23 April 2021

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

Dear Mr Millsteed

Energy Queensland submission to the Regulated Retail Electricity Prices for 2021-22 Draft Determination.

Energy Queensland Limited (Energy Queensland) welcomes the opportunity to provide comment to the Queensland Competition Authority (QCA) on its Regulated Retail Electricity Prices for 2021-22 Draft Determination (Draft Determination).

This submission is provided by Energy Queensland, on behalf of its related entities Energex Limited (Energex), Ergon Energy Corporation Limited (Ergon Energy Network), Ergon Energy Queensland Pty Ltd (Ergon Energy Retail) and Yurika Pty Ltd (Yurika).

Energy Queensland has detailed several concerns with the Draft Determination in the attached submission. Energy Queensland would welcome the opportunity to discuss these matters further with the QCA. In the meantime, should the QCA require additional information in relation to any aspect of this submission, please contact me on 0467 782 350.

Yours sincerely

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Encl: Energy Queensland Response to QCA Draft Determination

Energy Queensland Submission on the Regulated Retail Electricity Prices for 2021-22

Draft Determination

Energy Queensland Limited

23 April 2021

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 Network);
- a regional service delivery retailer, Ergon Energy Queensland Pty Ltd (Ergon Energy Retail); and
- affiliated contestable business, Yurika Pty Ltd and its subsidiaries, including Yurika Metering.

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 km^2 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.

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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 2021-22 Draft Determination (Draft Determination). This submission is provided by Energy Queensland, on behalf of its related entities Energex Limited (Energex), Ergon Energy Corporation Limited (Ergon Energy Network), Ergon Energy Queensland Limited (Ergon Energy Retail) and Yurika Pty Ltd (Yurika).

In response to the QCA's invitation to provide comments on the Draft Determination, Energy Queensland has detailed several concerns in the following section.

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 Indicative Bill Impacts

Energy Queensland acknowledges the QCA's Draft Determination provides that "*typical customers on all major tariffs can expect a decrease in their electricity bill this year based on the draft notified prices*"[1]. This is despite small increases in the underlying network tariffs driven by the impacts of the COVID-19 pandemic on the network businesses as outlined in the 2021-22 Annual Pricing Proposals of Energex and Ergon Energy Network.

2.2 Overarching Framework

Energy Queensland acknowledges the approach the QCA has adopted in setting the notified prices. However, we do not concur with the QCA's assertion that "*new retail tariffs must be based on the network tariff structures*"[2]. While the Queensland Government's Uniform Tariff Policy provides that *wherever possible, customers of the same class should pay no more for their electricity, and should pay for their electricity via similar price structures, regardless of their geographic location*, the Minister for Energy, Renewables and Hydrogen's covering letter, accompanying his pricing delegation to the QCA dated 8 January 2021 clearly states that "*Network tariff reform should be progressed, but it should not be expected that those reforms be directly mirrored at the retail level as a matter of course. … While certain terms and conditions are practical at a network level, in many cases they don't make sense in the retail context and if passed through, could have adverse impacts for customers*."

In our view, and aligned to the Minister's letter to the QCA, this is an opportune time to explore and/or review retail tariffs, with the intent to offer tariff structures that better suit the needs of regional electricity customers.

Energy Queensland is disappointed that the QCA has not considered price tools such as incorporating a time-of-use (TOU) retail (R) cost (reflecting the wholesale market price to supply the customer load at that time of day) into existing TOU tariffs. This in our view would:

- send more pronounced price signals to customers regarding the impacts of their usage on the distribution network during peak periods;

[1] QCA Draft Determination: Regulated retail electricity prices for 2021-22, page 5
[2] QCA Draft Determination: Regulated retail electricity prices for 2021-22, page 10

- incentivise customers to move their load to the middle of the day and soak up the excess solar energy being exported into the distribution network which is driving reliability issues such as minimum demand;

- allow customers who cannot afford to install solar photovoltaic systems access to cheaper solar energy where they can move their load to align with solar export hours and minimum demand issues.

Energy Queensland is also concerned that the QCA considers it premature to consolidate the 41 retail tariffs which comprise the retail tariff suite as part of this price Determination. We suggest it is inefficient to continue to make available retail tariffs that have no (or very limited) customer uptake now and are unlikely to have in the future. In particular, retail Tariffs 20A, and the seasonal TOU and seasonal TOU demand tariffs (retail Tariffs 12A, 14, 22A and 24), should be immediately closed to new entrants and made obsolete from 30 June 2022 given the low number of customers on these tariffs together with the lack of underlying network tariff on which to base price decisions.

