

Draft determination

Regulated retail electricity prices for 2017–18

February 2017

We wish to acknowledge the contribution of the following staff to this report:

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SUBMISSIONS

Closing date for submissions: 3 April 2017

Public involvement is an important element of the decision-making processes of the Queensland Competition Authority (QCA). Therefore, submissions are invited from interested parties concerning its assessment of regulated retail electricity prices for 2017–18. The QCA will take account of all submissions received.

Submissions, comments or inquiries regarding this paper should be directed to:

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Subject to any confidentiality constraints, submissions will be available for public inspection at the Brisbane office, or on the website at www.qca.org.au. If you experience any difficulty gaining access to documents, please contact us on (07) 3222 0555.

Contents

SUBMISSIONS	I
Closing date for submissions: 3 April 2017	i
Confidentiality	i
Public access to submissions	i
EXECUTIVE SUMMARY	IV
Who can access notified prices?	iv
What is the QCA's proposed approach to setting notified prices?	v
Why are notified prices expected to change between 2016–17 and 2017–18?	vi
How will the QCA's draft determination impact on customer bills?	vii
What is the QCA's proposed approach to transitional and obsolete tariffs?	x
Next steps	xi
THE ROLE OF THE QCA—TASK, TIMING AND CONTACTS	XII
1 INTRODUCTION	1
1.1 The review process	1
1.2 Access to notified prices	2
1.3 Legislative framework—the Electricity Act	3
1.4 Matters we are required to consider by the Minister's delegation	3
2 PRICING FRAMEWORK	5
2.1 Residential and small business customers	5
2.2 Large business customers	7
3 NETWORK COSTS	8
3.1 Introduction	8
3.2 Network tariffs for residential, small business and unmetered supply customers	9
3.3 Network tariffs for large business, very large business and street lighting customers	14
4 ENERGY COSTS	20
4.1 Wholesale energy costs	20
4.2 Other energy costs	24
4.3 Energy losses	27
4.4 Total draft energy cost allowances for 2017–18	27
5 RETAIL COSTS	29
5.1 Background	29
5.2 Draft retail cost allowances for 2017–18	31
6 OTHER ISSUES	33
6.1 Standing offer adjustment—residential and small business customer tariffs	33
6.2 Headroom for large and very large business customer tariffs	40
6.3 Cost pass-through mechanism	42

7	TRANSITIONAL ARRANGEMENTS	44
7.1	Transitional arrangements for transitional and obsolete tariffs	44
7.2	Conclusion on transitional arrangements	51
8	DRAFT DETERMINATION	52
8.1	Customer impacts	56
	GLOSSARY	62
	APPENDIX A : MINISTERIAL DELEGATION AND COVER LETTER	64
	APPENDIX B : SUBMISSIONS	70
	APPENDIX C : RESPONSES TO ADDITIONAL ISSUES RAISED IN SUBMISSIONS	71
	APPENDIX D : NETWORK TARIFF STRUCTURES	73
	Comparison of Energex and Ergon Energy's tariff structures	73
	Adjusting Ergon Distribution network tariffs	75
	APPENDIX E : RETAIL COST ALLOWANCES	79
	Retail costs for residential and small business customer retail tariffs	79
	Retail costs for large and very large business customer tariffs	80
	APPENDIX F : TRANSITIONAL AND OBSOLETE TARIFFS—CUSTOMER IMPACTS	82
	APPENDIX G : GAZETTE NOTICE	92
	APPENDIX H : ASSUMPTIONS AND DATA USED TO DETERMINE CUSTOMER IMPACTS	101
	APPENDIX I : SUMMARY OF CONCESSIONAL ARRANGEMENTS FOR ENERGY IN QUEENSLAND	103
	APPENDIX J : BUILD-UP OF NOTIFIED PRICES	104

EXECUTIVE SUMMARY

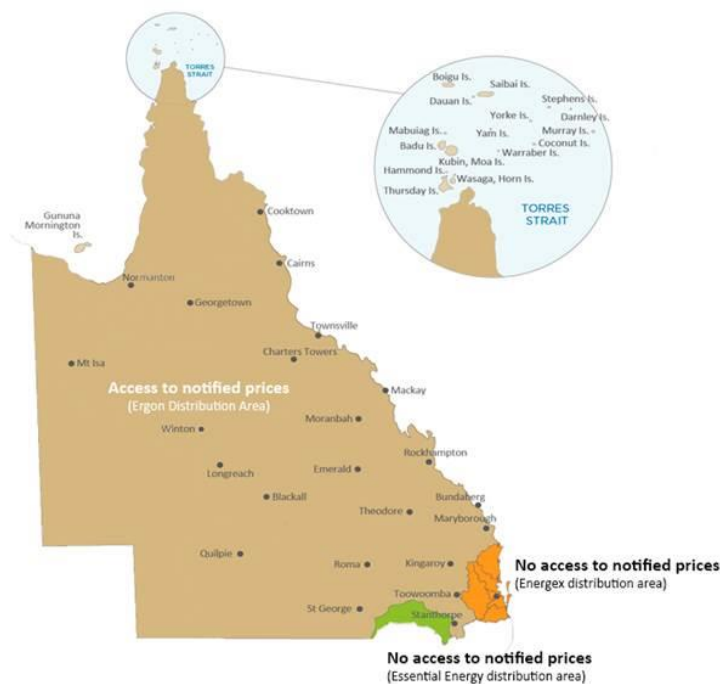
The Queensland Competition Authority (QCA) has made a draft determination on the regulated retail electricity prices (notified prices) to apply from 1 July 2017 to 30 June 2018. In general, notified prices are paid by customers who have not entered into a negotiated or market contract with their retailer. The QCA has been delegated the role of setting notified prices by the Minister for Energy, Biofuels and Water Supply and is required to set prices in accordance with that delegation and the *Electricity Act 1994* (the Electricity Act).

The purpose of this draft determination is to provide stakeholders with the opportunity to comment on the QCA's proposed approach to determining notified prices, and other pricing-related issues (for example, transitional arrangements). While the notified prices in the draft determination are based upon the most up-to-date information available at the time of publication, they are indicative only. It is highly likely that there will be changes in the expected costs of supply and consequently, notified prices, between the draft determination and the final determination, which is to be released by 31 May 2017.

Who can access notified prices?

Notified prices are only available to residential, small business and non-market¹ large business customers in the Ergon Energy Corporation Limited (Ergon Distribution) distribution area. Notified prices are not available to regional customers located outside of this distribution area.²

Figure 1 Access to notified prices



¹ Large business customers supplied by Ergon Retail are classified as 'non-market' customers. Large business customers supplied by other retailers in regional Queensland are classified as 'market' customers.

² Customers in Essential Energy's distribution area in southern Queensland do not have access to notified prices, but Origin Energy receives a subsidy from the Queensland Government to ensure that non-market customers in that distribution area pay no more than similar customers that have access to notified prices. Retail price regulation in the Energex distribution area was removed on 1 July 2016.

What is the QCA’s proposed approach to setting notified prices?

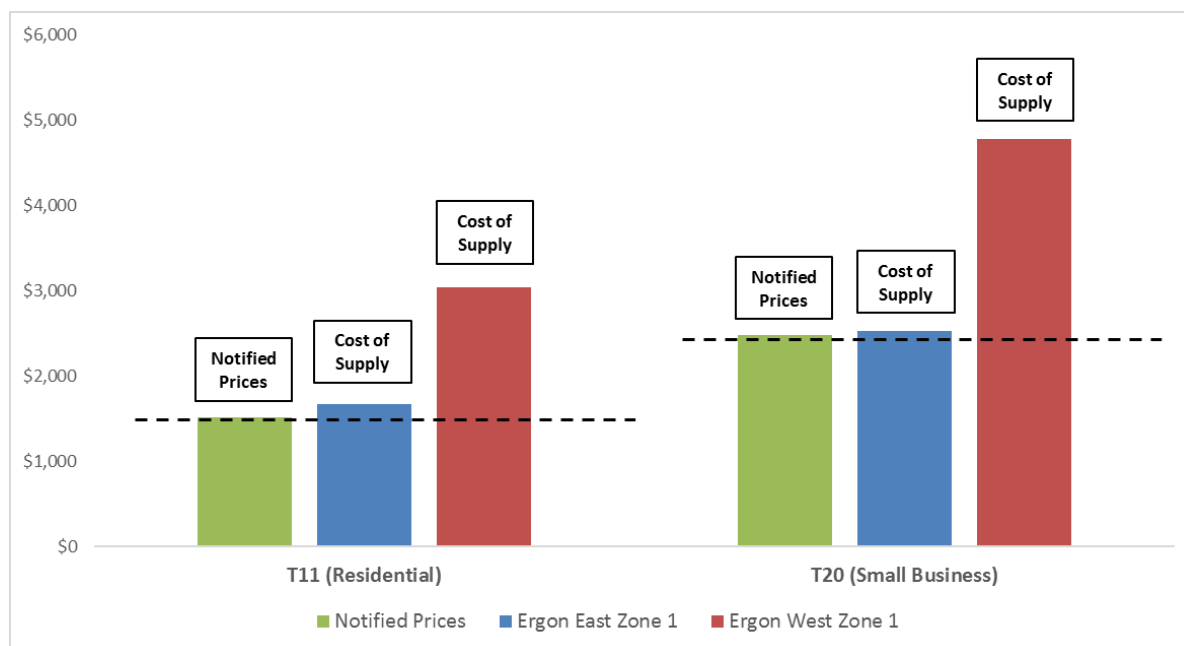
The QCA’s proposed approach to setting notified prices for 2017–18 is largely consistent with the approach we took in the 2016–17 price determination.

In accordance with the Queensland Government's Uniform Tariff Policy (UTP), we propose to continue to base notified prices for residential and small business customers on the costs of supplying electricity in south east Queensland (i.e. the Energex distribution area). We also propose to continue to base notified prices for large business customers on the lowest costs of supply in regional Queensland (i.e. Ergon Distribution’s east pricing zone, transmission region 1).

The application of the UTP will mean that notified prices for residential and small business customers in regional Queensland broadly reflect the expected prices for similar customers on standing offers in south east Queensland. It also means that notified prices for large business customers in regional Queensland will be based on the lowest costs of supply in regional Queensland³, rather than the actual costs of supply. As the actual costs of supplying residential, small business and some large business customers are generally higher⁴ than notified prices, this approach will benefit customers in regional Queensland.

To cover the difference between notified prices and the costs that Ergon Energy Queensland Limited (Ergon Retail) actually incurs to supply regional customers, the Queensland Government pays Ergon Retail a subsidy. This subsidy is significant, with the Queensland Government expecting to pay \$561.2 million⁵ to subsidise regional electricity customers in 2016–17.⁶

Figure 2 Draft notified prices for typical small customers compared to actual costs of supply in regional Queensland (incl. GST)



Note: The cost of supply excludes standing offer adjustment. Ergon East Zone 1 refers to Ergon Distribution’s east pricing zone, transmission region 1. Ergon West Zone 1 refers to Ergon Distribution’s west pricing zone, transmission region 1.

³ Ergon Distribution’s east zone, transmission region one.

⁴ The difference in the costs of supply is largely due to the higher network costs associated with supplying electricity over long distances to a low-density customer base.

⁵ \$2.8 million dollars of this subsidy is paid to Origin Energy for customers in the Essential Energy distribution area.

⁶ Queensland Government, State Budget 2016–17—Budget Strategy and Outlook, Appendix A, June 2016, p. 215.

We also propose to again use the network (N) plus retail (R) cost build-up approach to calculate notified prices for 2017–18. Under this approach, we base the N costs on the relevant network tariffs approved by the Australian Energy Regulator (AER) for Energex or Ergon Distribution. This means the N costs are generally treated as a pass-through. We determine the R costs (energy and retail costs) using the latest information, including observations from competitive retail and wholesale electricity markets in Australia.

In broad terms, the N plus R methodology produces estimates of efficient south east Queensland price levels for residential and small business customers. However, to be consistent with the Queensland Government's UTP, the price levels for these customers need to reflect the expected standing offer prices in south east Queensland. Consequently, to maintain consistency with the UTP, it is necessary to add an amount to the N plus R estimates, which reasonably represents the expected differential between our estimates of efficient price levels and expected standing offer price levels (the standing offer differential).

Consistent with our approach in previous price determinations, we propose to include an allowance for headroom in notified prices for large business customers only. The use of a headroom allowance is a generally accepted approach to stimulating competition and customer engagement in emerging competitive markets. Given that competition in the large business customer segment in regional Queensland has the potential to develop further, particularly in areas where notified prices more closely reflect the actual costs of supply, we consider that the inclusion of an allowance for headroom will support competition, by encouraging customers to engage in the market and seek out better offers.

Why are notified prices expected to change between 2016–17 and 2017–18?

Notified prices are expected to change between 2016–17 and 2017–18 due largely to movements in energy costs and network costs.

Energy costs are expected to increase for all customers in 2017–18, primarily driven by increases in wholesale energy costs and Large-scale Renewable Energy Target (LRET) costs. The QCA's consultant, ACIL Allen, has advised that the increase in estimated wholesale energy costs 'reflects the projected continued tightening of the demand-supply conditions in the Queensland region as well as other regions of the NEM [National Electricity Market] in 2017–18 due to the increase in demand from in-field gas compression associated with the LNG export facilities, little additional renewable capacity in Queensland⁷, and the removal of Hazelwood power station in Victoria^{8,9}.

ACIL Allen has also advised that LRET costs are expected to increase due to large-scale generation certificate (LGC) prices continuing to increase 'on the expectation that there will be a shortfall in LGC supply by 2018.'¹⁰

However, the increase in energy costs has been largely offset by expected decreases in network costs between 2016–17 and 2017–18 for many notified prices. These decreases are a result of the AER's final decisions on Energex's and Ergon Energy's 2015–20 distribution determinations. The offsetting impact of network costs means most notified prices are only expected to increase by small to moderate amounts despite the substantial increase in energy costs.

⁷ While a number of new renewable energy projects are planned, only a limited amount of new renewable generation will be fully operational in 2017–18, with a number of renewable energy projects likely to commence operation towards the end of, or after, the 2017–18 financial year in mid-2018.

⁸ Wholesale electricity is sold through the NEM, which allows electricity to trade across five interconnected regions (Queensland, New South Wales, Victoria, South Australia and Tasmania). The interconnected nature of the market means changes in the demand/supply balance in one region will impact on other regions of the NEM.

⁹ ACIL Allen, Estimated Energy Costs–2017–18 Retail Tariffs, 11 January 2017, p 24.

¹⁰ ACIL Allen, Estimated Energy Costs–2017–18 Retail Tariffs, 11 January 2017, p 25.

How will the QCA's draft determination impact on customer bills?

The notified prices in this draft determination will not affect customer bills; the only notified prices that will apply to customers, and therefore have an impact on customer bills, are those in the QCA's final determination. The draft notified prices are indicative only, as it is highly likely that there will be changes in the expected costs of supply and consequently, notified prices, between the QCA's draft and final determinations.

To illustrate the hypothetical impacts of the draft determination on customer bills, we have provided comparisons of the annual amount typical customers¹¹ would have paid under 2016–17 notified prices and the annual amount that they would potentially pay under the draft 2017–18 notified prices. It is important to note that this information is only intended to show the potential impact of the annual change in notified prices on a typical customer's bill. It is not intended to demonstrate the annual change in the total amount a customer will pay their electricity retailer in a given year.

Many customers will incur additional charges that are not set by the QCA and cannot legally be included in notified prices. For example, most customers will also pay metering charges. These charges are set by the AER and will vary from customer to customer depending on a range of factors, including (but not limited to) the type of meter installed, the number of tariffs a customer uses and whether a customer has a solar power system. As these charges do not form part of notified prices or the QCA's price determination, they have not been included in the customer impact analysis for notified prices.

Residential customers

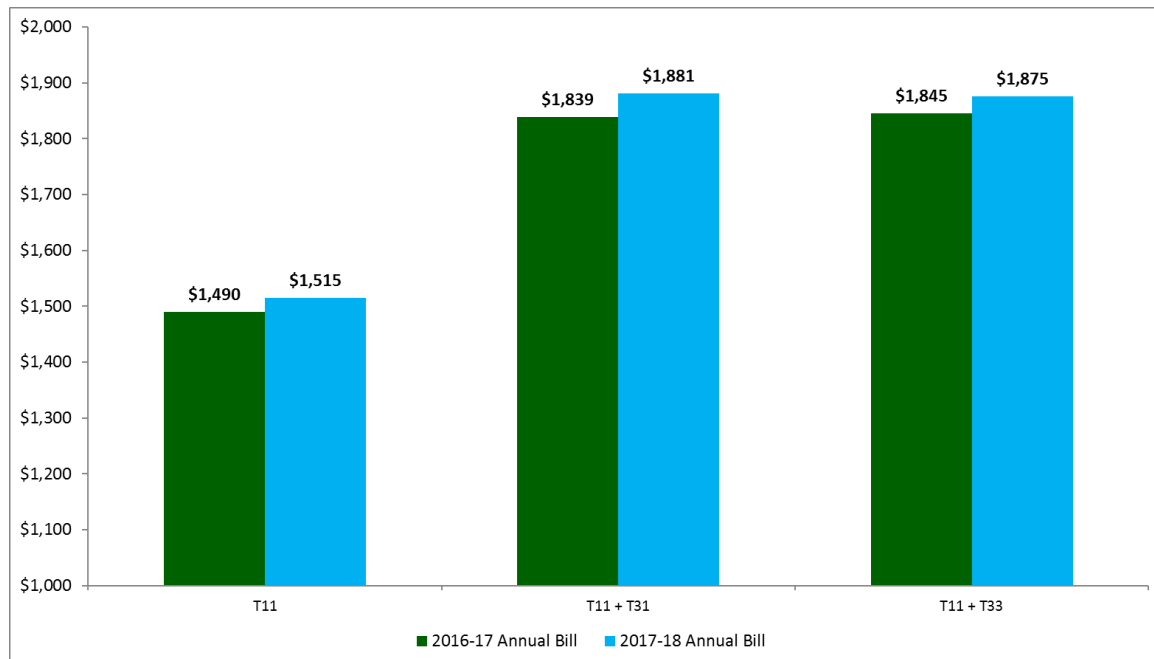
The main retail tariff for residential customers is tariff 11. Many customers on tariff 11 are also on one of the controlled load tariffs (tariffs 31 and 33)¹².

The annual notified price bill for a typical customer on tariff 11 is expected to increase by 1.7 per cent from \$1,490 (GST inclusive) to \$1,515 (GST inclusive) as a result of the draft change in notified prices between 2016–17 and 2017–18. For a typical customer on a combination of tariffs 11 and 31 or tariffs 11 and 33, the expected increase will be 2.3 per cent and 1.6 per cent respectively. However, the impact on individual customers will vary depending on their consumption. Customers with lower consumption than the typical customer will face smaller increases while higher-consumption customers face larger increases.

¹¹ The typical customer for a given retail tariff is the median or middle customer in terms of consumption out of all customers on that tariff in regional Queensland. The typical customer consumption data is provided by Ergon Retail and more information is provided at Appendix H.

¹² Controlled load tariffs may be used for appliances such as water heaters and pool pumps. These tariffs are cheaper than tariff 11 as customers are only guaranteed supply for a set number of hours (tariff 31 guarantees supply for 8 hours per day and tariff 33 guarantees supply for 18 hours per day).

Figure 3 Draft impact of the change in notified prices on typical residential customers (incl. GST), 2017—18



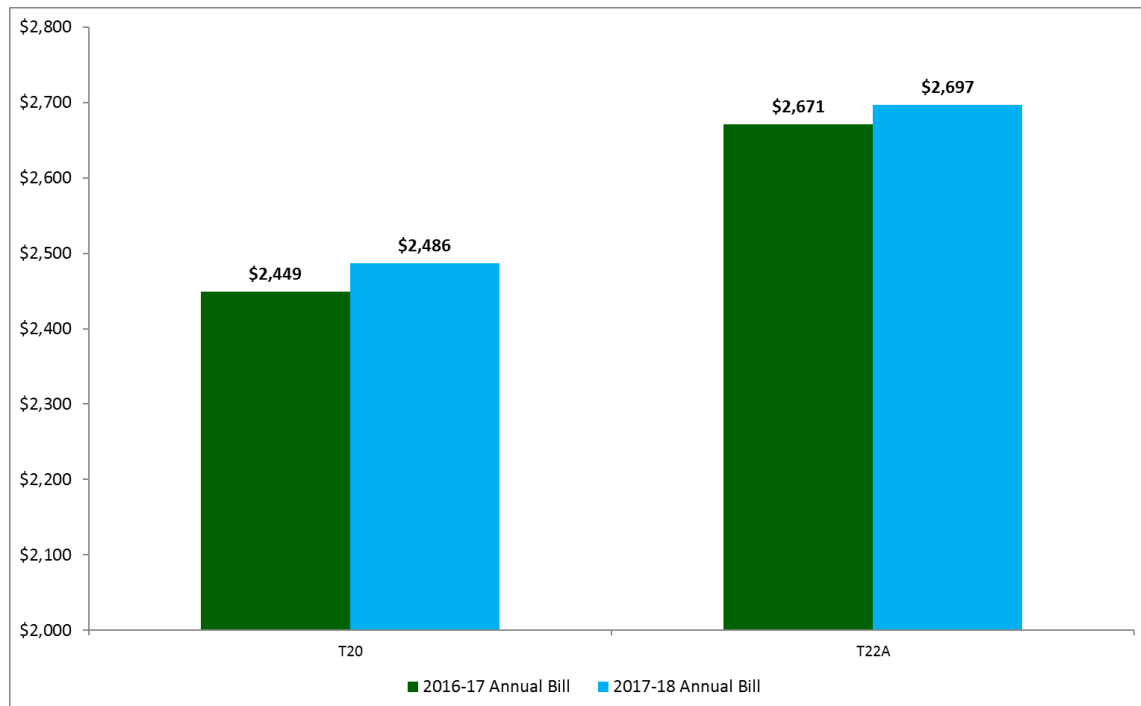
Note: The annual bill amounts have been rounded to the closest dollar.

Small business customers

The annual notified price bill for a typical customer on the main small business tariff (tariff 20) is expected to increase by \$37 or 1.5 per cent as a result of the draft change in notified prices between 2016–17 and 2017–18. For a typical customer on the seasonal time-of-use tariff (tariff 22A), the expected increase will be slightly lower at 1.0 per cent.

However, it is important to note that bill impacts for individual customers will vary depending on their level of consumption and, if the customer is on tariff 22A, the pattern of their consumption.

Figure 4 Draft impact of the change in notified prices on typical small business customers (incl. GST), 2017–18

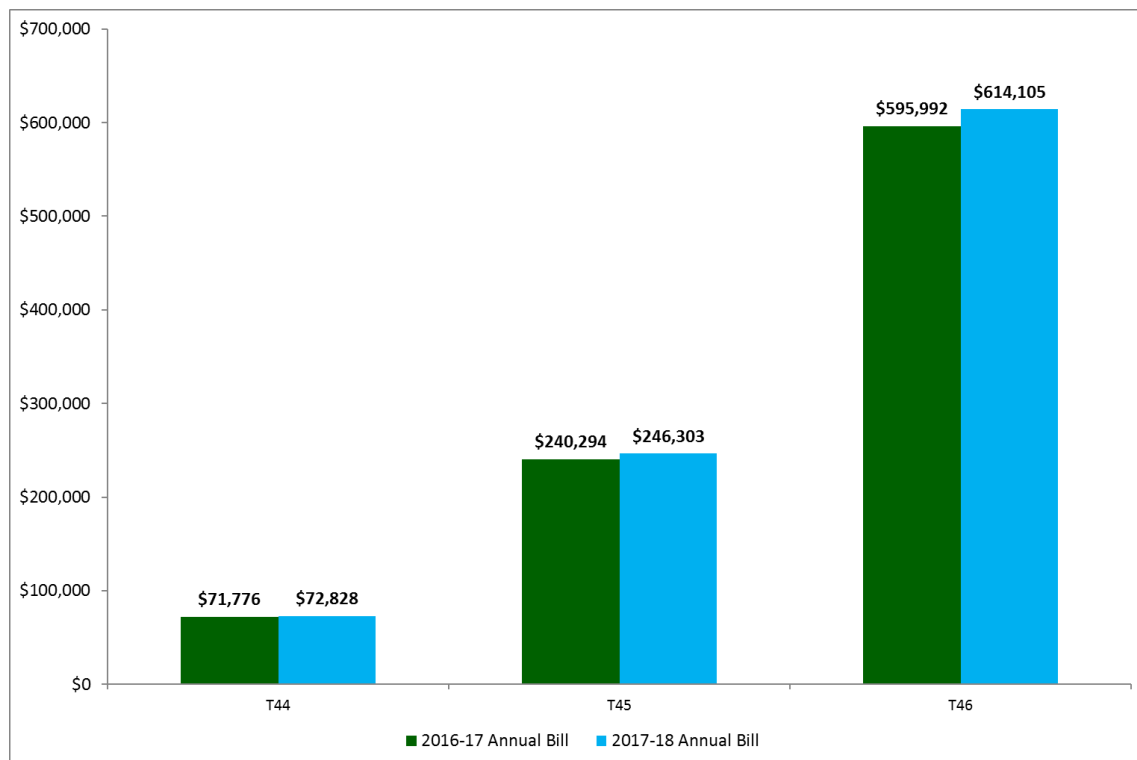


Note: The annual bill amounts have been rounded to the closest dollar.

Large business customers

Typical large business customers can expect increases in their annual notified price bills of between 1.5 per cent and 3 per cent as a result of the draft change in notified prices between 2016–17 and 2017–18. However, it is important to note that bill impacts for individual customers will vary depending on their level and pattern of consumption.

Figure 5 Draft impact of the change in notified prices on typical large business customers (incl. GST), 2017–18



Note: The annual bill amounts have been rounded to the closest dollar.

What is the QCA's proposed approach to transitional and obsolete tariffs?

Some business customers, including farmers and irrigators, are supplied under transitional or obsolete tariffs. These retail tariffs are legacy retail tariffs for which there is no corresponding network tariff. As a result, their prices cannot be determined under the N+R cost build-up methodology.

Transitional and obsolete tariffs have been made available for several years to allow customers to transition to standard business tariffs and recoup some of the investments made to suit the level and structure of transitional or obsolete tariffs. Based on information from Ergon Retail, many customers on these tariffs may face lower electricity bills if they moved immediately to a standard business tariff but some customers would face much higher bills.

The QCA proposes to maintain transitional arrangements for 2017–18 and to adjust the charges in each transitional and obsolete tariff in line with the percentage increases in the standard business tariffs customers would otherwise pay. The QCA also proposes to apply an additional escalation factor to limit charges for transitional and obsolete tariffs falling further below cost in dollar terms. This approach is consistent with the QCA's general approach in previous price determinations.

The QCA also proposes to introduce transitional arrangements for customers on existing high voltage retail tariffs, as Ergon Distribution intends to phase out the network tariff underlying these tariffs in 2017–18. Under the proposed transitional arrangements, the two high voltage retail tariffs (tariffs 47 and 48) will be classed as obsolete and therefore only available to existing customers for a transitional period of five years. Consistent with our approach to other transitional and obsolete tariffs, we propose to adjust these tariffs in line with changes in the relevant standard business tariffs, and apply escalation factors to limit charges falling further below cost in dollar terms.

We consider that the proposed approach strikes the right balance as it will allow existing customers on the two high voltage retail tariffs time to adjust their operations before moving to alternative retail tariffs. It also ensures that new customers do not make long-term investment and business decisions based on legacy high voltage tariffs that will only be available for five years. Given that many of these customers are likely to be using very large amounts of energy (tariff 48 customers are some of the largest energy users in Queensland) and making significant capital investments, we consider it is important that they make those decisions based on the correct pricing signals.

Next steps

This is a draft determination only and we intend to consult extensively prior to finalising our determination in May 2017. We will be holding public workshops on the draft determination in Bundaberg, Cairns, Emerald, Toowoomba, Townsville and Brisbane from 13 March 2017. Stakeholders are encouraged to attend these workshops and to make submissions on the draft determination. We will consider all issues raised in submissions in making our final determination for 2017–18. More information on the workshops and how to make a submission is available on our website, www.qca.org.au. Submissions close on **3 April 2017** and our final determination will be published by 31 May 2017.

THE ROLE OF THE QCA—TASK, TIMING AND CONTACTS

The Queensland Competition Authority (QCA) is an independent statutory authority which promotes competition as the basis for enhancing efficiency and growth in the Queensland economy.

The QCA's primary with respect to electricity pricing is to set regulated retail electricity prices in accordance with the requirements of the delegation from the Minister for Energy, Biofuels and Water Supply (Appendix A) and the *Electricity Act 1994* (the Electricity Act).

Key dates

2017–18 Review of regulated retail electricity prices: indicative timetable

Release of draft determination	By 28 February 2017
Workshops on draft determination	From 13 March 2017
Submissions on draft determination due	3 April 2017
Release of final determination	By 31 May 2017

Registration of interest

<http://www.qca.org.au/Contact-us>

Contacts

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1 INTRODUCTION

The Queensland Competition Authority (QCA) has received a delegation from the Minister for Energy, Biofuels and Water Supply (the Minister) to determine regulated retail electricity prices (notified prices). The delegation specifies that the notified prices we determine will apply to small standard retail contract¹³ customers and large non-market¹⁴ customers in the Ergon Energy Corporation Limited (Ergon Distribution) distribution area from 1 July 2017 to 30 June 2018.¹⁵

1.1 The review process

Interim consultation paper

On 16 November 2016, we released an interim consultation paper advising interested parties of the commencement of our review. We received nine submissions in response (see Appendix B). The interim consultation paper and submissions are available on the QCA [website](#).¹⁶

Draft determination

This draft determination contains our draft regulated retail tariffs and prices for 2017–18 (see Chapter 8). In making this draft determination, we have taken into account the requirements of the *Electricity Act 1994* (Qld) (Electricity Act) and the Minister's delegation; matters raised in stakeholder submissions; ACIL Allen's draft report on the estimated energy costs; and our own analysis.

As part of our consultation program on the draft determination, we are planning to hold workshops in March 2017 in Bundaberg, Cairns, Emerald, Toowoomba, Townsville, Brisbane, and other locations, depending on the level of stakeholder interest. Stakeholders can register their interest for a workshop on our [website](#).¹⁷

Submissions in response to this draft determination are due by 3 April 2017. Details on how to make a submission are at the front of this paper.

We appreciate the valuable contribution of stakeholders who make submissions on our review. While we may not necessarily reference all arguments or submissions in our determinations, we carefully consider each submission. Any issues that have been raised but which are outside of the scope of our review are discussed in Appendix C. All documents relating to this review are available on our [website](#).¹⁸

¹³ See Schedule 1 of the National Energy Retail Rules.

¹⁴ Large business customers supplied by Ergon Retail are classified as large 'non-market' customers. Large business customers supplied by other retailers in regional Queensland are classified as large 'market' customers.

¹⁵ See Appendix A for a copy of the delegation.

¹⁶ <http://www.qca.org.au/Electricity/Regional-consumers/Reg-Electricity-Prices/In-Progress/Regulated-Electricity-Prices-2017-18>

¹⁷ <http://www.qca.org.au/workshops>

¹⁸ <http://www.qca.org.au/Electricity/Regional-consumers/Reg-Electricity-Prices/In-Progress/Regulated-Electricity-Prices-2017-18>

1.3 Legislative framework—the Electricity Act

We must determine notified prices in accordance with the Electricity Act. While that Act does not specify criteria or principles to be applied in making a price determination, it directs us to have regard to the following matters:

- (a) the actual costs of making, producing or supplying the goods or services
- (b) the effect of the price determination on competition in the Queensland retail electricity market
- (c) any matter we are required by delegation to consider
- (d) any other matter we consider relevant.²⁰

We must also have regard to the objects of the Electricity Act, which are to:

- (a) set a framework for all electricity industry participants that promotes efficient, economical and environmentally sound supply and use
- (b) regulate the electricity industry and electricity use
- (c) establish a competitive electricity market in line with the national electricity industry reform process
- (d) ensure that the interests of customers are protected
- (e) take into account national competition policy requirements.²¹

1.4 Matters we are required to consider by the Minister's delegation

The matters we are required by the delegation to consider when determining notified prices for 2017–18 are outlined below.

The Uniform Tariff Policy

Consistent with previous price determinations, we are required to consider the Queensland Government's Uniform Tariff Policy (UTP). The UTP provides that 'wherever possible, small standard retail contract customers and large non-market customers of the same class should pay no more for their electricity, regardless of their geographic location'.²² The covering letter to the delegation further specifies that, for the purposes of the delegation, 'regulated prices for small customers in regional Queensland should continue to broadly reflect the expected prices for small customers on standing offers in south east Queensland'.²³

The application of the UTP will mean that notified prices for residential and small business customers in regional Queensland broadly reflect the expected prices for similar customers on standing offers in south east Queensland. It also means that notified prices for large business customers in regional Queensland will be based on the lowest costs of supply in regional Queensland, rather than the actual costs of supply. As the actual costs of supplying residential,

²⁰ Section 90(5) of the Electricity Act.

²¹ Section 3 of the Electricity Act.

²² Clause 5(b) of the delegation (Appendix A).

²³ A copy of the Minister's covering letter is provided in Appendix A.

small business and some large business customers are generally higher than notified prices²⁴, the application of the UTP will benefit customers in regional Queensland.

To cover the difference between notified prices and the costs that Ergon Energy Queensland Limited (Ergon Retail) actually incurs to supply regional customers, the Queensland Government pays Ergon Retail a subsidy. This subsidy is significant, with the Queensland Government expecting to pay \$561.2 million²⁵ to subsidise regional electricity customers in 2016–17.²⁶

'N+R' cost build-up methodology

Consistent with the approach in previous price determinations, we must consider using the Network (N) plus Retail (R) cost build-up methodology when determining notified prices for 2017–18. Under this methodology, the N costs (network costs) are generally treated as a pass-through and the R costs (energy and retail costs) are determined by the QCA.

The network cost (N) component

When calculating the N component for each regulated retail tariff, the delegation requires that the QCA consider continuing with the general approach that it has applied in previous price determinations. This means using the Energex network charges and tariff structures when we determine non time-of-use retail tariffs²⁷ for residential and small business customers (tariffs 11, 20, 31, 33, 41 and 91²⁸).

When we determine time-of-use²⁹ and time-of-use demand retail tariffs³⁰ for residential and small business customers (tariffs 12A, 14, 22A and 24), we must consider basing the N component on the price level of network charges to be levied by Energex and the network tariff structures of Ergon Distribution.

For large business customers, we must consider basing the N component on the Ergon Distribution network charges and tariff structures. We adopted this approach in previous price determinations.

Transitional arrangements

We are required to consider maintaining the transitional arrangements for tariffs classed as transitional or obsolete (for example, farming and irrigation tariffs). We are also required to consider allowing all customers in Ergon Distribution's distribution area to access tariffs designated as transitional in 2013–14.

²⁴ The differences in the costs of supply are largely due to the higher network costs associated with supplying electricity over long distances to a low-density customer base.

²⁵ \$2.8 million dollars of this subsidy is paid to Origin Energy for customers in the Essential Energy distribution area.

²⁶ Queensland Government, *State Budget 2016–17—Budget Strategy and Outlook*, Appendix A, June 2016, p. 215.

²⁷ Non-time-of-use tariffs are retail tariffs with usage charge rates that do not vary with the time and/or level of consumption.

²⁸ Tariff 91 applies to unmetered supplies (except street lighting).

²⁹ Time-of-use tariffs are retail tariffs with usage charge rates that vary with the time of consumption.

³⁰ Time-of-use demand tariffs are retail tariffs with usage and demand charge rates that vary with the time of consumption and/or demand.

2 PRICING FRAMEWORK

The objects of the Electricity Act and the matters we are required to consider under the Electricity Act indicate that cost-reflective prices and the promotion of retail competition are important guiding principles in making a price determination. Cost reflectivity is important for efficiency and equity reasons. The 2016–17 price determination was also designed to support retail competition in the large business customer segment in regional Queensland.

Under the Minister's delegation, we are also required to consider the UTP. The application of the UTP in previous price determinations has resulted in most notified prices being based on costs of supply which are below the actual costs of supply (see section 1.4).

Given that there is a degree of conflict between the matters we are required to consider under the Electricity Act and those we are required to consider under the Minister's delegation, we have considered a broad range of possible pricing approaches for 2017–18, particularly for the residential and small business customers (small customers) in Ergon Distribution's distribution area.

Our draft decision is to continue basing notified prices for residential and small business customers in regional Queensland on the expected standing offer prices in south east Queensland, and basing notified prices for large business customers in regional Queensland on the lowest costs of supply in regional Queensland, which is Ergon Distribution's east pricing zone, transmission region one.

2.1 Residential and small business customers

In order to take into account the requirements of the Electricity Act and the UTP, we have considered a range of possible pricing approaches to setting the pricing framework for determining notified prices for small customers.

Cost base

We could maintain the approach we took in the 2016–17 price determination and base the notified prices on the costs of supply in south east Queensland (that is, costs in Energex's distribution area). As the costs of supply in south east Queensland are generally lower than those in regional Queensland, adopting this approach would result in customers continuing to pay prices which do not reflect the actual costs of supply. This would potentially encourage inefficient investment and consumption, and require the ongoing subsidisation of electricity prices by taxpayers.³¹ However, this approach may be considered reasonable, as it would be consistent with the Queensland Government's definition of the UTP for 2017–18.

Another possible approach would be to base the notified prices for small customers on the lowest costs of supply in regional Queensland (that is, the costs in Ergon Distribution's east pricing zone, transmission region one). We have used this approach in setting notified prices for large business customers in regional Queensland since 2012.³² Adopting this approach for small customers would improve the cost reflectivity of the notified prices relative to setting prices based on the costs of supply in south east Queensland. It would also reduce the amount that taxpayers would pay to subsidise electricity prices in regional Queensland. However, it would be inconsistent with

³¹ As discussed in Section 1.4, the cost of this subsidy was expected to be \$561.2 million in 2016–17.

