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

Dear Mr Millsteed Charles,

Ergon Energy Queensland submission to the Notified Electricity Prices 2025-26 Interim Consultation Paper

Ergon Energy Queensland Pty Ltd (EEQ) welcomes the opportunity to provide comment to the Queensland Competition Authority (QCA) on its Notified Electricity Prices 2025-26 Interim Consultation Paper. EEQ provides the following submission proposing refinements to the inputs used to determine the Notified Prices, the majority of which are driven by the energy market transition.

1. Wholesale Energy Costs (WEC)

a) Shaped Energy Products

Retailers are increasingly relying upon shaped contracts to respond to the continued growth in solar generation impacting energy usage profiles. Retailers trade shaped contracts to achieve a desired hedge position during the morning and evening peak periods as well as to avoid being over-hedged in the middle of the day. While EEQ acknowledges that shaped contracts only trade in Over the Counter (OTC) markets, retailers will from April 2025 report these trades to the Australian Energy Regulator (AER) each quarter. We therefore consider that aggregated morning and evening peak trade data could, in future periods, be sourced from the AER to ensure the WEC reflects the real costs of hedging a retail portfolio. EEQ expects the AER will similarly apply this data in determining its Default Market Offer (DMO) prices as incorporating this shaped data more accurately reflects the trading behaviour of a prudent retailer responding to the evolving energy mix.

In the interim, we suggest that the QCA require ACIL Allen to apply a ratio that considers the evening peak spot price relative to the flat spot price for the purpose of determining a more market reflective WEC. This is achieved by multiplying this ratio by the trade weighted flat price to achieve a representative evening peak price.

b) Caps

EEQ notes the QCA historically refers to Traded Volume rather than Open Interest in Cap products when determining market liquidity for the purposes of constructing a hedge portfolio. As outlined in prior year submissions, EEQ is of the view that the traded volume of ASX Caps is not a representative approach for modelling as it can be impacted by speculative trading, generators buying back cover, and retailers adjusting positions. EEQ's view was similarly reflected by the AER in its *Wholesale Electricity Market Performance Report 2024* which suggested that speculative trading is driving traded volumes of contracts intended to capitalise on market fluctuations by entities who are neither retailers nor generators.

This position is made clearer in Table 1 below where Open Interest represents only 60 percent of the Traded Volume of Caps on the ASX suggesting the remaining 40 percent of trades are largely speculative in nature. Given this, we consider Open Interest is more likely to represent the true volume of caps available to a retailer to hedge their position. Open Interest is therefore more representative to reference in a book build.

Table 1: ASX Cap Traded Volume and Open Interest

Quarter	Traded Volume QLD ASX Cap	Open Interest QLD ASX Cap
Q325	822	497
Q425	877	524
Q126	700	423
Q226	619	392

Source: ASX traded volumes and open interest as at 30/12/2024

EEQ further observes that one of the QCA modelled scenarios used in determining the 2024/25 notified prices used more caps in the hedge position than the entire open interest in the market. In applying this scenario, the QCA undervalues the WEC and materially understates a retailer's risks and capital costs. We therefore recommend that the level of cap products modelled in the hedge portfolio reflect the Open Interest position.

c) Large-scale Generation Certificates (LGCs)

EEQ notes that ACIL Allen in determining the LGC price assumes all certificates are purchased in the Forward Market. While a retailer aims to ensure the majority of LGC's are purchased in advance of the liability date, closer to the liability date retailers will purchase LGCs at spot as the two prices naturally converge. Additionally, LGC's delivered under Power Purchase Agreements may be tied to spot prices. This means the current methodology does not reflect actual practices occurring in the market which are typically a combination of forward and spot prices.

Overlooking spot volume underestimates liquidity of near-term LGCs, distorting the load-weighted price. However, incorporating spot volume as a retailer nears the liability date would show actual market liquidity and indirectly price in spot-linked Power Purchase Agreements, resulting in a more cost-reflective LGC methodology.

In addition, EEQ is increasingly concerned that forward LGC modelling relies on the input of only one broker. This means not all market data is captured and leaves the price determination susceptible to transactions which skew price outcomes. It also risks trades not being captured, or prices which form part of an intra-temporal strategy not being recognised where more than one broker is involved (e.g. buy Cal27 LGCs with Broker A and sell Cal28 LGCs with Broker B).

EEQ therefore recommends that the QCA recognise spot prices in determining LGC prices to more accurately capture certificate costs, and expand modelling to include data from more than one broker.

2. Changes to Network Tariffs for 2025-30

EEQ acknowledges the Energex Limited and Ergon Energy Corporation Limited new Tariff Structure Statements (TSSs) will commence 1 July 2025, and the considerable public consultation and regulatory scrutiny which has attached to these instruments. Given the consultation which has occurred to date, our preference is for the notified prices to immediately reflect the underlying network tariffs as outlined in the TSSs.