2.2.1 New Retail Tariffs

- **Retail Tariff 43 Large Business Inclining Block Primary Tariff.**

  Energy Queensland supports the development of this new retail tariff. However, given that the Retail Price Gazette previously incorporated a retail Tariff 43 which was subsequently made obsolete, we are concerned with the potential for customer confusion. Our preference is for this tariff to be renumbered.

  Energy Queensland considers that reading the Draft Determination in isolation of the draft Retail Price Gazette, specifically that Table 6.7 on page 59 of the Draft Determination is unclear with respect to the calculation basis and eligibility, has the potential to cause customer confusion. As such, key elements of the draft Gazette should be clearly reflected in the QCA's final price Determination.

- **Residential Customer (Basic) > 100 megawatt hours (MWh) per annum network tariff**

  Energy Queensland notes the QCA's position and supports this tariff not being made.

- **Transitional Retail Tariffs**

  Energy Queensland supports the need for replacement agricultural retail tariffs and agrees with the structures proposed for the replacement tariffs.

  Energy Queensland raises the following points for QCA's consideration:

  (a) Energy Queensland advocates for retail Tariff 62A to apply in the same manner as the expiring Tariff 62 and seeks clarification that usage blocks 1 and 2 are based on average daily load.

  (b) Considering these tariffs are opt-in and immediately grandfathered (obsolete), we question the opt-in timeframes for a transitional tariff. Ergon Energy Retail has a

preference to allow an opt-in period of 12 months (commencing 1 July 2021), after which the tariffs will become “obsolete” meaning no customer is able to opt-in to the tariff. Such an approach provides customers with 12 months to consider whether the new retail tariffs suit their circumstances.

(c) Ergon Energy Retail recommends that the QCA limit access to these tariffs to customers who remain on the expiring obsolete tariffs on 30 June 2021, that is, eligibility to access these tariffs should not be backdated to 1 July 2017. As per the Minister’s delegation to the QCA, we consider that there is scope for the retail tariff conditions to depart from the underlying network tariff conditions where it is appropriate to do so.

Ergon Energy Retail has invested heavily in working with stakeholder groups and customers to move customers off obsolete tariffs and onto more cost-reflective tariff options. The efforts invested by all parties in this process should not be under-estimated.

As noted in Ergon Energy Network’s 2021-22 pricing proposal, the strategy for introducing these transitional TOU network tariffs is to transition customers on obsolete tariffs towards greater cost reflectivity. Therefore, allowing customers on non-obsolete tariffs to opt-in to this new obsolete tariff is not consistent with this strategy. Furthermore, the new transitional network tariffs are temporary in nature and should be seen as a stepping-stone to alternative, more permanent tariff options.

(d) Ergon Energy Retail will incur costs associated with managing customer eligibility and education for these tariffs.

(e) In relation to new retail Tariff 66A, we suggest Table 6.8 in the Draft Determination (reproduced below) should note that it is a monthly calculation. This will make it consistent with footnote 33 (earlier in the Draft Determination) and the draft Retail Price Gazette. Furthermore, the Final Determination should clarify that rate 1 for the dual capacity charge for Tariff 66A will be charged a minimum of 7.5kW even if a customer has a pump capacity below the 7.5kW threshold. This aligns with the obsolete Tariff 66.

Table 6.8 Draft limited-access obsolete tariffs—small business customers (excl. GST), 2021–22

Retail tariff	*Fixed*	*Usage*			*Capacity*	
		Block 1/ Peak	*Block 2*	*Off-peak/flat*	*Up to 7.5kW*	*Over 7.5kW*
	c/day	*c/kWh*	*c/kWh*	*c/kWh*	*$/kW*	*$/kW*
Tariff 62A—time-of-use declining block tariff[a]	102.037	50.509	42.253	15.936		
Tariff 65A—time-of-use tariff[b]	101.737	39.556		20.450		
Tariff 66A—dual–rate demand tariff	204.237			19.275	3.573	10.789

a Block 1—7am to 9pm on weekdays (first 10,000 kWh per month); Block 2—7 am to 9 pm on weekdays (remaining kWh per month); off-peak—all other times.

b Peak—a fixed 12 hour period as agreed between the retailer and customer from the range 7am to 7pm, 7.30am to 7.30pm or 8am to 8pm; off-peak—all other times.