³² We started using this approach for large business customers in regional Queensland when retail price regulation for large business customers in south east Queensland was discontinued.

the Queensland Government's definition of the UTP for 2017–18, and may result in substantial price increases for customers. For example, based on estimates for 2016–17, the costs of supplying residential and small business customers in Ergon Distribution's east pricing zone, transmission region one are 21 per cent higher than the costs of supplying the customers of the same class in south east Queensland.³³

A third approach would be to set the notified prices in each of the pricing regions in Ergon Distribution's distribution area at cost-reflective levels. This approach would promote retail competition and remove the need to subsidise regional electricity prices. However, it would be inconsistent with the UTP, as some small standard retail contract customers would, based on their geographic location, pay more for their electricity than small standard retail contract customers of the same class in other areas of Queensland. Cost-reflective prices would also result in substantial price increases, particularly for customers in western Queensland and those supplied by isolated systems. For example, based on estimates for 2016–17, the costs of supplying residential and small business customers in Ergon Distribution's west pricing zone, transmission region one are 118 per cent higher than the costs of supplying the customers of the same class in south east Queensland.³⁴

Canegrowers Isis, the Queensland Council of Social Service (QCOSS) and the Queensland Consumers Association supported the approach of basing the notified prices on the costs of supply in south east Queensland. The QCOSS said this would be the only approach that would meet the purpose of regulation of retail electricity prices.³⁵

QCA position

Our draft decision is to continue basing notified prices for residential and small business customers on the costs of supply in south east Queensland. We consider this reasonable because it is consistent with the Queensland Government's UTP and it avoids the potentially large price increases associated with the other approaches.

Framework to determine notified prices

To establish an appropriate framework for setting notified prices based on the costs of supply in south east Queensland, we have considered the Queensland Government's definition of the UTP that notified prices for small customers in regional Queensland should broadly reflect the expected prices for small customers on standing offers in south east Queensland.³⁶

Customers on standing offers are supplied on the standard retail contract under the National Energy Customer Framework (NECF).³⁷ This contract contains standard terms and conditions. Customers who do not, or cannot, opt for a market contract are supplied by a standing offer by default.

A retailer can also offer market contracts that have different terms and conditions to standard retail contracts (for example, discounts on the bill if the customer pays early or pays by direct debit). Prices under market contracts are generally lower than standing offer prices.

³³ The cost estimates are based on a typical tariff 11 customer.

³⁴ The cost estimates are based on a typical tariff 11 customer.

³⁵ QCOSS, Submission on the QCA interim consultation paper, *Regulated retail electricity prices 2017–18*, 7 December 2016, p. 5.

³⁶ Covering letter to the delegation (Appendix A).

³⁷ See Schedule 1, National Energy Retail Rules.

Canegrowers said that customers in Ergon Distribution's distribution areas should pay prices at levels equivalent to the most competitive retail price offerings in south east Queensland (Energex's distribution area).

QCA position

Our draft decision is to determine notified prices based on expected standing offer prices in south east Queensland. The delegation's covering letter makes it clear that setting prices below expected standing offer prices in south east Queensland (a likely result of Canegrowers' suggestion) would be inconsistent with the UTP.

In addition, market contracts generally have different terms and conditions to standard retail contracts, so their prices are not directly comparable. Like notified prices, standing offer prices in south east Queensland will apply to customers on standard retail contracts.

We also propose to estimate the costs of supply for each retail tariff using an N+R cost build-up approach, where we treat the N (network cost) component as a pass-through, and determine the R (energy and retail cost) component.

2.2 Large business customers

As noted above, in previous price determinations we have based notified prices for large business customers on the costs of supply in the lowest cost area of regional Queensland (Ergon Distribution's east pricing zone, transmission region one). This approach has encouraged competition in the large business customer market in east pricing zone, transmission region one. It is also consistent with the Queensland Government's definition of the UTP for 2017–18. However, this approach would not reflect the actual costs of supply in all regions, and would still require the Queensland Government to subsidise electricity prices.

Another approach would be to set fully cost-reflective notified prices. This would encourage competition in regional Queensland outside of east pricing zone, transmission region one, and promote long-term efficient use of electricity services in regional Queensland in the large business customer market. However, it would introduce significant price increases for customers, especially customers in western Queensland and those supplied by isolated systems. We also consider this approach inconsistent with the Queensland Government's UTP for 2017–18.

Auctus Resources supported basing notified prices for large business customers on the costs of supply in Ergon Distribution's east pricing zone, transmission region one.

QCA position

Our draft decision is to continue basing the notified prices for large business customers in regional Queensland on the lowest costs of supply in regional Queensland, which is Ergon Distribution's east pricing zone, transmission region one. We also propose to continue to estimate the costs of supply for each retail tariff in accordance with an N+R cost build-up approach. This is consistent with our approach to setting notified prices for residential and small business customers, as discussed above. We consider the effect of our decisions on competition in the large business customer market in more details in Chapter 6.

3 NETWORK COSTS

A retailer incurs network costs when supplying electricity to its customers. These costs are associated with transporting electricity through the transmission and distribution networks and account for around 45 per cent of the final cost of electricity for small customers.

Powerlink, Energex and Ergon Distribution, being regulated monopoly businesses, all earn regulated revenues that are determined by the Australian Energy Regulator (AER). In addition to recovering their own distribution network costs, Energex and Ergon Distribution pass Powerlink's transmission network costs on to customers in network charges approved by the AER.

This chapter sets out the QCA's draft decisions on the network charges used as the basis of notified prices for 2017–18. Our draft decisions are largely consistent with the 2016–17 price determination. In summary, we have decided to:

- base the flat rate retail tariffs and controlled load retail tariffs (tariffs 11, 20, 31 and 33) for residential and small business customers on Energex network tariff structures and charges*
- base the seasonal time-of-use retail tariffs for residential and small business customers (tariffs 12A and 22A) on Ergon Distribution network tariff structures and Energex price levels*
- base the seasonal time-of-use demand retail tariffs for residential and small business customers (tariffs 14 and 24) on Ergon Distribution network tariff structures and Energex price levels*
- base the low voltage demand and unmetered supply (excluding street lighting) retail tariffs (tariffs 41 and 91) on Energex network tariff structures and charges*
- base all retail tariffs for large business customers on Ergon Distribution network tariff structures and charges*
- introduce new high voltage retail tariffs for very large business customers, which are based on Ergon Distribution network tariff structures and charges.*

3.1 Introduction

A retailer incurs network costs when electricity is supplied to its customers. Network costs are the costs associated with transporting electricity through transmission and distribution networks.

Under the network plus retail (N+R) cost build-up approach that the QCA uses to set notified prices, the network cost component is treated as a pass-through. However, to determine the network cost to be passed through to retail customers, we need to decide:

- (a) the level at which network charges should be set (Energex or Ergon Distribution levels)
- (b) the network tariff structure on which the network cost component should be based (Energex or Ergon Distribution tariff structures).

Network tariff structures can include, for example, combinations of fixed, usage and demand charges. Consistent with our previous price determinations, the network cost components of regulated retail tariffs are based on the network tariff structures and pricing provided by Energex and Ergon Distribution (distributors).

Network tariff structures and charges are established by distributors and approved by the AER. As the timing of our price determination does not fully align with the AER's network pricing review process, distributors have provided us with draft network prices.

Consequently, it is important to note that the draft network prices provided to the QCA are preliminary in nature and subject to change as distributors will likely update their draft network prices prior to finalisation and submission to the AER in March 2017.

The network cost components for the final determination will be based on the network pricing submitted to the AER. In the event that the final network tariffs approved by the AER differ from those submitted by the distributors, the QCA will consider using a cost pass-through mechanism (see Chapter 6 for more information on this mechanism).

3.2 Network tariffs for residential, small business and unmetered supply customers

This section discusses the QCA's approach to setting network cost components of retail tariffs for residential, small business and unmetered supply customers, excluding street-lighting customers (see section 3.3 for information on the network cost components for large and very large business as well as street lighting retail tariffs).

For the 2017–18 price determination, the delegation requires that we consider:

- for residential and small business retail tariffs (except tariffs 12A, 14, 22A and 24), basing the network cost component on Energex network charges and tariff structures
- for residential and small business seasonal time-of-use retail tariffs (tariffs 12A and 22A) and time-of-use demand retail tariffs (tariffs 14 and 24), basing the network cost component on Energex network charges, but using the relevant Ergon Distribution network tariff structures.

Adopting the approach proposed in the delegation would be consistent with our approach in the 2016–17 determination. Under this approach, the network cost component of retail tariffs for small customers³⁸ would broadly reflect the costs of supplying small customers in south east Queensland and would therefore be consistent with the UTP³⁹.

3.2.1 Energex or Ergon Distribution network price levels

In determining the network cost components of small customer and unmetered supply⁴⁰ retail tariffs, the first issue the QCA must consider is the level at which network cost components should be set (Energex or Ergon Distribution price levels).

QCA position

As discussed in Chapter 2, the QCA's draft decision is to base notified prices for residential, small business and unmetered supply (excluding street lighting) customers on the cost of supply in south east Queensland. Consistent with this decision, we will set network cost components to reflect Energex network price levels. Setting network cost components at Energex levels means that small customers in regional Queensland will, generally, pay the same for network services as small customers in south east Queensland.

³⁸ Residential and small business customers.

³⁹ For more information on the Queensland Government's UTP, see Chapters 1 and 2.

⁴⁰ Unmetered supply retail tariff referred to in this chapter excludes street lighting–related services.

3.2.2 Energex or Ergon Distribution network tariff structures

The second issue the QCA must consider is whether to adopt the network tariff structures of Energex or Ergon Distribution for small customer and unmetered supply retail tariffs.

Energex and Ergon Distribution offer a variety of network tariffs with different tariff structures for small customers such as flat rate, time-of-use and time-of-use demand tariffs. Flat rate tariffs have a structure where the usage charge rates do not vary with the time and/or level of consumption. In contrast, time-of-use and time-of-use demand tariffs have a structure where the usage and demand charge rates vary with the time of consumption and/or demand.

Key differences between the Energex and Ergon Distribution network tariff structures for small customers, include:

- the proportion of costs recovered through fixed charges
- the approach to usage charge rates (for example, flat usage rates versus three-part inclining block tariffs)
- the applicable time-of-use and demand charging periods (for example, different peak and off-peak periods)
- the methodology for calculating demand charges.

See Appendix D for further information on differences between the network tariff structures.

Flat rate and controlled load retail tariffs

The delegation directs us to consider adopting Energex network tariff structures for the residential and small business flat rate retail tariffs (tariffs 11 and 20) and controlled load tariffs (tariffs 31 and 33).

Energy Queensland considered that all residential and small business retail tariffs should be based on Ergon Distribution network tariff structures, on the basis that it would be a further step towards improving cost reflectivity. However, this would result in a change of network tariff structure for residential and small business flat retail tariffs and controlled load tariffs, as these tariffs were based on Energex network tariff structure in the 2016–17 price determination.⁴¹ Such a change would also have significant distributional impacts on customers on these tariffs—with lower-usage customers in particular likely to face substantially higher bills.⁴²

QCOS⁴³ and Queensland Consumers Association⁴⁴ did not support using the Ergon Distribution inclining block network tariff structure as the basis for the main residential flat rate retail tariff (tariff 11) as they considered that the change in the tariff structure would create confusion and impact adversely on smaller usage customers.

Moreover, Ergon Distribution has acknowledged that its inclining block network tariffs will, over time, need to be phased out in favour of more cost-reflective network tariffs that better satisfy

⁴¹ During 2016–17, Energex offered flat rate network tariffs as default tariffs for residential and small business customers and controlled load network tariffs without fixed charges. Energex will continue this approach in 2017–18. In contrast, Ergon Distribution will offer inclining block network tariffs as default tariffs for small customers and controlled load network tariffs with fixed charges in 2017–18.

⁴² See Appendix D for more information on the customer impacts.

⁴³ Queensland Council of Social Service, Submission on the QCA interim consultation paper, *Regulated retail electricity prices for 2017–18*, 7 December 2016.

⁴⁴ Queensland Consumers Association, Submission on the QCA interim consultation paper, *Regulated retail electricity prices for 2017–18*, 7 December 2016.

the pricing principles in the National Electricity Rules (NER).⁴⁵ This suggests that there may be some uncertainty about the future of these network tariff structures. The QCA considers it would be preferable to have a higher degree of certainty about the future of Ergon Distribution network tariff structures before making any major changes that would affect nearly all customers in regional Queensland.

For the reasons above, we consider it appropriate to base residential and small business flat retail tariffs and controlled load tariffs on Energex network tariff structures.

Time-of-use and time-of-use demand retail tariffs

For residential and small business seasonal time-of-use retail tariffs (tariffs 12A and 22A) and time-of-use demand retail tariffs (tariffs 14 and 24), we have been directed to consider adopting Ergon Distribution network tariff structures.

We consider that using Ergon Distribution network tariff structures for the seasonal time-of-use and time-of-use demand retail tariffs would be more cost-reflective than using Energex network tariff structures.

Furthermore, we consider that it is more important that the seasonal time-of-use and time-of-use demand retail tariffs reflect Ergon Distribution network tariffs structures as these retail tariffs send signals to customers about the network costs incurred by retailers that arise due to the time and/or level of electricity usage and demand.

As noted by the AER, time-of-use and demand tariffs are generally more cost-reflective than flat rate and inclining block tariffs.⁴⁶ The delegation also points out that using Ergon Distribution network tariff structures for seasonal time-of-use and time-of-use demand retail tariffs would enhance the underlying network price signals and therefore encourage customers to reduce usage during peak periods on Ergon Distribution's network. Canegrowers Isis supported using Ergon Distribution network tariff structures and Energex price levels as the basis for setting seasonal time-of-use retail tariffs⁴⁷.

Given these reasons, we propose to base residential and small business seasonal time-of-use and time-of-use demand retail tariffs on Ergon Distribution network tariff structures.

Unmetered supply (excluding street lighting) retail tariff

Consistent with the 2016–17 price determination, we propose to base retail tariff 91 (unmetered supply) on the relevant Energex network tariff structures.

Low voltage demand retail tariff

Tariff 41 is a low voltage demand retail tariff available to small business customers in regional Queensland. It has fixed, usage and demand charges and is based on an Energex network tariff (network tariff code: 8300). Ergon Distribution does not have equivalent network tariff available for small customers.

While Energex designates network tariff 8300 as a large business customer network tariff, it is made available to small business customers on a voluntary basis. In the 2016–17 price

⁴⁵ Ergon Distribution, *Tariff Structure Statement 2017–18 to 2019–20*, November 2015, p. 36.

⁴⁶ AER, Draft Decision—Tariff Structure Statement Proposal—Energex and Ergon Energy, August 2016.

⁴⁷ Canegrowers Isis, Submission on the QCA interim consultation paper, *Regulated retail electricity prices for 2017–18*, 7 November 2016.

determination, we decided to retain tariff 41, on the basis that small business customers in south east Queensland would have access to this Energex network tariff.

For the same reason, we propose to retain tariff 41 and continue basing it on the relevant Energex network tariff structure.

QCA position

The QCA's draft decision is to use:

- Energex network tariff structures as the basis for setting the network cost components of flat rate, controlled load, unmetered supply and low voltage demand retail tariffs (tariffs 11, 20, 31, 33, 41 and 91)
- Ergon Distribution network tariff structures as the basis for setting the network cost components of seasonal time-of-use and time-of-use demand retail tariffs (tariffs 12A, 22A, 14 and 24).

3.2.3 Adjusting network charges towards Energex price levels while retaining Ergon Distribution tariff structures

As discussed, the QCA's draft decision is to use Ergon Distribution network tariff structures as the basis for setting seasonal time-of-use and time-of-use demand retail tariffs for residential and small business customers, while reducing the network cost components to Energex price levels.

Consistent with the 2016–17 price determination, the QCA has adopted different adjustment approaches for the four tariffs to:

- prevent our adjustments resulting in adjusted network prices being set higher than the levels that may be approved by the AER
- preserve the relativities between different pricing components within a network tariff to the greatest extent possible.

To adjust the network cost components to Energex price levels, we propose using the same adjustment approach as in the 2016–17 determination. This involves adjusting:

- the residential seasonal time-of-use retail tariff (tariff 12A) by adopting Ergon Distribution usage cost components and reducing the Ergon Distribution fixed cost component towards Energex price levels. As a result, the overall level of network cost components has been reduced to a level where regional residential customers will, on average, pay the same as they would on a residential flat tariff in south east Queensland.
- the small business seasonal time-of-use retail tariff (tariff 22A) by adopting the Energex fixed cost component and reducing Ergon Distribution usage cost components towards Energex price levels. As a result, the overall level of network cost components has been reduced to a level where regional small business customers will, on average, pay the same as they would on a small business flat tariff in south east Queensland.
- the residential and small business seasonal time-of-use demand tariffs (tariffs 14 and 24) by uniformly decreasing the Ergon Distribution fixed, usage and demand cost components towards Energex price levels. As a result, the overall level of network cost components has been reduced to a level where regional residential or small business customers will, on average, pay the same as they would on a residential or small business flat tariff respectively in south east Queensland.

Appendix D provides more information on the adjustment approaches.

QCA position

The QCA's draft decision is to adjust:

- the residential seasonal time-of-use retail tariff (tariff 12A) by adopting Ergon Distribution usage cost components and reducing the Ergon Distribution fixed cost component towards Energex price levels
- the small business seasonal time-of-use retail tariff (tariff 22A) by adopting the Energex fixed cost component and reducing Ergon Distribution usage cost components towards Energex price levels
- the residential and small business seasonal time-of-use demand tariffs (tariffs 14 and 24) by uniformly decreasing the Ergon Distribution fixed, usage and demand cost components towards Energex price levels.

3.2.4 Network cost components for 2017–18

The QCA's draft decision is to base regulated retail tariffs for residential, small business and unmetered supply customers on:

- Energex network tariff structures and cost components for retail tariffs 11, 20, 31, 33, 41 and 91
- Ergon Distribution network tariff structures and adjusted cost components for retail tariffs 12A, 22A, 14 and 24. To maintain consistency with the UTP, the level of network cost components has been adjusted to a level where regional customers will, on average, pay the same as they would pay on flat tariffs in south east Queensland.

Our draft decision on the network tariff structures and charges to apply to each retail tariff are presented in the following tables. As discussed in section 3.1, it is important to note that these tables are based on the draft network tariffs and charges and, therefore may be revised for the final determination.

Table 1 Draft decision—Energex network charges for 2017–18 for retail tariffs 11, 20, 31, 33, 41 and 91 (GST exclusive)

<i>Retail tariff</i>	<i>Energex network tariff code</i>	<i>Fixed charge^a c/day</i>	<i>Usage charge c/kWh</i>	<i>Demand charge \$/kW/month</i>
Tariff 11—Residential (flat rate)	8400	48.340	10.484	
Tariff 20—Business (flat rate)	8500	65.593	11.455	
Tariff 31—Night rate (super economy)	9000		6.135	
Tariff 33—Controlled supply (economy)	9100		8.702	
Tariff 41—Low voltage (demand) ^b	8300	480.232	1.542	22.499
Tariff 91— Unmetered	9600		9.380	

^a Charged per metering point.

^b The kVA equivalent demand charge for tariff 41 is \$20.253/kVA/month. A conversion factor of 0.9002 has been used, as advised by Energex.

Table 2 Draft decision—Calculated network charges for 2017–18 for retail tariffs 12A, 14, 22A and 24 (GST exclusive)

<i>Retail tariff</i>	<i>Fixed charge^a c/day</i>	<i>Usage charge (peak) c/kWh</i>	<i>Usage charge (off-peak or flat) c/kWh</i>	<i>Demand charge (peak) \$/kW/month</i>	<i>Demand charge (off-peak) \$/kW/month</i>
Tariff 12A—Residential (time-of-use)	54.844	39.270	6.216		
Tariff 22A—Business (time-of-use)	65.593	36.044	8.246		
Tariff 14—Residential (time-of-use demand)	17.925		2.635	54.036	8.744
Tariff 24—Business (time-of-use demand)	22.136		3.884	82.929	8.998

^a Charged per metering point.

3.3 Network tariffs for large business, very large business and street lighting customers

For the 2016–17 price determination, the QCA based retail tariffs for large⁴⁸ and very large⁴⁹ business customers as well as street lighting customers on the network tariffs and charges applicable in Ergon Distribution’s east pricing zone, transmission region one. We propose to continue with this approach for 2017–18 as it is consistent with our draft decision, discussed in Chapter 2, to set notified prices for these customers based on the lowest costs of supply in regional Queensland.

Energy Queensland⁵⁰ and Auctus Resources⁵¹ supported maintaining this approach for 2017–18.

3.3.1 High voltage retail tariffs—tariffs 47 and 48

In its submission on the 2016–17 price determination, Ergon Distribution requested that the QCA consider using different network tariff(s) as the basis for setting tariff 48 and restricting access to tariff 47 to existing customers. Ergon Distribution proposed these changes because it intended to discontinue its Standard Asset Customer—Large, Demand High Voltage (SAC–L HV) network tariff, which underpins tariffs 47 and 48, in 2017–18. Tariff 47 can be accessed by large business customers, while tariff 48 is available to very large business customers (Connection Asset Customers (CACs) and Individually Calculated Customers (ICCs)).

However, we considered that any changes to tariffs 47 and 48 should be subject to more extensive consultation, given the potentially significant adverse impacts on some customers. On

⁴⁸ Large business customers are Standard Asset Customers (SACs) (Large), typically consuming more than 100 MWh but less than 4 GWh per annum.

⁴⁹ Very large business customers consist of Connection Asset Customers (CACs), typically consuming more than 4 GWh but less than 40 GWh per annum and Individually Calculated Customers (ICCs), typically consuming more than 40 GWh per annum.

⁵⁰ Energy Queensland, Submission on the QCA *Interim Consultation Paper, Regulated retail electricity prices for 2017–18*, 7 December 2016.

⁵¹ Auctus Resources, Submission on the QCA interim consultation paper, *Regulated retail electricity prices for 2017–18*, 6 December 2016.

that basis, we decided to leave tariffs 47 and 48 unchanged then as these changes were not canvassed in the 2016–17 interim consultation paper.

As Ergon Distribution has advised that it still intends to discontinue the SAC–L HV network tariff, this issue was canvassed as part of the interim consultation paper for the 2017–18 price determination. Given the cessation of this network tariff, the QCA is proposing to close tariffs 47 and 48 to new customers and implement transitional arrangements for existing customers on these tariffs (see Chapter 7 for more information on these arrangements).

In light of this proposal, we need to ensure that alternative retail tariffs are available. While large business customers will have access to alternative standard tariffs such as tariffs 44, 45, 46 and 50, there are no alternative tariffs for very large business customers. This section explains our proposal to set new high voltage retail tariffs for very large business customers.

Connection Asset Customer network tariffs

Prior to July 2015, each of the 177 CAC customers was priced individually on the network level (with varying rates and tariff structures) to take into account their relative share of asset use and the assets built for their specific connection.⁵² To set notified prices based on Ergon Distribution individually priced CAC network tariffs would have required us to establish 177 different retail tariffs under the N+R cost build-up approach. As such, in previous determinations, we have decided against setting retail tariffs for CACs based on individually priced CAC network tariffs, instead setting a single retail tariff based on the SAC–L HV network tariff.

As part of its network tariff reform process, Ergon Distribution has standardised the network tariffs applicable to CACs into four CAC standard tariffs and three CAC seasonal time-of-use demand (STOUD) tariffs. The accessibility of these network tariffs is determined by the customer's connection voltage.

The four CAC standard network tariffs have six charging components:⁵³

- an actual demand charge (\$/kVA/month), which applies to the customer's actual kVA monthly maximum demand
- an excess reactive power charge (\$/excess kVAr/month), which applies to the kVAr used by a customer that exceeds the customer's permissible quantity⁵⁴
- a capacity charge (\$/kVA of Authorised Demand/month), which applies to the customer's individual kVA authorised demand or, if there is no authorised demand, the annual maximum demand in the previous full pricing period prior to the setting of prices
- a fixed charge (\$/day)
- a connection unit charge (\$/day/connection unit)
- an any time energy charge (\$/kWh of total energy consumed).

⁵² Ergon Energy, *Questions and Answers—For customers using MORE than 4GWh a year*, March 2015, at https://www.ergon.com.au/__data/assets/pdf_file/0004/261364/QA-for-customers-using-MORE-than-4GWh.pdf.

⁵³ The network charging components consist of both the distribution use of system charges and transmission use of system charges.

⁵⁴ A customer's permissible kVAr quantity is determined by the customer's authorised demand and the National Electricity Rules compliant power factor.

The three CAC STOU network tariffs have seven charging components:⁵⁵

- a peak demand charge (\$/kVA/month), which applies to the customer's maximum kVA demand recorded between 10am to 8pm during summer⁵⁶ weekdays
- an excess reactive power charge (\$/excess kVAr/month), applies to the kVAr used by a customer that exceeds the customer's permissible quantity⁵⁷
- a capacity charge (\$/kVA of Authorised Demand/month), which applies to the greater of either the customer's authorised demand or the actual monthly half hour maximum demand⁵⁸
- a fixed charge (\$/day)
- a connection unit charge (\$/day/connection unit)
- peak energy charge (\$/kWh of energy consumed), which applies to the total energy consumed during summer months⁵⁹
- off-peak energy charge (\$/kWh of energy consumed), which applies to the total energy consumed during non-summer months.⁶⁰

More information on Ergon Distribution network tariffs is available on its website at <https://www.ergon.com.au/network/network-management>.

Considerations

Ergon Distribution has proposed the introduction of new high voltage retail tariffs for CACs underpinned by its CAC network tariffs on the basis that this would improve cost reflectivity by passing through the relevant network price signals.

In its submission on the interim consultation paper, Energy Queensland reiterated its support for the introduction of new retail tariffs for CACs underpinned by Ergon Distribution CAC network tariffs.⁶¹

The standardisation of CAC network tariffs has made it feasible for the QCA to consider basing high voltage retail tariffs on Ergon Distribution CAC network tariffs. We consider this would improve cost reflectivity relative to retail tariff 48. Given this, and consistent with the N+R approach, we propose to introduce seven new CAC retail tariffs, underpinned by the relevant CAC network tariffs.

As the QCA proposes to close tariff 48 to both CACs and ICCs, we also need to consider introducing a new retail tariff for ICCs. At this stage, network tariffs available to ICCs have a standardised tariff structure but the rates are calculated on an individual basis to reflect the specific supply requirements of a site's load requirements. We consider the approach of setting notified prices

⁵⁵ The network charging components consist of both the distribution use of system charges and transmission use of system charges.

⁵⁶ Summer months are December, January and February.

⁵⁷ A customer's permissible kVAr quantity is determined by the customer's authorised demand and the National Electricity Rules compliant power factor.

⁵⁸ The monthly actual maximum demand is measured all year excluding summer peak demand window times (i.e. 10am to 8pm during summer weekdays).

⁵⁹ Summer months are December, January and February.

⁶⁰ Non-summer months are March to November.

⁶¹ Energy Queensland, Submission on the QCA *Interim Consultation Paper, Regulated retail electricity prices for 2017–18*, 7 December 2016.

based on the individually priced ICC network tariffs infeasible, as it will require us to set individually priced retail tariffs for ICCs.

Ergon Distribution advised that among the standardised network tariffs available to very large business customers, its CAC standard network tariff HVL (High Voltage Line–22/11kV Line) is the most suitable base for an ICC retail tariff as it is closest to cost reflectivity for ICCs on a network level. Energy Queensland supported the establishment of a new retail tariff for ICCs based on the Ergon Distribution CAC standard network tariff HVL.⁶²

Given this advice, the QCA proposes to introduce a new ICC retail tariff underpinned by Ergon Distribution CAC standard network tariff HVL, on the basis that it improves cost reflectivity relative to retail tariff 48.

QCA position

The QCA's draft decision is to:

- introduce seven high voltage retail tariffs for CACs, underpinned by Ergon Distribution CAC standard network tariffs and CAC STOU network tariffs
- introduce one high voltage retail tariff for ICCs, underpinned by the Ergon Distribution CAC standard network tariff HVL.

3.3.2 Network cost components for 2017–18

The QCA's draft decision is to continue to base retail tariffs for large business customers and street lighting customers on the network tariffs applying to Ergon Distribution's east pricing zone, transmission region one. We also propose to introduce new high voltage retail tariffs for very large business customers, which are based on Ergon Distribution CAC network tariffs applying to east pricing zone, transmission region one.

Our draft decision on the network tariff structures and charges to apply to each retail tariff are presented in the following tables. As discussed, it is important to note that these tables are based on draft network tariffs and charges, which may be revised for the final determination.

⁶² Energy Queensland, Submission on the QCA Interim Consultation Paper, *Regulated retail electricity prices for 2017–18*, 7 December 2016.

Table 3 Draft decision—Ergon Distribution network charges for 2017–18 large business and street lighting customer retail tariffs (GST exclusive)

<i>Retail tariff</i>	<i>Ergon Distribution network tariff code</i>	<i>Fixed charge^a c/day</i>	<i>Usage charge (peak) c/kWh</i>	<i>Usage charge (off-peak/flat) c/kWh</i>	<i>Demand charge (peak) \$/kW/month</i>	<i>Demand charge (off-peak/ flat) \$/kW/month</i>
Tariff 44—over 100 MWh small (demand)	EDSTT1	4315.700		1.399		33.824
Tariff 45—over 100 MWh medium (demand)	EDMTT1	14317.100		1.363		26.897
Tariff 46—over 100 MWh large (demand)	EDLTT1	38542.300		1.445		24.006
Tariff 50—seasonal time-of-use (demand)	ESTOUDCT1	3466.600	1.063	3.563	55.617	10.897
Tariff 71—street lighting ^b	EVUT1	0.700		18.818		

a. Charged per metering point.

b. The fixed charge for street lighting applies to each lamp.

Table 4 Draft decision—Ergon Distribution network charges for 2017–18 very large business customer retail tariffs (GST exclusive)

<i>Retail tariff</i>	<i>Ergon Distribution network tariff code</i>	<i>Fixed charge c/day</i>	<i>Usage charge (peak) c/kWh</i>	<i>Usage charge (off-peak or flat) c/kWh</i>	<i>Connection unit charge \$/day/unit</i>	<i>Capacity charge (off-peak/flat) \$/kVA of authorised demand/month</i>	<i>Demand charge (peak/flat) \$/kVA/month</i>	<i>Excess reactive power charge \$/excess/kVAr/month</i>
Tariff 51A—over 4 GWh high voltage (CAC 66kV)	EC66T1	23749.300		1.589	9.538	4.994	2.570	4.000
Tariff 51B—over 4 GWh high voltage (CAC 33kV)	EC33T1	17624.800		1.589	9.538	6.110	4.344	4.000
Tariff 51C—over 4 GWh high voltage (CAC 22/11kV Bus)	EC22BT1	16524.800		1.593	9.538	5.575	4.225	4.000
Tariff 51D—over 4 GWh high voltage (CAC 22/11kV Line)	EC22LT1	15324.800		1.606	9.538	11.462	6.967	4.000
Tariff 52A—over 4 GWh high voltage (CAC STOUD 33/66kV)	EC66TOUT1	12024.800	1.089	1.489	9.538	5.676	11.000	4.000
Tariff 52B—over 4 GWh high voltage (CAC STOUD 22/11kV Bus)	EC22BTOUT1	12024.800	1.093	1.493	9.538	4.676	39.600	4.000
Tariff 52C—over 4 GWh high voltage (CAC STOUD 22/11kV Line)	EC22LTOUT1	12024.800	1.106	1.506	9.538	8.676	72.333	4.000
Tariff 53—over 40 GWh high voltage (ICC) ^a	EC22LT1	15324.800		1.606		11.462	6.967	4.000

a. Ergon Distribution advised that ICCs do not incur connection unit charges on a network level.

4 ENERGY COSTS

A retailer incurs energy costs when purchasing electricity to meet the electricity demand of its customers. Energy costs can be split into three general categories:

- (1) wholesale energy costs*
- (2) other energy costs*
- (3) energy losses.*

As with previous price determinations, the QCA has determined energy costs based on advice from ACIL Allen, its consultant. ACIL Allen has estimated that energy costs will increase for all customers in 2017–18, with increases driven primarily by higher wholesale energy costs and Large-scale Renewable Energy Target (LRET) costs.

An overview of how each energy cost component was calculated is provided below. A more detailed explanation appears in ACIL Allen's 2017–18 draft report.⁶³

4.1 Wholesale energy costs

A retailer incurs wholesale energy costs when purchasing electricity from the National Electricity Market (NEM) to meet the electricity demand of its customers. The NEM is a volatile market where prices are settled every half an hour and can range from –\$1000 per megawatt hour (MWh) to \$14,000 per MWh.⁶⁴ Retailers can, and do, adopt a range of strategies to reduce price volatility risk, including:

- pursuing a 'hedging strategy' by purchasing financial derivatives such as swaps and options
- entering long-term power purchase agreements with generators
- investing in their own electricity generators.

For the 2016–17 price determination, ACIL Allen estimated wholesale energy costs for customers on notified prices using a hedging strategy approach. The QCA considered that ACIL Allen's approach was transparent and best reflected the actual costs retailers incur when purchasing electricity from the NEM. Hedging based strategies have also been adopted by other Australian regulators and endorsed by the Australian Energy Market Commission (AEMC) in its 2013 advice on best practice retail regulation, produced for the Standing Council on Energy and Resources.⁶⁵

In their submissions on the 2017–18 interim consultation paper, Energy Queensland, Queensland Consumers Association and QCOSS supported the use of the same hedging strategy methodology used to estimate energy costs for the 2016–17 price determination. Canegrowers Isis was concerned that electricity prices were too high, and considered that the energy cost structure should be challenged as 'ultimately such a system will lead to a failure of the network.'

⁶³ <http://www.qca.org.au/Electricity/Regional-consumers/Reg-Electricity-Prices>.

⁶⁴ The minimum spot price is defined in clause 3.9.6(b) of the National Electricity Rules. The market price cap is published by the AEMC every February. For more information, see www.aemc.gov.au.

⁶⁵ AEMC, *Advice on best practice retail price methodology*, final report, 27 September 2013.

Canegrowers recommended that the QCA use Ergon's net system load profile (NSLP⁶⁶) to determine wholesale energy costs rather than Energex's NSLP.

In its draft report on estimated energy costs for 2017–18 (2017–18 draft report), ACIL Allen has continued to estimate wholesale energy costs using a hedging strategy approach. This is consistent with its approach in previous years. ACIL Allen has also provided a detailed explanation of its calculation of wholesale energy costs in chapter 4 of its 2017–18 draft report and addressed issues raised in submissions in chapter 3.

As set out in its 2017–18 draft report, ACIL Allen has estimated that wholesale energy costs will increase for all retail tariffs in 2017–18 compared with 2016–17. The increase reflects the projected continuation of the increase in gas prices for gas-fired generation and the continued tightening of the supply–demand balance in Queensland and other regions of the NEM due to:

- increased demand from in-field gas compression associated with the liquefied natural gas (LNG) export facilities
- the closure of Hazelwood Power Station in 2017
- little new renewable energy capacity entering the market in 2017–18.⁶⁷

ACIL Allen also advised that its wholesale electricity market modelling aligned with the market's expectations of price outcomes in 2017–18. Compared with the QCA's 2016–17 price determination, futures contract prices for 2017–18, on a trade weighted basis to date, have increased by around:

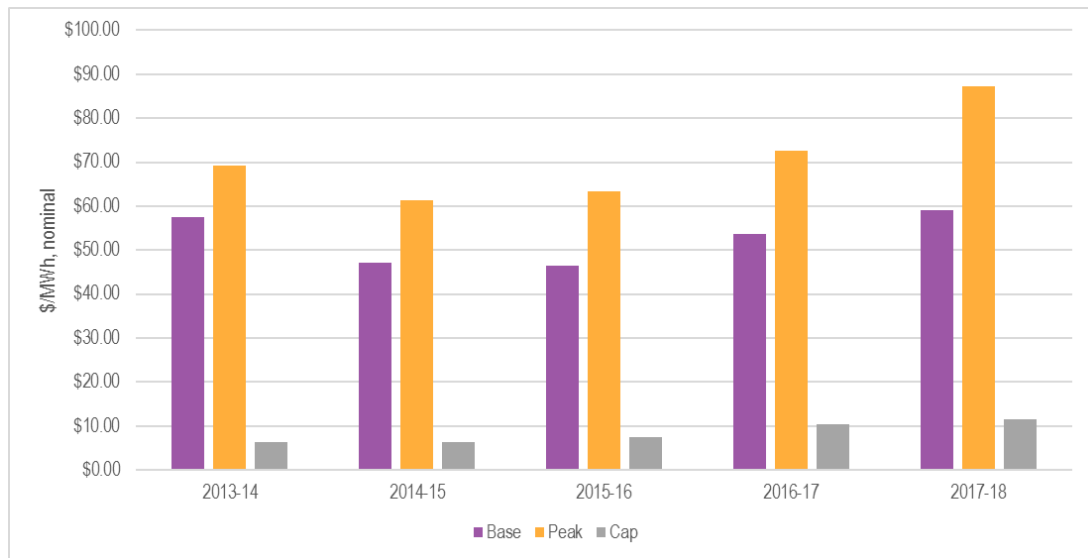
- \$5.40 per MWh for base contracts
- \$14.80 per MWh for peak contracts
- \$1.34 per MWh for cap contracts.

Figure 7 illustrates the movement in annual trade weighted quarterly hedging contract prices since the 2013–14 price determination.

⁶⁶ For more information on NSLPs, see <http://www.aemc.gov.au/getattachment/5615bb69-f5b5-4afe-bc49-6c1a7ea89727/Net-system-load-profile-2012.aspx>.

⁶⁷ While a number of new renewable energy projects are planned or under construction, only a limited amount of new renewable generation will be fully operational in 2017–18, with a number of renewable energy projects likely to commence operation towards the end of, or after, the 2017–18 financial year in mid-2018.

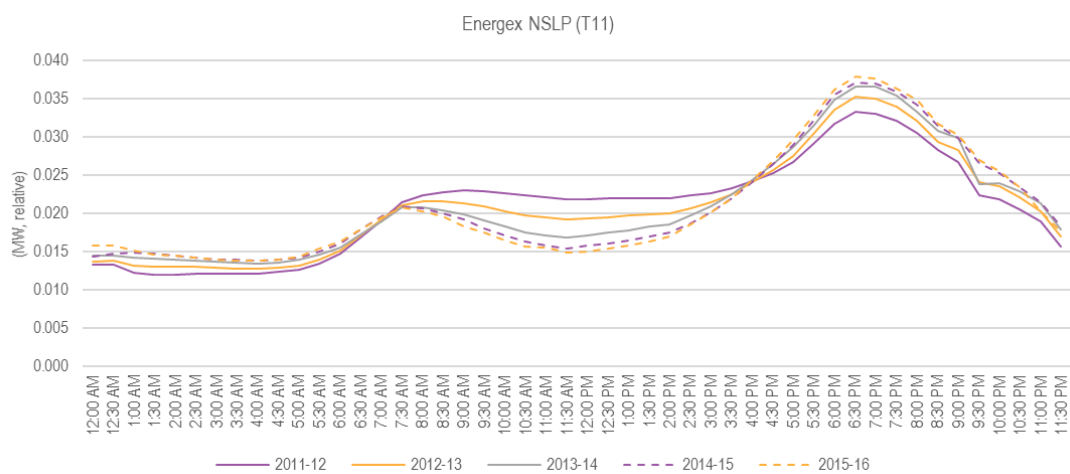
Figure 7 Annualised quarterly electricity hedging contract prices (\$/MWh), 2017–18 draft determination and previous final determinations



Source: ACIL Allen, *Estimated Energy Costs for 2017–18*, 11 January 2017, p. 12.

