31 January 2017

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

Dear Mr Millsteed

Interim Consultation Paper on Regulated Retail Electricity Prices for 2018-19

Energy Queensland Limited (Energy Queensland) welcomes the opportunity to provide comment to the Queensland Competition Authority, on its consultation on the *Regulated Retail Electricity Prices for 2018-19 – Interim Consultation Paper*. The attached submission is provided by Energy Queensland, on behalf of its related entities Energex Limited, Ergon Energy Corporation Limited and Ergon Energy Queensland.

Should you require additional information or wish to discuss any aspect of this submission, please do not hesitate to contact either myself on (07) 3851 6416 or Trudy Fraser on (07) 3851 6787.

Yours Sincerely

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General Manager Regulation and Pricing

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Encl: Energy Queensland submission to the Interim Consultation Paper

Energy Queensland

Submission to the Queensland Competition Authority

Regulated retail electricity prices for 2018-19

Energy Queensland Limited

31 January 2018

About Energy Queensland

Energy Queensland Limited (Energy Queensland) is a Queensland Government Owned Corporation that operates a group of businesses providing energy services across Queensland, including:

- Distribution Network Service Providers, Energex Limited (Energex) and Ergon Energy Corporation Limited (Ergon Energy);
- a regional service delivery retailer, Ergon Energy Queensland Pty Ltd (Ergon Energy Retail); and
- affiliated contestable business Energy Impact Pty Ltd (trading as Yurika).

Energy Queensland's purpose is to 'safely deliver secure, affordable and sustainable energy solutions with our communities and customers and is focused on working across its portfolio of activities to deliver customers lower, more predictable power bills while maintaining a safe and reliable supply and a great customer experience.

Our distribution businesses, Energex and Ergon Energy, cover 1.7 million km^2 and supply 37,208 GWh of energy to 2.1 million homes and businesses. Ergon Energy Retail sells electricity to 740,000 customers.

The Energy Queensland Group also includes the new energy services business Yurika which will provide customers with greater choice and control over their energy needs and access to the next wave of innovative technologies and renewables.

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1 Introduction

On 22 December 2017, the Queensland Competition Authority (QCA) published the *Interim consultation paper: Regulated retail electricity prices for 2018-19* (interim consultation paper). The interim consultation paper seeks feedback from stakeholders on how the QCA will determine electricity prices for regional Queensland for the period 1 July 2018 to 30 June 2019 in accordance with the *Electricity Act* 1994 and the requirements of the delegation received from the Minister for Natural Resources, Mines and Energy. Energy Queensland welcomes the opportunity to participate in the consultation process and provides comment on the issues raised in the interim consultation paper.

The QCA has requested that interested parties make submission on its assessment of the 2018-19 regulated retail electricity prices and, in particular, the specific issues raised in the interim consultation paper by 16 January 2018. Energy Queensland's comments are provided in Sections 2 and 3 below. We are available to discuss this submission or provide further detail regarding the matters raised.

2 General comments

Energy Queensland is committed to the delivery of tariff structures which balance the changing needs of our customers in Queensland, including their desire to take up their own energy options and increased technology, with the need to meet regulatory requirements.

As part of the QCA's consultation on regulated retail electricity prices for 2017-18, Energy Queensland recommended the QCA remove all connection to Energex's tariff structures and commence a transitional process of deploying Ergon Energy's structures and apply a recalibration to the revenue outcome which aligns with the required Uniform Tariff Policy (UTP). Energy Queensland remains of the view that providing customers with economically efficient price signals would lead to the most efficient level of investment and better outcomes for customers over the longer term.

While this remains our preferred position, we recognise the limitations placed on the QCA in determining regulated retail prices – namely the UTP – and are conscious of the impacts on residential and business customers of passing through real costs. Further, given that Ergon Energy is about to commence consultation on new economically efficient network tariff structures proposed to apply from 1 July 2020, we agree that the best approach for 2018-19 would be to maintain the approach the QCA took in the 2017-18 price determination. That is, setting notified prices based on the costs of supply in south east Queensland.

