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Part of Energy Queensland

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

Dear Mr Millstead

Ergon Energy Queensland submission to the Notified Electricity Prices 2026-27 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 2026-27 Interim Consultation Paper.

1. New tariffs

Large Solar Soaker tariff

EEQ supports the development of a new large customer solar soaker tariff, noting the success of the equivalent tariffs available to small customers. We recommend this tariff replace existing retail Tariff 49 given its similar structure, noting EEQ has no customers on tariff 49 due to the high daily supply charge making it unattractive.

Solar Share Offer (SSO)

EEQ is broadly supportive of introducing a SSO in regional Queensland from 1 July 2026. The tariff has the potential to deliver lower daytime energy costs to a wide range of small customers able to shift load into the free energy window. Introducing this tariff from 1 July 2026 will maximise customer savings while ensuring parity with the Southeast Queensland (SEQ) market where the Australian Energy Regulator (AER) is expected to deliver an SSO product from this same date.

Retailer submissions to the Australian Government's SSO consultation highlighted several issues which do need to be addressed in introducing this tariff, including the need for retailers to recover costs incurred during the "free" period, risks of bill shock for customers who cannot shift load, inequities for customers unable to shift load, and timeframe implementation challenges. Aligned to these concerns, EEQ considers it essential that the QCA price the tariff to ensure retailers can fully recover all costs incurred during the free energy window, specifically wholesale energy costs, AEMO fees, environmental certificate costs and network charges.

EEQ recommends that the Solar Share offer be made available to all small customers—residential and small business—with a smart meter installed. To protect customers from bill shock, we recommend that the QCA as the independent regulator prepare a clear, customer friendly fact sheet to support consistent advice to customers. EEQ is confident it can implement the tariff ready to commence from 1 July 2026.

Note: EEQ acknowledges the innovative nature of the proposed Large Solar Soaker tariff and the SSO which move away from the N+R pricing methodology. These tariffs require retailers to evolve their hedge strategies and shift away from traditional flat swaps to rely more heavily on emerging hedge products such as evening peak swaps. EEQ refers the QCA to our comments later in this submission related to the need to evolve the Wholesale Energy Cost (WEC) methodology.

Transitional large (100-160 MWh p.a.) tariff

EEQ supports a transitional large customer tariff being made available to basic and digital metered customers to mitigate the sudden bill impacts that may arise when a customer is reclassified from small to large. EEQ is interested in further detail on how it will operate including:

- the proposed glidepath and pricing steps required to full cost recovery;
- whether the tariff is intended to be established as a new tariff or whether existing tariffs will be restructured to enable the transition;
- whether the tariff/s will be available to existing large customers within the 100–160 MWh band, or whether access is intended solely for customers reclassified after 1 July 2026; and
- whether the tariff is intended to operate as a permanent tariff option or whether the customer may only access the tariff for a defined period (e.g. two years).

Retailers will need to engage customers on how to monitor maximum demand and usage to remain within the transitional pricing steps. Subject to the tariff being made available to existing customers, the glide path may encourage large customers to invest in load management, energy efficiency or storage solutions, or adjust operational practices to reduce demand to access the transitional pricing structure. An increase in the number of customers accessing this tariff has potential financial impacts for retailers related to the under-recovery of costs incurred noting the underlying network tariff does not have transitional tranches.

Electric Vehicle (EV) tariff

EEQ is progressing a separate submission on its proposed EV tariff for consideration by the QCA which will be lodged shortly after 13 February 2026.

EEQ considers the proposed EV tariff is essential to support the growing uptake of EVs in regional Queensland and to ensure customers have access to appropriately structured, cost reflective charging options. EEQ is of the view that this tariff can be offered under a Standard Retail Contract (SRC), as

the requirement to access a tariff via an app is analogous to the requirement for load control tariffs to be hardwired. Importantly, customers are not required on adoption of this tariff to forgo any consumer protections provided under a SRC, nor does EEQ consider additional terms and conditions beyond an SRC will be required. On this basis, EEQ believes the tariff suitable to be set as a notified price under the SRC terms and conditions.

As per the Treasurer’s pricing delegation to the QCA, EEQ is consulting with the Queensland Government on any Community Service Obligation (CSO) implications of the proposed tariff.

EEQ would like to see this tariff incorporated in the QCA’s draft price determination scheduled for July 2026.

Expiring tariffs

EEQ notes that Retail Tariffs 62A, 65A and 66A are scheduled to expire on 30 June 2026. We recognise that customers currently accessing these tariffs—particularly in the agricultural sector—have expressed a preference for their retention. While acknowledging that some customers may achieve savings on alternative tariffs, EEQ supports the continued availability of these tariffs, subject to their existing tariff terms and conditions.

EEQ supports the expiration of all other tariffs in accordance with the retail price gazette.

2. Additional Issues

In addition to the questions raised by the QCA in its ICP, EEQ provides the following comments related to the determination of the retail tariff prices.

