

7 January 2013

Mr Gary Henry
Director, Electricity and Gas
Queensland Competition Authority
GPO Box 2257
Brisbane QLD 4001



Dear Mr Henry,

Energex Submissions to Consultation Papers – Regulated Retail Electricity Prices 2013/14

Energex is pleased to provide its response to the Authority's Transitional Issues Consultation Paper, issued on 2 November 2012, and Cost Components Consultation Paper, issued on 12 December 2012, for the Regulated Retail Electricity Prices 2013/14.

In response to both consultation papers, Energex has addressed the specific questions where the Authority is seeking stakeholders' views. The response to the Transitional Issues Consultation Paper is limited to comments on network issues and is focused on matters Energex believes should be considered regarding transitional arrangements for Tariff 11 and the practical constraints that may impact on transitional arrangements for obsolete tariffs. The Cost Components Consultation Paper response is similarly limited to network issues with comments pertaining to network tariff development, alignment between retail and network tariffs and access to obsolete tariffs.

Energex appreciates the opportunity to participate in the consultation process to inform 2013/14 retail electricity prices and would be pleased to discuss these matters further. Should you have any enquiries, please contact Roger Dunstan on (07) 3664 4531.

Sincerely,


Kevin Kehl
Executive General Manager
Customer and Corporate Relations

Attachment 1. Transitional Issues Consultation Paper response
Attachment 2. Cost Components Consultation Paper response

Enquiries
Kevin Kehl
Telephone
(07) 3664 4006
Facsimile
(07) 3664 9805
Email
kevinkehl
@energex.com.au

Corporate Office
26 Reddacliff Street
Newstead Qld 4006
GPO Box 1461
Brisbane Qld 4001
Telephone (07) 3664 4000
Facsimile (07) 3025 8301
energex.com.au

Energex Limited
ABN 40 078 849 055

Energex Limited

Regulated Retail Electricity Prices 2013/14

**Response to Queensland Competition Authority
– Cost Components Consultation Paper**

7 January 2013



positive energy

Table of contents

Introduction	ii
Network Tariffs	1
Maintaining alignment of Retail and Network tariffs	2
Access to Obsolete Tariffs	3
Glossary	4

Introduction

Energex Limited (Energex) welcomes the opportunity provided by the Queensland Competition Authority (the Authority) to submit comments in response to its *Consultation Paper on Regulated Retail Electricity Prices 2013/14 Cost Components & Other Issues* (the Paper).

Energex fully supports a robust and consultative approach to electricity pricing reform and appreciates the opportunity to participate in the Authority's Public Consultation Process. Obtaining the understanding and support of customers in our distribution area is a major consideration for Energex when reviewing tariffs and implementing reforms.

The Paper contains specific questions where the Authority is seeking stakeholders' views, including some questions specifically for Ergon Energy and Energex.

Energex's comments and responses are limited to the specific questions raised by the Authority regarding network issues. As such, comments are directed to responding to questions regarding Network Tariff development, alignment between retail and network tariffs and access to Obsolete Tariffs, specifically access for new customers and customers who switched to obsolete tariffs prior to 1 July 2012.

In September 2012, the Authority published an Interim Consultation Paper; Energex's submission in response to this paper can be found on the Authority's website.

Network Tariffs

- **Is Ergon Energy / Energex reviewing its network charges for 2013/14 and beyond, and, if so, what opportunities have been or will be available for stakeholders to have input?**

Energex believes that tariff reform is an ongoing process with the ultimate aim of achieving efficient and cost reflective pricing signals. However, Energex also recognises that incremental steps to achieving this objective are required to minimise the impacts on customers and the market.

Under Chapter 6 of the National Electricity Rules (the *Rules*) and its Regulatory Determination, Energex is required to submit an Annual Pricing Proposal to the Australian Energy Regulator (AER) on 30 April each year. This document details the network tariff charges that will apply to each of Energex's tariffs for the subsequent financial year. It is also required to indicate proposed progressive tariff development in line with the prevailing Regulatory Determination which undergoes a major review every five years. The Pricing Proposal is supported by Energex's Annual Statement of Expected Price Trends which, under the *Rules*, is required to be updated and published annually. This document indicates how Energex expects prices to change over the five year regulatory period and the reasons for expected any changes.

