

13 May 2020



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

Dear Mr Millstead

Energy Queensland submission to the QCA consultation on Regulated Retail Electricity Prices for 2020-21 – Draft Determination

Energy Queensland Limited (Energy Queensland) welcomes the opportunity to provide comment to the Queensland Competition Authority (QCA) on its Draft Determination for Regulated Retail Electricity Prices for 2020-21 (Draft Determination). This submission is on behalf of our retail business Ergon Energy Queensland Pty Ltd (Ergon Energy Retail), and network businesses Energex Limited (Energex) and Ergon Energy Corporation Limited (Ergon Energy Network).

Energy Queensland has provided comments on the Draft Determination in the attached submission. Should the QCA require additional information or wish to discuss any aspect of this submission, please contact myself on (07) 3851 6793 or Trudy Fraser on (07) 3851 6787.

Yours sincerely

A handwritten signature in black ink, appearing to read "K. Stafford".

Karen Stafford
General Manager Regulation & Pricing

Telephone: (07) 3851 6793 / 0409 031 882

Email: karen.stafford@energyq.com.au

Encl: Energy Queensland submission to the Draft Determination

Energy Queensland Submission on the Regulated Retail Electricity Prices for 2020-21

Draft Determination

Energy Queensland Limited
13 May 2020



About Energy Queensland

Energy Queensland Limited (Energy Queensland) is a Queensland Government Owned Corporation that operates 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, Yurika Pty Ltd (Yurika), which includes Metering Dynamics Pty Ltd (Metering Dynamics).

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 service experience.

Our distribution businesses, Energex and Ergon Energy Network, cover 1.7 million km² and supply 34,000GWh of energy to 2.25 million homes and businesses each year.

Ergon Energy Retail sells electricity to 738,000 customers in regional Queensland.

Energy Queensland also includes Yurika, an energy services business creating innovative solutions to deliver customers greater choice and control over their energy needs and access to new solutions and technologies. Metering Dynamics, which is a part of Yurika, is a registered Metering Coordinator, Metering Provider, Metering Data Provider and Embedded Network Manager. Yurika is a key pillar to ensuring that Energy Queensland is able to meet and adapt to changes and developments in the rapidly evolving energy market.

Contact details

Energy Queensland Limited
Trudy Fraser
Phone: +61 (7) 3851 6787
Email: trudy.fraser@energyq.com.au

PO Box 1090, Townsville QLD 4810
Level 6, 420 Flinders Street, Townsville QLD 4810
www.energyq.com.au

Energy Queensland Limited ABN 96 612 535 583

© Energy Queensland Limited 2020

This work is copyright. Material contained in this document may be reproduced for personal, in-house or non-commercial use, without formal permission or charge, provided there is due acknowledgement of Energy Queensland Limited as the source. Requests and enquiries concerning reproduction and rights for a purpose other than personal, in-house or non-commercial use, should be addressed to the General Manager Legal Regulation and Pricing, Energy Queensland, PO Box 1090, Townsville QLD 4810.

1 Introduction

Energy Queensland Limited (Energy Queensland) welcomes the opportunity to provide comment to the Queensland Competition Authority (QCA) on its Regulated Retail Electricity Prices for 2020-21 Draft Determination (Draft Determination). This submission is provided by Energy Queensland, on behalf of its retail business Ergon Energy Queensland Limited (Ergon Energy Retail), and network businesses Energex Limited (Energex), Ergon Energy Corporation Limited (Ergon Energy).

Energy Queensland notes that at the time the Draft Determination was released by the QCA, the Australian Energy Regulator (AER) had not made a final determination on Ergon Energy's and Energex's revised network Tariff Structure Statements (TSS), which presented a challenge for the QCA in setting the network (N) component of the notified prices for 2020-21. Although the QCA proposed adjusting network costs by an indexation methodology in their Interim Consultation Paper, Energy Queensland submitted that our strong preference was to pass through the 2020-21 network prices and structures, while continuing to have regard to the Uniform Tariff Policy (UTP). We are emphatic that this is our preferred position, as it provides regional Queensland customers with access to the same benefits of tariff reform as south east Queensland customers, and is consistent with the definition of the UTP. Furthermore, it delivers on our commitment to customers to deliver tariff reform designed to meet the needs and circumstances of customers in regional Queensland.

