Ergon Energy Queensland Pty Ltd

Submission on the *Draft Determination Regulated Retail Electricity Prices 2014–15*

28 February 2014

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Queensland Competition Authority

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Introduction

Ergon Energy Queensland Pty Ltd (EEQ) welcomes the opportunity to provide comment on the Queensland Competition Authority's (the Authority) *Draft Determination Regulated Retail Electricity Prices 2014-15* (Draft Determination).

EEQ continues to support the Minister for Energy and Water Supply's Delegation to the Authority to determine the regulated retail electricity prices (or notified prices) for 2013–14 to 2015–16 based on a network (N) plus retail (R) cost build-up methodology. EEQ is of the view that the move to an N+R cost build-up methodology has incentivised and empowered distributors to improve network price signals in order to better manage the on-going impact that network costs have on customer affordability.

As customers respond to the improved price signalling the growth in network costs should reduce over the long-term, however, the short-term impact of increasing electricity costs on customers must be considered. As the largest retailer by customer number in regional Queensland, EEQ is cognisant of the unique circumstances of regional Queensland customers and strongly supports the continuation of transitional tariffs for Large and farming customers. Retail tariffs must also not unduly penalise customers who have little alternative to accessing the notified prices.

EEQ is available to discuss this submission, or provide further detail regarding the issues raised, should the Authority require.

Network Costs

Network Tariffs for Small Customers

EEQ supports the Authority's decision to continue using Energex network tariffs as the basis for retail tariffs for residential and small business customers i.e. notified prices for customers that are classified as 'Small' (consuming less than 100 megawatt hours (MWh) per annum).

Network Tariffs for Large and Very Large Customers

EEQ notes the continuation of basing cost-reflective notified prices for Large customers on Ergon Energy Corporation Ltd's (EECL) east pricing zone transmission region one and using EECL's high voltage demand east pricing zone transmission zone one network tariff as the basis for the regulated retail tariff for very large customers (i.e. Tariff 48).

As noted by the Authority the changes in the EECL network tariffs that underpin Queensland's regulated retail tariffs, including the move from a "Minimum Chargeable Demand" to a "Threshold Demand" and a rebalancing of revenue recovery into the fixed charge, has seen a change in the application of retail tariffs 44 to 48.

EEQ has received a number of enquiries from large and very large customers regarding how these changes will impact their businesses and support continued engagement by both EECL and the Authority in communicating changes to the underlying "N" components and any subsequent impact to regulated retail tariffs.

We acknowledge that the Authority has provided EECL the opportunity to discuss their Network Tariff Strategy at the Authority's Draft Determination workshops held in February and encourage the Authority to continue to work with EECL in communicating changes in network and retail tariff structures and pricing to customers into the future.

Energy Costs

Dealing with Carbon Uncertainty

EEQ notes that the Authority has moved from using carbon-inclusive energy contracts to using carbon pass-through energy contracts to determine wholesale energy costs.

Under normal circumstances EEQ would prefer a consistent regulatory approach as this allows electricity retailers to adopt strategies that minimise regulatory risk. For example based on previous determinations an electricity retailer wishing to take a low risk approach for 2014-15 may have chosen to primarily use carbon-inclusive contracts under the belief that the Regulator would be consistent and continue to use these contracts to determine wholesale energy costs in future tariff years.

However, EEQ also notes that 2014-15 is a unique year in that it is quite possible for there to be a step change in the cost of carbon from around $22/MWh to $0/MWh if the *Clean Energy Act 2011* is repealed as proposed by the Federal Government. EEQ also agrees with the Authority that customers would expect electricity prices to decrease if the carbon tax is removed. Therefore, despite our concerns with the lack of regulatory consistency, EEQ supports the proposed approach for dealing with carbon uncertainty in 2014-15.

Calculation of Wholesale Energy Costs for 2014-15

ACIL Allen state that for calculating the cost of the controlled load tariffs they use the hedge model to calculate the cost of supplying the NSLP with and without the control loads and the difference was taken as the cost for the controlled loads[1]. EEQ is comfortable with this approach.

However, it is not clear that the Energex NSLP without the control loads was used in the determination of the Energex residential and small business wholesale energy cost. In the Final Determination, it would improve clarity around calculating wholesale energy costs if the Authority or ACIL Allen could confirm which NSLP was used for the wholesale energy calculation for the residential and small business settlement class.

[1] ACIL Allen, *Estimated Energy Costs 2014-15 Retail Tariffs*, November 2013. p. 43.

Retail Costs

Retail Operating Costs

In the 2013-14 Final Determination, and maintained in the 2014-15 Draft Determination, the Authority did not apply the Retail Operating Cost (ROC) allowances to the controlled load retail tariffs and unmetered retail tariffs as the Authority assumed that customers accessing these tariffs also access another general supply tariff and pay their fixed charges in that context.

In relation to the unmetered retail tariffs (Tariff 71- Street lights and Tariff 91 – Other Unmetered Supply) the vast majority of EEQ accounts with unmetered supply do not access these tariffs in conjunction with another general supply tariff. That is, the majority of customers currently accessing tariffs 71 or 91 do so without accessing another tariff that has the ROC component included in the tariff rates. This results in a situation where EEQ continues to incur the associated ROC for these customers.

EEQ is cognisant of the fact that this issue has not previously been raised and is happy to provide the Authority with further information on the application of these tariffs by EEQ.

Retail Margin

EEQ is pleased to note that the Authority is open to considering the issue raised by EEQ in previous submissions of applying a differentiated retail margin for each customer segment. As outlined in our Response to the Authority's *Interim Consultation Paper Regulated Retail Electricity Prices for 2014-15* (p 16) EEQ considers that applying a differentiated retail margin is consistent with the philosophy the Authority has adopted for calculating other components of the retail tariff cost stack, such as differentiating between small, large and very large customers for network, wholesale energy, energy losses and retail operating cost allowances in recognition of the variances between supplying different customer segments.

As the Authority noted setting differentiated retail margins is likely to be a highly subjective process, which is why EEQ continues to support the Authority undertaking further investigation and obtaining expert advice on this matter. The Authority can then use this investigation as the basis for undertaking consultation on the proposed retail margins. A differentiated retail margin is likely to encourage the growth of competition, especially in the residential and small business sector where retailers face higher risk from peakier load.

Transitional Arrangements

EEQ supports the Authority's decision to not catch-up transitional/obsolete tariffs due to the Government decision to cap the transitional prices at 10% in 2013-14.

Access to Obsolete Tariffs

EEQ welcomes the Authority's position that all business customers should have access to transitional tariffs throughout the seven-year transitional period, subject to individual tariff terms and conditions.