Over the past few years, the Energex NSLP has become peakier due to increased solar generation reducing daytime demand but having no effect on the evening peak demand.⁶⁸ Figure 8 shows how the NSLP has become peakier over time.

Figure 8 Energex NSLP



Note: The term 'relative MW' means the loads for each tariff and year have been scaled so they sum to one. This removes differences in absolute scale between the different tariffs and changes in absolute size over time.

Source: ACIL Allen, *Estimated Energy Costs for 2017–18*, 11 January 2017, p. 10.

The Energex NSLP has a higher weighting towards the peak periods and, consequently, the highest wholesale energy costs of the profiles analysed in Queensland. The Ergon NSLP is less peaky than the Energex NSLP and therefore has lower wholesale energy costs.

As controlled loads (tariffs 31 and 33) are generally weighted more towards the off-peak periods and non-summer quarters (due to higher water heating loads in non-summer months), the

⁶⁸ Peak demand generally occurs between 6.30 pm and 8.30 pm.

wholesale energy costs for these tariffs have not increased to the same extent as the wholesale energy costs for the Energex and Ergon NSLPs.⁶⁹

ACIL Allen estimated that wholesale energy costs in 2017–18 will therefore increase as follows:

- the Energex NSLP by 14.7 per cent to \$86.40 per MWh
- the Ergon NSLP by 17.1 per cent to \$76.92 per MWh
- the Energex controlled load tariffs by between 8.6 per cent and 11.3 per cent to \$45.94 and \$62.48 per MWh respectively.

QCA position

The QCA considers that ACIL Allen's hedging methodology adequately takes into account the issues raised in submissions and is likely to produce reliable estimates that reflect the efficient costs of supply. Maintaining an approach for 2017–18 that is consistent with the approach used in previous years will also provide certainty to stakeholders.

The QCA's draft decision is to accept ACIL Allen's advice on this matter and its draft wholesale energy cost estimates, which are outlined in Table 5. We expect ACIL Allen will update these cost estimates for the final determination based on the latest available data.

Consistent with the UTP⁷⁰, the QCA proposes to use the Energex NSLP wholesale energy costs estimate for residential, small business and unmetered supply (excluding street lighting) customers.

Table 5 Estimated wholesale energy costs at the Queensland regional reference node for 2017–18

Settlement class	Retail tariff	Wholesale energy cost	Change from 2016–17	
		\$/MWh	%	\$
Energex NSLP & unmetered supply	11, 12A, 14, 20, 22A, 24, 41, 91	\$86.40	14.7%	\$11.08
Energex Controlled Load 9000	31	\$45.94	8.6%	\$3.63
Energex Controlled Load 9100	33	\$62.48	11.3%	\$6.33
Ergon Energy NSLP—small, medium, large (SAC) demand & streetlights	44, 45, 46, 50, 71	\$76.92	17.1%	\$11.23
Ergon Energy NSLP—high voltage demand & customers over 4 GWh (SAC HV, CAC & ICC)	51A, 51B, 51C, 51D, 52A, 52B, 52C, 53	\$76.92	17.1%	\$11.23

Source: ACIL Allen, *Estimated energy costs for 2017–18*, 11 January 2017, p. 23.

⁶⁹ Tariff 33 has a higher wholesale energy cost than tariff 31, as its load profile is weighted slightly more to the daylight hours and the evening peak than the load profile of tariff 31.

⁷⁰ See Chapters 1 and 2 for further detail.

4.2 Other energy costs

In addition to wholesale energy costs, the QCA must account for the other energy costs that a retailer incurs when it purchases energy from the NEM, which are:

- Renewable Energy Target (RET) costs
- NEM participation fees and ancillary services charges
- prudential capital costs.

4.2.1 Renewable Energy Target costs

The RET scheme, comprised of the Large-scale Renewable Energy Target (LRET) and Small-scale Renewable Energy Scheme (SRES), provides incentives for the electricity sector to increase generation from renewable sources and reduce greenhouse gas emissions. The costs of these incentives are paid by retailers through the purchase of Large-scale Generation Certificates (LGCs) and Small-scale Technology Certificates (STCs).

LRET costs

The LRET sets annual targets for the amount of electricity that must be sourced from large-scale renewable energy projects like wind farms, with an ultimate target of generating 33,000 Gigawatt hours (GWh) of electricity from large-scale renewable sources.⁷¹ Retailers must purchase a set number of LGCs according to the amount of electricity they have sold to customers in the calendar year.

For the QCA's 2016–17 price determination, ACIL Allen estimated LRET costs using a market-based approach. This approach based LGC prices on forward prices for certificates published by the Australian Financial Markets Association (AFMA). ACIL Allen used the 2016 renewable power percentage (RPP) for the first half of the pricing period and the latest published 2017 LRET target for the second half of the pricing period.

In its submission to the 2017–18 interim consultation paper, Energy Queensland supported calculating LRET costs using a market-based approach. QCOSS also supported the use of the same methodology as for the 2016–17 price determination.

In its 2017–18 draft report, ACIL Allen forecast LRET costs using an approach consistent with previous years. ACIL Allen has provided a detailed explanation of its calculations in chapter 4 of its 2017–18 draft report, along with information on LGC prices and the assumptions underpinning the implied RPPs used. It also addressed issues raised in submissions in chapter 3 of its 2017–18 draft report. ACIL Allen examined market prices over a number of years and considered that its market-based approach, whereby retailers purchase LGCs over a two-year period to satisfy their obligations, provided the best estimate of LRET costs for the purposes of setting notified prices for 2017–18.

ACIL Allen also noted that LGC prices have continued to increase on the expectation that there would be a shortfall of LGCs by 2018. At the time ACIL Allen prepared its 2017–18 draft report, LGC spot prices were trading around \$90, which was close to the penalty level, and LGC futures prices were also around \$20 per LGC higher than in 2016–17. Consequently, ACIL Allen forecast that LRET costs for 2017–18 would be \$11.74 per MWh for all retail tariffs, an increase of \$3.91 per MWh compared to the 2016–17 price determination.

⁷¹ Section 40, *Renewable Energy (Electricity) Act 2000* (Cth).

QCA position

The QCA considers that ACIL Allen's market-based approach, using the most up-to-date targets and price information published by AFMA, is likely to produce the most reliable estimate of LRET costs to be incurred by retailers in 2017–18. Maintaining an approach for 2017–18 that is consistent with the approach used in previous years will also provide certainty to stakeholders.

Therefore, the QCA's draft decision is to accept ACIL Allen's advice on this matter and its draft LRET cost estimates, which are outlined in Table 6. We expect ACIL Allen will update these cost estimates in its final report based on the final RPP for 2017.

SRES costs

The SRES provides an incentive for individuals and small businesses to install eligible small-scale renewable energy systems such as solar panel systems, small-scale wind systems, small-scale hydro systems, solar hot water systems and heat pumps. Customers installing these systems receive STCs, which retailers must purchase according to the amount of electricity they have sold to individuals and small businesses.

For the 2016–17 price determination, ACIL Allen estimated SRES costs using the final 2016 small-scale technology percentage (STP) and the latest available non-binding 2017 STP target for the second half of the pricing period. STC prices were based on the clearing house price.

In its 2017–18 draft report, ACIL Allen estimated SRES costs using the same approach as 2016–17. Its forecast of \$3.47 per MWh was based on the on the latest available non-binding STP targets.

QCA position

The QCA considers that ACIL Allen's approach is likely to produce the most reliable estimate of SRES costs to be incurred by retailers in 2017–18. Maintaining a consistent approach for 2017–18 will also provide certainty to stakeholders.

Therefore, the QCA proposes to accept ACIL Allen's advice on this matter and its draft SRES cost estimates, which are outlined in Table 6. We expect ACIL Allen will update these cost estimates in its final report using the final STP for 2017, which is due to be published by 31 March 2017, and the latest non-binding STP for 2018.

4.2.2 NEM participation fees and ancillary services charges

Retailers purchasing electricity from the NEM are required to pay NEM participation fees⁷² and ancillary services charges to AEMO. NEM participation fees are levied by AEMO to cover the costs of operating the NEM, the costs associated with full retail contestability, and the costs of funding Energy Consumers Australia. Ancillary services charges cover the costs of the services used by AEMO to manage power system safety, security and reliability.

For the 2016–17 price determination, ACIL Allen used AEMO's budget and fee projections to estimate NEM participation fees. Its estimate of ancillary services charges was based on the average historical costs observed over the preceding 52 weeks.

In its 2017–18 draft report, ACIL Allen used the projected 2017–18 NEM participation fees from AEMO's *Consolidated Final Budget and Fees 2016–17* report because AEMO's *Consolidated Final Budget and Fees 2017–18* report has not been published. Consistent with its approach in

⁷² In its 2017–18 draft report, ACIL Allen refers to these fees as 'NEM management fees'.

2016–17, ACIL Allen's estimate of draft ancillary services charges was based on the average historical costs observed over the preceding 52 weeks.

QCA position

The QCA considers that ACIL Allen's approach is likely to produce the most reliable estimate of NEM participation and ancillary services costs to be incurred by retailers in 2017–18. Maintaining an approach for 2017–18 that is consistent with the approach in previous years will also provide certainty to stakeholders

Therefore, the QCA's draft decision is to accept ACIL Allen's advice on this matter and its draft cost estimates, which are outlined in Table 6. We expect ACIL Allen will update these cost estimates in its final report based on the latest data and AEMO's *Consolidated Final Budget and Fees 2017–18* report.

4.2.3 Prudential capital costs

Prudential capital costs are the costs a retailer incurs to provide financial guarantees to AEMO and to lodge initial margins with hedge providers for futures contracts. These costs must be accounted for, as futures contracts are relied upon to derive the wholesale energy costs estimates. For the 2016–17 price determination, ACIL Allen estimated prudential capital costs in line with the latest published AEMO requirements and margin requirements for trading in the futures market.

In its submission to the 2017–18 interim consultation paper, QCOSS also supported the use of the same methodology to estimate energy costs, including prudential costs, as for the 2016–17 price determination. Canegrowers proposed that the energy component, including prudential costs, should be based on the Ergon NSLP.

In its 2017–18 draft report, ACIL Allen used an approach that is largely consistent with its 2016–17 approach. However, it refined the methodology for estimating the hedge prudential costs component to take into account the relative proportion of each type of contract used in its hedge model and any over-contracting modelled in that hedge model.⁷³

QCA position

The QCA considers that ACIL Allen's approach is likely to produce the most reliable estimate of prudential capital costs to be incurred by retailers in 2017–18. We consider the use of the Energex NSLP to calculate prudential costs is appropriate, given that under the Queensland Government's UTP⁷⁴ most customers in regional Queensland will pay notified prices that are based on energy costs in south east Queensland.

Therefore, the QCA's draft decision is to accept ACIL Allen's advice on this matter and its draft prudential capital cost estimates, which are outlined in Table 6.

4.2.4 Summary of other energy costs for 2017–18

Table 6 sets out the draft estimates of other energy costs for 2017–18, which will be added to the wholesale energy cost components of all retail tariffs.

⁷³ For previous price determinations, ACIL Allen used baseload contracts as proxies for hedge prudential costs. Consistent with the approach in previous price determinations, for its 2017–18 draft report, ACIL Allen has calculated prudential costs based on the Energex NSLP.

⁷⁴ See Chapters 1 and 2 for more detail.

Table 6 Other energy costs (excluding losses)—all retail tariffs

<i>Cost component</i>	<i>\$/MWh</i>	<i>% change from 2016–17</i>
LRET	\$11.74	49.9%
SRES	\$3.47	–7.2%
NEM fees	\$0.51	6.3%
Ancillary services	\$0.29	–12.1%
Prudential capital	\$2.28	130.3%
Total	\$18.29	36.8%

Note: Totals may not add due to rounding.

Source: ACIL Allen, Estimated Energy Costs for 2017–18, 11 January 2017, p. 30.

4.3 Energy losses

Some electricity is lost when it is transported over transmission and distribution networks to customers. As a result, retailers must purchase additional electricity to allow for these losses when supplying customers.

Consistent with its approach in 2016–17, ACIL Allen has accounted for energy losses by applying transmission and distribution loss factors published by AEMO in a manner that aligns with AEMO's settlement process. These losses are based on AEMO's 2016–17 published loss factors, as loss factors for 2017–18 have not been published.

QCA position

The QCA's draft decision is to accept ACIL Allen's advice on this matter and its draft loss factor calculations, which are outlined in Table 7. We expect ACIL Allen will use AEMO's 2017–18 loss factors in its final report.

4.4 Total draft energy cost allowances for 2017–18

Table 7 summarises the QCA's draft decision on energy cost allowances for each retail tariff for 2017–18.

Table 7 Draft decision—total energy cost allowances for 2017–18

<i>Settlement class</i>	<i>Retail tariff</i>	<i>Wholesale energy</i>	<i>Other Energy</i>	<i>Energy losses</i>	<i>Total energy allowance</i>		<i>Change from 2016–17</i>
		<i>\$/MWh</i>	<i>\$/MWh</i>	<i>%</i>	<i>\$/MWh</i>	<i>c/kWh</i>	<i>%</i>
Energex NSLP & unmetered supply	11, 12A, 14, 20, 22A, 24, 41, 91	\$86.40	\$18.29	6.5%	\$111.49	11.149	18.0%
Energex Controlled Load 9000	31	\$45.94	\$18.29	6.5%	\$68.40	6.840	15.4%
Energex Controlled Load 9100	33	\$62.48	\$18.29	6.5%	\$86.02	8.602	16.2%

Settlement class	Retail tariff	Wholesale energy	Other Energy	Energy losses	Total energy allowance		Change from 2016–17
		\$/MWh	\$/MWh	%	\$/MWh	c/kWh	%
Ergon Energy NSLP–small, medium, large (SAC) demand & streetlights	44, 45, 46, 50, 71	\$76.92	\$18.29	12.0%	\$106.64	10.664	20.4%
Ergon Energy NSLP–high voltage demand & customers over 4 GWh (SAC HV, CAC & ICC)	51A, 51B, 51C, 51D, 52A, 52B, 52C, 53	\$76.92	\$18.29	5.2%	\$100.16	10.016	20.4%

Note: Totals may not add due to rounding.

Source: ACIL Allen, Estimated Energy Costs for 2017–18, 11 January 2017, p. 32.

5 RETAIL COSTS

The second element of the R component is retail costs, which include retail operating costs and a retail margin.

Our draft decision is to maintain existing retail cost allowances by:

- *adjusting fixed retail cost allowances for residential and small business customers to account for inflation and maintaining variable retail cost allocators at 11.27 per cent for residential customers and 12.8 per cent for small business customers, and*
- *adjusting fixed retail cost allowances for large customers to account for inflation and maintaining the variable retail cost allocators at 6.0445 per cent.*

5.1 Background

Retail costs include retail operating costs (ROC) and a retail margin. ROC are the costs associated with services provided by a retailer to its customers, and typically include customer administration, call centres, corporate overheads, billing and revenue collection, IT systems, regulatory compliance, and customer acquisition and retention costs (CARC). The retail margin represents the return to investors for retailers' exposure to systematic risks associated with providing retail electricity services. The margin can also include other costs incurred by retailers such as depreciation, amortisation, interest payments and tax expenses.

Prior to the 2016–17 determination, we estimated allowances for retail costs based on publicly reported data and benchmark observations of other regulatory decisions. Residential and small business allowances were predominantly based on those of the Independent Pricing and Regulatory Tribunal (IPART). Once established, these allowances were maintained in real terms by adjusting them by the forecast change in the Consumer Price Index (CPI), and then applying a retail margin.

For our 2016–17 price determination we conducted a comprehensive review of the retail cost components of retail tariffs. As part of that review, we engaged ACIL Allen to provide advice on efficient retail costs. ACIL Allen used a combination of bottom-up and benchmarking methods to estimate retail costs for residential and small business customers, informed by analysis of publicly available data, observed market offers, and detailed confidential information provided by retailers. We established separate retail cost allowances for residential and small business customers, based on the averages of ACIL Allen's benchmarking observations.

For large and very large business customers there was insufficient data to establish new benchmarks. ACIL Allen advised that there was no compelling evidence that the retail costs varied materially from the QCA's previous allowances. As a result, we based large business customer retail costs on our 2015–16 allowances, adjusted fixed retail components by forecast inflation (to maintain them in real terms) and then applied the relevant variable retail cost allocators.⁷⁵

We provided stakeholders with a full and comprehensive explanation of the methodology, the data used, and how it was applied, in our 2016–17 price determination and ACIL Allen's reports, which are available on the QCA's [website](#).⁷⁶

⁷⁵ See Appendix E for more information on variable retail cost allocations.

⁷⁶ <http://www.qca.org.au/Electricity/Regional-consumers/Reg-Electricity-Prices>.

We noted in our 2016–17 determination that this thorough bottom-up and benchmark review of efficient retail cost allowances was costly and time-consuming, placed a significant reporting burden on electricity retailers, and that it was likely the cost of doing that exercise on a yearly basis would outweigh any incremental benefit over the short term. Rather, we envisaged that the thorough review of retail costs for the 2016–17 determination should produce robust estimates that could then be updated annually using a defined escalation method.

QCOS did not see the need to redo the calculations from 2016–17 and considered that the retail cost allowances established in the 2016–17 final determination were an appropriate starting point for setting prices for 2017–18.

QCOS did not believe there was evidence that retail costs had increased and considered that costs should be indexed down to reflect increased efficiencies. Canegrowers Isis considered that retail cost allowances should be fixed for a period of up to five years to encourage greater retailer efficiency.

Energy Queensland noted that the introduction of the Australian Energy Market Commission's Power of Choice⁷⁷ package of reforms were necessitating significant changes to retailer systems, and that there were a number of reviews which could have an impact on retailer costs in future. Energy Queensland also noted that their customer management costs had increased due to the declining economic conditions in regional Queensland resulting from the end of the mining boom.

QCA position

Our draft decision is to maintain existing fixed retail cost allowances in real terms, and maintain variable retail cost percentage allocators as the same proportion of other variable costs established in the 2016–17 final price determination. We agree with QCOS that the retail cost allowances established in 2016–17 are an appropriate starting point for establishing 2017–18 retail cost allowances. As noted in our 2016–17 determination, we will consider a further detailed review in future, particularly if there were material changes in retail cost drivers.

We note comments from consumer groups who considered that retail allowances should be reduced in real terms for 2017–18 through freezing or negative indexation of 2016–17 retail cost allowances. However, as stakeholders have not provided evidence, and we have no compelling evidence, that actual costs have fallen in real terms for retailers in the electricity market, we consider this would likely result in notified prices which are lower than expected residential and small business standing offer prices in south east Queensland and as a result would not be consistent with the UTP.

Maintaining retail cost allowances, on the other hand, is consistent with our previous approaches to setting retail prices and is also consistent with the UTP.

For residential and small business customers this will be achieved by:

- adjusting fixed retail cost allowances estimated in 2016–17 by the Reserve Bank of Australia's forecast of the change in the consumer price index for 2017–18⁷⁸ to maintain them in real terms, and

⁷⁷ <http://www.aemc.gov.au/Major-Pages/Power-of-choice>.

⁷⁸ We adopted CPI of 2.0%, which is consistent with the mid-range of the RBA forecast of 1.5%–2.5% for the 12 months to 30 June 2018. Reserve Bank of Australia, *Statement on Monetary Policy*, November 2016, Table 6.1, p. 57.

- maintaining the variable retail cost percentage allocators at 11.27 per cent for residential customers and 12.8 per cent for small business customers, the same proportions of other variable costs established in the 2016–17 final price determination.

Consistent with the 2016–17 price determination fixed retail cost allowances for large and very large business customers will be adjusted by forecast CPI, and the variable retail cost allocators will be maintained at 6.0445 per cent.

5.2 Draft retail cost allowances for 2017–18

Tables 8 to 11 set out our draft decisions on the retail cost allowances for each regulated retail tariff for 2017–18. Each fixed retail cost component includes an allowance for QCA regulatory fees, which is based on 2016–17 data. This allowance will be updated for actual 2017–18 regulatory fees for our final determination.

Table 8 Draft determination—Retail costs for residential customers for 2017–18 (GST exclusive)

Retail tariff	Pricing component				
	Fixed retail component (c/day) ^a	Usage (c/kWh)		Demand (\$/kW/month)	
		Peak	Off-peak/flat	Peak	Off-peak/flat
T11	35.807		2.438		
T12A	35.807	5.682	1.957		
T14	35.807		1.554	6.090	0.985
T31			1.462		
T33			1.950		

^a The fixed retail component comprises the benchmark retail fixed component adjusted for inflation and QCA regulatory fees.

Table 9 Draft determination—Retail costs for small business customers for 2017–18 (GST exclusive)

Retail tariff	Pricing component				
	Fixed retail component (c/day) ^a	Usage (c/kWh)		Demand (\$/kW/month)	
		Peak	Off-peak/flat	Peak	Off-peak/flat
T20	50.784		2.893		
T22A	50.784	6.041	2.483		
T24	50.784		1.924	10.615	1.152
T41	50.784		1.624		2.880
T91			2.628		

^a The fixed retail component comprises the benchmark retail fixed component adjusted for inflation and QCA regulatory fees.

Table 10 Draft determination—Retail costs for large business and street lighting customers for 2017–18 (GST exclusive)

Retail tariff	Pricing component				
	Fixed retail component (c/day) ^a	Usage (c/kWh)		Demand (\$/kW/month)	
		Peak	Off-peak/Flat	Peak	Off-peak/Flat
T44	502.282		0.729		2.044
T45	1139.564		0.727		1.626
T46	2685.555		0.732		1.451
T50	466.084	0.709	0.860	3.362	0.659
T71			1.782		

^a The fixed retail component comprises the benchmark retail fixed component adjusted for inflation and QCA regulatory fees.

Table 11 Draft determination—Retail costs for very large business customers for 2017–18 (GST exclusive)

Retail tariff	Pricing component						
	Fixed retail component (c/day) ^a	Usage (c/kWh)		Connect ion Unit	Capacity (flat/off-peak)	Demand (flat/peak)	Excess Reactive Power
		Peak	Off-peak/Flat	(\$/day/unit)	(\$/kVA of AD/mth)	(\$/kVA/mth)	(\$/excess kVA/mth)
T51A	2843.368		0.701	0.577	0.302	0.155	0.242
T51B	2843.368		0.701	0.577	0.369	0.263	0.242
T51C	2843.368		0.702	0.577	0.337	0.255	0.242
T51D	2843.368		0.703	0.577	0.693	0.421	0.242
T52A	2843.368	0.671	0.695	0.577	0.343	0.665	0.242
T52B	2843.368	0.671	0.696	0.577	0.283	2.394	0.242
T52C	2843.368	0.672	0.696	0.577	0.524	4.372	0.242
T53	2843.368		0.703		0.693	0.421	0.242

^a The fixed retail component comprises the benchmark retail fixed component adjusted for inflation and QCA regulatory fees.

6 OTHER ISSUES

This chapter sets out our draft decisions on the inclusion of an additional allowance above the estimated efficient costs of supply and the application of a cost pass-through mechanism. Our draft decisions are to:

- *include a 5 per cent allowance above the estimated efficient costs of supply in south east Queensland for all residential and small business customer tariffs, to reflect the expected price differential between the lowest offers and standing offers in 2017–18 (consistent with the 2016–17 price determination)*
- *include an allowance for headroom of 5 per cent above the estimated efficient costs of supply for all large and very large business customer tariffs in 2017–18 (consistent with the 2016–17 price determination)*
- *consider the pass-through of over- or under-recovered Small-Scale Renewable Energy Scheme (SRES) costs incurred during 2016–17, at the time of making our final determination.*

6.1 Standing offer adjustment—residential and small business customer tariffs

Retail competition in the residential and small business market segment is very limited in regional Queensland. This is largely because of the UTP, which delivers a subsidy to Ergon Retail to supply electricity at notified prices. These prices are, in most cases, well below the cost of supply. As other retailers do not have access to this subsidy, they typically cannot compete with Ergon Retail's subsidised notified prices.

The QCA uses an N+R bottom-up approach to derive the estimated efficient costs of supplying small customers⁷⁹ in south east Queensland, which serves as a basis to set notified prices. In broad terms, this produces price levels that we would expect, on average, to reflect the lowest prices offered by an efficient representative retailer⁸⁰.

To be consistent with the UTP, the QCA needs to set notified prices for small customers in regional Queensland that broadly reflect the expected level of standing offer prices in south east Queensland (see Chapter 2). To achieve this, we need to add an amount to the estimated efficient costs of supply to account for the expected price differential between lowest offers and standing offers in south east Queensland. This adjustment is referred to as a standing offer adjustment. In the 2016–17 price determination, we set the standing offer adjustment at five per cent of the total estimated efficient cost of supply in south east Queensland.

Retail electricity prices observed in south east Queensland reveal that most retailers' standing offer prices are generally higher than their lowest-priced offers, albeit by varying amounts. The lowest-priced offers of retailers generally are market offers but can be standing offers.

As part of its submission on the interim consultation paper, Canegrowers Isis noted that:

⁷⁹ Small customers are residential and small business customers, as well as customers accessing the unmetered supply (excluding street lighting) retail tariff.

⁸⁰ An efficient representative retailer which does not adopt a loss leading pricing strategy where electricity is being supplied below cost to attract new customers and/or to sell other/additional products and services to those customers.

Competitive prices should be applied to ensure the SOD (standing offer differential) is restricted to within a commercially competitive range.⁸¹

The Queensland Consumers Association also submitted that:

Calculation of differentials between SEQ standing offers and market contracts should take account of the extent to which any, or all, standing offers may be above the efficient cost of supply.⁸²

As discussed, to derive notified prices consistent with the definition of the UTP, we need to adjust the estimated efficient costs of supply in south east Queensland to account for the expected price differential between and lowest-priced and standing offers. This requires us to take into account both market and standing offer prices.

Energy Queensland supported our approach to estimating the standing offer differential.⁸³

6.1.1 Types of electricity offers

Standing offer prices are the prices that retailers charge under standard retail contracts. These contracts are basic contracts with terms and conditions that are specified by the National Energy Retail Rules (NERR).⁸⁴ In south east Queensland, where prices have been deregulated, standing offer prices are set by retailers. Standard retail contracts are referred to in this report as 'standing offers'.

In contrast, market prices are set by retailers and offered under the terms and conditions of a market retail contract, referred to as 'market offers'. Market retail contracts contain a minimum set of terms and conditions (specified in the NERR⁸⁵). These contracts also include other terms and conditions that are agreed between the retailer and customer. For example, a market retail contract might offer customers additional discounts based on their billing and payment methods.

6.1.2 Why is there a difference between market and standing offer prices?

There are a number of potential reasons why standing offer prices tend to be higher than market offer prices. This difference likely reflects the fact that standing offers often provide terms and conditions that are more favourable to the customer. The premium included in standing offer prices could be considered compensation to the retailer for accepting the additional costs and risks associated with providing more favourable terms and conditions to customers.

Through market offers, retailers are able to adopt different terms and conditions designed to reduce their costs or risks. This enables retailers to offer lower prices or other incentives to encourage customers to take up market offers. For example:

- Incentivising customers to pay on time can reduce a retailer's bad debt risk, improve its cash flow position and reduce costs.
- Requiring customers to use direct debit payment methods achieves a similar outcome, and many retailers will offer discounts to customers who use it, to reflect the lower risk of default and bad debts.

⁸¹ Canegrowers Isis, Submission on the QCA interim consultation paper, *Regulated electricity prices for 2017–18*, 7 December 2016.

⁸² Queensland Consumers Association, Submission on the QCA interim consultation paper, *Regulated electricity prices for 2017–18*, 7 December 2016.

⁸³ Energy Queensland, Submission on the QCA interim consultation paper, *Regulated electricity prices for 2017–18*, 7 December 2016.

⁸⁴ NERR, rule 12, schedule 1.

⁸⁵ NERR, rule 14

- Requiring customers to subscribe to online-only (paperless) billing allows retailers to save on printing and postage costs.

The difference between market and standing offer prices may also be an indication of different pricing strategies, whereby retailers target different customer segments with different prices, according to their preferences and sensitivity to price changes. For example, retailers focusing on a customer segment that is environmentally conscious may incorporate and promote GreenPower Programs⁸⁶, for an additional charge, as a feature of their market offers. Retailers may also adopt different pricing strategies in response to the behaviour of their competitors such as providing loyalty credit that is available to customers only after they have remained with the retailer for a specific period, in order to retain customers.⁸⁷

6.1.3 What is an appropriate price differential to apply to efficient costs?

We have considered the following matters when estimating the expected price differential:

- the experience in other jurisdictions with deregulated retail electricity prices; and
- observed price differentials in the newly deregulated south east Queensland retail electricity market.

To simplify, we refer to markets with deregulated retail electricity prices as 'deregulated markets'.

Experience in other deregulated jurisdictions

In this section, we will discuss the jurisdictional experience of three deregulated retail electricity markets in the NEM, namely Victoria, South Australia (SA) and New South Wales (NSW). We have not discussed the experience of Tasmania and the Australian Capital Territory as retail price regulation remains in place in these jurisdictions.⁸⁸

Victoria

In a mature market such as Victoria, deregulated since 2009, market offers are priced at a discount to standing offers with these differentials⁸⁹ ranging between 0 and 30 per cent.⁹⁰

South Australia

When the SA retail market was deregulated in February 2013, the SA Government reached an agreement with AGL (the incumbent first tier retailer) to lower its residential standing offer prices by 9.1 per cent and small business tariffs by 4.5 per cent following deregulation, and to cap increases in the retail component of standing offers for two years.⁹¹

Since the removal of those restrictions in February 2015, the Essential Services Commission of South Australia (ESCOSA) reported that market offers are generally priced at a discount to standing offers with an average differential of around 9.6 per cent for both residential and small

⁸⁶ GreenPower is a voluntary government accredited program that enables a retailer to purchase renewable energy (via the purchase of Large-scale Generation Certificates (LGCs)) on the customer's behalf.

⁸⁷ AEMC, *2016 Retail Competition Review*, 30 June 2016.

⁸⁸ AEMC, *2016 Retail Competition Review*, 30 June 2016.

⁸⁹ These differentials are derived from offers available to residential customers from September 2013 to October 2015 in Victoria (CitiPower supply area). The AEMC noted that similar results can be observed in every supply area in Victoria.

⁹⁰ AEMC, *2016 Retail Competition Review*, 30 June 2016.

⁹¹ Weatherill, J & Koutsantonis, T, *Lower prices for South Australia*, media release, Government of South Australia, 18 December 2012, accessed December 2016, http://archives.premier.sa.gov.au/images/news_releases/12_12Dec/energyprice.pdf.

business tariffs as at 30 June 2016. The price differentials for residential customers were between 0 and 22 per cent. Similarly, differentials between 0 and 25 per cent were observed for small business customers.⁹²

New South Wales

When the NSW retail market was deregulated on July 2014, small customers who were on a regulated contract were moved to a 'transitional tariff' for up to two years, after which they would be required to move to a standing or market offer. In the first year of deregulation, the NSW Government approved arrangements that would see the transitional tariff decrease by at least 1.5 per cent from existing standing offer prices. In the second year, average increases in the retail component of the transitional tariff were capped at CPI. As at June 2015, around 20 per cent of electricity customers in NSW remained on transitional tariffs with the remaining 80 per cent on either standing or market offers.⁹³

In its 2016 review of the competitiveness of the retail market in NSW, IPART reported that the pricing differentials between standing offers and lowest-priced offers for residential customers were between 18 and 27 per cent from June 2015 to June 2016 (depending on the network area). Similarly, the differentials for small business customers were between 18 and 25 per cent.⁹⁴

Observed price differentials in south east Queensland

Since 1 July 2016, retail electricity prices have been deregulated in south east Queensland and retailers are setting their own standing offer prices. However, during the first year of deregulation, retailers are not allowed to vary these prices once they have been set, unless the variation is to reduce prices.⁹⁵

To inform our view on the expected price differential between lowest-priced offers and standing offers that might emerge in south east Queensland during 2017–18, we analysed the standing offers and market offers available in south east Queensland using the AER's "Energy Made Easy" online price comparison tool. The price differential for each retailer was calculated as the difference between an annual bill of a customer with an average usage profile, on a residential or small business flat rate tariff (i.e. tariffs 11 or 20 equivalent), under the retailer's standing offer and its lowest-priced offer. The lowest-priced offers of retailers generally are market offers but can be standing offers. This is broadly consistent with the approach considered during the 2016–17 price determination.

Based on that analysis, residential market offers of most retailers operating in south east Queensland were lower than their corresponding standing offers with the price differential ranging from 0 to 25.7 per cent, with an average⁹⁶ of 7.4 per cent (see Figure 9).

⁹² Essential Services Commission of South Australia, *Energy Retail Offers Comparison Report 2015–16*, August 2016.

⁹³ Department of Industry, Resources and Energy, FAQs about electricity price deregulation, New South Wales Government, accessed December 2016, http://www.resourcesandenergy.nsw.gov.au/energy-consumers/energy-sources/electricity/removal-of-electricity-price-regulation-faqs#_why-did-the-n_s_w-government-remove-retail-electricity-price-regulation__003f.

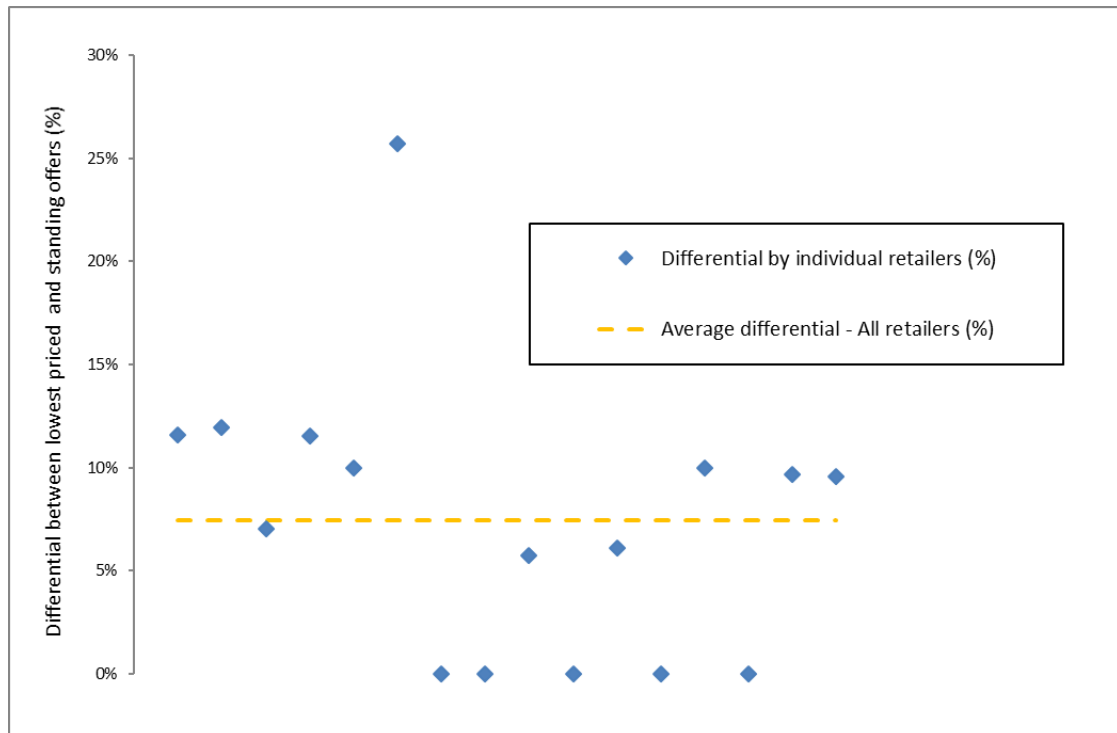
⁹⁴ Independent Pricing and Regulatory Tribunal, *Review of the performance and competitiveness of the retail electricity market in NSW from 1 July 2015 to 30 June 2016*, final report, November 2016.

⁹⁵ National Energy Retail Law (NERL), section 23, as per section 16 of the schedule to the Queensland NERL Act.

⁹⁶ The average price differential (in percentage terms) is the simple average across the data points pertaining to annual bill difference (in percentage terms) between the lowest-priced offer and standing offer of individual retailers operating in south east Queensland.

We observed that some retailers are pursuing a pricing strategy of providing only one electricity offer in a particular market segment. Retailers that choose to pursue this strategy in the small customer market must offer a standing offer as they are required⁹⁷ to provide this type of offer as the default offer. A zero price differential is generally the result of some retailers adopting this strategy, where their standing offers are their lowest-priced offers.

Figure 9 Differential between lowest-priced offers and standing offers in south east Queensland: Residential flat rate tariffs



Note:

QCA analysis of data from www.EnergyMadeEasy.com relating to offers available as at 15 December 2016.

As at 31 May 2016, 99.96 per cent of residential customers are on flat rate tariffs in south east Queensland, therefore we consider that the price differentials of flat rate tariffs should be robust enough as a proxy for the overall differential for the residential customer segment.

This analysis assumes an annual consumption of 4710 kWh (which is the 2015–16 average annual consumption of a residential customer on a flat tariff in south east Queensland as advised by Energex).

Standing and market offers considered in this analysis do not incorporate features offered by retailers which incur an additional charge such as GreenPower.

Market offers are calculated as the annual net amount payable, taking into account quantifiable one-off sign-up bonuses, conditional and non-conditional discounts, as well as any account establishment or connection fees that might offset some of the headline discount offered.

The average price differential (in percentage terms) is the simple average across the data points pertaining to the annual bill difference (in percentage terms) between the lowest-priced offer and standing offer of individual retailers operating in south east Queensland.