3 Responses to consultation questions

Consultation Question	Energy Queensland Comment
Potential Pricing Approaches	
1. For residential and small business customers, should we maintain the 2017–18 approach of basing notified prices on the costs of supply in south east Queensland?	As noted in previous submissions to the QCA, we continue to support the QCA's framework for determining regulated retail prices as it relates to the quantum of revenue recovered – in particular the UTP. The current application of the UTP means that regional Queensland Standard Asset Customers (SAC) – small, in total, see a quantum of network costs equivalent to paying the network charges in South East Queensland. Applying this principle would see the revenue collected from Ergon Energy network charges in 2018-19 recalibrated to be equivalent to application of the Energex charges. As noted in section 2 above, Energy Queensland's preference is for customers to see economically efficient tariff structures for the relevant distribution area. Notwithstanding Ergon Energy is about to commence consultation on new economically efficient network tariff structures proposed to apply from 1 July 2020. As such, we agree that the best approach for 2018-19 would be to continue to use Energex tariff structures for residential and small business customers.
2. For large business customers, should we maintain the 2017–18 approach of basing notified prices on the costs of supply in Ergon Distribution's east pricing zone, transmission region one?	Energy Queensland agrees that the 2017-18 approach of basing regulated retail tariffs for large business customers on Ergon Energy's network tariffs should be maintained.

Consultation Question	Energy Queensland Comment
Network Costs	
3. Should we use Energex's network tariff structures as the basis for all retail tariffs for residential, small business and unmetered supply (excluding street lighting) customers?	Energy Queensland recognises the requirement to calibrate network tariffs for notified prices to Energex's revenue metric under the UTP as contemplated for 2018-19. For the reasons set out in our response to Question 1 above, Energy Queensland supports the current approach to the selection of network tariff structures for residential, small business and unmetered supply tariffs. That is, the use of Ergon Energy's network tariff structures for Tariffs 12A, 14, 22A and 24 (and where Ergon Energy introduces new cost reflective tariffs) and the use of Energex's network tariff structures as the basis for all other tariffs for residential, small business and unmetered supply (excluding street lighting) customers.
4. Alternatively, should we use Ergon Distribution's network tariff structures as the basis for some or all retail tariffs for residential, small business and unmetered supply (excluding street lighting) customers? If so, how should Ergon Distribution's network tariff structures be adjusted to reflect the UTP?	Refer to our responses to Q1 above.
5. Should we use Ergon Distribution's network tariffs as the basis for retail tariffs for large business customers and street lighting customers?	As above, Energy Queensland supports application of Ergon Energy's network tariff structures as the basis for retail tariffs for large business customers and street lighting customers.

Consultation Question	Energy Queensland Comment
6. Should we introduce new voluntary trial tariffs, based on the structure of any new cost-reflective network tariffs submitted by Ergon Distribution to the AER?	Energy Queensland supports the introduction of new voluntary trial tariffs, based on the structures of any new cost-reflective network tariffs approved by the Australian Energy Regulator (AER) as part of its 2018-19 annual pricing proposal process. Energy Queensland's strong preference is for the network tariffs to be adopted in any such trials to be gazetted and included in the draft notified prices. Energy Queensland is of the view that, in setting the notified prices for the cost reflective trial tariffs, the integrity of Ergon Energy's long run marginal cost (LRMC) signal should be preserved and not be based on Energex's LRMC. By calibrating the tariff elements used to recover the residual costs, compliance with the UTP obligation would be achieved at an overall tariff level. Such an approach would ensure that the integrity of Ergon Energy's economically efficient tariffs would be preserved while meeting the UTP requirement.
7. Are there any other issues that we should consider?	Energy Queensland is not aware of any other issues which should be considered.
Energy Costs	
8. In the absence of AFMA data, should ACIL Allen continue to use TFS broker data to estimate LGC prices? Are there any other data sources ACIL Allen should consider?	Energy Queensland supports the QCA's continued use of the TFS broker data to estimate LGC prices.
9. Should we use the Ergon NSLP rather than the Energex NSLP to estimate prudential costs for large customers?	Energy Queensland makes no comment on the use of Ergon NSLP or Energex NSLP to estimate prudential costs for large customers.
10. If practical, should we consider extending the energy cost data cut-off date to the end of January to account for the majority of the summer period and any corresponding changes in wholesale energy costs?	Energy Queensland supports the extension of the energy cost data cut-off date to the end of January, to the extent that this will result in a more accurate estimate of wholesale energy costs.