In response to the QCA's invitation to provide comments on the Draft Determination, we have detailed a number of concerns in the following section, including further detail and rationale for reflecting the Ergon Energy and Energex network prices and structures in the 2020-21 regulated retail electricity prices.

Energy Queensland is available to discuss this submission or provide further detail regarding the issues raised, should the QCA require.

2 Specific comments

2.1 Network component of retail prices

Energy Queensland strongly supports passing through the 2020-21 network tariffs, as contained in the revised TSSs, for the N component of the 2020-21 retail prices for all customers (large and small). We expect the AER will approve the revised TSS as proposed by the end of May 2020, which, in our view, provides the QCA with sufficient opportunity to incorporate these network prices into the retail tariffs for the Final Determination.

Energy Queensland commissioned the University of New South Wales to undertake customer impact modelling as part of Ergon Energy's and Energex's revised TSS submission. This analysis, which is available on the [AER website](#), demonstrates several potential benefits for customers where they adopt a cost reflective network tariff, and suggests customer benefits increase when they choose to respond to network peak demand signals. It is therefore our view that cost-reflective retail tariffs (which mirror the network tariffs) should be introduced for 2020-21 to enable these benefits to be passed through to customers.

While it is our strong preference that the AER approved network prices be applied to all regulated retail tariffs, at a minimum we suggest it would be prudent to apply the approved network prices to retail tariffs 11, 20, 31 and 33, in addition to large customers, particularly as retail tariffs T11 and T20 are to be made default tariffs, and the majority of Ergon Energy Retail customers are on these tariffs.

We also reiterate our earlier advice to the QCA that Energy Queensland does not support an indexation methodology in the Final Determination. Specifically, indexation distorts price signals, delays critical tariff reform and creates a misalignment between retail and network tariffs.

In particular, Energy Queensland notes that passing through the 2020-21 network tariffs provided in the revised TSS would reduce the annual network cost (the N component of the N+R cost build up methodology) for a typical residential or small business customer, compared to the annual network cost in the 2019-20 retail tariffs. However, the indexation methodology will result in a greater reduction in the N component of the retail tariff paid by a typical customer, meaning the indexation approach will not reflect the cost of providing Energex's network services in south east Queensland.

This over-adjustment in the N component will need to be corrected in future years' retail prices, resulting in higher increases in the N component than would otherwise have been the case, and possible overall price increases when shifting back to an N component.

Our analysis also found that the application of the indexation methodology to the N component of the time of use (TOU) and demand tariffs (T12A and T14) has created a divergence from the N component on the Energex flat rate network tariff. The network cost equalisation principle which has been typically applied to these tariffs, requires that these costs be equal. However, the indexation methodology results in cost under-recovery for these tariffs, which is over and above the under-recovery observed on the flat rate tariffs (T11 and T20). Notwithstanding this impact, the revised TSS no longer contain underlying network tariffs to support retail tariffs 12A and 14.

Failure to pass through the AER approved network prices and structures means that regional Queensland customers will not benefit from critical tariff reform and will not be able to respond to appropriate price signals from cost reflective tariffs, which is a key element of the current regulatory environment. We also note that stakeholders raised significant concerns with the proposed indexation methodology in response to the QCA's Interim Consultation Paper.¹

As such, Energy Queensland considers that applying the actual N component to all regulated retail prices for 2020-21 would avoid the unnecessary risk associated with indexing the N component for residential and small business customers.

2.2 Retail Tariffs

2.2.1 Retail Tariff Suite

Energy Queensland notes that the QCA has decided not to introduce new retail tariffs for 2020-21 *“which reflect the proposed new network tariffs as the QCA cannot currently anticipate whether they [the new network tariffs] will be approved (without further amendment) by the AER”*.²

Energy Queensland strongly believes that new retail tariffs should be introduced as soon as possible, as this will allow customers in regional Queensland to benefit from the significant work Ergon Energy and Energex have undertaken as part of the network TSS process to deliver on tariff reform and cost-reflective pricing. It is particularly important that customers currently billed on obsolete tariffs have sufficient opportunity to consider new retail tariff options ahead of having to switch tariffs prior to the obsolete tariffs expiring on 30 June 2021.