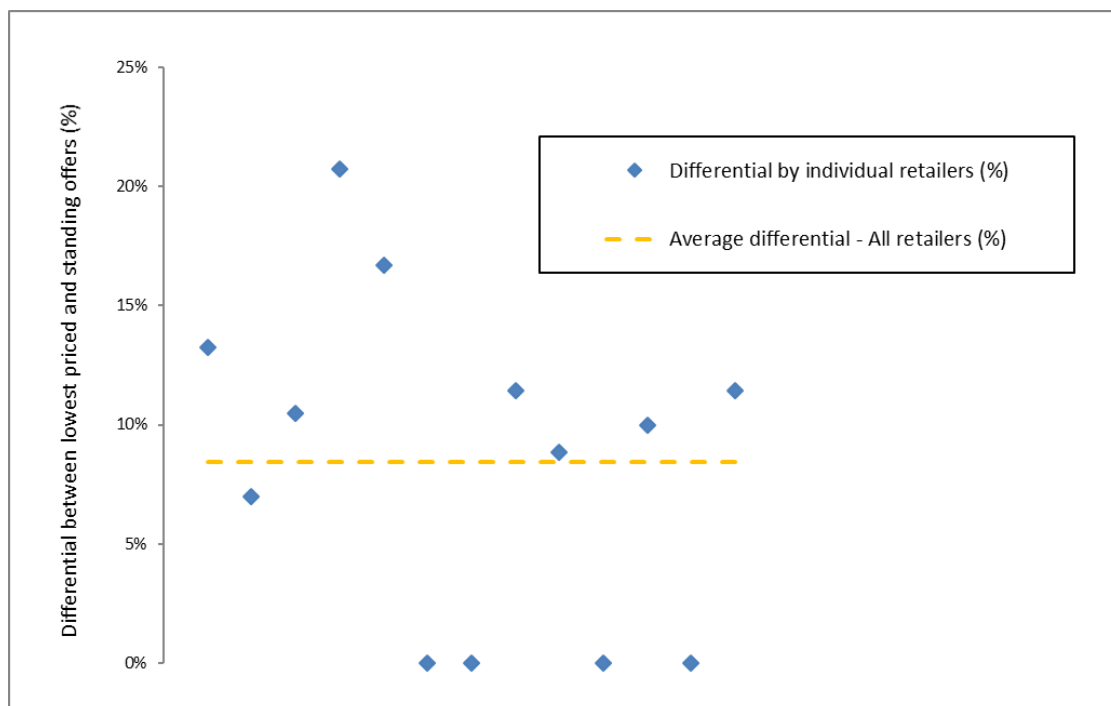
Retail offers from Diamond Energy and Powershop have not been included as it is unclear whether their relevant offers are provided under a standard or market retail contract. We are currently following up with these retailers to seek clarification.

⁹⁷ NERL (SA) Act 2011, Part 2, Division 3, section 22.

The QCA also undertook a similar analysis of flat rate tariff offers available to small business customers in south east Queensland. That analysis revealed that the price differential ranged from zero to 20.7 per cent, with an average of 8.4 per cent (See Figure 10).

Similar to the residential market, we also observed that some retailers pursued a pricing strategy of offering only standing offers but not market offers in the small business customer market, which means that their standing offers are their lowest-priced offers, resulting in zero price differentials.

Figure 10 Differential between lowest-priced offers and standing offers in south east Queensland: Small business flat rate tariffs



Note:

QCA analysis of data from www.EnergyMadeEasy.com relating to offers available as at 15 December 2016.

As at 31 May 2016, 88.94 per cent of small business customers are on flat rate tariffs, therefore we consider that the price differentials of flat rate tariffs should be robust enough as a proxy for the overall differential for the small business customer segment.

This analysis assumes an annual consumption of 14400 kWh (which is the 2015–16 average annual consumption of a small business customer on a flat tariff in south east Queensland as advised by Energex).

Standing and market offers considered in this analysis do not incorporate features offered by retailers which incur an additional charge such as GreenPower.

Market offers are calculated as the annual net amount payable, taking into account quantifiable one-off sign-up bonuses, conditional and non-conditional discounts, as well as any account establishment or connection fees that might offset some of the headline discount offered.

The average price differential (in percentage terms) is the simple average across the data points pertaining to the annual bill difference (in percentage terms) between the lowest-priced offer and standing offer of individual retailers operating in south east Queensland.

Retail offers from Diamond Energy and Powershop have not been included as it is unclear whether their relevant offers are provided under a standard or market retail contract. We are currently following up with these retailers to seek clarification.

Considerations

Evidence from other jurisdictions shows that the price differential following retail price deregulation is mixed, likely due to the differences in maturity of these markets and temporary regulatory restrictions imposed during the initial stages of deregulation.

In its submission on the interim consultation paper, QCOSS considered that:

There are other factors that have affected the experience in other jurisdictions that are not necessarily applicable with Queensland.⁹⁸

The Queensland Consumers Association also supported QCOSS's stance.

We agree with QCOSS and the Queensland Consumer Association. Given the differences between retail markets in south east Queensland and other jurisdictions, we consider that the size of the pricing differential observed is unlikely to be indicative of the expected differentials in the south east Queensland market in 2017–18. However, the experience in these jurisdictions demonstrates consistently that there is a price differential, with market offers generally priced at a discount to standing offers.

The analysis of the observed price differentials in south east Queensland also demonstrates that there is a differential, with market offers generally priced at a discount to standing offers. However, this analysis is not without its limitations. In addition to the obvious limitation where the underlying cost of supplying electricity is likely to change between 2016–17 and 2017–18, there are other notable constraints, including the limited maturity of the newly deregulated retail electricity market in south east Queensland and restrictions on setting standing offers imposed during the initial stages of deregulation.

At the time of the analysis, the retail market in south east Queensland had been deregulated for less than six months. It is expected that the market dynamics will evolve over time as the south east Queensland market becomes more mature, potentially with more new retailers entering the market and more innovative/competitive products being offered by retailers. As observed by the AEMC, when a retail market is newly deregulated, new retailers will enter to compete with the incumbents and competition tends to be price-based. As a market matures, retailers are more likely to compete by innovating and differentiating their services rather than competing through prices, reducing the degree of price-based competition.⁹⁹ As a result, the observed market offer prices may be short-lived as the market evolves and therefore unlikely to be indicative of the expected market offer prices in 2017–18.

As discussed, during the first year of deregulation, retailers are not allowed to vary standing offer prices once they have been set, unless the variation is to reduce prices. This restriction will be removed in 2017–18. We consider that the removal of this restriction could potentially affect how retailers set standing offer prices and consequently the expected differentials in 2017–18.

Given the limitations and reasoning identified above, we consider that the magnitude of the observed price differential in south east Queensland based on a sample of a market deregulated for less than six months (of 2016–17) is unlikely to be indicative of the expected price differential in 2017–18. Therefore, we do not consider it appropriate to use the observed price differential from this analysis as a direct proxy for the expected price differential in 2017–18. To obtain a robust estimate of the expected price differential in future determinations, we will need pricing

⁹⁸ Queensland Council of Social Service, Submission on the QCA interim consultation paper, *Regulated electricity prices for 2017–18*, 7 December 2016.

⁹⁹ AEMC, *2016 Retail Competition Review*, 30 June 2016.

data covering a longer period with price deregulation in effect in the south east Queensland market.

QCA position

The experience in other deregulated jurisdictions and observed price differentials in the newly deregulated south east Queensland retail market demonstrate that a price differential exists with market offers generally priced at a discount to standing offers. However, as noted above, these analyses are not sufficiently reliable or robust to predict the magnitude of the expected price differential in 2017–18.

In this context, we consider it reasonable and prudent to leave the standing offer adjustment at the level determined for the 2016–17 price determination. In future price determinations, we will continue to monitor market developments in the south east Queensland retail electricity market and other deregulated retail markets in the NEM to inform our view on the expected price differential that might emerge in south east Queensland.

QCOSS suggested that:

.....we are now seeing divergence in the different tariff components in Queensland between market offers and standing offers. In many cases, the market offers show relatively higher fixed charges and lower unit charges as compared to standing offers. This suggests that the standing offer differential should no longer be a single percentage figure.¹⁰⁰

The Queensland Consumers Association also supported QCOSS's position.

We consider that adopting QCOSS's suggestion to have separate differentials for the fixed and variable components of a tariff is likely to be inconsistent with the UTP. As discussed, to be consistent with the UTP, the QCA needs to set notified prices for small customers in regional Queensland that broadly reflect the expected overall level of standing offer prices in south east Queensland. To derive the overall level of standing offer prices, we need to consider the average annual bill of standing offers, not the average amount payable under fixed or variable components of a tariff as QCOSS suggested.

To set notified prices for small customers in regional Queensland that broadly reflect the expected level of standing offer prices in south east Queensland, our draft decision is to continue to add a standing offer adjustment above the efficient costs of supply in south east Queensland and to maintain this adjustment at five per cent of total estimated efficient costs.

6.2 Headroom for large and very large business customer tariffs

Where it is effective, competition generally provides the best means of delivering the goods and services that customers demand at prices that reflect efficient costs.

Under section 90(5)(a) of the Electricity Act, we are required to have regard to the effect of our price determination on competition in the Queensland retail electricity market. We must also have regard to the objects of the Electricity Act, which include:

- (a) establishing a competitive electricity market in line with the national electricity industry reform process
- (b) taking into account national competition policy requirements.

¹⁰⁰ Queensland Council of Social Service, Submission on the QCA interim consultation paper, *Regulated electricity prices for 2017–18*, 7 December 2016.

In retail markets where competition is considered feasible, the AEMC recommends that some form of 'headroom' allowance be included as part of regulated retail prices to facilitate competition.¹⁰¹ The headroom allowance is an amount, in addition to the estimated efficient cost of providing customer retail services, included in regulated prices for the purpose of encouraging customers to engage in the market and seek out more attractive market offers.

While there is very limited competition in the small customer segment of the retail electricity market in regional Queensland, the large customer segment¹⁰² has developed a degree of effective competition, particularly in areas where notified prices more closely reflect the actual costs of supply (i.e. Ergon Distribution east pricing zone, transmission region one).

Retail competition in this market segment can be supported through the inclusion of an appropriate level of headroom as part of notified prices with the aim of encouraging customers to seek out better market offers. Since the 2012–13 price determination, we have included a headroom allowance of five per cent of total estimated efficient costs to facilitate and encourage competition in the large customer market segment in regional Queensland.

6.2.1 How much headroom allowance should be included?

It is difficult to assess the impact of more cost-reflective notified prices and the inclusion of headroom in facilitating retail competition. In the large customer market segment in regional Queensland, where notified prices more closely reflect the actual costs of supply in some areas but are well below-cost in other areas, there has been a small increase in the proportion of large and very large customers on market contracts in recent years.

However, in the Ergon Distribution east pricing zone, transmission region one (where notified prices most closely reflect the actual cost of supply), the proportion of both large¹⁰³ and very large¹⁰⁴ customers on market contracts is much higher and has been increasing. In 2012–13, around 73 per cent of very large customers in this area were on market contracts; this figure has increased to 76 per cent as of June 2016. Moreover, more than 50 per cent of large customers in this area were on market contracts as of June 2016.

Despite these developments, some barriers to the development of widespread competition in the large customer market segment remain:

- Setting uniform retail tariffs means that customers in higher-cost areas of regional Queensland are not paying cost-reflective notified prices and some very large customers (specifically Individually Calculated Customers) are paying notified prices based on network charges of Connection Asset Customers, rather than cost-reflective network charges.
- A number of large and very large customers in regional Queensland are still accessing obsolete and transitional tariffs, which are generally not cost-reflective.

¹⁰¹ AEMC, *Final Report, Advice on best practice retail price methodology*, 27 September 2013.

¹⁰² The large customer market segment consists of Standard Asset Customers (SAC) (Large), Connection Asset Customers (CAC) and Individually Calculated Customers (ICC).

¹⁰³ Large customers are Standard Asset Customers (SAC) (Large), typically consuming more than 100 MWh but less than 4 GWh per annum.

¹⁰⁴ Very large customers consist of Connection Asset Customers (CAC), typically consuming more than 4 GWh but less than 40 GWh per annum and Individually Calculated Customers (ICC), typically consuming more than 40 GWh per annum.

- Once large or very large customers accept a market contract, they are not allowed to return to Ergon Retail, which may discourage them from accepting a market offer.¹⁰⁵

Even if headroom is set at a reasonable level, these barriers will likely continue to limit the extent to which competition develops throughout regional Queensland in the foreseeable future. However, we consider that it is appropriate to continue to include an allowance for headroom so that the level of notified prices does not create a barrier to competition (to the extent possible) and to encourage customers to engage in the market and actively seek out better offers.

The Australian Sugar Milling Council (ASMC) did not support the inclusion of an allowance for headroom in notified prices.¹⁰⁶ Canegrowers Isis considered that headroom is 'a theoretical consideration', which 'should be calculated and monitored for performance and asset assessment purposes but not applied as a cost component'.¹⁰⁷ However, neither provided evidence to suggest that headroom is ineffective in facilitating competition in the large customer market segment in regional Queensland, especially in areas where notified prices most closely reflect the actual cost of supply (i.e. Ergon Distribution east pricing zone, transmission region one).

Energy Queensland supported the inclusion of an allowance for headroom in notified prices for large and very large business customers.¹⁰⁸

QCA position

We consider it reasonable to conclude that the previous approach of including a headroom allowance for large and very large business customers at five per cent of total costs has facilitated the development and maintenance of competition in the large customer market segment in regional Queensland, especially in areas where notified prices most closely reflect the actual cost of supply.

In the absence of any further information or compelling reasons to change the level of headroom, our draft decision is to continue to include an allowance for headroom in notified prices for large and very large business customers and to maintain the allowance at five per cent of total estimated efficient costs.

6.3 Cost pass-through mechanism

Cost pass-through mechanisms are used by regulators to mitigate the risk that the costs allowed for in regulated prices are higher or lower than actual efficient costs of supply. Cost pass-through mechanisms are usually restricted to events that are outside the control of the regulated entity.

For the 2014–15 price determination, we applied a cost pass-through mechanism for the first time to pass through an under-recovery of costs in 2013–14 associated with the SRES.¹⁰⁹ The SRES costs incurred by retailers are determined by the binding STPs set by the Australian Clean Energy Regulator.

¹⁰⁵ This restriction also applies to any future occupants of the premises (e.g. if the premises is sold or occupied by a new tenant).

¹⁰⁶ Australian Sugar Milling Council, Submission on the QCA interim consultation paper, *Regulated electricity prices for 2017–18*, 7 December 2016.

¹⁰⁷ Canegrowers Isis, Submission on the QCA interim consultation paper, *Regulated electricity prices for 2017–18*, 7 December 2016.

¹⁰⁸ Energy Queensland, Submission on the QCA interim consultation paper, *Regulated electricity prices for 2017–18*, 7 December 2016.

¹⁰⁹ See Chapter 4 for details on how SRES costs are estimated.

We continued with this approach for the 2015–16 and 2016–17 price determination. For the 2016–17 price determination, we applied a negative pass-through of a small over-recovery of SRES costs in 2015–16 into 2016–17 notified prices.

We also previously proposed that the cost pass-through mechanism could be used to account for material differences in network charges, in the event that the charges billed to retailers (usually the AER-approved charges) differed from those used to set notified prices. However, a pass-through for network has not been needed to date.

In previous price determinations, we considered that not allowing a 'true-up' of costs resulting from particular events that are outside retailers' control may result in notified prices being out of alignment with the estimated benchmark costs of supply¹¹⁰, which could deviate from the intent of the UTP.

QCA position

We will consider passing through the differences in SRES costs, where the amounts provided in the 2016–17 price determination are found to be either under- or over-recovered as a result of differences between the non-binding and binding STPs. We will revisit the need for any pass-through adjustment in our final determination when the binding STP for 2017 is known and the over- or under-recovery of SRES costs can be determined. This approach is consistent with the approach adopted in the 2016–17 price determination.

As stated above, we have previously considered that the cost pass-through mechanism could be used to account for material differences in network charges. However, as the final 2016–17 network charges billed to retailers did not differ from those used to set 2016–17 notified prices, no adjustment is required.

In its submission on the interim consultation paper, Energy Queensland noted that:

the mechanism for estimating energy costs has undervalued both the wholesale price of energy as well as Renewable Energy Certificates. Energy Queensland would support a review of actual versus forecast prices for the 2015–16 period so that the shortfall can be recognised in the 2017–18 prices.¹¹¹

As discussed, we consider that cost pass-through mechanisms should only be restricted to under- or over-recovery of costs attributed to events that are outside the control of the regulated entity such as SRES costs and network charges.

Depending on the regulatory framework that will apply to future price determinations and on whether any changes are made to the UTP or the subsidy arrangements underpinning it, the pass-through provisions discussed here may or may not remain appropriate in the future. Therefore, we cannot commit to the continued availability of a cost pass-through mechanism beyond this price determination.

¹¹⁰ In the 2016–17 price determination, notified prices for residential and small business customers were based on the costs of supply in south east Queensland and notified prices for large and very large business customers were based on the costs of supply in Ergon Distribution east pricing zone, transmission region one.

¹¹¹ Energy Queensland, Submission on the QCA interim consultation paper, *Regulated electricity prices for 2017–18*, 7 December 2016.

7 TRANSITIONAL ARRANGEMENTS

The delegation requires that the QCA consider maintaining transitional arrangements for tariffs classed as transitional or obsolete, which include farming and irrigation tariffs.

The QCA's draft decision is to:

- *maintain transitional arrangements for tariffs 20 (large), 21, 22 (small and large), 37, 62, 65 and 66, and introduce transitional arrangements for tariffs 47 and 48*
- *maintain the transitional periods established in the 2013–14 final determination for tariffs 20 (large), 21, 22 (small and large), 37, 62, 65 and 66 and introduce a five-year transitional period for tariffs 47 and 48*
- *allow all customers access to transitional tariffs 20 (large), 21, 22 (small and large), 62, 65, and 66 and close tariffs 47 and 48 to new customers¹¹²*
- *adjust transitional and obsolete tariffs, including tariffs 47 and 48, in line with changes in standard business tariffs, and apply escalation factors to limit charges for transitional and obsolete tariffs falling further below cost in dollar terms.*

7.1 Transitional arrangements for transitional and obsolete tariffs

Existing transitional and obsolete tariffs

Some business customers, including farmers and irrigators, are currently supplied under transitional or obsolete tariffs. These are legacy retail tariffs for which there is no corresponding network tariff, and which as a result cannot be determined under an N+R approach.

In previous determinations, the QCA decided that most of these existing transitional and obsolete tariffs (tariffs 20 (large), 21, 22 (small and large), 37, 62, 65 and 66) should continue to be available for a transitional period because some customers would face significant financial impacts if they were moved to a standard business tariff.

The delegation requires that we consider maintaining these transitional arrangements and continuing to allow all customers access to transitional tariffs.

QCA position

Our draft decision is to maintain transitional arrangements for existing transitional and obsolete tariffs.

Data from Ergon Retail¹¹³ (see Appendix F) shows that while a significant number of customers would be better off on standard business tariffs, some customers on existing transitional and obsolete tariffs are paying electricity bills significantly below standard business tariffs and below the cost of supplying them with electricity. We consider it appropriate to maintain transitional arrangements as some customers would face significant price impacts if they were immediately

¹¹² Tariff 37 was made obsolete in 2007 and is not accessible to new customers.

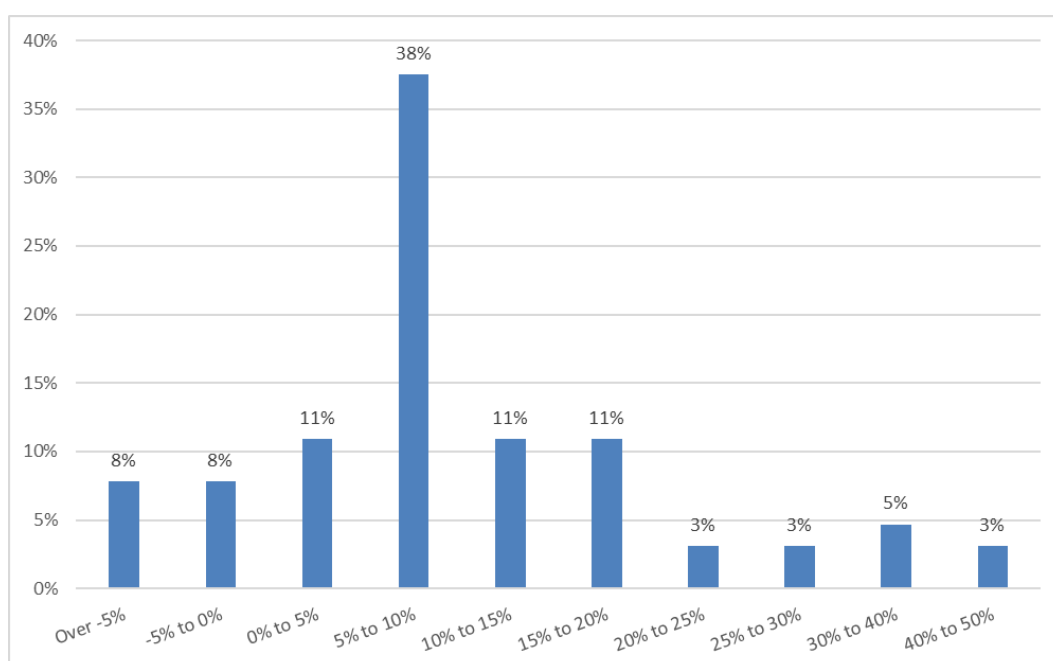
¹¹³ Analysis related to tariffs 20 (large), 21, 22 (small and large), 37, 62, 65 and 66 are based on data provided by Ergon Retail for the 2016–17 final determination. More recent data was not available due to the work program and data migration required to implement Ergon Retail's new billing system. However, we expect to receive updated customer impact data for tariffs 20 (large), 21, 22 (small and large), 37, 62, 65 and 66 for our final determination.

moved to the standard business tariffs which all other businesses in regional Queensland must pay.

Transitional arrangements for customers on tariffs 47 and 48

As discussed in Chapter 3, from 1 July 2017 Ergon Distribution will discontinue its network tariff EDHTT1 which the QCA used as the basis for retail tariffs 47 and 48. Customers currently on these tariffs would likely be required to move to one of the new retail tariffs based on CAC network tariffs,¹¹⁴ or an alternative large customer tariff, and would face substantially different tariff structures to tariffs 47 and 48. Ergon Retail analysis (see Figure 11 below) shows that while bill impacts for these customers are smaller in percentage terms than customers on existing transitional and obsolete tariffs, 14 per cent of customers would experience bill increases of 20 per cent or more by moving to the new retail tariffs.

Figure 11 Estimated bill impact for customers moving from tariffs 47 and 48 to CAC/ICC tariffs



Auctus Resources and the Australian Sugar Milling Council supported the introduction of transitional arrangements for tariff 48, highlighting the potential for price shocks to their businesses. Energy Queensland supported maintaining our approach to existing transitional and obsolete tariffs in order to provide certainty and confidence in the process, allowing customers to make appropriate investment decisions. Energy Queensland recognised there may be a case for introducing transitional arrangements for tariffs 47 and 48.

QCA position

Our draft decision is to introduce transitional arrangements for tariffs 47 and 48.

The latest modelling from Ergon Retail shows customers on tariffs 47 and 48 face comparatively smaller percentage bill increases, with the majority of customers facing bill impacts of 10 per cent or less, and the largest bill impact is less than 50 per cent. In addition, we understand that some customers may be able to reduce these impacts by renegotiating their authorised demand levels, or making changes to their business operations. However, given the size of the operations of

¹¹⁴ Tariffs 51A-D, 52A-C and 53. See Chapter 3 for more information on these new tariffs.

some of these customers, and the substantial amounts of electricity they consume, we are inclined to take a conservative approach and introduce transitional arrangements to allow customers and their retailers time to adjust their electricity supply contracts and/or operations to suit the new tariffs. We note that a number of customers would be better off on the new retail tariffs and encourage customers currently on tariffs 47 and 48 to talk to their retailer about these new tariffs and how best to prepare for the transition.

7.1.1 Transitional periods

Existing transitional and obsolete tariffs

In previous price determinations, the QCA determined that transitional and obsolete tariffs should be maintained for a transitional period to allow time for businesses to prepare for the transition to standard business tariffs and recoup some of the value of investments made to suit the level and structure of transitional and obsolete tariffs. In the 2013–14 price determination we determined that tariffs 20 (large), 21, 22 (small and large), 37, 62, 65 and 66 would be made available until 2020.

Canegrowers Isis supported retaining transitional tariffs until such time that an alternative set of tariffs, based on economic viability and capacity to pay, have been introduced. The Queensland Farmers' Federation (QFF) supported extending the transitional period. Energy Queensland supported maintaining our previous approach to transitional tariffs in order to provide certainty and confidence in the process, allowing customers to make appropriate investment decisions.

QCA position

The QCA's draft decision is to maintain the existing transitional periods established in our 2013–14 final determination for existing transitional and obsolete tariffs.

We agree with Energy Queensland that maintaining our approach to existing¹¹⁵ transitional and obsolete tariffs will help promote certainty for customers and allow them to make appropriate investment decisions to prepare for moving to standard business tariffs. We note the Queensland Government has announced a \$10 million regional business customer support package to assist regional businesses on transitional and obsolete tariffs, including farmers and irrigators, to understand their electricity use, minimise their electricity costs and make informed choices about future tariff options.¹¹⁶

Transitional tariffs 47 and 48

Having made the draft decision to introduce transitional arrangements for tariffs 47 and 48, the QCA must now determine an appropriate transitional period. Given the diversity of customers on these tariffs, it is not possible to determine transitional periods based on the life of infrastructure so we must consider bill impacts in making our decision. In its 2013–14 price determination the QCA established two different periods for transitional and obsolete tariffs, based on the potential bill impact on customers of moving to standard business tariffs. These were:

- a seven-year transitional period was established for tariffs 20 (large), 21, 22 (small and large), 37, 62, 65 and 66, as a number of customers would have experienced bill increases of 100 per cent or more

¹¹⁵ Tariffs 20 (large), 21, 22 (small and large), 37, 62, 65 and 66.

¹¹⁶ See https://www.dews.qld.gov.au/__data/assets/pdf_file/0018/940032/regional-business.pdf.

- a shorter two-year transition period for tariffs 41(large), and 43 as the majority of customers would have experienced bill increases of 10 per cent or less, and only three customers would have experienced bill increases of 50 per cent or more.

Modelling from Ergon Retail (see figure 11 above) shows the bill impacts for customers on tariffs 47 and 48 are of a similar magnitude, in percentage terms, to those customers faced in 2013–14 on tariffs 41(large) and 43. Submissions on the interim consultation paper supported introducing transitional arrangements for tariffs 47 and 48 but provided no feedback on an appropriate length for a transitional period.

QCA position

Given the types of customers on these tariffs, and the size of their operations and electricity consumption, the QCA is inclined to take a conservative approach and implement a five-year transition period. While a two-year transitional period would be consistent with our earlier decision on tariffs 41 and 43, customers on tariffs 47 and 48 consume a substantial amount of electricity, which means that the similar bill impacts in percentage terms may translate into a more significant bill impact in dollar terms. We consider a five-year transitional period would allow sufficient time for customers on tariffs 47 and 48 to adapt their electricity supply contracts, and their operations, to the new tariff structures.

7.1.2 Access to transitional tariffs

The delegation requires that the QCA consider continuing to allow all customers access to transitional tariffs.

In the 2013–14 price determination, the QCA decided that all business customers should have access to tariffs 20 (large), 21, 22 (small and large), 62, 65, and 66¹¹⁷ throughout the transitional period, subject to individual tariff terms and conditions. We made this decision so that all businesses are treated equitably. In subsequent determinations we noted that we would consider closing access to transitional tariffs to new customers if there was a significant increase in the number of customers accessing transitional tariffs, and thereby an increase in the subsidy paid by taxpayers. In the 2016–17 price determination, we found no significant increase in customers accessing these tariffs and we decided to continue to allow open access.

The ASMC did not support closing tariff 48 to new customers, as sugar mills were changing from transitional tariff 22 to tariff 48 in the non-crushing season enabling them to save up to 57 per cent on their electricity costs.¹¹⁸ Energy Queensland supported maintaining our approach to transitional tariffs in order to provide certainty and confidence in the process, allowing customers to make appropriate investment decisions. Energy Queensland also supported closing access to tariffs 47 and 48 to new customers.

QCA position

The QCA's draft decision is to:

- classify tariffs 47 and 48 as obsolete, closing them to new customers while allowing existing customers to access them, and

¹¹⁷ Tariff 37 cannot be accessed by new customers as it was classified as obsolete on 1 July 2007.

¹¹⁸ Australian Sugar Milling Council, Submission on the QCA interim consultation paper, *Regulated electricity prices for 2017–18*, 7 December 2016.

- continue to allow all business customers to have access to transitional tariffs 20 (large), 21, 22 (small and large), 62, 65, and 66.

The QCA considers classifying tariffs 47 and 48 as obsolete, which means closing them to new customers while allowing existing customers to access them, strikes the right balance between:

- allowing existing businesses which have invested primarily based upon the price signals in these tariffs time to adjust their operations to the new tariffs, and
- encouraging new customers to make investments based on the new retail pricing signals.

Allowing new customers to access these tariffs may encourage long term investment and business decisions based on the legacy price signals in tariffs 47 and 48, which would make the final transition to standard business tariffs more difficult.

The QCA notes comments from the ASMC who was against closing tariff 48 to new customers on the basis that it would prevent its members from reducing their electricity costs by switching between transitional tariff 22 and tariff 48.

However, the decision to allow new customers to access transitional tariffs was not intended to enable customers on transitional tariffs to move even further away from standard business tariffs, and effectively increase their level of subsidy from taxpayers. The QCA allowed new customers to access transitional tariffs in the interests of equity for all businesses, but recognised that there could be an adverse impact on competition, and the level of government subsidy, if retailers ended up supplying too many customers below cost. In subsequent determinations we considered data from Ergon Retail on the number of customers accessing transitional tariffs as part of our decision to continue allowing allow new customers to access these tariffs.

The latest data from Ergon Retail does not indicate a significant increase in the number of customers accessing existing transitional tariffs.¹¹⁹ While the submission from Canegrowers Isis suggests that their members would benefit from increased flexibility in choosing different tariffs it does not specifically state that these members are using access to transitional tariffs to increase their level of government subsidy.

Unfortunately, the timeframes for making this draft determination do not allow for an investigation into whether customers on existing transitional tariffs are using access to transitional tariffs to increase their level of subsidy and move further away from the prices of standard business tariffs. For these reasons the QCA proposes to maintain its approach of allowing new customers to access tariffs 20 (large), 21, 22 (small and large), 62, 65, and 66 in 2017–18. However, should we receive a delegation from the Minister to set 2018–19 notified prices, the QCA will investigate the prevalence of these practices and consider whether it remains appropriate to continue to allow new customers to access transitional tariffs.

7.1.3 Escalation of transitional and obsolete tariffs

Transitional and obsolete tariff charges are not determined using an N+R approach like other tariffs. In past price determinations the QCA's general approach to setting charges for each transitional and obsolete tariff was to adjust the charges based on the percentage change in the charges in the standard business tariff that customers would otherwise pay. We then applied additional escalation factors to these increases to limit charges for transitional and obsolete

¹¹⁹ Tariffs 20 (large), 21, 22 (small and large), 37, 62, 65 and 66.

tariffs falling further below cost in dollar terms.¹²⁰ Escalation factors of 1.1, 1.25 or 1.5 were applied, depending on the gap between customer bills under transitional and obsolete tariffs and corresponding standard business tariffs. Where the largest proportion of customer bills would likely be impacted by 10 per cent or less, an escalation factor of 1.1 was applied; where impacts were between 10 per cent and 100 per cent, an escalation factor of 1.25 was applied; and where impacts exceeded 100 per cent, an escalation factor of 1.5 was applied.¹²¹

In the 2016–17 price determination the QCA applied an escalation factor of 1.1 for all transitional and obsolete tariffs to limit charges falling further below cost in dollar terms. Under our general approach in previous determinations, the escalation factors for most of these tariffs would have been 1.25 or 1.5. However, given the substantial price increases that customers on transitional and obsolete tariffs have experienced in recent years and that customers on these tariffs were more than halfway through the transition to standard business tariffs, we decided to only apply the minimum escalation factor of 1.1.

The ASMC did not support escalation of transitional tariffs as it considered the fundamental assumptions of Ergon Distribution network pricing model to be flawed. Canegrowers considered there was no justification for increasing irrigation tariffs at a faster rate than other electricity tariffs. Energy Queensland supported applying appropriate escalation factors, noting that the customer impact burden to shift customers to cost reflective tariffs increased every time a new customer accessed them and that an escalation factor was needed to make transitional tariffs less attractive.

QCA position

Our draft decision is to adjust transitional and obsolete tariffs in line with changes in standard business tariffs, and apply escalation factors to limit charges for transitional and obsolete tariffs falling further below cost in dollar terms. This is consistent with previous determinations.

The QCA will apply the following escalation factors in line with the gap between customer bills under transitional and obsolete tariffs and corresponding standard business tariffs:

- 1.1 where the largest proportion of customer bills would likely be impacted by 10 per cent or less
- 1.25 where the largest proportion of customer bills would likely be impacted by between 10 per cent and 100 per cent
- 1.5 where the largest proportion of customer bills would likely be impacted by more than 100 per cent.

While we only applied an escalation factor of 1.1 to all tariffs in our 2016–17 price determination, the relatively small changes in standard business tariffs forecast for 2017–18 means that lower escalation factors would do little to limit charges falling further below cost in dollar terms, especially for tariffs where the gap for the largest proportion of customers remains large.

¹²⁰ As any given percentage increase in a higher (such as a standard business tariff) bill will be greater expressed in dollar terms than the same percentage increase in a smaller (such as a transitional or obsolete tariff) bill. For example, if two bills of \$1,000 and \$2,000 each increased by 10% to \$1,100 and \$2,200 respectively, the dollar difference between would increase from \$1,000 to \$1,100.

¹²¹ In the 2015–16 price determination the QCA left transitional and obsolete tariffs unchanged, as standard business tariffs fell in price.

Table 12 maps transitional and obsolete tariffs to small and large customer standard business tariffs and shows the draft percentage increase forecast for standard business tariffs in 2017–18. Consistent with the 2016–17 price determination, we have used the small business tariff 20 as the basis for escalating small customer transitional tariffs 21, 62, 65 and 66.

Table 12 Alignment of tariffs and underlying cost increases

<i>Transitional or obsolete tariff</i>	<i>Standard business tariff^a</i>	<i>Standard business tariff annual bill increase (%)^b</i>
Tariffs 21, 62, 65, 66	Tariff 20	1.5
Tariffs 20 (large), 22 (small and large), 37 ^c , 47 ^d	Tariffs 44–46	2.3 ^e
Tariff 48 ^d	Tariffs 51A–51D, 53	4.7 ^f

a *The most appropriate tariff depends on the customer's demand and voltage requirements.*

b *These annual bill increase percentages are used in full decimal places in deriving the proposed price increases for 2017–18 transitional/obsolete tariffs (Table 14).*

c *Small customers on tariff 37 will most likely move to tariff 20 or 22A; however, as most customers on this tariff are large, it is aligned with the large customer tariffs for this purpose.*

d *Tariff 47 can only be accessed by large standard asset customers, so this tariff aligns with standard business tariffs accessible to these customers. Tariff 48 can only be accessed by large connection asset customers or individually calculated customers, so this tariff aligns with standard business tariffs 51A–51D and 53.*

e *This is the average of typical customer bill increases across tariffs 44, 45 and 46.*

f *This is the average of typical customer bill increases across tariffs 51A–51D and 53.*

Table 13 summarises the likely percentage impacts on electricity bills for customers on each transitional and obsolete tariff moving to an equivalent standard business tariff (see Appendix F for further details) and the corresponding escalation factor for each transitional and obsolete tariff.

Table 13 Likely impact on electricity bills for customers on transitional and obsolete tariffs moving to equivalent standard business tariffs in 2015–16

<i>Transitional tariff</i>	<i>Standard business tariff</i>	<i>Percentage of customers who would experience less than 10% increase in bills (%)</i>	<i>Percentage of customers who would experience 10% to 100% increase in bills (%)</i>	<i>Percentage of customers who would experience greater than 100% increase in bills (%)</i>	<i>Escalation factor</i>
Tariff 20 (large)	Tariff 44 to 46 ^a	26.8	73.2	0.0	1.25
Tariff 21	Tariff 20	16.0	39.0	45.0	1.5
Tariff 22 (small and large)	Tariff 44 to 46 ^a	8.1	91.9	0.0	1.25
Tariff 37	Tariff 44 to 46 ^a	0.0	100.0	0.0	1.25
Tariff 47	Tariff 44 to 46 ^a	100.0	0.0	0.0	1.1
Tariff 48	Tariffs 51A–D, 53 ^a	54.9	45.1	0.0	1.1
Tariff 62	Tariff 20	45.6	53.8	0.6	1.25
Tariff 65	Tariff 20	59.7	40.0	0.3	1.1

<i>Transitional tariff</i>	<i>Standard business tariff</i>	<i>Percentage of customers who would experience less than 10% increase in bills (%)</i>	<i>Percentage of customers who would experience 10% to 100% increase in bills (%)</i>	<i>Percentage of customers who would experience greater than 100% increase in bills (%)</i>	<i>Escalation factor</i>
Tariff 66	Tariff 20	70.8	29.2	0.0	1.1

a Standard business tariff determined based on individual customer usage and demand levels.

Note: Ergon Retail data applies a derived demand profile for customers where demand data is unavailable. Cost impacts may be over- or understated for individual customers depending on their unique demand profile.

Source: QCA analysis of Ergon Retail data.

7.2 Conclusion on transitional arrangements

A summary of our draft decision on transitional arrangements for 2017–18 is provided in Table 14.

Table 14 Draft decision—transitional arrangements for 2017–18

<i>Obsolete or transitional tariff</i>	<i>Period to be retained</i>	<i>Proposed 2017–18 price increase (%)^a</i>
Tariff 20 (large) –transitional	3 years	2.9
Tariff 21–transitional	3 years	2.3
Tariff 22 (small and large) –transitional	3 years	2.9
Tariff 37–obsolete	3 years	2.9
Tariff 47–obsolete	5 years	2.6
Tariff 48–obsolete	5 years	5.2
Tariff 62–transitional	3 years	1.9
Tariff 65–transitional	3 years	1.7
Tariff 66–transitional	3 years	1.7

a. The proposed 2017–18 price increase percentages are rounded numbers. We used these rounded price increases in deriving the 2017–18 transitional/obsolete tariffs.

8 DRAFT DETERMINATION

This chapter sets out our draft determination of regulated retail electricity prices (notified prices) to apply from 1 July 2016 to 30 June 2017, as well as draft customer impacts.