Consultation Question	Energy Queensland Comment
11. What improvements could be made to the current approaches?	Energy Queensland notes the hedging based approach used to determine wholesale energy costs in 2017-18 and supports its use for the current determination. However, in order to meet its renewable energy target obligations Ergon Energy Retail, as well as many other retailers, has entered into long term power purchase agreements to enable new renewable energy projects to be developed. For Ergon Energy Retail these will be fully in effect for the 2019-20 financial year. This constitutes a regulatory driven change in how retailers purchase energy. Further regulatory changes associated with the potential National Energy Guarantee might also cause retailers to enter into long term arrangements with generators. These regulatory driven changes to the way retailers purchase electricity should warrant reconsideration of a LRMC approach in any future electricity price determinations.
12. Are there any other issues we should consider when estimating energy costs?	Energy Queensland is not aware of any other issues that the QCA should consider when estimating energy costs.
Retail Costs	
13. Is there any new information available to suggest that the approach used in the 2017–18 price determination is no longer appropriate, or that a new methodology would be better?	Energy Queensland supports the approach used in determining retail costs for the 2017-18 price determination.

Consultation Question	Energy Queensland Comment
14. Is there any evidence that would suggest retail costs have changed materially (i.e. current costs have changed significantly or new costs have emerged) since the 2017–18 price determination?	The national Power of Choice (PoC) project included an extensive program of work which involved changes to around 40 market protocols and procedures and which necessitated significant changes to retailer billing systems in addition to a need to review and develop new work-based procedures and processes within Ergon Energy Retail. Furthermore, retailers will also incur additional costs associated with the provision of digital meters, which is addressed further at Q29 below. Given the PoC changes impacted all participants in the National Electricity Market (NEM), all retailers (as well as distribution businesses and future metering coordinators) have also incurred these costs. Energy Queensland considers that the QCA should have regard for costs incurred in implementing the PoC changes when determining the Retail Costs for 2018-19.
15. Should the retail cost allowances be indexed? If so, how should they be indexed (e.g. by CPI)?	Energy Queensland considers that it is reasonable to index retail cost allowances by CPI.
16. Are there any other issues we should consider when estimating retail costs?	Energy Queensland is not aware of any other issues which should be considered.
Other Issues – Standing offer differential - residential and small business customers	
17. Does a standing offer adjustment differential of five per cent adequately reflect the additional value that a standing offer contract provides, compared to a market offer?	Energy Queensland considers that the standing offer adjustment differential of 5% is appropriate.
18. Is a standing offer adjustment differential of five per cent consistent with the current definition of the UTP?	As above.

Consultation Question	Energy Queensland Comment
19. Is there any new information available to suggest an alternative approach (to that used in the 2017–18 price determination) to estimate the standing offer adjustment differential might be more appropriate?	Energy Queensland is not aware of any new information to suggest an alternative approach to estimating the standing offer adjustment differential.
20. Are there any other issues we should consider when estimating the standing offer adjustment differential?	Energy Queensland is not aware of any other issues which should be considered when estimating the standing offer adjustment differential.
Other Issues – Competition and headroom	
21. Should headroom continue to be included in notified prices for large business customers? If so, at what level? If not, why not?	Energy Queensland supports competition for regional customers and the continued allocation of a headroom component in the regulated retail tariff.
22. What other issues should we consider in relation to competition?	Energy Queensland is not aware of any other issues which should be considered in relation to competition.
Other Issues – Cost pass-through mechanism	
23. Should we allow for any pass-through of SRES under- or over-recoveries incurred during 2017–18 into 2018–19 notified prices?	Energy Queensland makes no comment on the allowance of cost pass-throughs for SRES under or over recoveries.
Other Issues – Transitional arrangements	
24. Should the five-year transitional period for tariffs 47 and 48 be maintained?	Energy Queensland supports the five year transitional period for tariffs 47 and 48 being maintained.