Wholesale Energy Costs (WEC)

EEQ acknowledges feedback provided by the QCA and ACIL Allen that *“the hedging strategy we use to estimate the WEC is appropriate, even if it differs from how retailers actually hedge. Our hedging strategy is only intended to proxy the range of hedging instruments available. Retailers use various strategies that differ from this proxy, including non-ASX-listed instruments”*.¹ While EEQ notes the QCA’s advice, we remain concerned that the hedging strategy used to determine the WEC is producing price outcomes that a non-vertically integrated retailer is not realistically able to achieve. EEQ therefore makes the following points in relation to the WEC methodology:

(i) Product Mix

In prior submissions, EEQ raised concerns regarding the limitation of using only swaps and caps in building the representative hedge book. EEQ remains of the view that the current

¹ QCA Regulated retail electricity prices in regional Queensland for 2025-26 Draft Price Determination. Page 23

“representative retailer” hedge book is not in fact representative of how retailers hedge exposure as it:

- Over-relies on flat swaps and caps, leading to significant misalignment with real risk exposure (too long during day, short in evening peak);
- Imposes excessive premium costs due to a high volume of caps (e.g. \$300/MWh caps), which are not reflective of a prudent, competitive retailer’s book;
- Does not adequately account for the risk created by rooftop PV and its effect on net load shape; and
- Ignores shaped products despite them being widely transacted in Over the Counter (OTC) markets and relied upon by retailers for risk alignment.

EEQ therefore suggests the QCA:

- revise the product mix to remove its reliance on unrealistic cap volumes and incorporate shaped products consistent with industry practice; and
- incorporate evening peak financial contracts into the representative hedge book as:
 - They better align hedge cover with the actual shape of retailer risk which spikes between 4pm and 10pm;
 - OTC markets transact “substantial shaped swap volume,” including evening peak in winter and summer quarters. These are standard market instruments used by prudent retailers; and
 - The premium a retailer must pay for caps is an additional fixed cost but which delivers limited financial risk mitigation in the instances of consistent price below the cap strike.

Evening peak prices can be sourced from OTC brokers specialising in shaped products who publish trade reports and/or redacted trade volumes and/or prices for non-standard products such as evening peak swaps.

(ii) Load Shape

The QCA and AER methodologies separate load and export profiles. EEQ understands this is because the QCA considers the WEC should reflect the cost of energy consumed by customers. However, consistent with EEQ’s position, retailer submissions to consultations such as the AER’s Default Market Offer (DMO), emphasise that retailers hedge using net load because:

- A retailer is exposed to, and manages its hedge book around, consumed load minus embedded generation, not the separated gross load plus solar export profiles;
- Net load shapes reflect customer behaviour and the impact of rooftop solar versus low daytime net demand and steep evening ramps; and

- Shaping hedges to net load avoids being ‘extremely long in the middle of the day’ and short in the evening peak—an outcome that increases risk and undermines competitive neutrality.

We note the AER considers that splitting the load and export profiles is appropriate because retailers can manage their exposure to costs arising from solar exports (for example, through adjustments to feed-in tariffs, virtual power plants, or industrial customer load). For EEQ, splitting the load presents challenges unique to the regulatory environment in which we operate. EEQ has no ability to manage these risks because the QCA determines the regional feed-in tariff, EEQ cannot compete for industrial load due to the non-reversion policy, and is unable to offer a virtual power plant (or similar) due to regulatory restrictions.

If the QCA remains committed to separating load and export profiles, EEQ recommends the QCA add an adjustment factor. That factor should allow recovery of the additional costs associated with managing exported energy incurred by a prudent retailer that operates in the unique regional Queensland regulatory framework.

(iii) Calculation of Large-scale Generation Certificates (LGC) allowance

A prudent retailer typically hedges its LGC obligations through a combination of forward contracts and spot market purchases. In determining the calculation of the LGC allowance, a prudent retailer may experience:

- Price distortions from the limited liquidity or unique trading conditions present in a single market (such as represented by CORE markets data);
- Access to multiple market facing data sources such as the seven available brokers; and
- Price transparency across multiple sources, reducing the susceptibility of that pricing to anomalies or trade outliers.

Extending the source of data to include all seven LGC brokers would align the QCA’s methodology with industry practice, recognising the importance of a diversified data set to inform prudent risk management decisions. In adopting this approach, the QCA will support a more robust, equitable, and market-reflective allowance for LGCs, benefiting both retailers and consumers through improved accuracy and fairness in cost recovery.

(iv) National Electricity Market (NEM) Fee Structure

EEQ notes that AEMO’s NEM fee structure is changing from 1 July 2026. While AEMO’s final fee structure determination and draft budget are yet to be published, EEQ seeks assurance that the QCA will allow for the change in the 2026-27 price determination.