Under the network plus retail (N+R) approach, retail tariffs are aligned with network tariffs approved by the AER. For this draft determination, Energex and Ergon Energy have provided draft 2017–18 network tariffs and charges. The network tariffs used to develop retail tariffs are discussed in Chapter 3.

Chapters 4, 5 and 6 set out our decisions on energy costs, retail costs and other allowances, which comprise the R component of the retail tariff calculation.

Chapter 7 sets out our draft decisions on notified prices and transitional arrangements for retail tariffs that have been declared transitional or obsolete.

The regulated retail tariffs and notified prices are to be published in a tariff schedule, which includes other information, including the eligibility criteria and terms and conditions for each tariff. A draft tariff schedule for 2017–18 is provided in Appendix G.

The following tables set out our draft determination of regulated retail tariffs and prices for 2017–18. All tariffs are presented exclusive of goods and services tax (GST).

Table 15 Draft regulated retail tariffs and prices for residential customers (excl. GST), 2017–18

Retail tariff	Fixed charge ^a	Usage charge (peak)	Usage charge (flat/off-peak)	Demand charge (peak)	Demand charge (off-peak)
	c/day	c/kWh	c/kWh	\$/kW/mth	\$/kW/mth
Tariff 11—Residential (flat rate)	88.354		25.275		
Tariff 12A—Residential (time-of-use) ^b	95.184	58.907	20.289		
Tariff 14—Residential (time-of-use demand) ^c	56.418		16.105	63.132	10.216
Tariff 31—Night rate (super economy)			15.159		
Tariff 33—Controlled supply (economy)			20.216		

a. Charged per metering point.

b. Peak—3 pm to 9:30 pm (December, January and February); off peak—all other times.

c. Peak demand—3 pm to 9:30 pm (December, January and February); off peak demand—3 pm to 9:30 pm (March to November).

Table 16 Draft regulated retail tariffs and prices for small business and unmetered supply customers, other than street lighting (excl. GST), 2017–18

<i>Retail tariff</i>	<i>Fixed charge^a</i>	<i>Usage charge (peak)</i>	<i>Usage charge (flat/off-peak)</i>	<i>Demand charge (peak)</i>	<i>Demand charge (off-peak/flat)</i>
	<i>c/day</i>	<i>c/kWh</i>	<i>c/kWh</i>	<i>\$/kW/mth</i>	<i>\$/kW/mth</i>
Tariff 20—Business (flat rate)	122.195		26.772		
Tariff 22A—Business (time-of-use) ^c	122.195	55.896	22.972		
Tariff 24—Business (time-of-use demand) ^d	76.566		17.806	98.221	10.658
Tariff 41—Low voltage (demand)	557.567		15.032		26.648
Tariff 91—Unmetered			24.315		

a. Charged per metering point.

b. Peak—7 am to 9 pm, weekdays; off-peak—all other times. This tariff is only available to customers who were supplied under Tariff 22 at 30 June 2015.

c. Peak—10 am to 8 pm on weekdays (December, January and February); off-peak—all other times.

d. Peak demand—10 am to 8 pm on weekdays (December, January and February); off peak demand—10 am to 8 pm on weekdays (March to November).

Table 17 Draft regulated retail tariffs and prices for large business and street lighting customers (excl. GST), 2017–18

<i>Retail tariff</i>	<i>Fixed charge</i>	<i>Usage charge (peak)</i>	<i>Usage charge (flat/off-peak)</i>	<i>Demand charge (peak)</i>	<i>Demand charge (off-peak/flat)</i>
	<i>c/day</i>	<i>c/kWh</i>	<i>c/kWh</i>	<i>\$/kW/mth</i>	<i>\$/kW/mth</i>
Tariff 44—Over 100 MWh small (demand)	5058.881		13.432		37.662
Tariff 45—Over 100 MWh medium (demand)	16229.497		13.392		29.949
Tariff 46—Over 100 MWh large (demand)	43289.248		13.483		26.730
Tariff 50—Over 100 MWh seasonal time-of-use (demand) ^a	4129.318	13.058	15.841	61.928	12.133
Tariff 71—Street lighting ^b	0.735		32.827		

a. Peak demand is charged on maximum metered demand exceeding 20 kilowatts on weekdays between 10 am to 8 pm in Summer months (December, January and February). Off-peak demand is charged on maximum metered demand exceeding 40 kilowatts during non-summer months (March to November). Peak usage is charged on all usage in Summer months (December, January and February). Off-peak usage is charged on all usage during non-summer months (March to November).

b. The fixed charge for street lighting applies to each lamp.

Table 18 Draft regulated retail tariffs and prices for very large business customers (excl. GST), 2017–18

<i>Retail tariff</i>	<i>Fixed charge</i>	<i>Usage charge (peak)</i>	<i>Usage charge (flat/off-peak)</i>	<i>Connection Unit</i>	<i>Capacity (flat/off-peak)</i>	<i>Demand charge (flat/peak)</i>	<i>Excess Reactive Power charge</i>
	<i>c/day</i>	<i>c/kWh</i>	<i>c/kWh</i>	<i>\$/day/unit</i>	<i>\$/kVA of AD/mth</i>	<i>\$/kVA/mth</i>	<i>\$/excess kVA/mth</i>
Tariff 51A—over 4 GWh high voltage (CAC 66kV)	27922.301		12.922	10.620	5.561	2.862	4.454
Tariff 51B—over 4 GWh high voltage (CAC 33kV)	21491.576		12.922	10.620	6.803	4.837	4.454
Tariff 51C—over 4 GWh high voltage (CAC 22/11kV Bus)	20336.576		12.926	10.620	6.208	4.704	4.454
Tariff 51D—over 4 GWh high voltage (CAC 22/11kV Line)	19076.576		12.941	10.620	12.763	7.758	4.454
Tariff 52A—over 4 GWh high voltage (CAC STOUd 33/66kV)a	15611.576	12.365	12.811	10.620	6.320	12.248	4.454
Tariff 52B—over 4 GWh high voltage (CAC STOUd 22/11kV Bus)a	15611.576	12.370	12.815	10.620	5.207	44.093	4.454
Tariff 52C—over 4 GWh high voltage (CAC STOUd 22/11kV Line)a	15611.576	12.384	12.830	10.620	9.660	80.540	4.454
Tariff 53—over 40 GWh high voltage (ICC) ^b	19076.576		12.941		12.763	7.758	4.454

a. Peak demand is charged on maximum kVA demand during summer peak demand window times (weekdays between 10 am and 8 pm in December, January and February). Off-peak capacity is charged on the greater of either the customer's kVA authorised demand or the actual monthly half-hour maximum kVA demand. The actual monthly maximum demand is measured all year excluding summer peak demand window times (all year excluding weekdays between 10 am and 8 pm in December, January and February). Peak usage is charged on all usage in summer months (December, January and February). Off-peak usage is charged on all usage during non-summer months (March to November).

b. Ergon Distribution advised that ICCs do not incur connection unit charges on a network level.

Table 19 Draft transitional and obsolete regulated retail tariffs and prices (excl. GST), 2017–18

<i>Retail tariff</i>	<i>Fixed charge</i>	<i>Min Charge</i>	<i>Usage rate 1^a</i>	<i>Usage rate 2^b</i>	<i>Usage rate 3^c</i>	<i>Usage rate (flat)</i>	<i>Capacity (Up to 7.5kw)</i>	<i>Capacity (Over 7.5kw)</i>
	<i>c/day</i>	<i>c/day</i>	<i>c/kWh</i>	<i>c/kWh</i>	<i>c/kWh</i>	<i>c/kWh</i>	<i>\$/kW/yr</i>	<i>\$/kW/yr</i>
Tariff 20 (large) –transitional	73.500					35.953		
Tariff 21 –transitional		70.696	48.042	45.139	34.363			
Tariff 22 (small and large) – transitional	176.648		47.644		16.777			
Tariff 37 ^d –obsolete		29.285	20.855		52.161			
Tariff 62 –transitional	76.062		45.100	38.138	15.947			
Tariff 65 –transitional	75.913		35.905		19.777			
Tariff 66 –transitional	167.309					18.820	36.498	109.737

a. Tariff 21—first 100 kWh, tariff 22—7 am to 9 pm Mon. to Fri., tariff 37—10:30 pm to 4:30 pm, tariff 62—7 am to 9 pm Mon. to Fri., first 10,000kWh, tariff 65—12hr peak.

b. Tariff 21—101 to 10,000 kWh, tariff 62—7 am to 9 pm Mon. to Fri., over 10,000 kWh.

c. Tariff 21—over 10,000 kWh, tariff 22—all other times, tariff 37—4:30 pm to 10:30 pm, tariffs 62, & 65—all other times.

d. Tariff 37 became obsolete on 1 July 2007. It is only available to customers taking continuous supply under tariff 37 from 30 June 2007.

Table 20 Draft obsolete high voltage regulated retail tariffs and prices (excl. GST), 2017–18

<i>Retail tariff</i>	<i>Fixed charge</i>	<i>Usage charge (flat/off-peak)</i>	<i>Demand charge (off-peak/flat)</i>
	<i>c/day</i>	<i>c/kWh</i>	<i>\$/kW/mth</i>
Tariff 47—obsolete	42613.066	11.868	26.569
Tariff 48—obsolete	44151.996	12.168	27.243

8.1 Customer impacts

Are notified prices expected to change between 2016–17 and 2017–18?

Notified prices are expected to change between 2016–17 and 2017–18 due largely to movements in energy costs and network costs.

Energy costs are expected to increase for all customers in 2017–18, primarily driven by increases in wholesale energy costs and LRET costs. The QCA’s consultant, ACIL Allen, has advised that the increase in estimated wholesale energy costs ‘reflects the projected continued tightening of the demand-supply conditions in the Queensland region as well as other regions of the NEM in 2017–18 due to the increase in demand from in-field gas compression associated with the LNG export facilities, little additional renewable capacity in Queensland^[122], and the removal of Hazelwood power station in Victoria.’^{123 124}

ACIL Allen has also advised that LRET costs are expected to increase due to LGC prices continuing to increase ‘on the expectation that there will be a shortfall in LGC supply by 2018.’¹²⁵

However, the increase in energy costs has been largely offset by expected decreases in network costs between 2016–17 and 2017–18 for many notified prices. These decreases are a result of the AER’s final decisions on Energex’s and Ergon Energy’s 2015–20 distribution determinations. The offsetting impact of network costs means most notified prices are only expected to increase by small to moderate amounts despite the substantial increase in energy costs.

How will the QCA’s draft determination impact on customer bills?

The notified prices in this draft determination will not affect customer bills; the only notified prices that will apply to customers, and therefore have an impact on customer bills, are those in the QCA’s final determination. The draft notified prices are indicative only, as it is highly likely that there will be changes in the expected costs of supply and consequently, notified prices, between the QCA’s draft and final determinations.

¹²² While a number of new renewable energy projects are planned or under construction, only a limited amount of renewable generation will commence operation in 2017–18.

¹²³ Wholesale electricity is sold through the NEM, which allows electricity to trade across five interconnected regions (Queensland, New South Wales, Victoria, South Australia and Tasmania). The interconnected nature of the market means changes in the demand/supply balance in one region will impact on other regions of the NEM.

¹²⁴ ACIL Allen, Estimated Energy Costs–2017–18 Retail Tariffs, 11 January 2017, p. 24.

¹²⁵ ACIL Allen, Estimated Energy Costs–2017–18 Retail Tariffs, 11 January 2017, p 25.

To illustrate the hypothetical impacts of the draft determination on customer bills, we have provided comparisons of the annual amount typical customers¹²⁶ would have paid under 2016–17 notified prices and the annual amount that they would potentially pay under the draft 2017–18 notified prices. It is important to note that this information is only intended to show the potential impact of the annual change in notified prices on a typical customer's bill. It is not intended to demonstrate the annual change in the total amount a customer will pay their electricity retailer in a given year.

Many customers will incur additional charges that are not set by the QCA and cannot legally be included in notified prices. For example, most customers will also pay metering charges. These charges are set by the AER and will vary from customer to customer depending on a range of factors, including (but not limited to) the type of meter installed, the number of tariffs a customer uses and whether a customer has a solar power system. As these charges do not form part of notified prices or the QCA's price determination, they have not been included in the customer impact analysis for notified prices.

Impact on residential customers

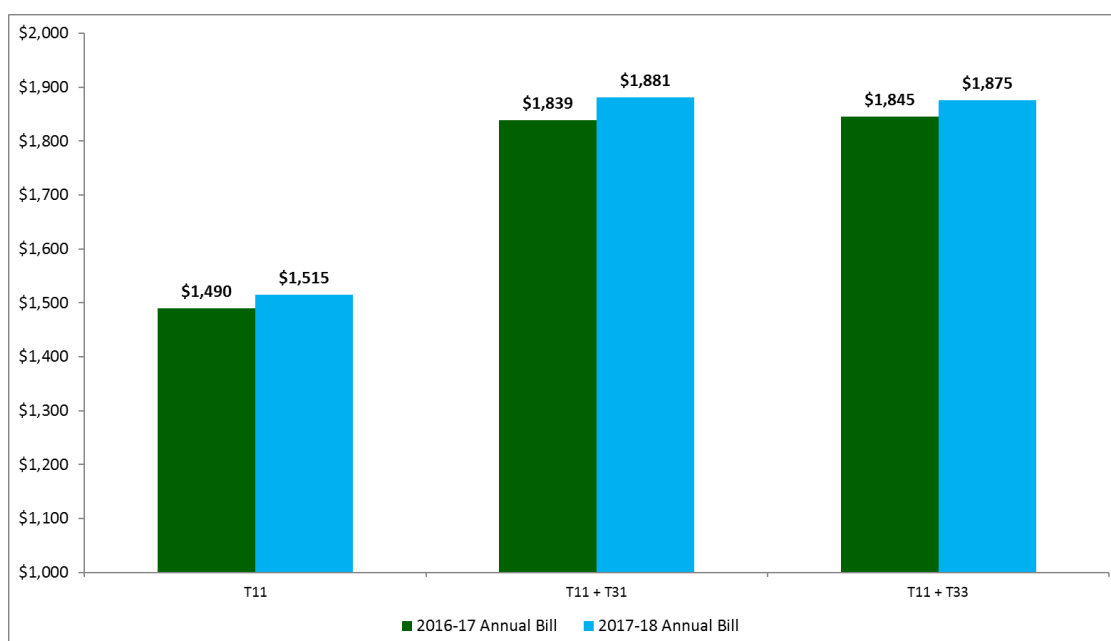
The main retail tariff for residential customers is tariff 11. Many customers on tariff 11 are also on one of the controlled load tariffs (tariffs 31 and 33)¹²⁷.

The annual notified price bill for a typical customer on tariff 11 is expected to increase by 1.7 per cent from \$1,490 (GST inclusive) to \$1,515 (GST inclusive), as a result of the draft change in notified prices between 2016–17 and 2017–18. For a typical customer on a combination of tariffs 11 and 31 or tariffs 11 and 33, the expected increase will be 2.3 per cent and 1.6 per cent respectively. However, the impact on individual customers will vary depending on their consumption. Customers with lower consumption than the typical customer will face smaller increases while higher-consumption customers face larger increases.

¹²⁶ The typical customer for a given retail tariff is the median or middle customer in terms of consumption out of all customers on that tariff in regional Queensland. The typical customer consumption data is provided by Ergon Retail and more information is provided at Appendix H.

¹²⁷ Controlled load tariffs may be used for appliances such as water heaters and pool pumps. These tariffs are generally cheaper than tariff 11 as customers are only guaranteed supply for a set number of hours (tariff 31 guarantees supply for 8 hours per day and tariff 33 guarantees supply for 18 hours per day).

Figure 12 Draft impact of the change in notified prices on typical residential customers (incl. GST), 2017—18



Note: The annual bill amounts have been rounded to the closest dollar.

Table 21 Changes in electricity bills in 2017—18 for tariff 11 customers (incl. GST)

Description	Annual consumption (kWh)	2016—17 Annual Bill (\$)	2017—18 Draft annual Bill (\$)	Changes (\$)	Changes (%)
25th Percentile usage ^a	2568	\$1,055.06	\$1,068.95	\$13.89	1.3%
Median usage ^b	4173	\$1,489.55	\$1,515.18	\$25.63	1.7%
75th Percentile usage ^c	6478	\$2,113.54	\$2,156.03	\$42.49	2.0%

^a One-quarter of regional Queensland customers will use less electricity than the 25th percentile customer.

^b Half of regional Queensland customers will use less electricity than the median customer.

^c Three-quarters of regional Queensland customers will use less electricity than the 75th percentile customer.

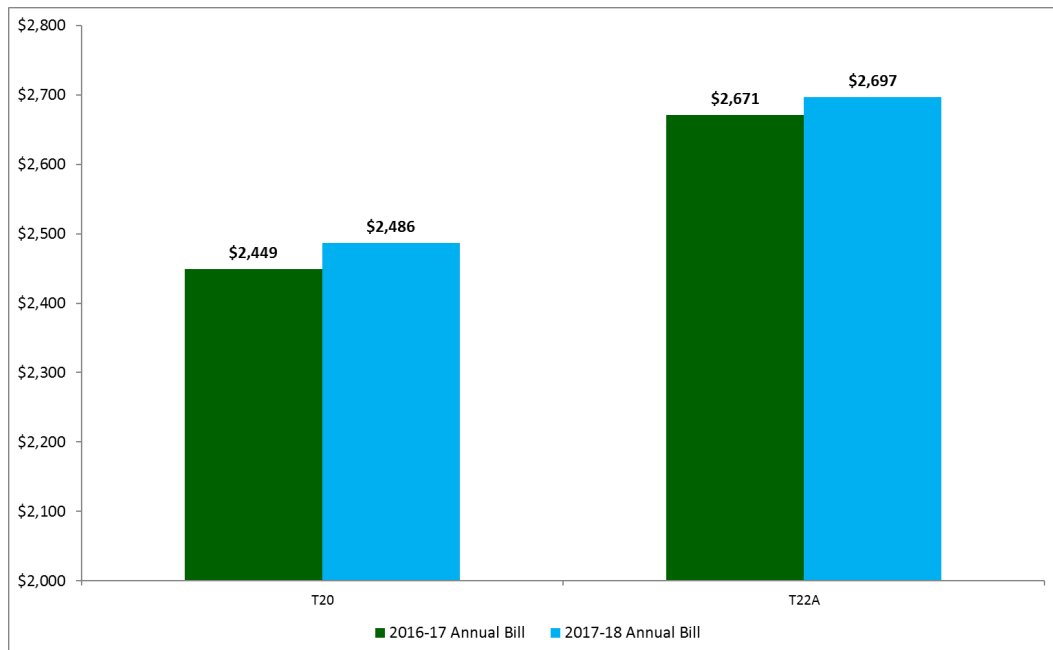
Note: 25th percentile, median and 75th percentile usage data for regional Queensland customers are supplied by Ergon Retail, who calculate these figures based on all their customers on the stated tariff(s). See Appendix H for more information. Totals may not add up due to rounding.

Impact on small business customers

The annual notified price bill for a typical customer on the main small business tariff (tariff 20) is expected to increase by \$37 or 1.5 per cent as a result of the draft change in notified prices between 2016—17 and 2017—18. For a typical customer on the seasonal time-of-use tariff (tariff 22A), the expected increase will be slightly lower at 1.0 per cent.

However, it is important to note that bill impacts for individual customers will vary depending on their level of consumption and, if the customer is on tariff 22A, the pattern of their consumption.

Figure 13 Draft impact of the change in notified prices on typical small business customers (incl. GST), 2017–18

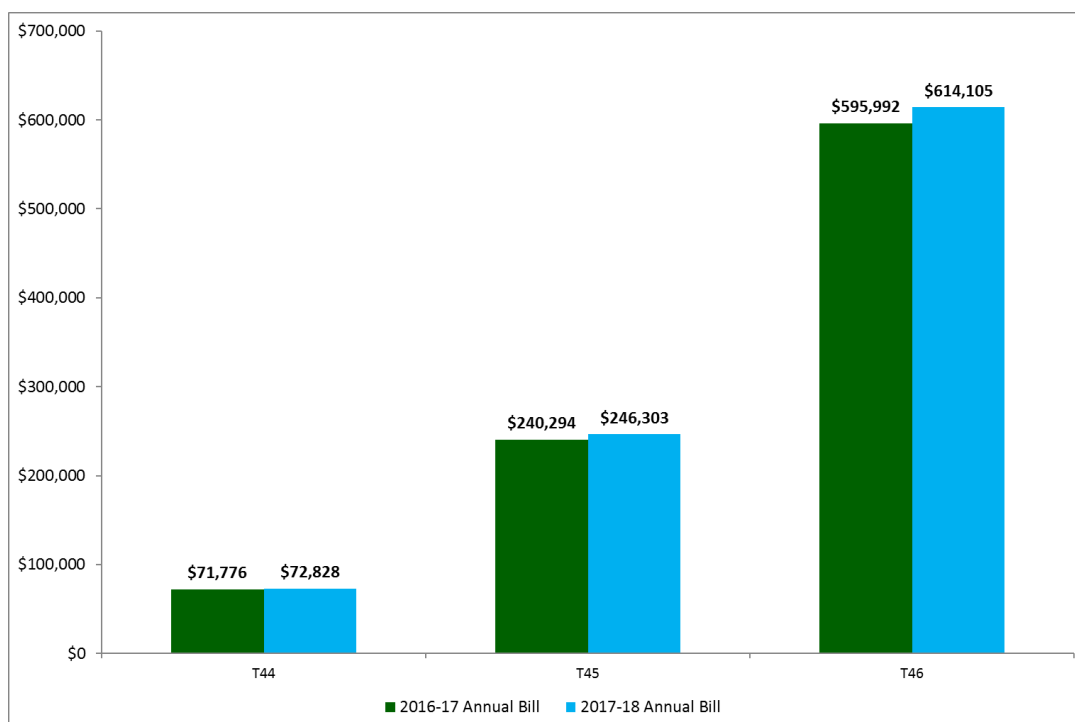


Note: The annual bill amounts have been rounded to the closest dollar.

Impacts on large business customers

Typical large business customers can expect increases in their annual notified price bills of between 1.5 per cent and 3 per cent as a result of the draft change in notified prices between 2016–17 and 2017–18. However, it is important to note that bill impacts for individual customers will vary depending on their level and pattern of consumption.

Figure 14 Draft impact of the change in notified prices on typical large business customers (incl. GST), 2017–18



Note: The annual bill amounts have been rounded to the closest dollar.

What is the QCA's proposed approach to transitional and obsolete tariffs?

Some business customers, including farmers and irrigators, are supplied under transitional or obsolete tariffs. These retail tariffs are legacy retail tariffs for which there is no corresponding network tariff. As a result, their prices cannot be determined under the N+R cost build-up methodology.

Transitional and obsolete tariffs have been made available for several years to allow customers to transition to standard business tariffs and recoup some of the investments made to suit the level and structure of transitional or obsolete tariffs. Based on information from Ergon Retail, many customers on these tariffs may face lower electricity bills if they moved immediately to a standard business tariff but some customers would face much higher bills.

The QCA proposes to maintain transitional arrangements for 2017–18 and to adjust the charges in each transitional and obsolete tariff in line with the percentage increases in the standard business tariffs customers would otherwise pay. The QCA also proposes to apply an additional escalation factor to limit charges for transitional and obsolete tariffs falling further below cost in dollar terms. This approach is consistent with the QCA's general approach in previous price determinations.

The QCA also proposes to introduce transitional arrangements for customers on existing high voltage retail tariffs, as Ergon Distribution intends to phase out the network tariff underlying these tariffs in 2017–18. Under the proposed transitional arrangements, the two high voltage retail tariffs (tariffs 47 and 48) will be classed as obsolete and therefore only available to existing customers for a transitional period of five years. Consistent with our approach to other transitional and obsolete tariffs, we propose to adjust these tariffs in line with changes in the relevant standard business tariffs, and apply escalation factors to limit charges falling further below cost in dollar terms.

We consider that the proposed approach strikes the right balance as it will allow existing customers on the two high voltage retail tariffs time to adjust their operations before moving to alternative retail tariffs. It also ensures that new customers do not make long-term investment and business decisions based on legacy high voltage tariffs that will only be available for five years. Given that many of these customers are likely to be using very large amounts of energy (tariff 48 customers are some of the largest energy users in Queensland) and making significant capital investments, we consider it is important that they make those decisions based on the correct pricing signals.

Table 22 shows the draft price changes and transition periods for all transitional and obsolete tariffs.

Table 22 Draft decision—transitional arrangements for 2017–18

<i>Obsolete or transitional tariff</i>	<i>Period to be retained (years)</i>	<i>Proposed 2017–18 price increase (%)</i>
Tariff 20 (large)—transitional	3	2.9
Tariff 21—transitional	3	2.3
Tariff 22 (small and large)—transitional	3	2.9
Tariff 37—obsolete	3	2.9
Tariff 47—obsolete	5	2.6
Tariff 48—obsolete	5	5.2
Tariff 62—transitional	3	1.9
Tariff 65—transitional	3	1.7
Tariff 66—transitional	3	1.7

GLOSSARY

AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
AFMA	Australian Financial Markets Association
ASMC	Australian Sugar Milling Council
CAC	Connection Asset Customer
CPI	Consumer Price Index
c/day	cents per day
DUOS	Distribution Use of System
Ergon Distribution	Ergon Energy Corporation Limited (electricity distribution arm)
Ergon Retail	Ergon Energy Queensland (electricity retail arm)
Electricity Act	<i>Electricity Act 1994 (Qld)</i>
ESCOSA	Essential Services Commission of South Australia
GST	Goods and services tax
GWh	Gigawatt hour
Government	Queensland Government
HV	High Voltage
HVL	High Voltage Line
ICC	Individually Calculated Customer
IPART	Independent Pricing and Regulatory Tribunal
kWh	Kilowatt hour
kVA	Kilovolt Ampere
kVr	Kilovolt Reactive
LGC	Large-scale generation certificate
LNG	Liquefied natural gas
LRET	Large-scale Renewable Energy Target
Minister	Minister for Energy, Biofuels and Water Supply
MWh	Megawatt hour
N	Network costs
NECF	National Energy Customer Framework
NEM	National Electricity Market
NERL	National Energy Retail Law
NERR	National Energy Retail Rules
Notified prices	Regulated retail electricity prices

NSLP	Net System Load Profile
N+R	Network + Retail cost build-up methodology
NSW	New South Wales
Origin	Origin Energy
QCA	Queensland Competition Authority
QCOSS	Queensland Council of Social Service
QFF	Queensland Farmers' Federation
QPC	Queensland Productivity Commission
R	Energy and retail cost
RET	Renewable Energy Target
RHS	Right hand side
ROC	Retail operating costs
ROLR	Retailer of last resort
RPP	Renewable power percentage
SA	South Australia
SAC	Standard Asset Customer
SRES	Small-scale Renewable Energy Scheme
STC	Small-scale technology certificate
STOUD	Seasonal time-of-use demand
STP	Small-scale technology percentage
TUOS	Transmission use of system
TWh	Terawatt hour
UTP	Uniform Tariff Policy

APPENDIX A: MINISTERIAL DELEGATION AND COVER LETTER



The Honourable Mark Bailey MP
Minister for Main Roads, Road Safety and Ports
Minister for Energy, Biofuels and Water Supply

Our Reference: CLLO-CIC-16063

Level 34, 1 William Street Brisbane 4000
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Queensland 4001 Australia
Telephone +61 7 3719 7300
Email energyandwatersupply@ministerial.qld.gov.au
Website www.dews.qld.gov.au

10 NOV 2016

Professor Roy Green
Chair
Queensland Competition Authority
Level 27, 145 Ann Street
BRISBANE OLD 4000

Dear Professor ^{Roy,} Green

Re: Determination of Regulated Retail Electricity Prices for 2017–18

I write to you to issue a Delegation and Terms of Reference to the Queensland Competition Authority (QCA) for the determination of regulated retail electricity prices in regional Queensland for 2017–18 under section 90AA(1) of the *Electricity Act 1994*.

The attached Delegation and Terms of Reference for 2017–18 are consistent with the approach taken in my Delegation and Terms of Reference for 2016–17. The Government's Uniform Tariff Policy and promoting greater levels of retail competition remain important considerations when setting regulated retail electricity prices in regional Queensland.

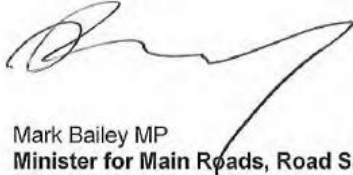
The Government remains committed to ensuring regional customers have access to reliable electricity supply at affordable prices. We are also proactively working with the business and agricultural sectors to help identify ways to assist small and large businesses to manage their electricity consumption and costs.

The deregulation of retail electricity prices for small customers in South East Queensland (SEQ) on 1 July 2016 removed a reference point for the determination of prices in regional Queensland. To maintain consistency with the regulation of prices in previous years, the Government considers that regulated prices for small customers in regional Queensland should continue to broadly reflect the expected prices for small customers on standing offers in SEQ.

Public consultation is a vital part of the QCA's process for determining retail electricity prices. As such, the Terms of Reference requires the Draft Determination to be issued in February 2017.

I trust this provides sufficient time to undertake the necessary consultation to support the Draft Determination and to allow for delivery of the Final Determination by 31 May 2017.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Mark Bailey', with a long, sweeping tail extending to the right.

Mark Bailey MP
**Minister for Main Roads, Road Safety and Ports and
Minister for Energy, Biofuels and Water Supply**

Att: Delegation and Terms of Reference – Determination of Regulated Retail Electricity Prices for 2017-18

ELECTRICITY ACT 1994
Section 90AA(1)

DELEGATION

I, Mark Bailey, the Minister for Energy, Biofuels and Water Supply, in accordance with the power of delegation in section 90AA(1) of the *Electricity Act 1994* (the Act), delegate to the Queensland Competition Authority (QCA) the function under section 90(1) of the Act of deciding the prices that a retail entity may charge its standard contract customers for customer retail services in the Ergon Energy Corporation Limited (EECL) distribution area for the tariff year 1 July 2017 to 30 June 2018.

The following are the Terms of Reference of the price determination:

Terms of Reference

1. These Terms of Reference apply for the tariff year 1 July 2017 to 30 June 2018.
2. The QCA is to calculate the notified prices and publish an annual price determination, in the form of a tariff schedule, in accordance with these Terms of Reference.
3. In accordance with section 90(5)(a) of the Act, in making a price determination for each tariff year QCA must have regard to the matters set out in paragraph 5 of these Terms of Reference.
4. In accordance with section 90(5)(b) of the Act, QCA may have regard to any other matter that QCA considers relevant.
5. The matters that QCA is required by this delegation to consider are:
 - (a) On 1 July 2016, price regulation in the Energex distribution area was removed for small customers. This means that notified prices only apply to customers in the EECL distribution area;
 - (b) Uniform Tariff Policy - QCA must consider the Government's Uniform Tariff Policy, which provides that, wherever possible, small standard retail contract customers and large non-market customers of the same class should pay no more for their electricity, regardless of their geographic location;
 - (c) Framework - QCA must use the Network (N) plus Retail (R) cost build-up methodology when working out the notified prices and making the price determination, where N (network cost) is treated as a pass-through and R (energy and retail cost) is determined by QCA;

DELEGATION TO QCA

- (d) When determining the N components for each regulated retail tariff, QCA must consider the following:
 - (i) For residential and small business customer tariffs (with the exception of Tariffs 12A, 14, 22A and 24) - basing the network cost component on the network charges to be levied by Energex and the relevant Energex tariff structures;
 - (ii) For Tariff 12A (residential time-of-use), Tariff 14 (residential seasonal time-of-use), Tariff 22A (small business time-of-use) and Tariff 24 (business seasonal time-of-use demand) - basing the network cost component on the price level of network charges to be levied by Energex, but utilising the relevant EECL tariff structures, in order to strengthen or enhance the underlying network price signals and encourage customers to switch to time-of-use and demand tariffs and reduce their energy consumption during peak times; and
 - (iii) For large business customers in who consume 100MWh or more per annum - basing the network cost component on the network charges to be levied by EECL.
- (e) Transitional Arrangements - QCA must consider:
 - (i) maintaining transitional arrangements for tariffs classed as transitional or obsolete (i.e. farming, irrigation, declining block, non-domestic heating and large business customer tariffs), and
 - (ii) continuing to allow all EECL customers access to tariffs designated as transitional in 2013–14.

Interim Consultation Paper

6. QCA must publish an interim consultation paper identifying key issues to be considered when calculating the N and R components of each regulated retail electricity tariff and transitioning relevant retail tariffs.
7. QCA must publish a written notice inviting submissions about the interim consultation paper. The notice must state a period during which anyone can make written submissions to QCA about issues relevant to the price determination.
8. QCA must consider any submissions received within the consultation period and make them available to the public, subject to normal confidentiality considerations.

DELEGATION TO QCA

Consultation Timetable

9. QCA must publish an annual consultation timetable within two weeks after submissions on the interim consultation paper are due, which can be revised at the discretion of QCA, detailing any proposed additional public papers and workshops that QCA considers would assist the consultation process.

Workshops and additional consultation

10. As part of the interim consultation paper and in consideration of submissions in response to the interim consultation paper the QCA must consider the merits of additional public consultation (workshops and papers) on identified key issues.

Draft Price Determination

11. QCA must investigate and publish its draft price determination on regulated retail electricity tariffs, with each tariff to be presented as a bundled price.
12. QCA must publish a written notice inviting submissions about the draft price determination. The notice must state a period during which anyone can make written submissions to QCA about issues relevant to the draft price determination.
13. QCA must consider any submissions received within the consultation period and make them available to the public, subject to normal confidentiality considerations.

Final Price Determination

14. QCA must investigate and publish its final price determination on regulated retail electricity tariffs, with each tariff to be presented as a bundled price, and gazette the bundled retail tariffs.

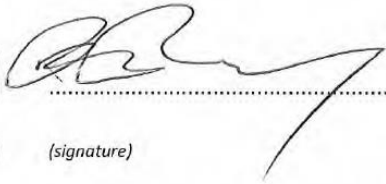
Timing

15. QCA must make its reports available to the public and, at a minimum, publicly release the papers and price determinations listed in paragraphs 6 to 14.
16. QCA must publish the interim consultation paper for the 2017–18 tariff year no later than one month after the date of this Delegation.
17. QCA must publish the draft price determination on regulated retail electricity tariffs in February 2017.
18. QCA must publish the final price determination on regulated retail electricity tariffs for the 2017–18 tariff year, and have the bundled retail tariffs gazetted, no later than 31 May 2017.

DELEGATION TO QCA

DATED this 16th day of November 2016.

SIGNED by the Honourable
Mark Bailey,
Minister for Energy, Biofuels and
Water Supply

) 
)
) (signature)

APPENDIX B: SUBMISSIONS

- Auctus Resources
- Australian Sugar Milling Council
- Canegrowers (late submission received TBC)
- Canegrowers Isis
- Energy Queensland
- Queensland Electricity Users Network
- Queensland Farmers' Federation
- Queensland Consumers Association
- Queensland Council of Social Service

APPENDIX C: RESPONSES TO ADDITIONAL ISSUES RAISED IN SUBMISSIONS

In this section, we provide responses to a number of additional issues raised in submissions, which were not addressed in our draft determination.

<i>Issue</i>	<i>Stakeholder</i>	<i>QCA position</i>
There are errors in Ergon Distribution's 2016 Tariff Structure Statement.	Canegrowers	The approval of Ergon Energy's Tariff Structure Statements is a matter for the AER. Under the Queensland Government's N+R cost build-up method, we treat Ergon Energy's network costs as a pass-through.
The QCA should allow customers to elect to be on a range of tariffs and later confirm the tariff at the end of each quarter.	Canegrowers Isis	The QCA determines notified prices under the Electricity Act as delegated by the Queensland Government. Flexible or retrospective tariff selection is outside the scope of this report.
The QCA should conduct an economic impact analysis on rising electricity costs and determine an optimal price for a range of electricity consumers.	Canegrowers Isis	The QCA determines notified prices under the Electricity Act as delegated by the Queensland Government. An economic impact analysis on rising electricity costs is outside the scope of this report.
The QCA should also use Ergon Energy's network tariff structures in determining all retail prices for small customers. The application of the UTP means the QCA should let Ergon Energy recover an amount (quantum) of revenue for its network costs in regional Queensland that is equivalent to Energex's revenue collected for its network costs.	Energy Queensland	<p>The QCA's responsibility under the Queensland Government's delegation is to decide notified prices, not the revenue of regulated businesses. The UTP, as defined by the Minister, concerns the overall retail price. We propose to set notified retail prices accordingly.</p> <p>The delegation also requires us to consider Energex tariffs structures in setting non time-of-use tariffs for small customers; and consider Ergon Energy's tariff structures, in setting time-of-use tariffs for small customers. We propose to set notified prices accordingly.</p>
Affordable electricity is essential to the wellbeing of communities; prices for regional customers should be minimised.	QCOSS	<p>The QCA must set notified prices in accordance with the requirements of the Electricity Act and the Queensland Government's delegation. Chapter 1 outlines legal requirements that apply to the QCA when it determines notified prices.</p> <p>The Queensland Government has implemented the UTP which results in a subsidy paid to customers of Ergon Energy Retail. We propose to set prices in accordance with the UTP. See Chapter 2.</p> <p>The QCA has also considered affordability by specifying transitional arrangements for legacy tariffs, which smoothen the bill impact for regional customers transitioning to standard business tariffs.</p>
The QCA should present bill impacts for a wide range of customer usage levels.	QCOSS	The QCA has included bill impacts for customers who use more (75 th percentile) than the typical (median) customer, as well as customers who use less (25 th percentile). See Appendix H for more information.

