery of network costs from the usage component to the daily service charge. EEQ considers that this is not a significant change and the potential for customers to be impacted is offset by the reduction in usage rates.

EEQ supports the proposed expiry of existing obsolete tariffs 62A[4], 65A[5], 66A[6] now set for 1 July 2026 and will commence engaging impacted customers with respect to tariff options early in the new financial year.

[1] Tariff 31 Small customer flat-rate secondary tariff with interruptible supply

[2] Tariff 33 Small customer flat-rate secondary tariff with interruptible supply

[3] Tariff 60B Large business flat-rate secondary tariff with interruptible supply

[4] Tariff 62A Limited-access obsolete small business time-of-use declining block primary tariff

[5] Tariff 65A Limited-access obsolete small business time-of-use primary tariff

[6] Tariff 66A Limited-access obsolete small business fixed dual-rate demand primary tariff

Changes to large customer tariffs

EEQ notes the proposed expiry and 12-month transition for seven large customer retail tariffs, and a 12-month phase-out timeframe for existing obsolete tariff 50[7].

EEQ raises concern with the proposed expiry and 12-month transition period for Tariff 44[8] as the development of replacement retail tariff 44A[9] is based on a new network tariff structure which solely measures demand in kilovolt-amperes (kVA). While EEQ supports the proposed replacement tariff, we cannot bill affected customers on tariffs 44 with basic meters which only measure demand in kilowatts (kW). We note a similar issue with tariff 45[10].

EEQ will look to move these customers to Tariff 43[11] until a smart meter can be installed. EEQ therefore requests that the QCA immediately expire tariffs 44 and 45. Again, EEQ seeks confirmation from the QCA ahead of the final determination to enable EEQ to engage with customers impacted by this change.

No new dynamic flex retail tariffs

EEQ notes the QCA has decided not to create new retail tariffs based on the proposed new dynamic flex network tariffs. EEQ is of the view that these tariffs could provide customers an opportunity to seek a return on their Consumer Energy Resources (CER) investment. They also allow for the operation of market-based mechanisms (such as Flexible Trading) to be made available by EEQ in regional Queensland. Given CER will be a critical part of the energy transition, EEQ requests that the QCA reconsider the development of the new dynamic flex retail tariffs that support and/or enable greater customer value and more efficient CER integration.

3. Metering costs

EEQ broadly agrees with the QCA's approach to setting smart metering charges, however, is concerned that the AER's Default Market Offer (DMO) methodology for calculating average metering cost per customer is potentially understating the true annual cost of smart metering. The QCA in adopting the AER methodology will likely cause a significant under-recovery of smart meter costs in regional Queensland.

The AER's methodology to calculate the average smart meter costs per customer for the DMO appears to take the *total* smart meter costs for the period and divide this by the total number of smart meter customers at the *end of the period*.

EEQ suggests the correct approach is to take the total smart meter costs for the period and divide this by the *average* number of smart meter customers *for the period* (nominally the number at mid-

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[7] Tariff 50 Obsolete large business seasonal time-of-use monthly demand primary tariff

[8] Tariff 44 Obsolete large business monthly demand primary tariff – Demand threshold 30 kW / 35 kVa

[9] Tariff 44A Large business monthly demand primary tariff – Demand threshold 35 kVa

[10] Tariff 45 Obsolete large business monthly demand primary tariff – Demand threshold 120 kW / 135 kVa

[11] Tariff 43 Large business inclining block primary tariff

period). EEQ notes this approach aligns with QCA's previous approach to using the smart meter deployment percentage in regional Queensland.

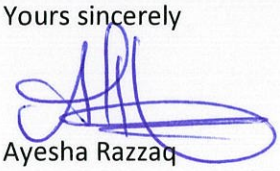
EEQ would welcome further engagement with the QCA on this matter and can provide additional information on these calculations.

Conclusion

EEQ would welcome the opportunity to discuss the matters contained within this submission with the QCA.

Should the QCA require additional information in relation to any aspects of this submission, please contact Andrea Wold, Manager Retail Policy Compliance & Assurance, on 0428 384 448.

Yours sincerely



Ayesha Razzaq
Executive General Manager Retail