(f) We note the QCA's decision not to apply geographical limitations to retail Tariffs 62A, 65A and 66A, in line with the Ministerial delegation. It should be noted that Ergon Energy Network will conduct its network tariff assignment in alignment with the 2020-25 TSS and 2021-22 pricing proposal. This means that only small business customers in the East pricing zone who have been on an obsolete tariff between 2017-2020 will be eligible for the new transitional TOU network tariffs. All other customers will be assigned to the appropriate, eligible network tariffs approved by the Australian Energy Regulator (AER). This means that the alignment between network tariffs and retail tariffs will not always be achievable.

Energy Queensland note that a number of stakeholders at the QCA forum held on 7 April 2021 raised concerns regarding the transitional tariffs not being offered to large customers. Ergon Energy Network's rationale for limiting tariff access to SAC Small customers is detailed in the AER approved 2020-25 TSS. In summary, the transitional network TOU tariffs were developed in response to feedback received during stakeholder engagement as part of the Ergon Energy Network 2020-25 TSS development. At the same time, and mindful of the need to minimise cross subsidisation to the maximum extent possible in line with requirements set out in the National Electricity Rules (NER), it was determined to limit access to the transitional TOU network tariffs to SAC Small customers. It was considered that SAC Large customers are more likely to have smart meters, meaning they have access to a greater number of network tariff options (which would allow them to mitigate bill impacts), including:

- three anytime demand tariffs;
- a TOU demand tariff; and
- a SAC Large primary load control tariff and a SAC Large secondary load control tariff.

SAC Large businesses with basic metering can also access the proposed Large Business Energy network tariff (what has tentatively been numbered as retail Tariff 43).

Ultimately Ergon Energy Network is required to develop cost reflective network tariffs and minimise cross-subsidies, in line with the regulatory requirements set out in Chapter 6 of the

NER. As such, industry specific network tariffs would not be approved by the AER as they would not comply with the pricing principles.

We note that the QCA has adopted the same approach in its Draft Determination for retail tariffs and support this position.

2.2.2 Terms and Conditions in Tariff Schedule

- **Tariff 33 retailer discretion**

Energy Queensland acknowledges the QCA's position to remove the retailer discretion to make retail Tariff 33 available to residential customers as a primary tariff and agrees that a 12-month transition period is appropriate.

- **Other discretions**

Service Provider Discretion	Position
Connection asset customers (CACs) or individually calculated customers (ICCs) can only access tariffs where specifically statement in the tariff description, or as agreed by the retailer.	QCA Position: Customers should use the tariffs for their customer type. EQL Position: Agree
The retailer, at its absolute discretion, may switch customers to an obsolete tariff only once, if that customer: • Is participating in the Drought Relief from Electricity Charges Scheme (DRECS) on 30 June 2019 and is accessing a tariff classified as obsolete from 1 July 2019; and • Loses eligibility for DRECS before 30 June 2021; and • Nominated to return to the tariff now classified as obsolete that they were accessing immediately before their current period of participation in the DRECS.	QCA Position: Remove discretion EQL Position: Support removal of discretion
Customers on an obsolete tariff on its scheduled phase-out date who have not notified their retailer of their preferred applicable standard tariff will be transferred to an applicable standard tariff at the discretion of the retailer upon the tariff being discontinued.	QCA Position: Retain discretion EQL Position: Support retention of discretion
Where a customer's aggregate load that is connected to an interruptible supply tariff exceeds 20 amperes per phase, additional load control equipment must be installed in accordance with the QECMM. Such equipment must be installed at the customer's expense unless otherwise agreed with the metering service provider.	QCA Position: We are considering whether to remove the discretion for the MSP to agree to bear the costs for this equipment rather than the entire condition. Subject to the stakeholder submissions, position is to remove. EQL Position: Support removal of discretion