The QCA should include metering costs in its bill impact analysis and fact sheets, even though it does not form part of the QCA's determination, because the determination refers to customers' electricity bills.	QCOSS	Under the Electricity Act, metering charges cannot legally be included in notified prices. The charges also vary from customer to customer. As the metering charges do not form part of notified prices or the QCA's price determination, we do not include metering charges in the customer impact analysis for notified prices.
Regulated retail electricity prices for all businesses in regional Queensland in 2017–18 must be reduced by 16 per cent compared to 2016–17.	QEUN	The QCA determines notified prices under the Electricity Act as delegated by the Queensland Government. We made our draft determination on the regulated retail prices after considering all the matters we are required to consider under the Electricity Act and the delegation. See Chapter 2 for a full discussion of our pricing approach.
The cost build-up methodology that the QCA uses ignores concerns about affordability.	QEUN	The QCA sets notified prices in accordance with the requirements of the Electricity Act and the Queensland Government's delegation. The Queensland Government has considered affordability in making its delegation by putting forward the UTP, which subsidises electricity prices for regional customers. The QCA has considered affordability by specifying transitional arrangements in tariffs, which smoothens the bill impact for regional customers.
The cost build-up methodology that the QCA follows from the delegation fails to comply with the National Electricity Objective (under the National Electricity Law).	QEUN	The QCA determines notified prices under the Electricity Act. We are required to consider, and we have considered, the objects of the Electricity Act rather than the National Electricity Objective. See Chapter 2 for a consideration of the objects of the Electricity Act.
The QCA has not complied with the monopoly investigation provisions of the <i>Queensland Competition Authority Act 1997</i> (QCA Act).	QEUN	As the QCA is required to determine notified prices in accordance with the requirements in the Electricity Act, the monopoly investigation provisions in the QCA Act do not apply to the 2017–18 price determination.
The QCA's consultation program is a 'tick the box' exercise.	QEUN	The QCA has held consultation workshops in regional centres in Queensland since 2013–14. We consider seriously and carefully the feedback from these workshops as well as the issues raised in the submissions.
The process for electricity price reform is flawed and needs a complete review.	QFF	The Queensland Productivity Commission has completed a comprehensive review on electricity pricing in Queensland, in which it has made recommendations to the Queensland Government on the pricing process. Any further review is a matter for the Queensland Government.

APPENDIX D: NETWORK TARIFF STRUCTURES

This appendix provides further information on the draft decisions in Chapter 3. Energex and Ergon Distribution network tariff structures are compared and the way tariffs have been adjusted to make them consistent with the UTP is outlined.

Comparison of Energex and Ergon Energy's tariff structures

Table 23 Energex and Ergon Distribution residential and small business customer time-of-use and demand tariffs

<i>Distributor</i>		<i>Peak</i>	<i>Shoulder</i>	<i>Off-peak</i>
Residential (time-of-use)				
Energex	Usage	4 pm–8 pm weekdays (weekdays include government specified public holidays)	7 am–4 pm, 8 pm–10 pm weekdays (weekdays include government specified public holidays) 7 am–10 pm weekends	10 pm–7 am every day
Ergon Distribution (retail tariff 12A)	Usage	3 pm–9.30 pm any day of the week, summer ^a months only		All other times
Residential (time-of-use demand)				
Energex (introduced on 1 July 2016)	Usage	Flat usage charge		
	Demand	4 pm–8 pm workdays (workdays are weekdays but exclude government-specified public holidays)		
Ergon Distribution (retail tariff 14)	Usage	Flat usage charge		
	Demand	3 pm–9.30 pm any day of the week, summer ^a months only		3 pm–9.30 pm any day of the week, non-summer ^a months
Small business (time-of-use)				
Energex	Usage	7 am–9 pm, weekdays (weekdays include government-specified public holidays)		All other times
Ergon Distribution (retail tariff 22A)	Usage	10 am–8 pm on summer ^a weekdays		All other times

Distributor		Peak	Shoulder	Off-peak
Small business (time-of-use demand)				
Energex (to be introduced on 1 July 2017)	Usage	Flat usage charge		
	Demand	9 am–9 pm workdays (workdays are weekdays but exclude government-specified public holidays)		
Ergon Distribution (retail tariff 24)	Usage	Flat usage charge		
	Demand	10 am–8 pm on summer ^a weekdays		10 am–8 pm weekdays in non-summer ^a months

a. Summer months are December, January and February.

Table 24 Energex and Ergon Distribution non-time-of-use tariffs

Type	Distributor	Fixed	Usage		
Residential (tariff 11)	Energex	c/day	Flat rate c/kWh		
	Ergon Distribution	c/day	c/kWh 1st 1,000 kWh/year	c/kWh next 5,000 kWh/year	c/kWh >6,000 kWh/year
Small business (tariff 20)	Energex	c/day	Flat rate c/kWh		
	Ergon Distribution	c/day	c/kWh 1st 1,000 kWh/year	c/kWh next 19,000 kWh/year	c/kWh >20,000 kWh/year
Small business demand (tariff 41)	Energex	c/day	Flat rate c/kWh	\$/kVA/month	
	Ergon Distribution	No network tariff			
Night controlled load (tariff 31)	Energex	n/a	Flat rate c/kWh		
	Ergon Distribution	c/day	Flat rate c/kWh		
Controlled load (tariff 33)	Energex	n/a	Flat rate c/kWh		
	Ergon Distribution	c/day	Flat rate c/kWh		
Unmetered (tariff 91)	Energex	n/a	Flat rate c/kWh		
	Ergon Distribution	c/day	Flat rate c/kWh		

Adjusting Ergon Distribution network tariffs

This section outlines the methodology used in section 3.2.3 to adjust Ergon Distribution network charges to reflect Energex price levels, while retaining Ergon Distribution tariff structures. This approach is consistent with the approach we adopted in the 2016–17 determination.

Establishing network prices

To calculate network prices that reflect Ergon Distribution tariff structures and Energex price levels, we used information on network charges provided by the distributors¹²⁸ and customer usage data provided by Ergon Distribution and Ergon Retail. Using this data, we then lowered charges under the relevant Ergon Distribution network tariff¹²⁹ to a level where the average customer pays the same as they would under the equivalent Energex network tariff.

This calculated network tariff has then been used as the basis of a retail tariff.

Seasonal time-of-use tariffs

Ergon Distribution has seasonal time-of-use network tariffs for residential and small business customers. These network tariffs form the basis of retail tariffs 12A (residential) and 22A (small business). To create retail tariffs that reflect Ergon Distribution network tariff structures, while broadly reflecting Energex price levels, we adjusted all charges under the Ergon Distribution network tariff so that the average customer will pay the same total network cost as they would be under the equivalent Energex flat rate network tariff.

The results are shown in tables 25 and 26.

Table 25 Network prices for tariff 12A

	<i>Fixed c/day</i>	<i>Peak/flat c/kWh</i>	<i>Off-peak c/kWh</i>
Energex 8400	48.340	10.484	N/A
Ergon Distribution ERTOUT1	149.600	39.270	6.216
QCA-adjusted Ergon Distribution ERTOUT1	54.844	39.270	6.216

Note: Based on data provided by Ergon Distribution and Ergon Retail, annual usage is taken as 5,035 kWh, with 11.48% peak usage and 88.52% off-peak usage.

Table 26 Network prices for tariff 22A

	<i>Fixed c/day</i>	<i>Peak/flat c/kWh</i>	<i>Off-peak c/kWh</i>
Energex 8500	65.593	11.455	N/A
Ergon Distribution EBOUT1	149.600	44.220	10.116
QCA-adjusted Ergon Distribution EBOUT1	65.593	36.044	8.246

Note: Based on data provided by Ergon Distribution and Ergon Retail, annual usage is taken as 13,718 kWh, with 11.54% peak usage and 88.46% off-peak usage.

¹²⁸ Energex and Ergon Distribution.

¹²⁹ Network tariffs applying to Ergon Distribution's east pricing zone, transmission region one.

Time-of-use demand tariffs

Ergon Distribution has seasonal time-of-use network tariffs for residential and small business customers. These network tariffs form the basis of retail tariffs 12A (residential) and 22A (small business). To calculate network prices for these retail tariffs, we uniformly reduced all charges of the relevant Ergon Distribution network tariff to equalise the average customer's network bill with the bill they would face on the equivalent Energex flat rate network tariff.

The resulting network prices are shown in tables 27 and 28.

Table 27 Network prices for tariff 14

	<i>Fixed c/day</i>	<i>Usage c/kWh</i>	<i>Peak demand \$/kW/month</i>	<i>Off-peak demand \$/kW/month</i>
Energex 8400	48.340	10.484	N/A	N/A
Ergon Distribution ERTOUDCT1	24.600	3.616	74.160	12.000
QCA-adjusted Ergon Distribution ERTOUDCT1	17.925	2.635	54.036	8.744

Note: Based on data provided by Ergon Distribution and Ergon Retail, annual usage is taken as 5,053 kWh with a peak demand of 1.43 kW per month and an off-peak demand of 3.48 kW per month.

Table 28 Network prices for tariff 24

	<i>Fixed c/day</i>	<i>Usage c/kWh</i>	<i>Peak demand \$/kW/month</i>	<i>Off-peak demand \$/kW/month</i>
Energex 8500	65.593	11.455	N/A	N/A
Ergon Distribution EBTOUDCT1	24.600	4.316	92.160	10.000
QCA-adjusted Ergon Distribution EBTOUDCT1	22.136	3.884	82.929	8.998

Note: Based on data provided by Ergon Distribution and Ergon Retail, annual usage is taken as 13,718 kWh with a peak demand of 2.77 kW per month with an off-peak demand of 6.27 kW per month.

Non-time-of-use tariffs

As discussed in Chapter 3, we examined the impact of using Ergon Distribution's inclining block tariff structure as the basis for flat-rate retail tariffs 11 (residential) and 20 (small business). For the purposes of this assessment, we calculated network prices by uniformly reducing all charges of the relevant Ergon Distribution network tariff to equalise the total network revenue recovered by Ergon Distribution under an inclining block tariff with the network revenue it would have otherwise recovered under an Energex flat rate tariff. Network prices calculated using this approach are consistent with the UTP.

The resulting network prices and charts demonstrating the impact on customers are shown below.

Table 29 Network prices for tariff 11

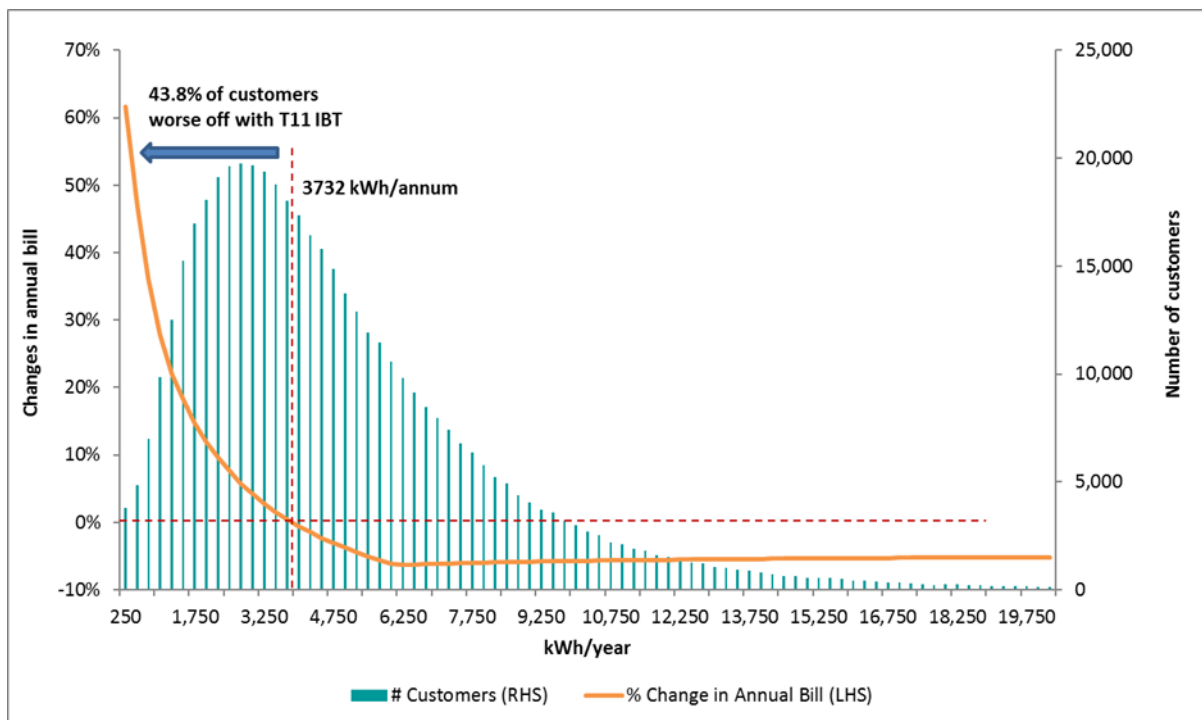
	<i>Fixed c/day</i>	<i>Usage c/kWh</i>		
		<i>Flat/first block^a</i>	<i>Second block^b</i>	<i>Third block^c</i>
Energex 8400	48.340	10.484	N/A	N/A
Ergon Distribution ERIBT1	149.600	3.966	8.425	13.146
QCA-adjusted Ergon Distribution ERIBT1	108.123	2.867	6.089	9.502

a. Usage charge applies to all usage under an Energex network tariff (row 1). Usage charge applies to usage of less than 2.74 kWh per day under an Ergon Distribution network tariff (rows 2 and 3)

b. Usage charge applies to usage greater than 2.74 kWh per day and less than 16.43 kWh per day under an Ergon Distribution network tariff (rows 2 and 3)

c. Usage charge applies to usage above 16.43 kWh per day under an Ergon Distribution network tariff (rows 2 and 3)

Figure 30 Impact on tariff 11 customers adopting Ergon Distribution inclining block tariff structure



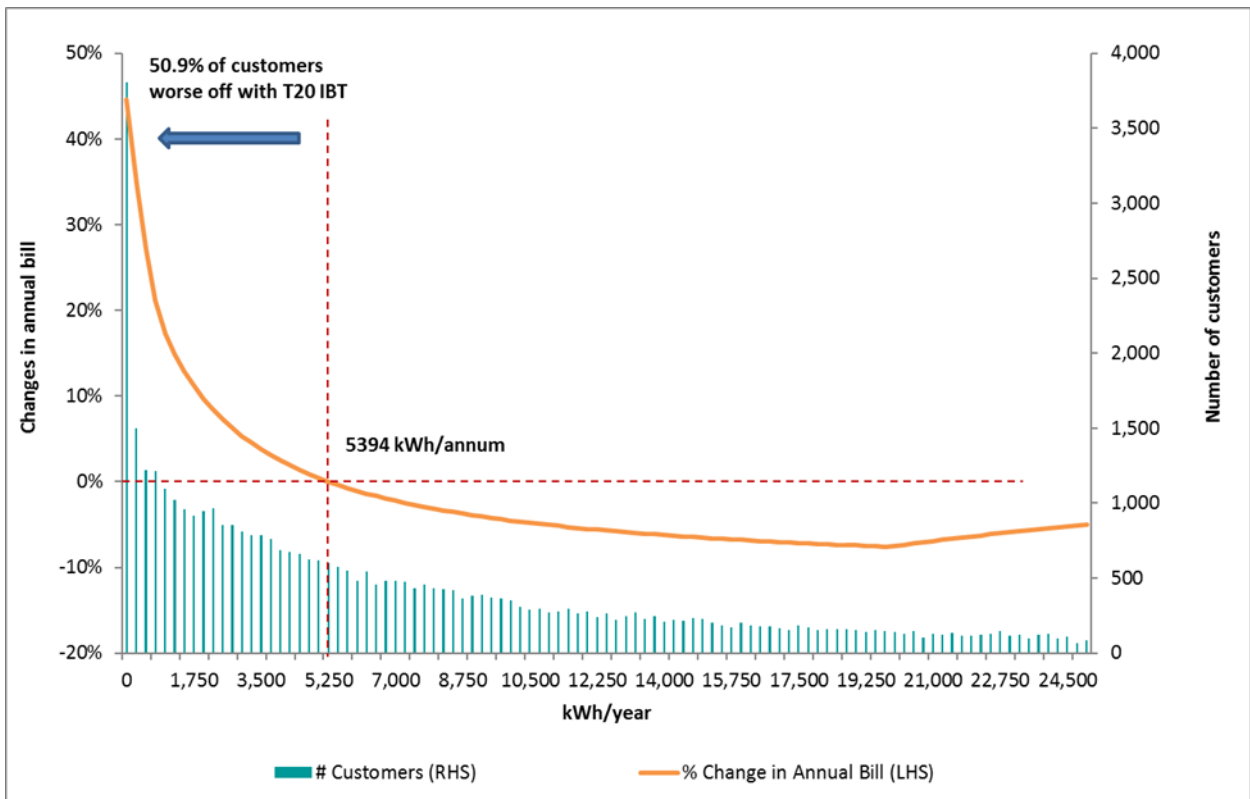
- a. IBT stands for inclining block tariffs.
- b. RHS stands for right hand side. LHS stands for left hand side.
- c. 43.8 % of customers (consuming below 3732 kWh/annum) will be worse off moving from a residential flat tariff (tariff 11) to Ergon Distribution inclining block tariff structure.

Table 31 Network prices for tariff 20

	Fixed c/day	Usage c/kWh		
		Flat/first block ^a	Second block ^b	Third block ^c
Energex 8500	65.593	11.455	N/A	N/A
Ergon Distribution EBIBT1	149.600	4.316	10.717	15.369
QCA-adjusted Ergon Distribution EBIBT1	124.391	3.589	8.911	12.780

- a. Usage charge applies to all usage under an Energex network tariff (row 1). Usage charge applies to usage of less than 2.74 kWh per day under an Ergon Distribution network tariff (rows 2 and 3).
- b. Usage charge applies to usage greater than 2.74 kWh per day and less than 54.76 kWh per day under an Ergon Distribution network tariff (rows 2 and 3).
- c. Usage charge applies to usage above 54.76 kWh per day under an Ergon Distribution network tariff (rows 2 and 3).

Figure 32 Impact on tariff 20 customers adopting Ergon Distribution inclining block tariff structure



a. IBT stands for inclining block tariffs.

b. RHS stands for right hand side. LHS stands for left hand side.

c. 50.9 % of customers (consuming below 5394 kWh/annum) will be worse off moving from a small business flat tariff (tariff 11) to Ergon Distribution inclining block tariff structure.

APPENDIX E: RETAIL COST ALLOWANCES

In Chapter 5, the QCA proposes to base 2017–18 retail costs on the allowances established in the 2016–17 price determination. This appendix outlines how the QCA calculated fixed and variable retail cost allocators in 2016–17. For more information on the retail cost determination process, please see our 2016–17 price determination and ACIL Allen's report on estimating the efficient retail costs. Both documents are available on our [website](#).¹³⁰

Retail costs for residential and small business customer retail tariffs

To allocate the fixed retail cost component, the total annual fixed benchmark retail cost (not including an allowance for regulatory fees) derived in 2016–17 was divided by 365.25 days to derive a daily charge. This is expressed in cents per day and applied to the fixed component of retail tariffs.

To apply the variable retail cost components to each retail tariff, we derived variable retail cost allocators, as set out in Table 33, column E below. These allocators represent the variable retail cost component derived in 2016–17 (column B) as a percentage of total 2016–17 variable costs, excluding the variable retail cost component (column D). This approach generated percentage factors which allowed us to apply the variable retail cost components evenly across tariff components, even when they are not expressed on a cent per kWh basis, such as demand charges. It also allows us to apply variable retail costs to time-of-use use tariff components, where the average cents per kWh estimate cannot be applied.

Using this approach means that the variable retail cost component changes in line with the underlying variable cost base. For example, if wholesale energy costs or network charges increased, the variable retail cost would also increase, as it is derived as a percentage of underlying variable costs. This is consistent with how the retail margin was applied in previous years. Conceptually, we consider it reasonable to assume that variable retail costs (including the required margin) would increase in dollar terms as underlying costs increase. This is because retailers face greater risk as underlying costs (and customer bills) increase—retailers should be compensated for this additional risk.

Table 33 2016–17 Allocation of fixed and variable retail costs and variable cost allocators

<i>Customer class</i>	<i>A Benchmark fixed retail component (\$/customer/yr)</i>	<i>B Benchmark variable retail component (\$/customer/yr)</i>	<i>C Benchmark variable retail component (c/kWh)</i>	<i>D Benchmark total variable cost^a (\$/customer/yr)</i>	<i>E Variable retail costs allocator^b (%)</i>
Residential	127.93	104.28	2.25	924.89	11.27%
Small business	181.56	422.23	2.58	3,298.72	12.80%

a. The total variable cost excludes the variable retail cost based on 2015–16 costs for an average tariff 11 customer consuming 4,640 kWh per year, and an average small business customer consuming 16,370 kWh per year, based on data from Energex.

b. The variable retail cost allocator (column E) is derived by dividing column B by column D.

To derive the variable retail cost component of each tariff, we multiplied the underlying variable cost component of each tariff (net of variable retail costs) by the appropriate variable retail cost allocator (either residential or small business). The choice of allocator for each retail tariff is based on the category of customer accessing the tariff, as set out in Table 34.

¹³⁰ <http://www.qca.org.au/Electricity/Regional-consumers/Reg-Electricity-Prices/Final-Report/Regulated-Electricity-Prices-2016-17#finalpos>.

All residential and small business tariffs will include both fixed and variable retail cost components, except for controlled load tariffs 31 and 33 which are secondary tariffs and attract a variable retail cost only.

Table 34 Allocation of total retail costs to fixed and variable components—residential and small business customer tariffs

<i>Tariff</i>	<i>Customer category for assigning retail cost allowance</i>	<i>Fixed retail component</i>	<i>Variable retail cost allocator</i>
Residential (T11, 12A & 14)	Residential	Yes	11.27%
Controlled loads (T31 & 33)	Residential	No	11.27%
Small business (T20, 22A, 24 & 41)	Business—small	Yes	12.80%
Other unmetered loads—T91	Business—small	No	12.80%

Retail costs for large and very large business customer tariffs

As ACIL was not able to benchmark 2016–17 retail costs for large and very large business customer tariffs, we decided to retain the 2015–16 large business customer retail operating cost allowances in real terms.

We escalated the 2015–16 estimated retail operating costs (plus the margin allocated to the fixed component) to 2016–17 values using the forecast change in the CPI. This is consistent with our approach in previous years. We assumed an inflation rate of two per cent which is the mid-range of the Reserve Bank of Australia's inflation forecast of 1.5 to 2.5 per cent for the 12 months to June 2017.¹³¹

In previous determinations, we estimated and applied retail operating costs and the retail margin as discrete components. Retail operating costs were considered a fully fixed cost. The retail margin was estimated and applied as a percentage of total costs, recovered through both fixed and variable tariff components.

To apply a methodology consistent with that applied to small customer tariffs, the ROC allowance (plus the margin allocated to the fixed component) was taken as the fixed retail cost component and a variable component equal to the margin of 5.7 per cent that we applied in 2015–16. To allocate the variable retail component across the total variable costs we have used a variable retail cost allocator of 6.0445 per cent of total variable costs, excluding variable retail costs. This allocator represents the percentage required to establish a variable retail cost component equal to 5.7 per cent of total variable costs, including the variable retail cost.

Fixed retail costs will be applied in the same way as in previous determinations, as set out in Table 35. The choice of allocator for each retail tariff is based on the category of customer accessing the tariff, also as set out in Table 35. All large and very large business tariffs will include both fixed and variable retail cost components, except tariff 71 (street lighting) which is considered a secondary tariff and attracts a variable retail cost only.

¹³¹ Reserve Bank of Australia, *Statement on Monetary Policy*, May 2016, p. 61.

Table 35 Allocation of total retail costs to fixed and variable components—large and very large business customer tariffs

<i>Tariff</i>	<i>Customer category for assigning retail cost allowance</i>	<i>Fixed retail component</i>	<i>Variable retail cost allocator</i>
Tariffs 44, 45, 46 & 50	Business—large	Yes	6.0445%
Tariff 71	Business—large	No	6.0445%
Tariff 51A–D, 52A–C, 53	Business—very large	Yes	6.0445%

APPENDIX F: TRANSITIONAL AND OBSOLETE TARIFFS—CUSTOMER IMPACTS

In Chapter 7 we discuss our decision on arrangements for customers on transitional and obsolete retail tariffs. This decision is based on data provided by Ergon Retail for the 2016–17 final determination. More recent data was not available due to the work program and data migration required to implement Ergon Retail's new billing system. However, we expect to receive updated customer impact data for our final determination.

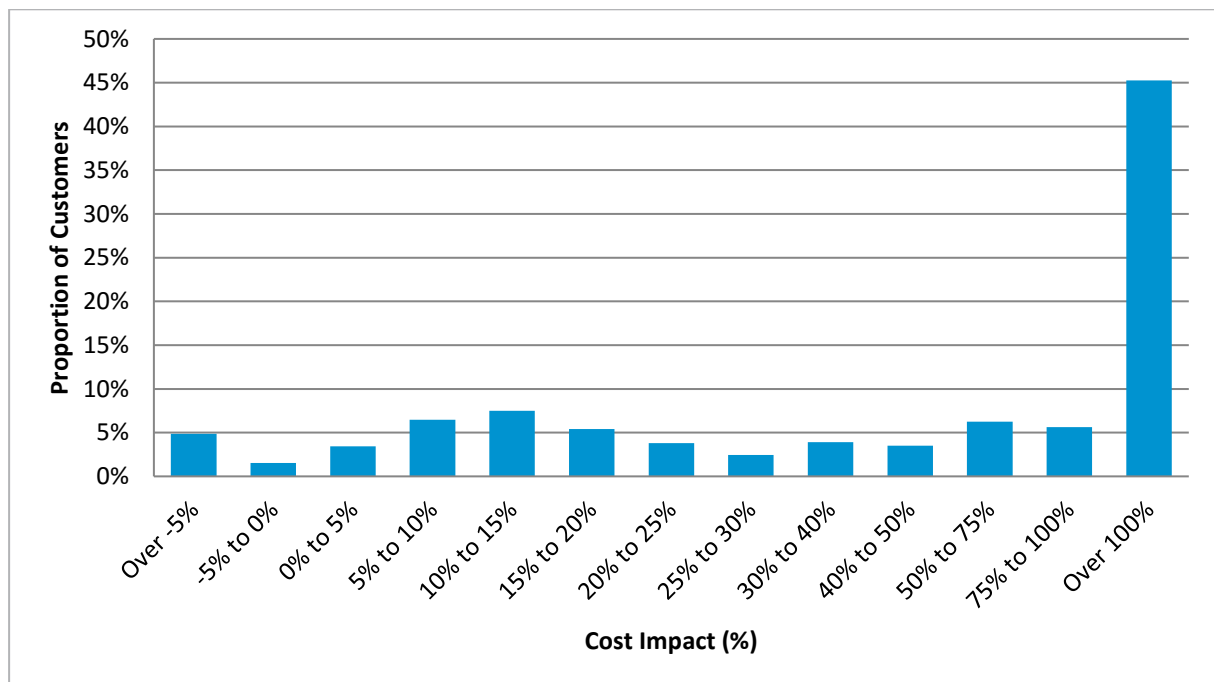
This appendix contains the analysis of bill impacts for customers moving from their transitional or obsolete 2015–16 tariff to an alternative 2015–16 standard business tariff.

The customer impacts are calculated on an individual tariff basis. As some customers are supplied under multiple tariffs, the overall impact to an individual customer may be a combination of the impacts shown below.

Tariff 21

Tariff 21 is a declining block tariff that aligns with tariff 20 for small business customers. Figure 15 below shows the distribution of potential impacts for existing customers moving to this standard business tariff.

Figure 15 Change in electricity bills for small business customers on tariff 21 moving to tariff 20

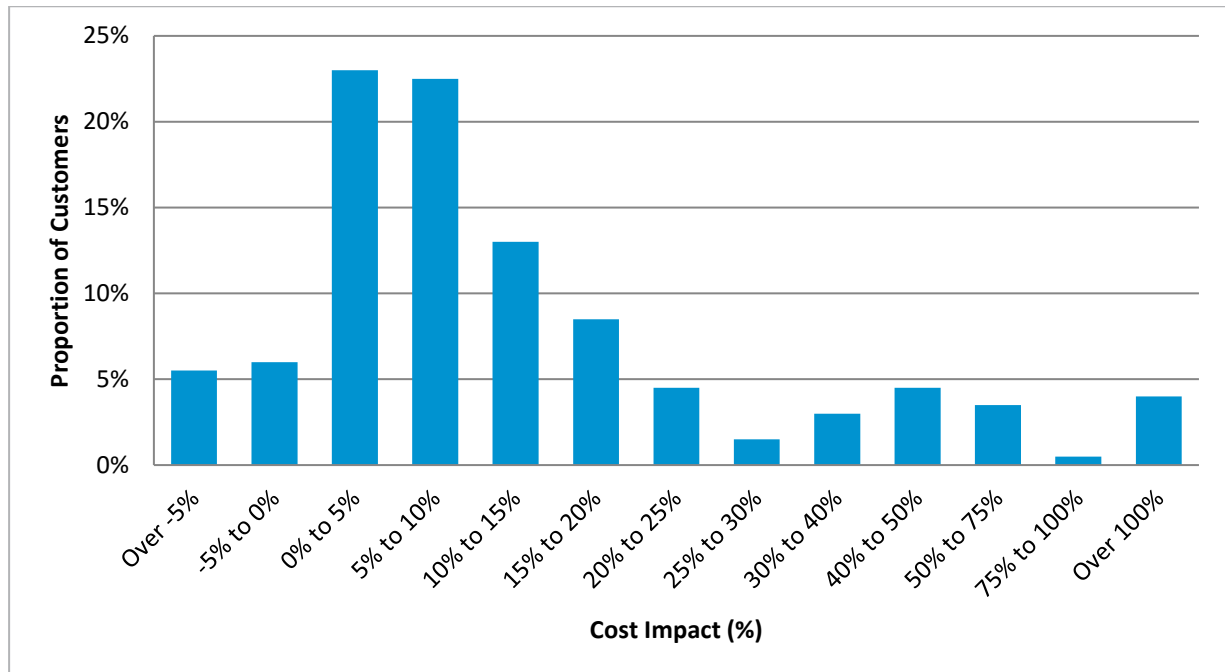


Source: Ergon Retail

Tariff 37

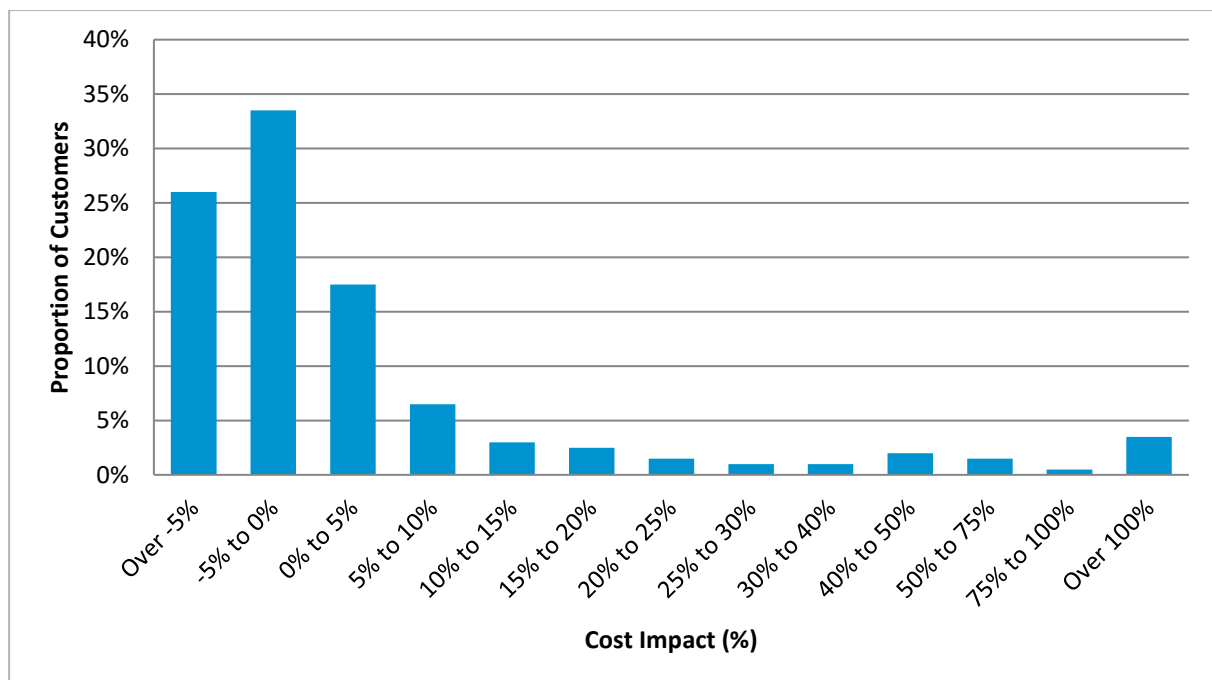
Tariff 37 is a business time-of-use tariff that aligns with tariff 20 or 22A for small business customers and one of tariffs 44 to 48 for large business customers. Figures 16 to 18 below show the distribution of potential impacts for existing customers moving to these standard business tariffs.

Figure 16 Change in electricity bills for small business customers on tariff 37 moving to tariff 20



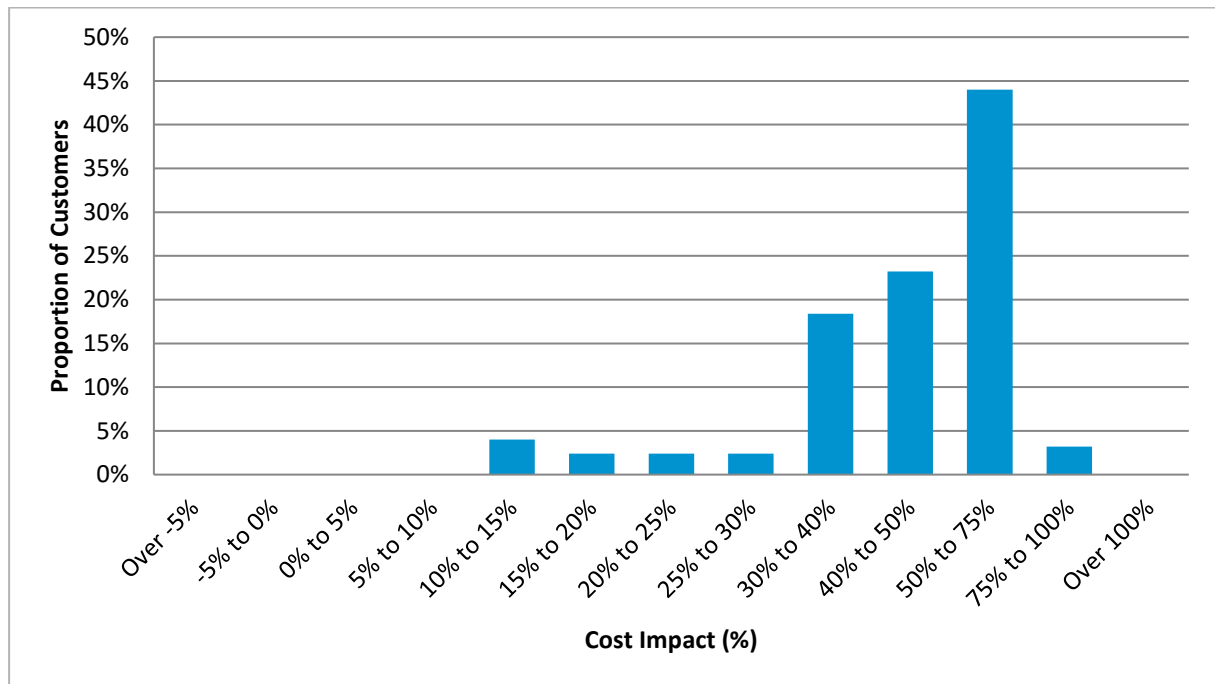
Source: Ergon Retail

Figure 17 Change in electricity bills for small business customers on tariff 37 moving to tariff 22A



Source: Ergon Retail

Figure 18 Change in electricity bills for large business customers on tariff 37 moving to one of tariffs 44 to 48



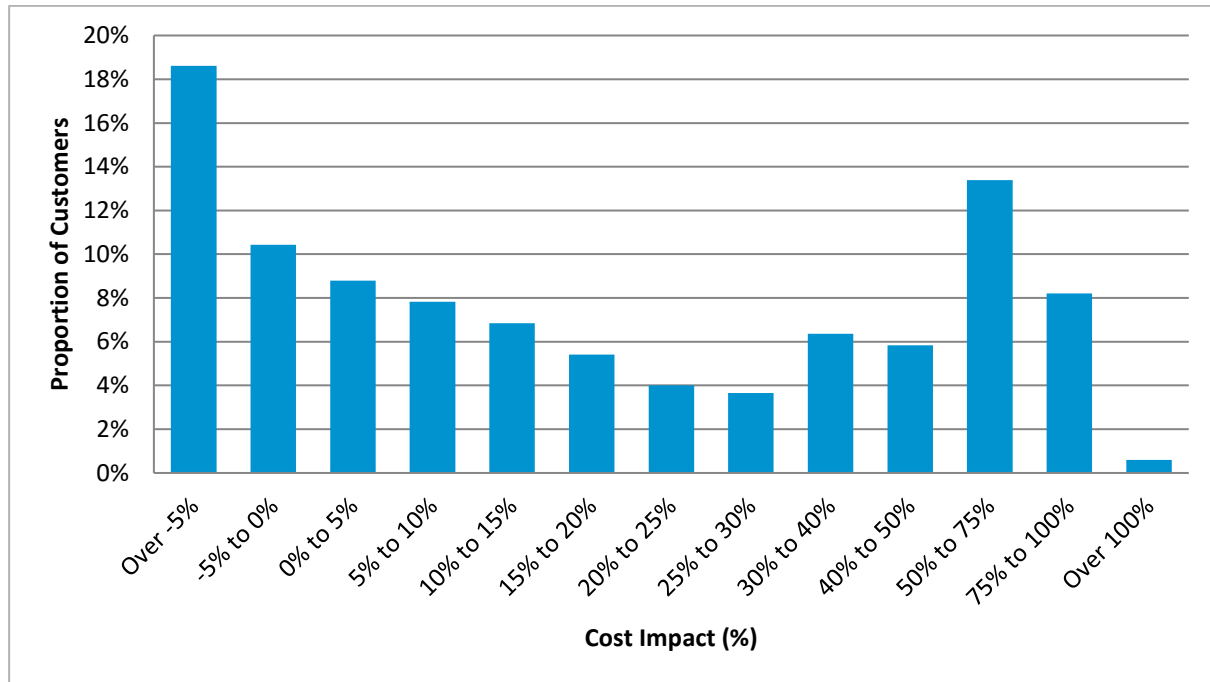
Note: For this analysis Ergon Retail has applied a derived demand profile for customers where demand data is unavailable. Therefore individual cost impacts may be over- or under-stated for individual customers depending on their unique demand profile.