The Authority's Review of Regulated Retail Electricity Tariffs and Prices for 2012/13 (the Review) culminated in introducing Tariff 12, based on Energex's underlying Time of Use (ToU) network tariff, on 1 July 2012. Throughout the Review, the Authority undertook extensive stakeholder consultation in which Energex was an active participant. Energex also used this opportunity to consult with stakeholders about tariff options, thereby avoiding duplication in consultation activities and reducing the risk of consultation fatigue among stakeholders. Ultimately, the outcomes of this consultation informed the development of the network tariffs.

Based on feedback received by Energex from stakeholders during and subsequent to the Review, Energex is proposing to introduce a new 3-part ToU network tariff for 2013/14. This tariff, called PeakSmart ToU, would be subject to AER approval and the Authority mapping the network tariff to a new retail tariff. The PeakSmart ToU tariff will provide a financial incentive for customers to activate their Demand Response Ready (DRR) appliances, such as PeakSmart Air Conditioning units, and allow demand management of these appliances by Energex.

Additionally, for 2013/14, Energex is proposing to offer a 3-part Time of Use (ToU) tariff to farming and irrigation customers, subject to the Authority mapping the network tariff to a new retail tariff. This new tariff would provide farming and irrigation customers with an alternative to the 2-part ToU (currently mapped to retail Tariff 22) and provide a strong price differential between peak and off-peak rates, addressing the key concerns raised by this group of customers throughout the Authority's consultation on 2012/13 and 2013/14 regulated retail electricity prices. In early 2013,

Energex, Ergon Energy and the Department of Energy and Water Supply will commence work to determine and terms and conditions for the new PeakSmart tariff and new 3-part Farming & Irrigation ToU, for inclusion in the Gazette.

In mid-2013, Energex will be commencing stakeholder engagement to inform the development of its submission to the AER for its 2015-2020 Regulatory Determination. The stakeholder engagement strategy is currently being prepared and will see Energex provide opportunities for a broad range of stakeholders across its distribution area, including regulatory bodies, interest groups, the market and customers, to have input about the matters of importance to them in relation to Energex's operations. As Energex is regulated under a revenue cap and revenue is recovered from customers through network charges, this will be a key matter about which Energex will be actively seeking feedback from stakeholders to consider during strategic planning for future network tariffs.

Maintaining alignment of Retail and Network tariffs

- **What is the best way to maintain alignment between network and retail tariffs?**

Energex submits its Annual Pricing Proposal to the AER for approval on 30 April each year in accordance with the *Rules* and its Regulatory Determination. Final prices are not approved until 31 May. Energex is able to estimate the various key inputs into developing network tariffs, to produce Draft Prices only in time to meet the Authority's requirements; however they would be based on many assumptions and subject to change. Once actual values of key inputs are known and fed into the pricing model, the Final Prices may vary from the Draft Prices previously supplied to the Authority prior to approval. Considering these time constraints, in Energex's view, acceptance by the stakeholders and customers that Draft Prices and Final Prices may vary is necessary for the Authority's proposed timings for 2013/14 to be feasible.

Access to Obsolete Tariffs

- **Should new customers be allowed to access obsolete tariffs during the transitional period?**
- **Should some customers who were already being supplied prior to 1 July 2012 on what were to become obsolete tariffs be granted access to the corresponding obsolete tariffs? If so, which customers and why?**

Energex acknowledges that the transition to fully cost-reflective tariffs may impact negatively on some customers. Allowing new customers to access obsolete tariffs or allowing customers previously on an obsolete tariff to revert from a continuing to an obsolete tariff is merely exacerbating and prolonging inefficiencies the Authority's Review was designed to remove. Furthermore, some customers may experience price increases when they are required to transition from obsolete to continuing tariffs; delaying this transition may exacerbate the ultimate step change impact.

Glossary

AER	Australian Energy Regulator
DRR	Demand Response Ready
The Authority	The Queensland Competition Authority
The Paper	The Authority's Consultation Paper on Regulated Retail Electricity Prices 2013/14 Transitional Issues
The Review	The Authority's Review of Queensland Regulated Retail Electricity Tariffs and Prices
The <i>Rules</i>	The National Electricity Rules
ToU	Time of Use