Service Provider Discretion	Position
<u>Tariff 31</u> 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 10pm and 7am. <u>Tariff 33</u> Times when supply is available is subject to variation at the absolute discretion of the distribution entity <u>Tariffs 34, 60 and 60B</u> Times when supply is available is subject to variation at the absolute discretion of the distribution entity	QCA Position: Retain discretions EQL Position: Support retention of discretion
<u>Tariffs 31, 33 and 60B</u> These tariffs are applicable where there is no provision to supply approved apparatus, or any specified part of an approved apparatus connected to an interruptible supply tariff, via another tariff (e.g. via a change-over switch to a primary tariff), except as agreed by the retailer, and electricity supply is: • connected to approved apparatus (limited to electric vehicle supply equipment (residential customers only), and pool filtration systems) via a socket-outlet as approved by the retailer; or • permanently connected to approved apparatus (e.g. electric hot water system, battery energy storage system, solar power system), or approved specified parts of apparatus (e.g. hot water system booster heating unit) as approved by the retailer. Where the retailer has approved the connection of a specified part of apparatus to another tariff (e.g. for a one-shot booster for a solar hot water system), the specified part 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.	QCA Position: Remove the discretion and change the eligibility criteria EQL Position: Support change in the eligibility criteria to reflect network tariff requirements
Tariff 91 It is available only to customers with small loads other than streetlights 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.	QCA Position: Replace the retailer's discretion by instead referring to the distribution entity's approved unmetered supply devices list EQL Position: Support retention of discretion

Service Provider Discretion	Position
Tariff changes Customers on seasonal 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.	QCA Position: Remove discretion EQL Position: Support removal of discretion
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.	QCA Position: Remove discretion EQL Position: Support removal of discretion
Meter wiring and equipment to house meters is the customer's responsibility and must be installed and maintained at the customer's expense unless otherwise agreed with the metering service provider.	QCA Position: Considering removal of discretion EQL Position: Support removal of entire discretion
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 the relevant local government authority on behalf of the customer, and the customer's retailer, that the electricity used by the customer is to be measured and charged by means of a card-operated meter.87	QCA Position: Retain discretion EQL Position: Support retention of discretion. The isolated networks are non-Power of Choice communities meaning the distribution entity is the meter provider for the community. Consequently, the distribution entity needs to be retained in the schedule as a relevant party to the arrangement.

- **Voltage discounts**

  The QCA in its Draft Determination seeks further information from retailers and customers about how the rebate is currently applied to customers, including customers that are not on obsolete tariffs and that would be affected by the removal of the rebate.

  Ergon Energy Retail will provide this advice via a confidential submission to the QCA.

- **Threshold for CAC and ICC**

  As per our submission to the QCA's Interim Consultation Paper, Energy Queensland supports the QCA aligning the CAC and ICC customer definitions and threshold amounts.

2.3 Individual cost components

2.3.1 Network Component

Energy Queensland notes the Draft Determination has based the network component on indicative prices provided by Ergon Energy Network. Energex and Ergon Energy Network submitted their 2021-22 pricing proposals on 31 March 2021 and the suite of documents, including the proposed

rates for 2021-22 and the strategy to transition TOU tariffs towards cost reflectivity up until 30 June 2025, are now published on the AER's website. Energy Queensland notes the QCA indicated in their workshop on 7 April 2021 that the final AER-approved prices would be incorporated into their Final Determination, but should these not be available in time, then the proposed prices would be used.

2.3.2 Retail Component

Energy Queensland acknowledges that energy costs have been reducing and discusses this issue in more detail below.

2.3.2.1 Energy Costs

Energy Queensland notes the references to our submission to the Interim Consultation Paper regarding wholesale energy costs and acknowledges these comments have been considered by the QCA and ACIL Allen. Referring to the low spot price outcome year to date in 2020-21, Energy Queensland suggested the QCA and ACIL Allen consider the low actual prices in 2020-21 and whether adjustments to the approach were required. By approach Energy Queensland was referring to the spot price forecast methodology and input assumptions. Energy Queensland is not in favour, and would not support, adjusting the spot price projection ex-post.

Energy Queensland remains of the view that low and negative prices in the middle of the day remains a significant risk management issue for market participants and is an important output of any spot price projections. Energy Queensland refers to Figure 4.9 in the ACIL Allen Estimated Energy Cost Report and notes that the 2021-22 simulated annual time-weighted price is near 2020-21 actual prices at the lower end of the simulated range. Energy Queensland also notes that the lower 50 per cent of simulated prices has a significant percentage of negative price periods. We consider that the modelled range of simulated prices and the lower 50 per cent of hourly prices for 2021-22 appear reasonable.

Energy Queensland notes the heavy weighting of cap contracts used in the ACIL Allen hedge modelling. For example, in Figure 4.11 of the ACIL Allen Estimated Energy Cost Report, approximately 700 megawatts (MW) of cap contracts are assumed in the modelling for July-September 2021. At the time of writing, total open interest for Queensland caps for this quarter is 367 MW on the Australian Stock Exchange (ASX) with less than four months to the commencement of the quarter. The total open interest position would need to nearly double for ACIL Allen's assumed volume of cap contracts without any other market participant having a bought cap contract position on the ASX. Even after considering over-the-counter contracts, Energy Queensland questions whether actual cap contract liquidity supports a high weighting of cap contracts in the modelled hedge portfolio. Although the ASX has only recently commenced trading cap contracts for October to December 2021, the total open interest for this period is just 16 MW noting Figure 4.11 indicates the ACIL Allen hedge portfolio requires 1000 MW of cap contracts for this period. The table below shows the current open interest position for cap contracts by quarter.