Source: Ergon Retail

Tariffs 62 and 65

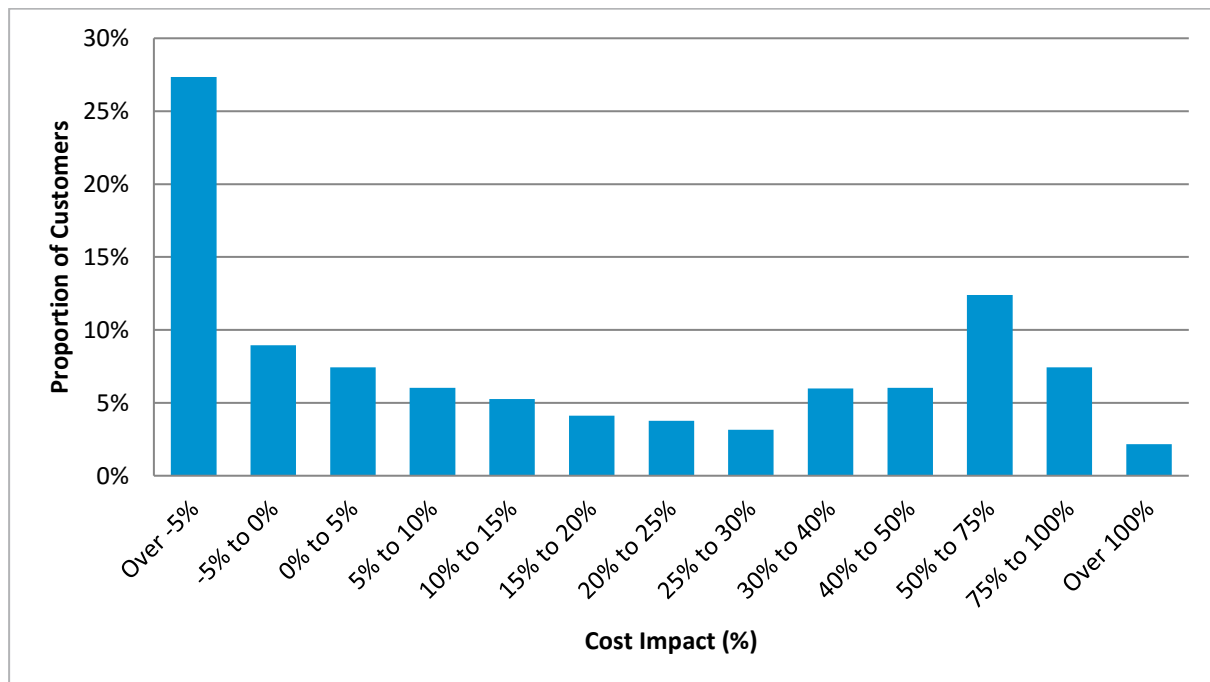
Tariffs 62 and 65 are time-of-use tariffs for farming and irrigation customers. These tariffs align with tariff 20 or 22A for small business customers and tariffs 44 and 45 for large business customers. Figures 19–24 below show the distribution of potential impacts for existing customers moving to these standard business tariffs.

Figure 19 Change in electricity bills for small business customers on tariff 62 moving to tariff 20



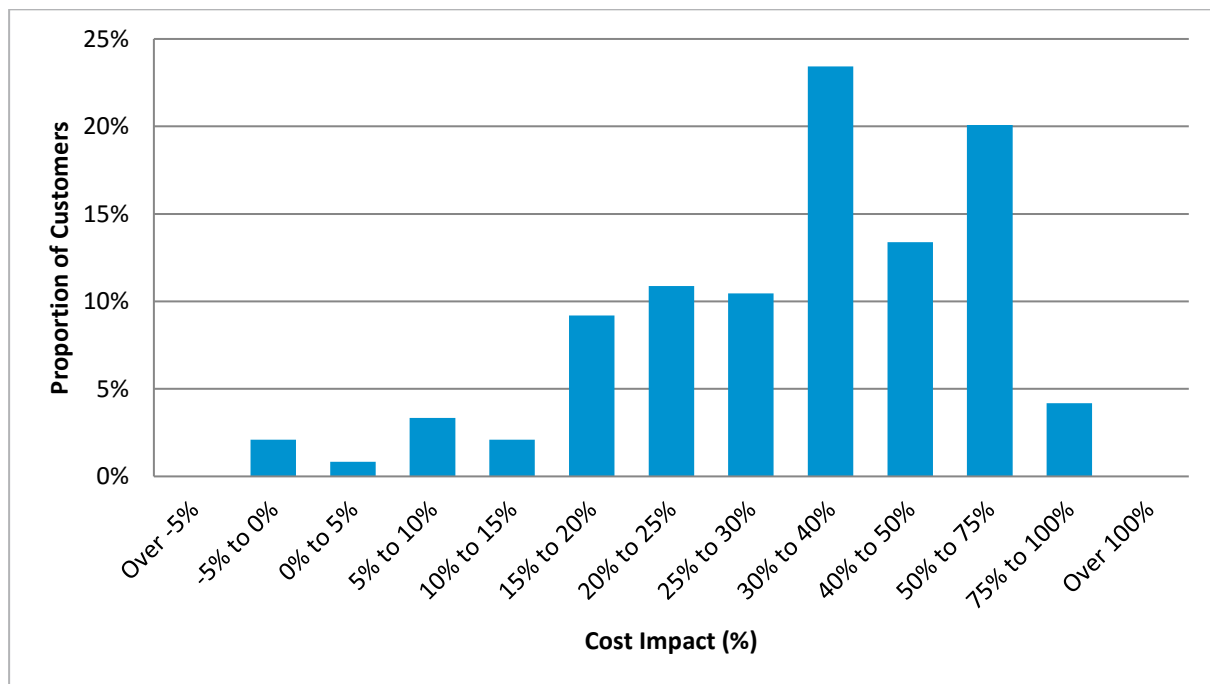
Source: Ergon Retail

Figure 20 Change in electricity bills for small business customers on tariff 62 moving to tariff 22A



Source: Ergon Retail

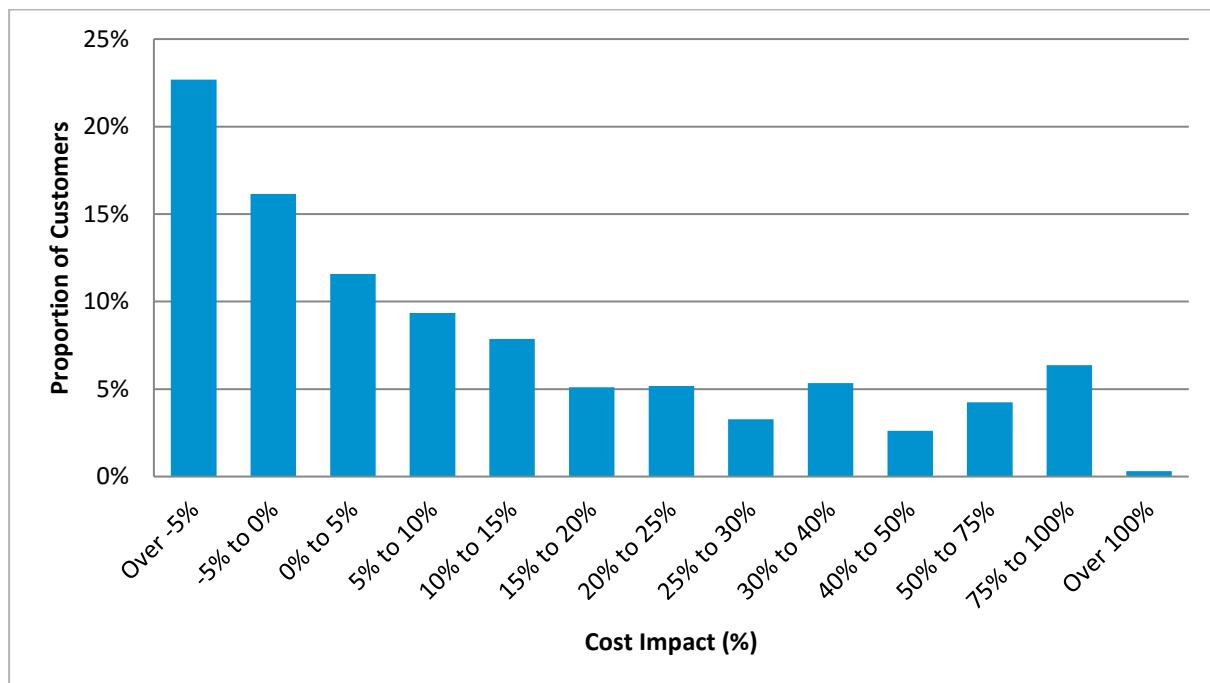
Figure 21 Change in electricity bills for large business customers on tariff 62 moving to tariff 44 or 45



Note: For this analysis Ergon Retail has applied a derived demand profile for customers where demand data is unavailable. Therefore, individual cost impacts may be over- or under-stated for individual customers depending on their unique demand profile.

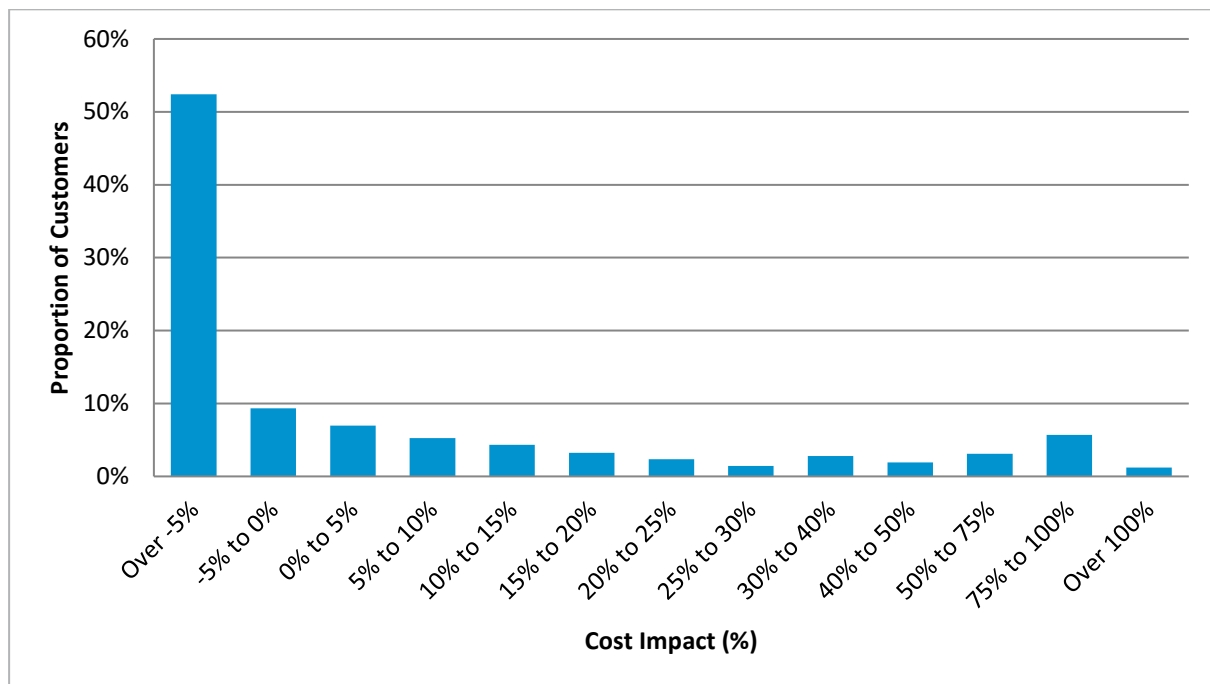
Source: Ergon Retail

Figure 22 Change in electricity bills for small business customers on tariff 65 moving to tariff 20



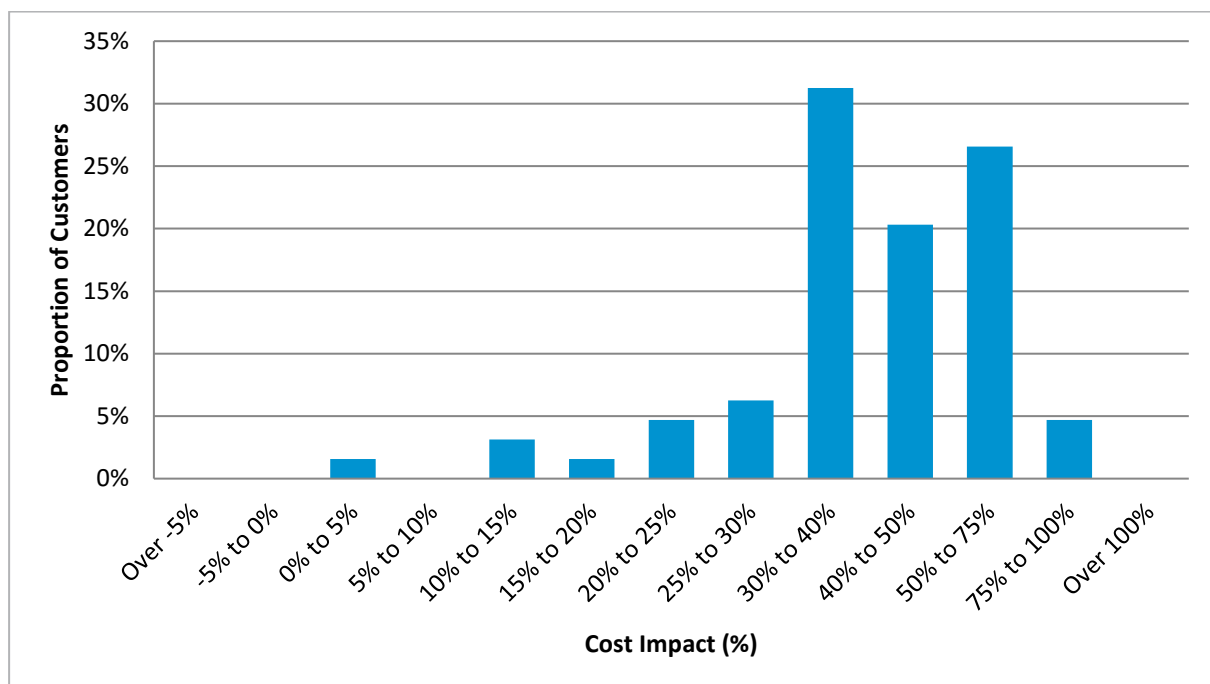
Source: Ergon Retail

Figure 23 Change in electricity bills for small business customers on tariff 65 moving to tariff 22A



Source: Ergon Retail

Figure 24 Change in electricity bills for large business customers on tariff 65 moving to tariff 44 or 45



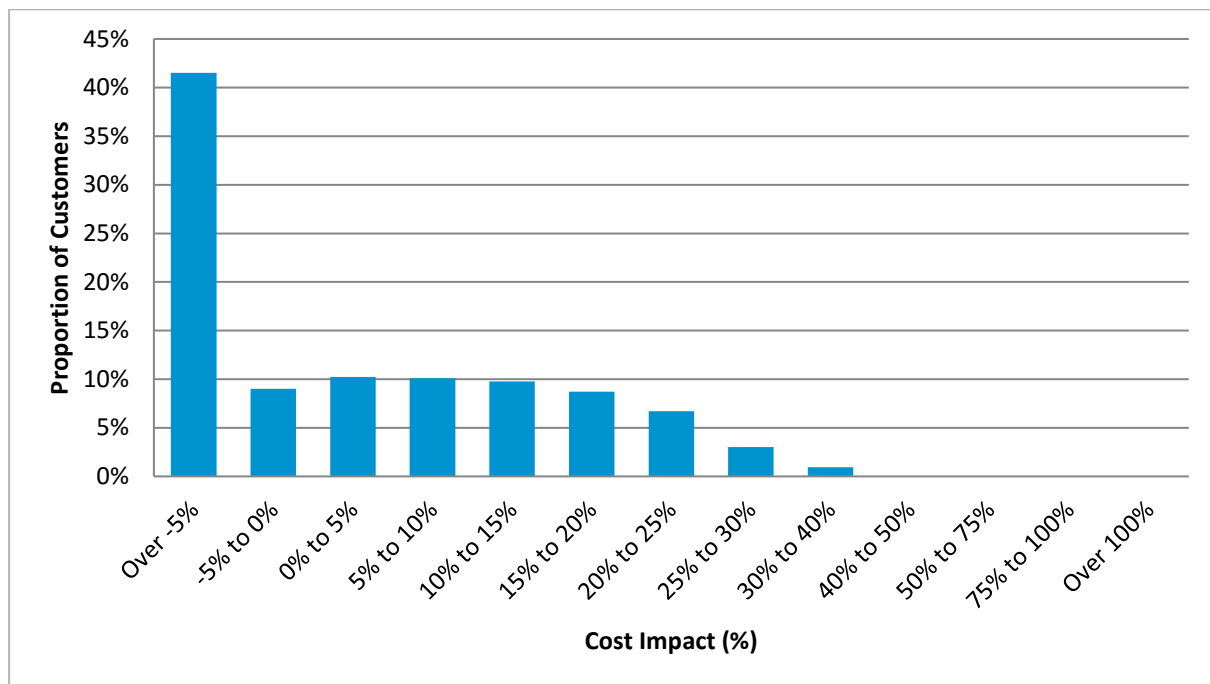
Note: For this analysis Ergon Retail has applied a derived demand profile for customers where demand data is unavailable. Therefore, individual cost impacts may be over- or under-stated for individual customers depending on their unique demand profile.

Source: Ergon Retail

Tariff 66

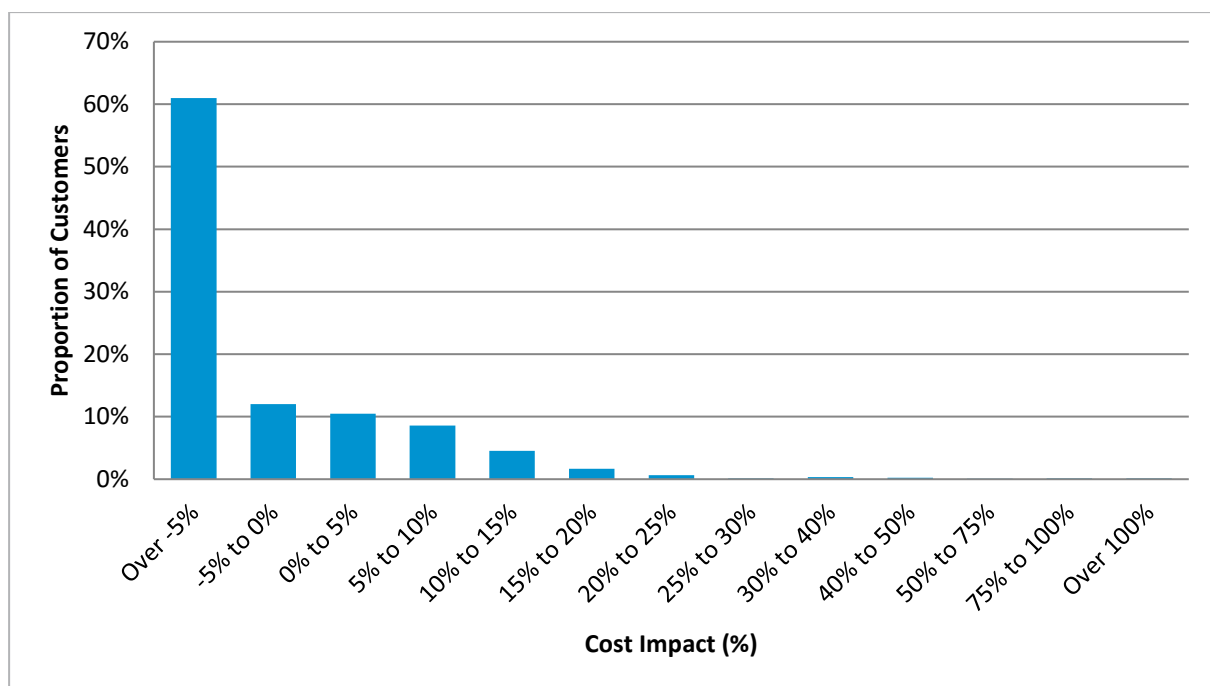
Tariff 66 is a flat-rate tariff for irrigation customers. This tariff aligns with tariff 20 or 22A for small business customers and tariffs 44 and 45 for large business customers. Figures 25 to 27 below show the distribution of potential impacts for existing customers moving to these standard business tariffs.

Figure 25 Change in electricity bills for small business customers on tariff 66 moving to tariff 20



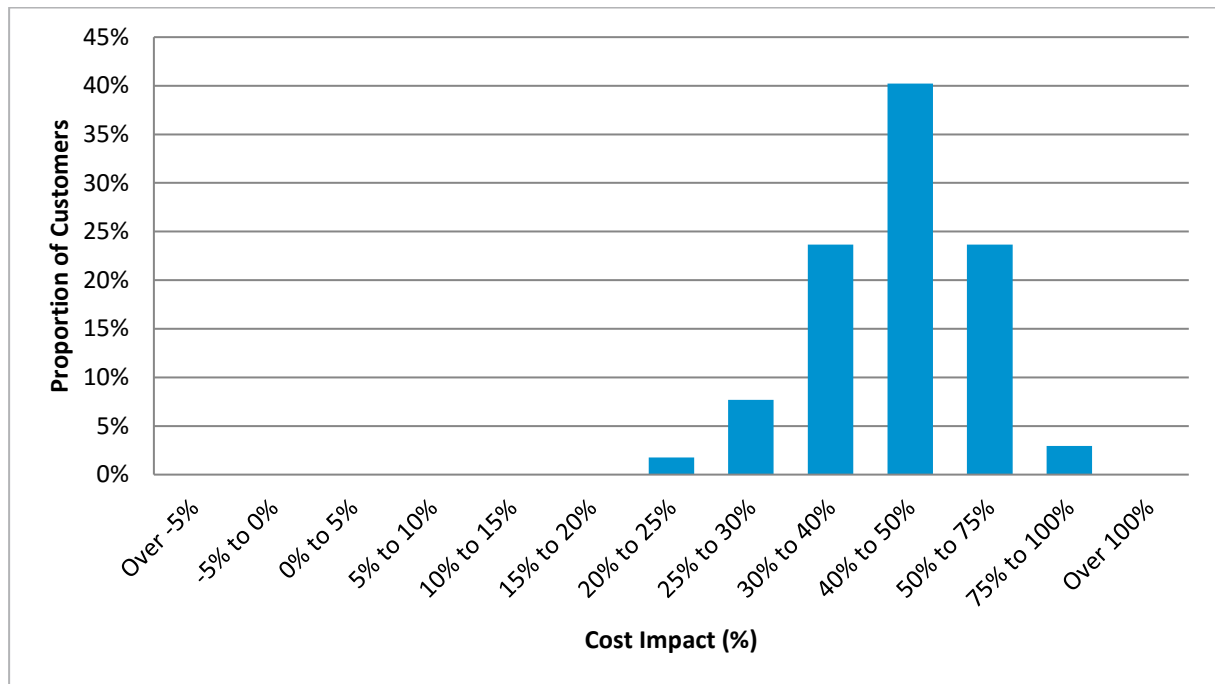
Source: Ergon Retail

Figure 26 Change in electricity bills for small business customers on tariff 66 moving to tariff 22A



Source: Ergon Retail

Figure 27 Change in electricity bills for large business customers on tariff 66 moving to tariff 44 or tariff 45



Note: For this analysis Ergon Retail has applied a derived demand profile for customers where demand data is unavailable. Therefore, individual cost impacts may be over- or under-stated for individual customers depending on their unique demand profile

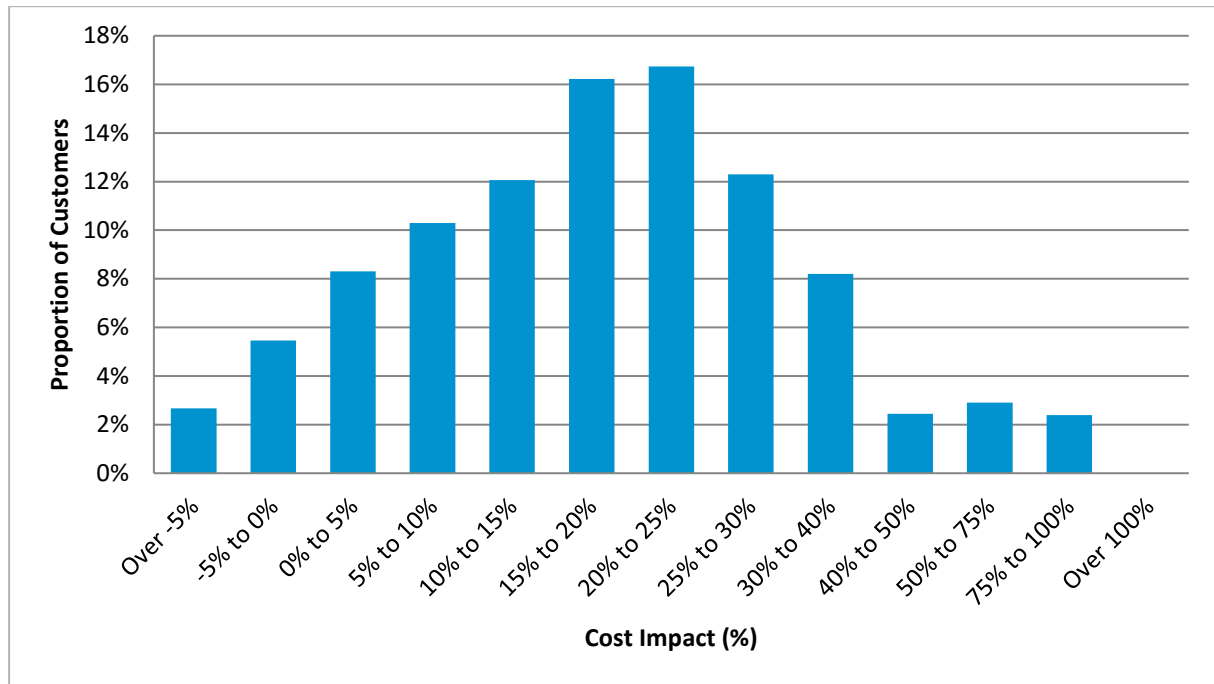
Source: Ergon Retail

Large business customer tariffs

Tariffs 20 (large) and 22 (small and large)

Transitional large tariffs 20 (large) and 22 (small and large) align with tariffs 44 to 48, which are based on Ergon Energy network tariffs and charges. Figures 28 and 29 show the likely impacts for large business customers moving from these transitional tariffs to the most appropriate of the standard large business customer tariffs.

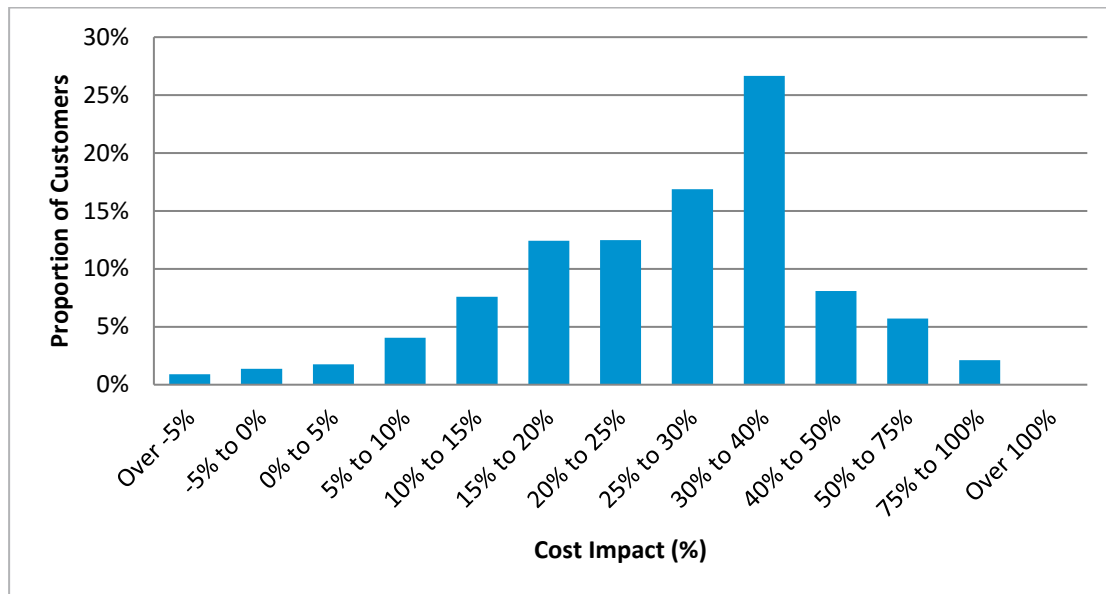
Figure 28 Change in electricity bills for business customers on tariff 20 (large) moving to one of tariffs 44 to 48



Note: For this analysis Ergon Retail has applied a derived demand profile for customers where demand data is unavailable. Therefore, individual cost impacts may be over- or under-stated for individual customers depending on their unique demand profile.

Source: Ergon Retail

Figure 29 Change in electricity bills for business customers on tariff 22 (small and large) moving to one of tariffs 44 to 48



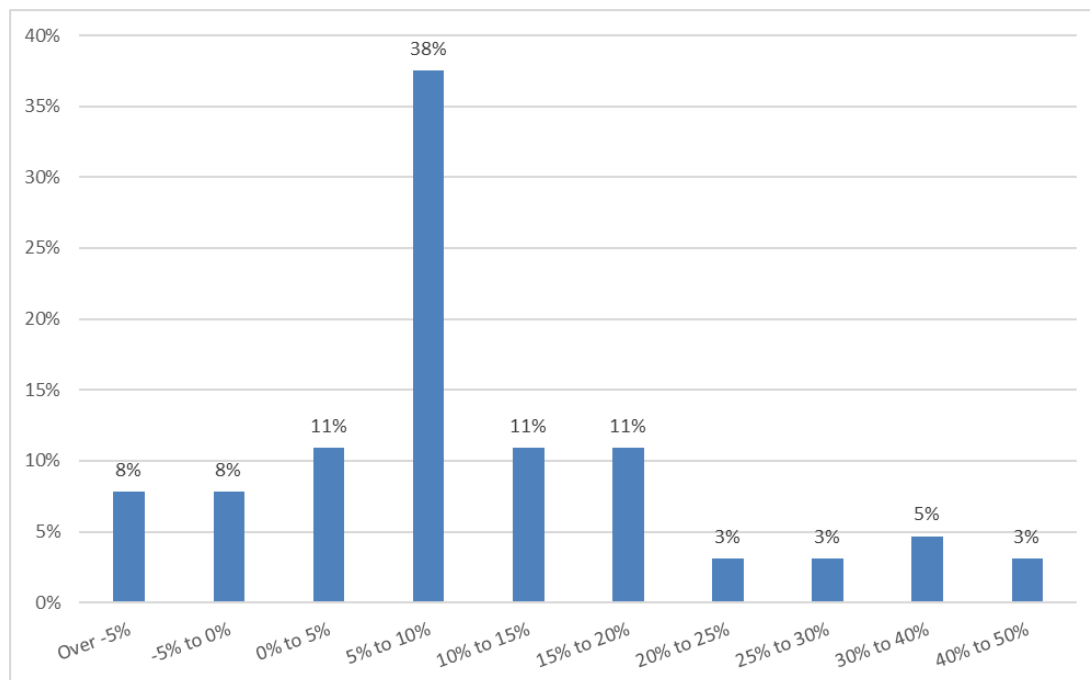
Note: For this analysis Ergon Retail has applied a derived demand profile for customers where demand data is unavailable. Therefore, individual cost impacts may be over- or under-stated for individual customers depending on their unique demand profile.

Source: Ergon Retail

Tariffs 47 and 48

Transitional very large tariffs 47 and 48 align with tariffs 51A–D, 52A–C and 53, which are based on Ergon Energy network tariffs and charges. Figure 30 shows the likely impacts for large business customers moving from transitional tariffs 47 and 48 to the most appropriate standard business tariffs.

Figure 30 Estimated bill impact for customers moving from tariffs 47 and 48 to standard business tariffs



APPENDIX G: GAZETTE NOTICE

Queensland Government Gazette

DRAFT RETAIL ELECTRICITY PRICES FOR STANDARD CONTRACT CUSTOMERS

Electricity Act 1994

The notified prices are the prices decided under section 90(1) of the *Electricity Act 1994* (the Electricity Act).

A retailer must charge its Standard Contract Customers, as defined in the Electricity Act, the notified prices subject to the provisions of sections 91, 91A and 91AA of the Electricity Act and section 22A, Division 12A of Part 2 and section 64N of the National Energy Retail Law (Queensland) (the NERL (Qld)).

Pursuant to the Certificate of Delegation from the Minister for Energy, Biofuels and Water Supply (dated 10 November 2016) and sections 90 and 90AB of the Electricity Act, I hereby state that the Queensland Competition Authority decided that, on and from 1 July 2017, the notified prices are the applicable prices set out in the attached Tariff Schedule.

As required by section 90AB(4) of the Electricity Act, the notified prices are exclusive of the goods and services tax ("GST") payable under the *A New Tax System (Goods and Services Tax) Act 1999* (Cth) (the GST Act).

In addition to the applicable tariff, a retailer may charge a Standard Contract Customer an additional amount in accordance with a program or scheme for the purchase of electricity from renewable or environmentally-friendly sources (whether or not that additional amount is calculated on the basis of the customer's electricity usage), but only if:

- (a) the customer voluntarily participates in such program or scheme;
- (b) the additional amount is payable under the program or scheme; and
- (c) the retailer gives the customer prior written notice of any change to the additional amount payable under the program or scheme.

Relief from electricity charges if a drought declaration is in force may be available to eligible customers as set out following the Tariff Schedule.

Dated this TBA day of TBA 2017.

Roy Green, Chairman
Queensland Competition Authority

TARIFF SCHEDULE

Part 1

APPLICATION

A) APPLICATION OF THIS SCHEDULE – GENERAL

This Tariff Schedule replaces the Tariff Schedule published in the Queensland Government Gazette on 31 May 2016.

This Tariff Schedule applies to all Standard Contract Customers in Queensland, other than those in the Energex distribution area.

Definitions of customers and their types are those set out in the Electricity Act and the NERL(Qld). Unless otherwise defined, the terminology used in this Tariff Schedule is intended to be consistent with the energy laws.

B) APPLICATION OF TARIFFS**General**

Distribution entities may have specific eligibility criteria in addition to retail tariff eligibility requirements set out in the Tariff Schedule, e.g. the types of loads and how they are connected to interruptible supply tariffs.

Additional customer descriptions:

- *Farming* is the undertaking of agricultural business activities for the primary purpose of profit. The primary use of electricity supplied under a farming tariff must be for farming.
- *Irrigation* is the undertaking of pumping water for farming. The primary use of electricity supplied under an irrigation tariff must be for irrigation.
- A *Connection Asset Customer (CAC)* is a large business customer whose annual energy usage generally exceeds 4GWh as classified by the distribution entity.
- An *Individually Calculated Customer (ICC)* is a large business customer whose annual energy usage generally exceeds 40GWh as classified by the distribution entity.

CAC or ICC customers can only access tariffs where specifically stated in the tariff description, or as agreed by the retailer.

MI means the unique identification number applicable to the point at which a premises is connected to a distribution entity's network. For premises connected to the National Electricity Market this is the National Metering Identifier (NMI), and for other premises is the unique identifier allocated by the distribution entity.

An *MI exclusive* tariff cannot be used in conjunction with any other tariff at that MI. All large customer continuous supply tariffs are MI exclusive tariffs unless otherwise stated.

A *primary* tariff is the tariff that reflects the principle purpose of use of electricity at the premises or the majority of the load, and is capable of existing by itself against a MI.

Small business customers can access primary residential tariffs providing the nature of all use on the tariff is consistent with the tariff requirements (refer below for *concessional application* of primary residential tariffs), and is in conjunction with a primary business tariff (Tariff 20, 21, 22, 22A, 24, 41, 62, 65 or 66) at the same MI.

Primary residential tariffs are also applicable to electricity used in separately metered common sections of residential premises consisting of more than one living unit, but cannot be used in conjunction with another primary residential tariff at the same MI.

A *secondary* tariff is any tariff that is not a primary tariff, and can be accessed only when it is in conjunction with a primary tariff at the same MI unless otherwise stated.

A *seasonal* tariff is any tariff for which charges vary depending on the month the charge applies. Seasonal tariffs can also include time-of-use based charges.

A *time-of-use* tariff is any tariff for which charges vary depending on the time of day.

A *transitional* tariff can be accessed by eligible customers for a limited period of time.

An *obsolete* tariff can only be accessed by customers who:

- (a) are on the tariff at the date it becomes obsolete; and
- (b) take continuous supply under it.

Transitional and obsolete tariffs will be discontinued no later than the *scheduled phase-out date*. Customers on these tariffs may opt to transfer at any time to applicable standard tariffs.

Any reference in this Tariff Schedule to a time is a reference to Eastern Standard Time.

Weekdays mean Monday to Friday including public holidays.

Summer is defined as the months of December, January and February.

A *daily supply charge* is a fixed amount charged to cover the costs of maintaining electricity supply to a premises, including the costs associated with the provision of equipment (excluding metering and associated services) and general administration. Retailers may use different terms for this charge, for example: Service Charge, Service Fee, Service to Property Charge etc.

Demand is the average rate of use of electricity over a 30-minute period as measured in kilowatts or kilovolt-amperes on the associated metering. No adjustment to import demand is made for export to the distribution network.

A *demand threshold* is the demand value below which demand charges do not apply for billing purposes. Where a demand threshold applies, the chargeable demand is the greater of the maximum demand recorded in the billing month (or time period of the billing month if specified) less the demand threshold, or zero kW.

A *capacity charge* relates to the network capacity associated with the customer is applied to the higher of customer-specific kVA authorised demand or actual maximum demand.

An *excess reactive power charge* (or kVAr) is calculated monthly based on the kVAr level at the time of each customer's individual monthly kVA peak. To the extent the actual kVAr exceeds the customer's permissible kVAr quantity (determined by the customer's authorised demand and the National Electricity Rules compliant power factor), excess kVAr charges are applied.

Revenue metering is metering used for billing purposes. Appropriate revenue metering must be in place for each

tariff at a MI. If a change to the customer's revenue metering is required to support the applicability of a tariff to a customer, the customer may request the retailer to install the required metering at the customer's cost.

From 1 July 2015, charges for metering and associated services are no longer included in notified prices. Metering charges will now be applied in addition to the notified prices contained in this Tariff Schedule.

The *metrology procedure* is issued by the Australian Energy Market Operator as varied by the Electricity Distribution Network Code.

Tariff changes

Customers previously supplied under tariffs which have been discontinued or redesignated (whether by number, letter or name) will be supplied under other tariffs appropriate to their installations.

Customers on seasonal and/or transitional time-of-use tariffs cannot change to another tariff less than one year from the application of the tariff to the customer's account without the retailer's agreement unless expressly allowed or permitted by energy law.