Consultation Question	Energy Queensland Comment
25. Are transitional periods for tariffs 20 (large), 21, 22 (small and large), 62, 65 and 66 increasing the level of subsidy customers receive, thereby also increasing the gap between the amount such customers pay and the prices of standard business tariffs?	Energy Queensland supports the principles of the overall QCA approach to transitional and obsolete tariffs. Energy Queensland notes the risk if the rate of change in transition for business tariffs does not progress moving to transition away from non-cost reflective tariffs. This is an issue for Ergon Energy because the transitional tariffs are an impediment to getting the efficient network tariff structures adopted into the market. Notwithstanding, it is important that customers have certainty so that they can make the appropriate investment decisions. While a change in approach such as a deferment to cost reflectivity may provide short term relief to customers it undermines confidence in the process. As such, Energy Queensland supports the current transition periods being maintained, to allow customers to better plan for obsolete tariff expiry.
26. Should tariffs 20 (large), 21, 22 (small and large), 62, 65 and 66 be made obsolete in 2018–19 to reduce the level of subsidies customers receive and move them closer to the prices of standard business tariffs?	As above, Energy Queensland supports the current transition periods being maintained.
27. Is there any new information that suggests the overall approach we propose to take for transitional and obsolete tariffs is no longer appropriate?	Energy Queensland is not aware of any new information to suggest the overall approach to transitional and obsolete tariffs is no longer appropriate.

Consultation Question	Energy Queensland Comment
28. What other issues should we consider? Please provide supporting evidence where possible.	Energy Queensland notes that the customer impact burden to shift customers to cost reflective tariffs increases each time a new customer accesses one of these transitional tariffs. As such, Energy Queensland suggests an appropriate escalation factor is required to reduce the attractiveness of these tariffs over time and adequately prepares for their obsolescence, while avoiding significant price impacts on customers. This will also put downward pressure on the level of subsidy customers receive over time. Furthermore, Energy Queensland notes that the introduction of the PoC reforms on 1 December 2017 requires customers to transition to type 4 metering. Once transitioned, customers will have greater access to a range of alternative tariffs.
Other Issues – Metering charges	
29. Should the QCA base digital meter charges on costs in regional Queensland or SEQ?	Energy Queensland proposes that between 2018-19 and 2019-20, digital metering charges should be based on the charges applied for type 5 or 6 meters, with an appropriate escalation factor applied. This approach reflects that fact that it is difficult to accurately identify the net costs of digital metering at this early stage following the introduction of the Power of Choice reforms. From 2020-21 onwards, Energy Queensland suggests that full cost recovery should be enabled, with pricing set to achieve net cost recovery, i.e. allowing for financial benefits identified and quantified during the two interim price setting periods. Further details will be provided to QCA in future notified pricing submissions.
30. If the QCA bases these on SEQ costs, should we use the costs incurred by retailers, or the costs passed on to standard contract customers by retailers?	As noted above, Energy Queensland suggests digital meter charges should be based on costs in regional Queensland.
31. What other issues should we consider? Please provide supporting evidence where possible.	Energy Queensland notes that the cost of digital meters is commercially sensitive and as such QCA will need to have regard for this in any digital metering cost benchmarking exercise it undertakes.

Consultation Question	Energy Queensland Comment
Other Issues – Easy Pay Reward in the Gazette	
32. Should the QCA include the above wording in the Gazette Notice for 2018-19 notified prices?	Energy Queensland notes that the wording provided in the interim consultation paper could be improved to provide clarity over the arrangements currently in place for the Easy Pay Rewards scheme. Energy Queensland would be happy to discuss alternative wording with the QCA.