Table 1 - ASX Open Interest Position for Cap Contracts by Quarter

Quarter	Open Interest
Q2 21	749
Q3 21	367
Q4 21	16
Q1 22	52
Q2 22	24
Q3 22	22
Q4 22	20

Given the high weighting of cap contracts in the hedge portfolio, Energy Queensland questions whether the proposed approximate methodology of using the percentage movement in July-September cap contracts between 2020-21 and 2021-22 to estimate cap contract prices for the remainder of the financial year is reasonable. This is especially the case given the commencement of five-minute settlement in October 2021 will fundamentally change how sellers of cap contracts will view expected pay-outs and risks with this product, noting this could affect liquidity and price of cap contracts for this period.

Energy Queensland therefore considers actual traded price of cap contracts will be a better guide to calculate estimated cap contract prices than using the proposed approximation.

Energy Queensland also notes the QCA reports a reduction in the National Electricity Market (NEM) management fees by around 31 per cent ($0.22/MWh), reflecting a decline in costs related to operating the NEM and the exclusion of costs associated with the Australian Energy Market Operator's (AEMO's) function as the National Transmission Planner. This is not our experience. Rather, we are seeing NEM management fees remain constant, and will provide evidence of this in our confidential submission to the QCA.

2.3.2.2 Retail Costs

Energy Queensland supports the intent of the QCA to use the existing retail cost allowance for large and very large customers, adjusted for inflation. However, Energy Queensland raises issues with the ACIL Allen draft report used to update the retail cost allowances for residential and small business customers.

In our view the retail cost estimates for small customers delivers results which are inaccurate and have substantial financial repercussions for retail businesses for the period of the retail cost determination. In particular, we raise issue with:

- The ACIL Allen methodology which departs from best practice methodology resulting in inaccurate and perplexing outcomes, such as the wide-ranging variances in retail costs (both increases and decreases) subject to the retail tariff. For example, we are puzzled by a 22 per cent decrease in retail costs associated with Tariff 11, a 43 per cent decrease in retail costs associated with Tariff 31, but a 14 per cent increase in retail costs associated with Tariff 22A;

- ACIL's conclusion that using the wholesale energy cost component to offset an underestimation in retail costs is a reasonable pricing methodology[3];
- The misalignment with interstate regulatory decisions relating to the recovery of COVID-19 pandemic costs including:
    - interstate jurisdictional regulators allowing increases in debt metrics tied to the COVID-19 pandemic;
    - Tier 1 and Tier 2 retailers publicly stating increases in their retail costs directly afforded to the COVID-19 pandemic; and
    - The AER Statements of Expectation driving retailer debt;
- The failure to consider NEM regulatory reform costs driving sizeable retailer capital and operating expenditure; and
- The unique nature of regional and remote Queensland.

ACIL Allen methodology

In 2013 the Australian Energy Market Commission (AEMC) published a best practice methodology for setting regulated retail electricity prices for small customers. We acknowledge this was released prior to retail markets deregulating, but consider the methodology remains robust.

Essentially the AEMC identified two methods for setting an efficient retailer cost:

- a benchmarking approach which involves examining publicly available information on retail operating costs, either from publicly listed companies and/or other regulatory decisions; or
- a bottom-up approach which involves requesting retailers to provide information on their operating costs.

The AEMC recommended that a regulator use both methods as tools in assessing an efficient retailer cost.

ACIL Allen in progressing its review to update small customer retail costs has used neither of the preferred AEMC methods, instead adopting a top-down methodology. Noting this approach is similar to that used in 2016, we nevertheless remain concerned with the application of a top-down approach using south east Queensland market offers available in 2020-21 as the means to set efficient retail costs for five years to 2026, particularly whilst in the middle of a pandemic.