Monthly or annually based charges

Monthly or annual charges will be calculated on a pro-rata basis having regard to the number of days in the billing cycle that supply was connected as expressly allowed or permitted by energy law.

Supply voltage

Tariffs in this Schedule can only be accessed by customers taking supply at *low voltage* as set out in the *Electricity Regulation 2006* unless it is a designated high voltage tariff, or otherwise agreed with the retailer.

Where supply is given and metered at high voltage and the tariff applied is not a designated high voltage tariff, after billing the energy and demand components of the tariff a credit will be allowed of:

- 5 percent of the calculated tariff charge where supply is given at voltages of 11kV to 33kV; or
- 8 percent of the calculated tariff charge where supply is given at voltages of 66kV and above,

provided that the calculated tariff charge after application of the credit is not less than the Minimum Payment or other minimum charge calculated by applying the provisions of the applied tariff.

Card-operated meter customers

If a customer is an excluded customer (as defined in section 23 of the Electricity Act), the distribution entity may at its absolute discretion agree with:

- (a) the relevant local government authority on behalf of the customer; and
- (b) the customer's retailer, that the electricity used by the customer is to be measured and charged by means of a card-operated meter.

If, immediately prior to 1 July 2007, electricity being used by a customer at premises is being measured and charged by means of a card-operated meter, the electricity used at the premises may continue to be measured or charged by means of a card-operated meter.

Residential customers with card-operated meters can access Tariff 11 as their primary tariff, and Tariffs 31 and 33 as secondary tariffs.

Small business customers with card-operated meters can access Tariff 20 as their primary tariff.

Charges will be those as set out in Part 2 for the particular tariff.

Other retail fees and charges

A retailer may charge its Standard Contract Customers the following:

- (a) if, at a customer's request, the retailer provides historical billing data which is more than two years old:
 - a maximum of **\$30**
- (b) retailer's administration fee for a dishonoured payment:
 - a maximum of **\$15**
- (c) financial institution fee for a dishonoured payment:
 - a maximum of **the fee incurred by the retailer**

Concessional application

Tariffs 11, Tariff 12A and Tariff 14 are also available to customers where they satisfy the additional criteria set out in any one of 1, 2 or 3, below:

1. Separately metered installations where all electricity used is in connection with the provision of a Meals-on-Wheels service, or for the preparation and serving of meals to the needy and for no other purpose.

2. Residential institutions:

- (a) where the total installation, or that part supplied and separately metered, must be domestic residential (i.e. it must include the electricity usage of the cooking, eating, sleeping and bathing areas which are associated with the residential usage). Medical facilities, e.g. an infirmary, which are part of the complex may be included; and

(b) that are:

- (i) a deductible gift recipient under section 30-227(2) of the *Income Tax Assessment Act 1997* to which donations of \$2.00 and upwards are tax deductible; and

(ii) a non-profit organisation that:

- A. imposes no scheduled charge on the residents for the services or accommodation that is provided (i.e. organisations that provide emergency accommodation facilities for the needy); or
- B. if scheduled charges are made for the services or accommodation provided, then all residents must be pensioners or, if not pensioners, persons eligible for subsidised care under the *Aged Care Act 1997* or the *National Health Act 1953*.

3. Organisations providing support and crisis accommodation which:

- (a) meet the eligibility criteria of the Specialist Homelessness Services administered by the State Department of Housing and Public Works; and

- (b) are a deductible gift recipient under section 30-227(2) of the *Income Tax Assessment Act 1997* to which donations of \$2.00 and upwards are tax deductible.

Part 2	All other times	22.972 c/kWh
STANDARD TARIFFS	Daily Supply Charge: _____	122.195 c
A) SMALL CUSTOMER TARIFFS		
Continuous supply tariffs		
Tariff 11		
This is a primary residential flat-rate tariff.		
Usage:	25.275 c/kWh	
Daily Supply Charge: _____	88.354 c	
Tariff 12A		
This is a primary residential seasonal time-of-use tariff.		
Usage:		
December to February		
<i>Peak</i>		
3:00pm to 9:30pm	58.907 c/kWh	
<i>Off-peak</i>		
All other times	20.289 c/kWh	
All other times	20.289 c/kWh	
Daily Supply Charge: _____	95.184 c	
Tariff 14		
This is a primary residential seasonal time-of-use demand tariff.		
<i>Daily demand</i> is the average of the 13 half-hourly demand recordings for each day from 3:00pm to 9:30pm for the <i>Peak</i> period (December to February), and the <i>Off-peak</i> period (March to November).		
<i>Peak monthly chargeable demand</i> is the average of the four highest peak daily demands in the month.		
<i>Off-peak monthly chargeable demand</i> is the greater of the average of the four highest off-peak daily demands in the month, or 3kW.		
Monthly demand:		
<i>Peak</i>	\$63.132 per kW	
<i>Off-peak</i>	\$10.216 per kW	
Usage:	16.105 c/kWh	
Daily Supply Charge: _____	56.418 c	
Tariff 20		
This is a primary small business flat-rate tariff.		
Usage:	26.772 c/kWh	
Daily Supply Charge: _____	122.195 c	
Tariff 22A		
This is a primary small business seasonal time-of-use tariff.		
Usage:		
December to February		
<i>Peak</i>		
10:00am to 8:00pm weekdays	55.896 c/kWh	
<i>Off-peak</i>		
All other times	22.972 c/kWh	
Tariff 24		
This is a primary small business seasonal time-of-use demand tariff.		
<i>Daily demand</i> is the average of the 20 half-hourly demand recordings for each weekday from 10:00am to 8:00pm for the <i>Peak</i> period (December to February), and the <i>Off-peak</i> period (March to November).		
<i>Peak monthly chargeable demand</i> is the average of the four highest peak daily demands in the month.		
<i>Off-peak monthly chargeable demand</i> is the greater of the average of the four highest off-peak daily demands in the month, or 3kW.		
Monthly demand:		
<i>Peak</i>	\$98.221 per kW	
<i>Off-peak</i>	\$10.658 per kW	
Usage:	17.806 c/kWh	
Daily Supply Charge: _____	76.566 c	
Tariff 41		
This is a primary small business demand tariff.		
Chargeable demand (monthly):	\$26.648 per kW	
Usage:	15.032 c/kWh	
Daily Supply Charge: _____	557.567 c	
Interruptible supply tariffs		
General:		
These tariffs are applicable when electricity supply is:		
<ul style="list-style-type: none"> • connected to approved apparatus (e.g. pool pump) via a socket-outlet as approved by the retailer; or • permanently connected to approved apparatus (e.g. electric hot water system) as approved by the retailer (but not applicable if provision has been made to supply the apparatus under a different tariff during the supply interruption period). 		
The retailer will arrange the provision of load control equipment on a similar basis to provision of the required revenue metering.		
Tariff 31		
This is a secondary small customer flat-rate tariff with interruptible supply.		
Supply will be available for a minimum of 8 hours per day, but times when supply is available is subject to variation at the absolute discretion of the distribution entity. In general, this supply will be between the hours of 10.00 pm and 7.00 am.		
In addition to the <i>general</i> requirements above, this tariff is also applicable when electricity supply is permanently connected to approved specified parts of apparatus (e.g. hot water system booster heating unit), as approved by the retailer (but not applicable if provision has been made to supply the specified part under a different tariff during the supply interruption period except as agreed by the		

retailer (e.g. for a one-shot booster for a solar hot water system), in which case it must be metered under and charged at the primary tariff of the premises concerned, or if more than one primary tariff exists, the tariff applicable to general power usage at the premises).

Usage: _____ 15.159 c/kWh

Tariff 33

This is a secondary small customer flat-rate tariff with interruptible supply.

Supply will be available for a minimum of 18 hours per day, but times when supply is available is subject to variation at the absolute discretion of the distribution entity.

In addition to the *general* requirements above, this tariff is also applicable as a primary tariff at the absolute discretion of the retailer.

This tariff shall not apply in conjunction with Tariff 24.

Usage: _____ 20.216 c/kWh

B) LARGE CUSTOMER TARIFFS

Tariff 44

This is a primary large business demand tariff.

Demand threshold: 30 kW

Chargeable demand (monthly): \$37.662 per kW

Usage: 13.432 c/kWh

Daily Supply Charge: _____ 5058.881 c

Tariff 45

This is a primary large business demand tariff.

Demand threshold: 120 kW

Chargeable demand (monthly): \$29.949 per kW

Usage: 13.392 c/kWh

Daily Supply Charge: _____ 16229.497 c

Tariff 46

This is a primary large business demand tariff.

Demand threshold: 400 kW

Chargeable demand (monthly): \$26.730 per kW

Usage: 13.483 c/kWh

Daily Supply Charge: _____ 43289.248c

Tariff 50

This is a primary large business seasonal time-of-use demand tariff.

For this tariff, *Peak* is the period December to February, being 10:00am to 8:00pm weekdays for determining chargeable demand, and all day each day for usage. *Off-peak* is March to November.

Peak

Demand threshold: 20 kW

Chargeable demand (monthly): \$61.928 per kW

Usage: 13.058 c/kWh

Off-peak

Demand threshold 40 kW

Chargeable demand (monthly): \$12.133 per kW

Usage: 15.841 c/kWh

Daily Supply Charge: _____ 4129.318 c

Tariff 51A

This is a primary high-voltage business tariff for CAC customers being supplied at 66kV.

Daily supply charge: 27922.301 c/day

Usage: 12.922 c/kWh

Connection unit: \$10.620 per day/unit

Capacity charge: \$5.561 per kVA/mth

Demand charge: \$2.862 per kVA/mth

Excess reactive power charge: \$4.454 per excess kVAr/mth

Tariff 51B

This is a primary high-voltage business tariff for CAC customers being supplied at 33kV.

Daily supply charge: 21491.576 c/day

Usage: 12.922 c/kWh

Connection unit: \$10.620 per day/unit

Capacity charge: \$6.803 per kVA/mth

Demand charge: \$4.837 per kVA/mth

Excess reactive power charge: \$4.454 per excess kVAr/mth

Tariff 51C

This is a primary high-voltage business tariff for CAC customers being supplied on a 22/11kV bus.

Daily supply charge: 20336.576 c/day

Usage: 12.926 c/kWh

Connection unit: \$10.620 per day/unit

Capacity charge: \$6.208 per kVA/mth

Demand charge: \$4.704 per kVA/mth

Excess reactive power charge: \$4.454 per excess kVAr/mth

Tariff 51D

This is a primary high-voltage business tariff for connection asset customers being supplied on a 22/11kV line.

Daily supply charge:	19076.576 c/day
Usage:	12.941 c/kWh
Connection unit:	\$10.620 per day/unit
Capacity charge:	\$12.763 per kVA/mth
Demand charge:	\$7.758 per kVA/mth
Excess reactive power charge:	\$4.454 per excess kVAr/mth

during the peak window of 10.00am to 8.00pm on summer weekdays.

Daily supply charge:	15611.576 c/day
Peak usage:	12.370c/kWh
Off-peak usage:	12.815 c/kWh
Connection unit:	\$10.620 per day/unit
Capacity charge:	\$5.207 per kVA/mth
Demand charge:	\$44.093 per kVA/mth
Excess reactive power charge:	\$4.454 per excess kVAr/mth

Tariff 52A

This is a primary high-voltage seasonal time of use demand business tariff for CAC customers being supplied at 33/66kV.

For this tariff:

- The peak usage charge applies to all metered consumption during summer months.
- The off-peak usage charge applies to all metered consumption during non-summer months.
- Demand is calculated monthly using the maximum kVA demand in any single half hour at any time between 10am and 8pm summer weekdays.
- The capacity charge applies at all times during non-summer months and all times during summer months excluding demands occurring during the peak window of 10.00am to 8.00pm on summer weekdays.

Daily supply charge:	15611.576 c/day
Peak usage:	12.365 c/kWh
Off-peak usage:	12.811 c/kWh
Connection unit:	\$10.620 per day/unit
Capacity charge:	\$6.320 per kVA/mth
Demand charge:	\$12.248 per kVA/mth
Excess reactive power charge:	\$4.454 per excess kVAr/mth

Tariff 52C

This is a primary high-voltage seasonal time of use demand business tariff for CAC customers being supplied on an 22/11kV line.

For this tariff:

- The peak usage charge applies to all metered consumption during summer months.
- The off-peak usage charge applies to all metered consumption during non-summer months.
- Demand is calculated monthly using the maximum kVA demand in any single half hour at any time between 10am and 8pm summer weekdays.
- The capacity charge applies at all times during non-summer months and all times during summer months excluding demands occurring during the peak window of 10.00am to 8.00pm on summer weekdays.

Daily supply charge:	15611.576 c/day
Peak usage:	12.384 c/kWh
Off-peak usage:	12.830 c/kWh
Connection unit:	\$10.620 per day/unit
Capacity charge:	\$9.66 per kVA/mth
Demand charge:	\$80.540 per kVA/mth
Excess reactive power charge:	\$4.454 per excess kVAr/mth

Tariff 52B

This is a primary high-voltage seasonal time of use demand business tariff for CAC customers being supplied on an 22/11kV bus.

For this tariff:

- The peak usage charge applies to all metered consumption during summer months.
- The off-peak usage charge applies to all metered consumption during non-summer months.
- Demand is calculated monthly using the maximum kVA demand in any single half hour at any time between 10am and 8pm summer weekdays.
- The capacity charge applies at all times during non-summer months and all times during summer months excluding demands occurring

Tariff 53

This is a primary high-voltage business tariff for ICC customers.

Daily supply charge:	19076.576 c/day
Usage:	12.941 c/kWh
Capacity charge:	\$12.763 per kVA/mth
Demand charge:	\$7.758 per kVA/mth
Excess reactive power charge:	\$4.454 per excess kVAr/mth

Part 3

TRANSITIONAL AND OBSOLETE TARIFFS

Tariff 20

This is a transitional primary large business flat-rate tariff.

This tariff cannot be accessed by small customers.

Scheduled phase-out date: 1 July 2020

Usage: 35.953 c/kWh

Daily Supply Charge: 73.500 c

Tariff 21

This is a transitional primary business declining-block tariff.

This tariff shall not apply in conjunction with Tariff 20, 22, 22A, 24 or 62.

Scheduled phase-out date: 1 July 2020

Usage:

First 100 kWh/mth 48.042 c/kWh

Next 9,900 kWh/mth 45.139 c/kWh

All remaining usage 34.363 c/kWh

Daily Supply Charge: 70.696 c

Tariff 22

This is a transitional primary business time-of-use tariff.

Scheduled phase-out date: 1 July 2020

Usage:

Peak
7:00am to 9:00pm weekdays 47.644 c/kWh

Off-peak
All other times 16.777 c/kWh

Daily Supply Charge: 176.648 c

Tariff 37

This is an obsolete primary business time-of-use tariff.

This tariff is applicable when electricity supply is permanently connected to approved apparatus (e.g. electric storage hot water system, apparatus for the production of steam) as approved by the retailer.

Scheduled phase-out date: 1 July 2020

Usage:

Peak
4:30pm to 10:30pm 52.161 c/kWh

Off-peak
All other times 20.855 c/kWh

Daily Supply Charge: 29.285 c

Tariff 47

This is an obsolete primary large business high voltage demand tariff.

Supply under this tariff will be at a standard high voltage, the level of which shall be prescribed by the distribution entity. Credits for high voltage supply are not applicable to this tariff.

Scheduled phase-out date: 1 July 2022

Demand threshold: 400 kW

Chargeable demand (monthly): \$26,569 per kW

Usage: 11.868 c/kWh

Daily Supply Charge: 42613.066 c

Tariff 48

This is an obsolete primary large business high voltage demand tariff only for customers classified as CAC or ICC.

Scheduled phase-out date: 1 July 2022

Demand threshold: 400 kW

Chargeable demand (monthly): \$27,243 per kW

Usage: 12.168 c/kWh

Daily Supply Charge: 44151.996 c

Tariff 62

This is a transitional farming primary business time-of-use declining-block tariff.

This tariff shall not apply in conjunction with Tariff 20, 21, 22, 22A or 24.

Scheduled phase-out date: 1 July 2020

Usage:

Peak
7:00am to 9:00pm weekdays
First 10,000 kWh/mth 45.100 c/kWh

All remaining usage 38.138 c/kWh

Off-peak
All other times 15.947 c/kWh

Daily Supply Charge: 76.062 c

Tariff 65

This is a transitional irrigation primary business time-of-use tariff.

The *daily pricing period* is a fixed 12-hour period as agreed between the retailer and the customer from the range 7.00am to 7.00pm; 7.30am to 7.30pm; or 8.00am to 8.00pm Monday to Sunday inclusive.

No alteration to the agreed daily pricing period is permitted until a period of twelve months has elapsed from the previous selection.

Scheduled phase-out date: 1 July 2020

Usage:

Peak
Daily pricing period 35.905 c/kWh

Off-peak
All other times 19.777 c/kWh

Daily Supply Charge: 75.913 c

Tariff 66

This is a transitional irrigation primary business demand tariff.

The chargeable demand is the greater of 7.5kW, or the connected motor capacity used for irrigation pumping.

Any customer taking supply under this tariff who requests a temporary disconnection will not be reconnected unless an amount equivalent to the chargeable demand that would have otherwise applied corresponding to the period of disconnection, has been paid.

Scheduled phase-out date:	1 July 2020
Chargeable demand (annual):	
Minimum (first 7.5 kW)	\$36.498 per kW
Remaining kW	\$109.737 per kW
Usage:	18.820 c/kWh
Daily Supply Charge:	167.309 c

Charges for installation, maintenance and removal of supply to an unmetered installation may apply in addition to the charge for electricity supplied. These charges are unregulated.

Usage: 24.315 c/kWh

End of Tariff Schedule

Part 4

UNMETERED SUPPLY TARIFFS

Tariff 71

This is a primary business flat-rate tariff for street lighting.

Street lighting customers as defined in Queensland legislative instruments, are State or local government agencies for street lighting loads.

Street lights are deemed to illuminate the following types of roads:

- *Local government* controlled roads comprising land that is:
 - (a) dedicated to public use as a road; or
 - (b) developed for (or has as one of its main uses) the driving or riding of motor vehicles and is open to, or used by, the public; or
 - (c) a footpath or bicycle path; or
 - (d) a bridge, culvert, ford, tunnel or viaduct, and excludes State-controlled roads and public thoroughfare easements; and
- *State-controlled roads* declared as such under the *Transport Infrastructure Act 1994* (Qld).

All usage will be determined in accordance with the metrology procedure.

Usage:	32.827 c/kWh
Daily Supply Charge:	0.735 c

Tariff 91

This is a primary business flat-rate tariff.

It is available only to customers with small loads other than street lights as approved by the retailer, and applies where:

- (a) the load pattern is predictable;
- (b) for the purposes of settlements, the load pattern (including load and on/off time) can be reasonably calculated by a relevant method set out in the metrology procedure; and
- (c) it would not be cost effective to meter the connection point taking into account:
 - (i) the small magnitude of the load;
 - (ii) the connection arrangements; and
 - (iii) the geographical and physical location.

Charges are based on usage determined by the retailer.

RELIEF FROM ELECTRICITY CHARGES WHERE DROUGHT DECLARATION IN FORCE

Customers of Ergon Energy Queensland Pty Ltd

A Standard Contract Customer of Ergon Energy Queensland Pty Ltd who is a farmer in a drought declared area or whose property is individually drought declared under Queensland Government administrative processes may be eligible for one or more of the following forms of relief from electricity charges:

(A) Waiving of Fixed Charge Components of Electricity Charges

If a customer of Ergon Energy Queensland Pty Ltd who is a farmer in a drought declared area or whose property is individually drought declared, does not have access to, or has severely restricted access to, farm or irrigation water, the fixed components of the customer's electricity charges shall be waived. These fixed charge components include annual fixed charges under Tariff 66, service fees, and minimum payments, but exclude minimum demand charges.

Provided the drought declaration remains operative, the waiver applies to all eligible fixed charges applicable to any account being used for pumping water for farm or irrigation purposes. The waiver shall continue to apply until the drought declaration is revoked.

(B) Deferral of Payment

If a customer of Ergon Energy Queensland Pty Ltd who is a farmer in a drought declared area or whose property is individually drought declared cites financial difficulties as a result of the drought, the customer is entitled to defer payment of the customer's electricity accounts relating to farm usage.

Ergon Energy Queensland Pty Ltd may charge interest on deferred accounts. However, the rate of any interest charged must not be more than the Bank Bill reference rate for 90 days, as published on the first business day of each quarter.

Subject to the maximum rate of interest that may be charged, the terms of the deferred payment and the repayment of deferred amounts following revocation of the drought declaration will be as agreed between Ergon Energy Queensland Pty Ltd and the customer concerned.

Eligibility for Relief

A customer of Ergon Energy Queensland Pty Ltd seeking relief from electricity charges on the basis that the customer is a farmer who is in a drought declared area or whose property is individually drought declared, must apply in writing to Ergon Energy Queensland Pty Ltd.

If required by Ergon Energy Queensland Pty Ltd, the customer must provide:

- (a) evidence that the customer's property is in a drought declared area or is individually drought declared, including the effective date of such drought declaration;
- (b) evidence of the water pumping restrictions applicable to the customer's property; and

- (c) for tariffs other than Tariffs 62, 65 and 66, a Statutory Declaration stating the specific account(s), and that the connection is being used primarily for pumping water for farm or irrigation purposes; and/or
- (d) a Statutory Declaration stating that the customer is experiencing financial difficulties as a result of the drought, the specific account(s) and that the connection is being used primarily for farm purposes.

Customers of other retailers

Customers of retailers other than Ergon Energy Queensland Pty Ltd who are farmers in drought declared areas or who have a property which is individually drought declared under Queensland Government administrative processes and do not have access to, or have severely restricted access to, farm or irrigation water, can apply directly to the Department of Energy and Water Supply for reimbursement of the fixed charge components of the customer's electricity charges.

These fixed charge components include annual fixed charges under Tariff 66, service fees, and minimum payments, but exclude minimum demand charges.

Provided the drought declaration remains operative, the reimbursement applies to all eligible fixed charges applicable to any account being used for pumping water for farm or irrigation purposes and ceases once the drought declaration is revoked.

APPENDIX H: ASSUMPTIONS AND DATA USED TO DETERMINE CUSTOMER IMPACTS

Typical customer figures are based on the annual consumption of the median customer on each tariff in regional Queensland. Consistent with previous price determinations, Ergon Distribution provided the forecast usage for tariffs 12A and 22A¹³² while Ergon Retail provided actual usage data for the remaining tariffs.

Ergon Retail advised that it was only able to provide usage data covering the period March 2015 till March 2016 as more recent data were not available due to the work program and data migration required to implement Ergon Retail's new billing system.

The median customer is the middle customer in terms of consumption out of all customers on each tariff. As such, approximately half of all customers will use less electricity than the typical figure, and half will use more. Stakeholders requested the QCA provide a range of bill impacts for residential customers. For this price determination, the QCA has provided tariff 11 bill impacts for the 25th and 75th percentile customers. One quarter of customers will use less electricity than the 25th percentile customer, while three-quarters of customers will use less electricity than the 75th percentile customer.

Stakeholders noted that the typical customer figures provided by Ergon Retail appear lower than those on the AER's Energy Made Easy website. The reason for the discrepancy is that the Energy Made Easy website uses average consumption figures based on a survey of 4,000 customers across Australia in 2014, while Ergon Retail uses actual consumption figures from their customer base of over 700,000 electricity customers in regional Queensland.

Table 36 Usage data used to determine customer impacts

<i>Retail tariff</i>	<i>Usage (kWh per year)</i>	<i>Peak usage (%)</i>	<i>Off-peak usage (%)</i>	<i>Demand (kW per month)</i>	<i>Demand threshold (kW per month)</i>
T11 (only)–25th percentile	2,568				
T11 (only)–median	4,173				
T11 (only)–75th percentile	6,478				
T11 (with T31)–median	4,425				
T31–median	1,774				
T11 (with T33)–median	4,134				
T33–median	1,669				
T20–median	6,776				
T12A–median	4,159	11.0	89.0		
T22A–median ^a	7,625	10.1	89.9		
T44–median	244,308			63	30

¹³² Forecast data were provided, as actual usage data were considered unreliable due to the very small number of customers on these tariffs.

Retail tariff	Usage (kWh per year)	Peak usage (%)	Off-peak usage (%)	Demand (kW per month)	Demand threshold (kW per month)
T45–median	931,464			231	120
T46–median	2,596,788			556	400

a. *The substantial changes of this forecast between the 2016–17 and 2017–18 price determinations is due to Ergon Distribution refining its data set used to estimate the median usage. Ergon Distribution advised that it has updated its dataset to reflect the load characteristics of all customers, not just those customers modelled to transfer to tariff 22A.*

Source: Ergon Retail and Ergon Distribution

APPENDIX I: SUMMARY OF CONCESSIONAL ARRANGEMENTS FOR ENERGY IN QUEENSLAND

Concession Name	Eligibility Criteria	Annual Amount
Electricity Rebate ^a	Customers with a Pensioner Concession Card issued by either Centrelink or Department of Veterans' Affairs, a Department of Veterans' Affairs Gold Card (and recipient of the War Widow Pension or special rate TPI Pension) or a Queensland Government Seniors Card.	\$329.96
Reticulated Natural Gas Rebate ^a	As for Electricity Rebate.	\$69.73
Medical Cooling and Heating Electricity Concession Scheme	Queensland residents with a qualifying medical condition requiring cooling or heating to prevent the decline of symptoms, who reside at their principal place of residence which has an air-conditioning unit.	\$329.96
Home Energy Emergency Assistance Scheme	Customers must either hold a current, eligible concession card, or have a base income of no more than the Commonwealth Government's maximum income rate for part-age pensioners, or be on their retailer's hardship program or payment plan.	Up to \$720 per household per year for a maximum of two consecutive years.
Electricity Life Support Concession Scheme	Customers must be medically assessed in accordance with the eligibility criteria determined by Queensland Health. In addition, oxygen concentrators must be provided rent-free by Queensland Health to persons who hold an eligible concession card and meet the eligibility criteria of the Medical Aids Subsidy Scheme. Kidney dialysis machines must be provided rent-free by Queensland Health to persons based on clinical needs and supplied through Queensland hospitals.	\$672 per year for each oxygen concentrator; \$450.03 for each kidney dialysis machine.
Drought relief	Certain farmers who use electricity for irrigation pumping during periods of very low or no water availability.	The fixed electricity charge is waived for Ergon Energy customers, and reimbursed by the Department of Energy and Water Supply for customers of other retail entities.

^a: From 1 April 2017, Commonwealth Health Care Card holders and asylum seekers will be able to apply for the Electricity Rebate through their retailer.

For more information see <https://www.dews.qld.gov.au/electricity/rebates>

APPENDIX J: BUILD-UP OF NOTIFIED PRICES

Table 37 Regulated retail tariffs and prices for residential customers (GST exclusive)

<i>Retail tariff</i>	<i>Tariff component</i>	<i>Fixed^a (c/day)</i>	<i>Peak usage (c/kWh)</i>	<i>Off-peak/Flat usage (c/kWh)</i>	<i>Peak demand (\$/kW/month)</i>	<i>Off-peak/Flat demand (\$/kW/month)</i>
Tariff 11– Residential (flat-rate)	Network	48.340		10.484		
	Energy			11.149		
	Fixed retail	35.807				
	Variable retail			2.438		
	Standing offer adjustment	4.207		1.204		
	SRES cost pass-through			0.0000		
	Total	88.354		25.275		
Tariff 12A– Residential (seasonal time-of-use)	Network	54.844	39.270	6.216		
	Energy		11.149	11.149		
	Fixed retail	35.807				
	Variable retail		5.682	1.957		
	Standing offer adjustment	4.533	2.805	0.966		
	SRES cost pass-through		0.0000	0.0000		
	Total	95.184	58.907	20.289		
Tariff 14– Residential (seasonal time-of-use demand)	Network	17.925		2.635	54.036	8.744
	Energy			11.149		
	Fixed retail	35.807				
	Variable retail			1.554	6.090	0.985
	Standing offer adjustment	2.687		0.767	3.006	0.486
	SRES cost pass-through			0.0000		
	Total	56.418		16.105	63.132	10.216
Tariff 31–Night rate Super economy	Network			6.135		
	Energy			6.840		
	Fixed retail					
	Variable retail			1.462		
	Standing offer adjustment			0.722		
	SRES cost pass-through			0.0000		
	Total			15.159		
Tariff 33– Controlled supply Economy	Network			8.702		
	Energy			8.602		
	Fixed retail					

<i>Retail tariff</i>	<i>Tariff component</i>	<i>Fixed^a (c/day)</i>	<i>Peak usage (c/kWh)</i>	<i>Off-peak/Flat usage (c/kWh)</i>	<i>Peak demand (\$/kW/month)</i>	<i>Off-peak/Flat demand (\$/kW/month)</i>
	Variable retail			1.950		
	Standing offer adjustment			0.963		
	SRES cost pass-through			0.0000		
	Total			20.216		

a. Charged per metering point.

Notes: Total may not add due to rounding.

Table 38 Regulated retail tariffs and prices for small business and unmetered supply customers (GST exclusive)

<i>Retail tariff</i>	<i>Tariff component</i>	<i>Fixed^a (c/day)</i>	<i>Peak usage (c/kWh)</i>	<i>Off- peak/Flat usage (c/kWh)</i>	<i>Peak demand (\$/kW/month)</i>	<i>Off-peak/Flat demand (\$/kW/month)</i>
Tariff 20–Business (flat-rate)	Network	65.593		11.455		
	Energy			11.149		
	Fixed retail	50.784				
	Variable retail			2.893		
	Standing offer adjustment	5.819		1.275		
	SRES cost pass-through			0.0000		
	Total		122.195		26.772	
Tariff 22A–Business (seasonal time-of-use)	Network	65.593	36.044	8.246		
	Energy		11.149	11.149		
	Fixed retail	50.784				
	Variable retail		6.041	2.483		
	Standing offer adjustment	5.819	2.662	1.094		
	SRES cost pass-through		0.0000	0.0000		
	Total		122.195	55.896	22.972	
Tariff 24–Business (seasonal time-of-use demand)	Network	22.136		3.884	82.929	8.998
	Energy			11.149		
	Fixed retail	50.784				
	Variable retail			1.924	10.615	1.152
	Standing offer adjustment	3.646		0.848	4.677	0.508
	SRES cost pass-through			0.0000		
	Total		76.566		17.806	98.221
Tariff 41–Business low voltage (demand)	Network	480.232		1.542		22.499
	Energy			11.149		
	Fixed retail	50.784				
	Variable retail			1.624		2.880
	Standing offer adjustment	26.551		0.716		1.269
	SRES cost pass-through			0.0000		
	Total		557.567		15.032	
Tariff 91–Unmetered supply	Network			9.380		
	Energy			11.149		
	Fixed retail					

Retail tariff	Tariff component	Fixed^a (c/day)	Peak usage (c/kWh)	Off- peak/Flat usage (c/kWh)	Peak demand (\$/kW/month)	Off-peak/Flat demand (\$/kW/month)
	Variable retail			2.628		
	Standing offer adjustment			1.158		
	SRES cost pass- through			0.0000		
	Total			24.315		

a. Charged per metering point.

Notes: Total may not add due to rounding

Table 39 Regulated retail tariffs and prices for large business and street lighting customers (GST exclusive)

<i>Retail Tariff</i>	<i>Tariff component</i>	<i>Fixed^a (c/day)</i>	<i>Peak usage (c/kWh)</i>	<i>Off- peak/Flat usage (c/kWh)</i>	<i>Peak demand (\$/kW/month)</i>	<i>Off-peak/Flat demand (\$/kW/month)</i>
Tariff 44—Business over 100 MWh/yr—Small (demand)	Network	4315.700		1.399		33.824
	Energy			10.664		
	Fixed retail	502.282				
	Variable retail			0.729		2.044
	Headroom	240.899		0.640		1.793
	SRES cost pass-through			0.0000		
	Total		5058.881		13.432	
Tariff 45—Business over 100 MWh/yr—Medium (demand)	Network	14317.100		1.363		26.897
	Energy			10.664		
	Fixed retail	1139.564				
	Variable retail			0.727		1.626
	Headroom	772.833		0.638		1.426
	SRES cost pass-through			0.0000		
	Total		16229.497		13.392	
Tariff 46—Business over 100 MWh/yr—Large (demand)	Network	38542.300		1.445		24.006
	Energy			10.664		
	Fixed retail	2685.555				
	Variable retail			0.732		1.451
	Headroom	2061.393		0.642		1.273
	SRES cost pass-through			0.0000		
	Total		43289.248		13.483	
Tariff 50—Business over 100 MWh/yr (seasonal time-of-use demand)	Network	3466.600	1.063	3.563	55.617	10.897
	Energy		10.664	10.664		
	Fixed retail	466.084				
	Variable retail		0.709	0.860	3.362	0.659
	Headroom	196.634	0.622	0.754	2.949	0.578
	SRES cost pass-through		0.000	0.0000		
	Total		4129.318	13.058	15.841	61.928
Tariff 71—Street lighting	Network	0.700		18.818		
	Energy			10.664		
	Fixed retail					
	Variable retail			1.782		
	Headroom	0.035		1.563		
	SRES cost pass-through			0.0000		
	Total		0.735		32.827	

a. Charged per metering point.

Notes: Total may not add due to rounding.

Table 40 Regulated retail tariffs and prices for very large business customers (GST exclusive)

<i>Retail Tariff</i>	<i>Tariff component</i>	<i>Fixed^a (c/day)</i>	<i>Peak usage (c/kWh)</i>	<i>Off-peak/Flat usage (c/kWh)</i>	<i>Connection unit (\$/day/unit)</i>	<i>Capacity Flat/Off-peak (\$/kVA of AD/mth)</i>	<i>Demand Flat/Peak (\$/kVA/mth)</i>	<i>Excess reactive Power (\$/excess kVA/mth)</i>
Tariff 51A—Business over 4 GWh/yr—High voltage 66kV	Network	23749.300		1.589	9.538	4.994	2.570	4.000
	Energy			10.016				
	Fixed retail	2843.368						
	Variable retail			0.701	0.577	0.302	0.155	0.242
	Headroom	1329.633		0.615	0.506	0.265	0.136	0.212
	SRES cost pass-through							
	Total		27922.301		12.922	10.620	5.561	2.862
Tariff 51B—Business over 4 GWh/yr—High voltage 33kV	Network	17624.800		1.589	9.538	6.110	4.344	4.000
	Energy			10.016				
	Fixed retail	2843.368						
	Variable retail			0.701	0.577	0.369	0.263	0.242
	Headroom	1023.408		0.615	0.506	0.324	0.230	0.212
	SRES cost pass-through							
	Total		21491.576		12.922	10.620	6.803	4.837
Tariff 51C—Business over 4 GWh/yr—High voltage 22/11kV Bus	Network	16524.800		1.593	9.538	5.575	4.225	4.000
	Energy			10.016				
	Fixed retail	2843.368						
	Variable retail			0.702	0.577	0.337	0.255	0.242
	Headroom	968.408		0.616	0.506	0.296	0.224	0.212
	SRES cost pass-through							
	Total		20336.576		12.926	10.620	6.208	4.704
Tariff 51D—Business over 4 GWh/yr—High voltage 22/11kV Line	Network	15324.800		1.606	9.538	11.462	6.967	4.000
	Energy			10.016				
	Fixed retail	2843.368						

<i>Retail Tariff</i>	<i>Tariff component</i>	<i>Fixed^a (c/day)</i>	<i>Peak usage (c/kWh)</i>	<i>Off-peak/Flat usage (c/kWh)</i>	<i>Connection unit (\$/day/unit)</i>	<i>Capacity Flat/Off-peak (\$/kVA of AD/mth)</i>	<i>Demand Flat/Peak (\$/kVA/mth)</i>	<i>Excess reactive Power (\$/excess kVAR/mth)</i>
	Variable retail			0.703	0.577	0.693	0.421	0.242
	Headroom	908.408		0.616	0.506	0.608	0.369	0.212
	SRES cost pass-through							
	Total	19076.576		12.941	10.620	12.763	7.758	4.454
Tariff 52A—Business over 4 GWh/yr—High voltage 66/33kV (STOUD)	Network	12024.800	1.089	1.489	9.538	5.676	11.000	4.000
	Energy		10.016	10.016				
	Fixed retail	2843.368						
	Variable retail		0.671	0.695	0.577	0.343	0.665	0.242
	Headroom	743.408	0.589	0.610	0.506	0.301	0.583	0.212
	SRES cost pass-through							
	Total	15611.576	12.365	12.811	10.620	6.320	12.248	4.454
Tariff 52B—Business over 4 GWh/yr—High voltage 22/11kV Bus (STOUD)	Network	12024.800	1.093	1.493	9.538	4.676	39.600	4.000
	Energy		10.016	10.016				
	Fixed retail	2843.368						
	Variable retail		0.671	0.696	0.577	0.283	2.394	0.242
	Headroom	743.408	0.589	0.610	0.506	0.248	2.100	0.212
	SRES cost pass-through							
	Total	15611.576	12.370	12.815	10.620	5.207	44.093	4.454
Tariff 52C—Business over 4 GWh/yr—High voltage 22/11kV Line (STOUD)	Network	12024.800	1.106	1.506	9.538	8.676	72.333	4.000
	Energy		10.016	10.016				
	Fixed retail	2843.368						
	Variable retail		0.672	0.696	0.577	0.524	4.372	0.242
	Headroom	743.408	0.590	0.611	0.506	0.460	3.835	0.212
	SRES cost pass-through							
	Total	15611.576	12.384	12.830	10.620	9.660	80.540	4.454

<i>Retail Tariff</i>	<i>Tariff component</i>	<i>Fixed^a (c/day)</i>	<i>Peak usage (c/kWh)</i>	<i>Off-peak/Flat usage (c/kWh)</i>	<i>Connection unit (\$/day/unit)</i>	<i>Capacity Flat/Off-peak (\$/kVA of AD/mth)</i>	<i>Demand Flat/Peak (\$/kVA/mth)</i>	<i>Excess reactive Power (\$/excess kVAr/mth)</i>
Tariff 53—Business over 40 GWh/yr	Network	15324.800		1.606		11.462	6.967	4.000
	Energy			10.016				
	Fixed retail	2843.368						
	Variable retail			0.703		0.693	0.421	0.242
	Headroom	908.408		0.616		0.608	0.369	0.212
	SRES cost pass-through							
	Total		19076.576		12.941		12.763	7.758

a. Charged per metering point.

Notes: Total may not add due to rounding.

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