EEQ accepts this approach means several retail tariffs will need to be immediately expired, while the structure of several tariffs (e.g. time of use windows) will need to be amended to reflect changes in the network tariff structure. In our view this is the appropriate outcome as we understand changes in network tariff structures were driven by customer feedback. Any delay in implementing these changes impacts a customer's ability to access enhanced tariff structures. Provided the QCA clearly signals at the time of its draft determination an intent to expire and/or update the structure of impacted retail tariffs aligned to the TSSs, EEQ confirms it has sufficient time to implement the changes, with an obsolete tariff program and customer communications plans under development.

The one exception to this is EEQ's preference to retain kilowatt charging for Tariff 44 Large business monthly demand primary tariff (demand threshold 30 kW / 35 kVA) due to the potential price impacts for the ~600 customers currently supplied via this tariff who have a basic meter installed. EEQ suggests that this tariff be retained as obsolete for 12 months while we work with impacted customers to upgrade their meters, noting the potential need for Current Transformer metering at many sites and the resultant capital expenditure required by customers. We acknowledge that this request will cause the N component of this tariff to be indexed for a 12-month period. While several options exist to index the N price, one option may be to tie the indexation to the change in the underlying N for T44 kVA. EEQ is available to work with the QCA to determine the appropriate approach for an indexing calculation.

EEQ is aware that the DNSPs in their TSSs intend to commence several new network tariffs. However, noting the quick turnaround between the final price determination and 1 July 2025, we suggest that all new tariffs be gazetted as "available at Retailers discretion" to provide retailers with the time necessary to establish the tariffs in billing platforms and to undertake compliance checks. This is consistent with the approach adopted at the commencement of the 2015-20 regulatory period.

We also seek confirmation from the QCA of its intent to use AER approved network prices in determining the notified prices for 2025/26, noting the tight timeframes expected between the AER releasing the approved network prices and the QCA releasing the final notified prices.

3. Retailer Cost to Serve

EEQ acknowledges retail costs are set using an established benchmark. The benchmark retail costs allowances were first established in 2016-17 and then reviewed in the 2021-22 notified price review. Historically, the prior year's fixed retail costs (for residential and small business) have been adjusted for inflation to maintain fixed costs in real terms.

EEQ has observed that administrative costs of servicing existing customers when related to collecting revenue over the last few years has increased higher than inflation. For example, since 2021 Australia Post has increased postage costs for a letter by 41 percent. This price rise is further exacerbated by the conversion of quarterly billing (Type 6 meter) to monthly billing (Type 4 meter) as EEQ continues to deploy smart metering across regional Queensland. This cost impost will grow as EEQ continues to escalate its digital meter installation program during 2025-26 as required under the Australian Energy Market Commission's Accelerating Smart Meter Deployment final rule determination which sets a smart meter target of 100 percent by 1 December 2030. While best endeavours are taken to encourage customers to adopt electronic communications, there is no mechanism for EEQ to compel customers to this channel, thereby placing upward pressure on retail operating costs. EEQ proposes that the QCA consider a mechanism to encourage customers to electronic communication channels and would welcome the opportunity to work with the QCA to implement an appropriate mechanism We also request that the QCA consider the significant increase in Australia Post costs each year when determining the notified prices to ensure that customer driven costs are appropriately reflected in the notified price.

4. Regional Feed-in-Tariff (FiT)

EEQ acknowledges that the Queensland Treasurer has requested that the QCA be required to decide the flat rate regional Queensland solar FiT using the "avoided cost" methodology, but also consider the effect of the FiT on competition in the Queensland retail electricity market.

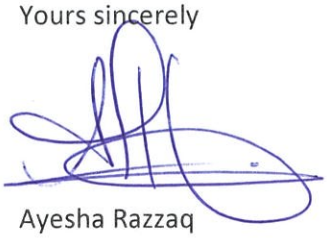
EEQ refers the QCA to its own SEQ feed-in tariff monitoring report 2023-24, and in particular to the key findings related to the average feed-in tariffs in SEQ. We note that "*from the September quarter to the June quarter, average single feed-in tariffs decreased:*

- *from 5.5 c/kWh to 4.9 c/kWh for residential customers*
- *from 5.6 c/kWh to 5.0 c/kWh for small business customers*".

We are of the view that the FiT prices available in SEQ are more comparable to the real avoided costs of the solar export received by a retailer during solar export hours and recommend that the regional FiT be adjusted to the median FiT available in SEQ similar to the manner in which the notified prices are adjusted to the DMO price.

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

Yours sincerely



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