3. Metering costs - Small Customers

EEQ notes the QCA in its final price determination for 2025-26 advises “We have set retail metering service costs for Advanced Digital Meters (ADMs) using a similar approach to last year’s notified price review. We used the average costs incurred per ADM in SEQ (as approved by the AER) and applied it to the forecasting deployment of smart meters in the Ergon Distribution region. This ensures customers in regional Queensland pay no more than customers in SEQ, consistent with the Uniform Tariff Policy (UTP).”²

While EEQ supports this approach in principle, it relies on the AER’s ADM determination for SEQ being accurate and the UTP adjustment being applied correctly. In our view, there is a flaw in the AER’s methodology which has resulted in a significant under-recovery in metering costs for EEQ. Our understanding is that the AER uses deployment numbers at the end of the reporting period to calculate average ADM costs by dividing total annual metering expenditure by the end-of-period meter volume. This approach inflates the denominator and in turn suppresses the unit cost, leading to under-recovery. A more accurate method would be to use the midpoint deployment volume, which provides a more equitable price.

For example:

	Mid-point deployment numbers	End of period deployment numbers
No. of meters installed	400,000	450,000
Total meter costs	\$40M	\$40M
ADM Allowance	\$100/meter	\$88/meter

The AER in using end of period deployment numbers to set the ADM allowance causes an under-recovery in metering costs. EEQ therefore recommends that the QCA determine its own ADM allowance. Any need to maintain price equivalence with the DMO should then be achieved via the standing offer adjustment mechanism, rather than by reducing the ADM price to that of the AER.

EEQ has prepared a confidential spreadsheet outlining the 2025/26 under-recovery and will provide this separately to the QCA. EEQ also seeks an urgent meeting with the QCA to discuss metering costs in detail.

4. Metering Costs – Large Customers

Currently the QCA sets metering costs for large customers based on an annual consumption of 750MWh, and for CAC and ICC customers. This approach masks the true metering costs for large customers. Instead, we propose that large customer metering charges be recovered based on the meter type installed (type 1, 2, 3 or 4). In this manner customers will be levied a meter charge aligned

² QCA Regulated retail electricity prices in regional Queensland for 2025-26 Final Price Determination. Page 26

to their installed meter type. This change could be commenced for FY28 allowing the QCA's standing data request to EEQ to be amended.

5. Type 4A meters – Customer refusal

Over the past few years, the QCA has tied the meter read fee for customers who have chosen to disable the communications function in their meter to the Ergon Energy Network special read fee approved by the AER. However, with a decline in the number of basic meters remaining in the field requiring a physical read, the average cost to read an increasingly dispersed Type 4A meter fleet is increasing. EEQ is therefore seeking an increase in the fee for a Type 4A meter read but charged as a daily charge of \$0.72 for customers who have elected to have their meter's communications disabled. A customer can avoid this fee by requesting the communications function in their meter to be reenabled. It is appropriate that a customer who requires the communication function to be disabled pays the cost of reading their meter.

6. Retail cost to serve

EEQ welcomes the QCA's advice of its review of retailer costs. Periodic review of the cost to serve is essential, and the current process is timely given that the last review occurred for the FY22 price determination. Since then, the retail cost allowance has been adjusted by CPI, despite retail operating costs increasing at a significantly faster rate.

The ACCC's December 2024 Inquiry into the National Electricity Market report shows that, in real 2023–24 dollars, total retail and other costs in SEQ rose from \$146 per residential customer in 2021–22 to \$183 in 2023–24—a 25.3% increase in two years. Small business costs grew from \$157 to \$190 over the same period. These increases exceed CPI and demonstrate that simple CPI indexation cannot maintain an efficient or sustainable retail cost allowance.

We note the QCA's consultation paper advises it will “consider recent market data – including market offers in the competitive SEQ electricity market – to ensure the benchmark costs remain appropriate.” While EEQ supports a robust and evidence-based review, we do not support the use of market offers to determine the retail cost component of the notified prices. Market offers typically reflect customers trading away the higher cost services provided under a SRC in exchange for lower tariff prices. For example, many market contracts require customers to enter into direct debit or e-billing, which lowers a retailer's cost to serve. As notified prices apply to SRCs, it is not appropriate for the retail allowance to be derived from market contract cost structures, as these are not comparable to SRC arrangements.

EEQ also suggests there is a need for greater transparency around the cost components included in the retail cost allowance. It is important that customers understand how their choices contribute to retailer costs—such as the impact of rapidly increasing Australia Post charges on retail tariffs when e-billing is readily available, or the costs associated with different payment channels such as credit card costs. Improved visibility of these cost drivers may help customers to place downward pressure on retailer costs and in turn reduce their own bills.

7. Conclusion

EEQ appreciates the opportunity to submit to this consultation. Should the QCA require additional information in relation to this submission, please contact Andrea Wold, Manger Retail Policy, Compliance & Assurance on 0428 384 448.

Yours sincerely

A handwritten signature in black ink, appearing to be 'Ayesha Razzaq', written over a light grey grid background.

Ayesha Razzaq
Executive General Manager Retail