As new customers with digital metering are mandatorily assigned to a default cost-reflective tariff at the network level, it is likely that retailers in south east Queensland will

¹ QCA Draft Determination on Regulated Retail Electricity Prices for 2020-21, pg 18.

² QCA Draft Determination on Regulated Retail Electricity Prices for 2020-21, pg 11.

offer demand tariffs as an option, though uptake may be low initially. These new cost reflective tariff options need to be available in regional Queensland.

Energy Queensland is strongly of the view that some new retail tariffs can be introduced from 1 July 2020 for the following reasons:

- the introduction of new network tariffs for 2020-21 (to be reflected in new retail tariffs) has received widespread support from customers during Energy Queensland's extensive TSS consultation process;
- provides a consistent approach to cost reflective tariffs offered by retailers in south east Queensland;
- provides customers with choice and allows time for customers to consider the financial impacts of new tariffs prior to moving away from flat tariffs;
- it allows more scope for complementary products and services to be delivered to support the customer transition to more complex pricing structures; and
- an opt in approach allows retailers to transition customers to new pricing structures gradually and to apply learnings from early adopters to support less sophisticated customers making the transition.

2.2.2 Load Control Tariffs

Energy Queensland notes the QCA has determined not to introduce new load control retail tariffs on the basis that the terms and conditions for the new network load control tariffs are yet to be finalised. However, we believe that sufficient detail about the network tariffs, tariff structures, indicative rates and high-level terms and conditions are contained in Ergon Energy's and Energex's revised TSS and accompanying Explanatory Notes. While the respective business' Pricing Proposals will contain detailed terms and conditions these are consistent with the high-level detail included in the TSS already submitted to the AER. These new load control tariffs were, in part, developed in response to customer expectations and informed by the load control tariff trials involving small customers within the agricultural sector. It should be noted that when this tariff trial expires, and without new retail load control tariffs, these customers will have no primary load control tariff options available to them, and the secondary load control tariff option for many of these customers is both problematic and costly, due to meter-box space and other technical issues. There will also be no primary or secondary load control tariff option for large customers, who through various stakeholder forums have shown an interest in this tariff option. This will result in a suboptimal outcome for those customers currently involved in the tariff trial.

Energy Queensland is therefore strongly of the view there is significant support from customers for the introduction of additional new opt-in retail controlled-load tariffs for 2020-21.

2.2.3 Seasonal Retail Tariffs

As outlined in our submission to the QCA's Interim Consultation Paper, the revised TSS have removed the underlying N component that supports a number of seasonal demand and TOU retail tariffs. While we acknowledge that the QCA has determined to retain these retail tariffs for 2020-21, given the limited customer numbers on these tariffs, and the fact they will no longer be underpinned by network tariffs, we propose that the QCA consult on the time period that customers are able to access these tariffs as part of the 2021-22 regulated retail electricity prices determination process.

2.2.4 Demand-based Charging Parameters

Energy Queensland provides in principle support for the introduction of kilovolt ampere (kVA) demand-based charging parameters for certain tariffs, with kilowatt (kW) charging available where customer metering does not support kVA billing. We acknowledge this change in charging parameter will allow for the alignment of retail tariffs 44, 45 and 46 with the underlying network tariffs, providing greater ease in the pass through of the network tariffs.

However, we are cognisant of the challenges facing customers transitioning to the kVA charging parameter in the current economic climate, which is complicated by concerns that regional customers may be unable to access the power factor correction equipment they require in their transition to kVA tariffs in the current COVID-19 environment. As this equipment is largely sourced from off-shore providers, it is unclear whether this equipment is currently available within Australia, and if not, when it will become available. Further, the need to invest in what may be expensive power factor correction equipment in this economic climate has significant financial repercussions for customers. We anticipate that 20 per cent of Ergon Energy Retail's customers on tariffs 44, 45 and 46 may need to install power factor correction equipment in order to benefit from kVA tariffs. Further, as the obsolete retail tariffs expire from 1 July 2021, we expect a large uptake in the number of customers transitioning to retail tariffs 44, 45 and 46 and who will require specialised assistance with power factor correction as part of their tariff considerations and selection.

Given this, Energy Queensland suggests that the adoption of the kVA demand-based charging parameters for the 2020-21 financial year be customer opt-in. This would allow customers who are better off to immediately adopt kVA charging, while providing customers who require power factor correction twelve months to source the correction equipment necessary and work with the network businesses to improve their power factor. Adopting such an approach ensures all customers on these retail tariffs are able to save money on their electricity bill next financial year.

Should the QCA remain firm that the kVA charging profile will commence as proposed from 1 July 2020 for all customers with appropriate metering installed, Energy Queensland is concerned that the draft Gazette is unclear, in that it does not specify whether the kVA or kW demand tariff is to be applied for large standard asset customer sites billed on retail tariffs 44, 45 or 46 (that is, customers could assume they will be charged both kW and kVA based on the current Gazette wording). We therefore suggest there is a need for the

Gazette to make clearer the approach for charging customers on the kVA basis.

Specifically, it should be clear that:

- Customers be charged kW demand where customer metering does not support kVA billing until such time as a new meter is installed;
- Customers be charged kVA demand where the customer is a new connection; and
- Customers be charged kVA demand subject to metering being in place which supports kVA billing.

We also note the Gazettal wording will need to be amended should the QCA agree to Energy Queensland's preferred opt-in approach for kVA charging.

2.2.5 Site-Specific Retail Tariffs for Individually Calculated Customers (ICC)

Energy Queensland notes that the QCA proposes to allow ICC customers the option of accessing a notified price based on the site-specific network charges (determined by the AER) and the non-N component (energy and retail costs, headroom and cost pass-through) determined by the QCA. While we acknowledge the position, we question whether:

- Applying a fixed headroom amount (based on retail tariff 53) results in an inconsistent application of the headroom allowance; and
- There is an inconsistent application of variable retail and headroom allowances to the kVA demand charge as the Transmission Use of System (TUOS) location charge is measured in kW demand, but the Distribution Use of System demand charge is measured in kVA demand. It is unclear how these allowances were applied to the TUOS allowance.

2.3 Wholesale Energy Costs

Energy Queensland continues to support the QCA's approach to estimating wholesale energy costs, acknowledging the consistent approach which has been applied over a number of years. Energy Queensland is also supportive of the QCA's consultant, ACIL Allen, using the same methodology to estimate wholesale energy costs for both the QCA and the AER (in calculating the Default Market Offer prices).

Energy Queensland notes that ACIL Allen has considered our observation that continued growth in both rooftop and large-scale solar photovoltaics (PV) can lead to low and, on occasion, negative pool prices. Negative pool prices cause risks and additional costs to electricity retailers who have prudently hedged their portfolio. Energy Queensland agrees with the ACIL Allen observations that the transfer of Wivenhoe Power Station to CleanCo, and some renewable energy generators responding to the negative price signal by reducing generation, should reduce the propensity for negative price events.

However, negative prices are still occurring, and increasing solar PV generation could cause the frequency of negative price events to increase. For example, over the Labour Day long weekend from 2 May 2020 to 4 May 2020, Queensland saw negative prices in the middle of the day on all three days. The prices were caused by a combination of high solar and wind generation together with a transmission constraint limiting the flow of electricity from Queensland into New South Wales. These negative prices occurred even though Wivenhoe Power Station was pumping to replenish its upper reservoir during each day. Details of these price outcomes are outlined in Figure 1 below:

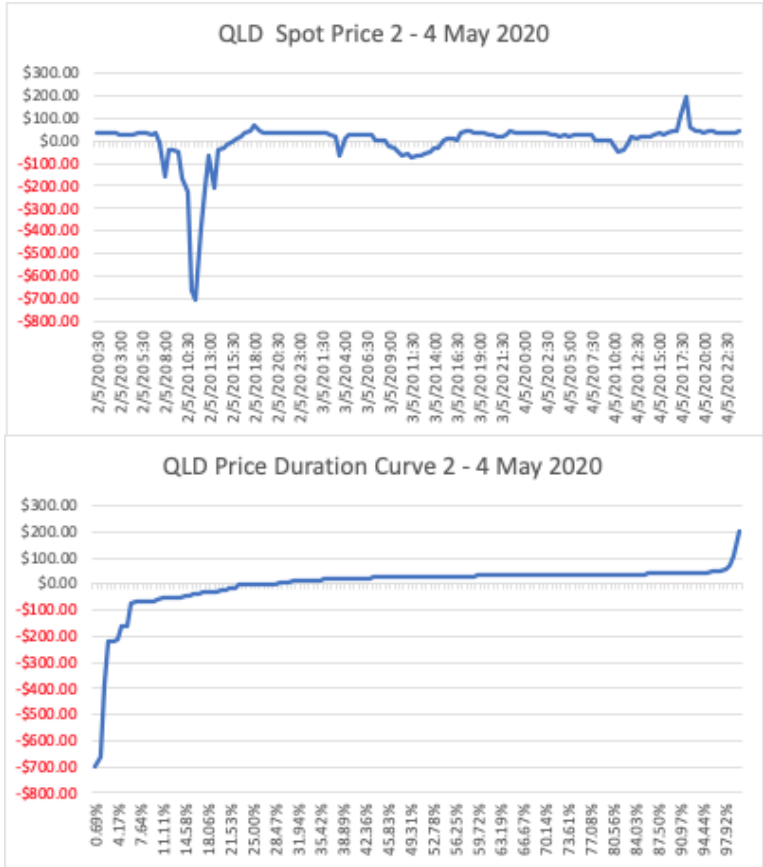


Figure 1 – Queensland wholesale market outcomes – 2-4 May 2020

Energy Queensland remains of the view that extreme negative prices are a risk to market participants and deserve as much attention in market modelling as extreme high price events. Energy Queensland notes that Figure 4.15³ of ACIL Allen’s report on Estimated Energy Costs for the QCA’s Final Determination for 2019-20 regulated retail electricity prices has not been provided in its report to the QCA for this year’s Draft Determination.

³ Estimated Energy Costs for 2019-20 Retail Tariffs: Final Determination, ACIL Allen, May 2019, pg 22

Energy Queensland requests that this figure again be provided to demonstrate the careful consideration of low and negative prices.

2.4 Retail Costs

Energy Queensland notes that while the QCA intends to revisit its approach to estimating retail costs as part of the 2021-22 price review, for 2020-21 it proposes to index the fixed retail cost allowances by CPI while maintaining the variable retail costs allocators.

While we acknowledge the QCA's approach, Energy Queensland suggests there are a number of inputs into the retail costs which, due to the evolving nature of the electricity market, are no longer accurate. In particular, Energy Queensland is continuing to monitor the impacts of external events such as the current COVID-19 pandemic and associated economic environment on retail costs and operations.

We also reiterate the need for greater acknowledgement of increasing regulatory compliance costs as a result of implementation efforts associated with energy market reforms. While these costs are incurred throughout the industry, significant reforms such as Five Minute Settlements, Global Settlements and Power of Choice are driving implementation and compliance costs, and should be appropriately accounted for in retailer costs as these costs are not discretionary and are material.

2.5 Minor and Technical corrections

Energy Queensland notes there are several statements made in the Draft Determination which are inaccurate or require further clarification:

- References to the Lifestyle Package are misleading as these tariffs were developed under trial and predate the current network tariff strategy. As such, they should not be relied upon as evidence for not introducing new cost-reflective tariffs.
- The inclusion of the SBS into tariffs is not an Energy Queensland decision. It is a requirement of the National Electricity Rules that network businesses recover jurisdictional scheme costs through network prices.⁴
- The calculation of the network component for retail tariff 41 is unclear. In particular, the usage charge appears to be considerably higher than Energy Queensland's expectations. As this is a small customer retail tariff based on an underlying Energex N, Energy Queensland expects that both the fixed and usage charge

⁴ Clause 6.18.7A(a).

components should be consistent with the approach adopted for other small customer retail tariffs.

- Energy Queensland seeks clarification on the treatment of distribution loss factor (DLF) adjustments in the N component, specifically whether the TUOS rates need to be adjusted by DLF to reflect the total network use of system (NUOS) charges to be billed to the customer's retailer. Energy Queensland notes the NUOS rates for retail tariffs based on the Ergon N do not appear to have been adjusted by DLF, as was the approach in previous years.