We also point out that retail prices set by the QCA for regional Queensland are used by several retailers (including Ergon Energy Retail) as their standing offer prices. A more appropriate methodology (if a top-down methodology is to be progressed) is to limit the small customer retail cost comparison to standing offer contracts of Tier 1 retailers operating in south east Queensland. While we acknowledge ACIL Allen has used a weighted average (rather than a simple average)

[3] ACIL Allen 2021-22 Regulated electricity price review: Updating retail costs Draft Report, March 2021, page 7

and removed outliers to reach retail cost outcomes, our view is that standing offers attract higher cost inputs as a result of the additional services provided by these contract types. Consequently, it is not appropriate to use market offers to set standing offer prices.

COVID-19 pandemic distortions

Our concern largely stems from the fact that 2020-21 was a unique financial year. Changes in consumer behaviour driven by the COVID-19 pandemic distorted business and residential demand, impacted the wholesale price and flowed to the retail offers available in south east Queensland. In addition, the AER's Statements of Expectation had significant financial repercussions for electricity retailers who bear the majority (if not all) of the energy supply chain risk. As such, the market offers available across south east Queensland are expected to evolve over the coming 12 months as the market stabilises.

Consequently, the use of market contracts in the 2020-21 financial year in the ACIL retail cost methodology, particularly while the AER's Statements of Expectation to retailers remains current, is resulting in atypical retail costs.

We note that regulators across jurisdictions have each taken different views as to how retail costs in a pandemic should be considered. The ACT's ICRC in its 2020 *Final Report Electricity Price Investigation 2020-24*[4] identified that retail costs have increased by 6.68 per cent, while the Essential Services Commission in Victoria allowed an additional $6 per customer in the 2021 Victorian Default Offer as a result of increases in bad debt associated with COVID-19.

Further, ACIL Allen's own draft report concluded "*performance indicators indicate that retailers have incurred higher costs during 2019-20 as a result of COVID-19, principally with the increase in debt".* However, we note that the draft report goes on to provide "*… the performance indicators indicate that these COVID-19 related costs are decreasing, and that the RBA's forecast indicates that they are likely to continue to decrease. We would expect that the COVID-19 related costs for 2021-22 would not be materially higher than the COVID-19 related costs that are incorporated in the benchmarked retail costs for 2020-21*"[5].

While Energy Queensland acknowledges that COVID-19 related cost indicators in 2020-21 have not been as high as initially expected at this point in time, this is the result of the Queensland Government's $200 COVID-19 household utility relief payment and the $50 Asset Ownership Dividend paid to customers' electricity accounts in 2020, which masked the real level of debt owed by customers, and reduced the bad debt of retailers. In addition, the Commonwealth Government's JobSeeker and JobKeeper subsidy programs were instrumental in keeping hardship numbers stable. With these stimulus packages falling away, Ergon Energy Retail is now seeing increases in

[4] ICRC, 2020 *Final Report Electricity Price Investigation 2020-24* - https://www.icrc.act.gov.au/__data/assets/pdf_file/0010/1556182/Electricity-Final-Report.pdf

[5] ACIL Allen 2021-22 Regulated electricity price review: Updating retail costs Draft Report, March 2021, page 36

key debt indicators pointing to the need to increase provision for bad debt which will flow to retail costs.

We also refer the QCA to the AER's Retail Energy Market Performance Update for Quarter 2 (Q2) 2020-21 released on 7 April 2021 which identified that, when data is compared quarter on quarter:

- "*The number of residential gas and electricity customers in debt as at the end of Q2 2020-21 was 171,329 compared to 147,098 for Q2 the previous year.*
- *Average residential gas and electricity debt at the end of Q2 2020-21 was $1,008, which steadily increased from $796 in Q2 the previous year.*
- *The number of small business gas and electricity customers in debt as at the end of Q2 2020-21 was 21,597 compared to 19,474 for Q2 the previous year.*
- *Average small business debt for gas and electricity was $2,422 in Q2 2020-21 which increased from $1,767 Q2 in the previous year*."[6]

While these figures are for both electricity and gas customers across the NEM, we suggest they indicate a very clear trend in debt levels currently being experienced by energy retailers and suggest that these costs are not immaterial and should be factored into retail prices.

Regulatory Costs

Energy Queensland is increasingly frustrated by the reluctance of regulators to consider regulatory costs imposed on retail businesses in retail price outcomes. Retailer costs associated with recent reforms such as Five Minute Settlement (5MS), Global Settlement, Power of Choice, the Consumer Data Right, the Wholesale Demand Response Mechanism, Bill Contents and Billing Requirements and the AER's Statements of Expectation have, or will have, significant financial impacts on retail costs.

Unfortunately, and despite repeated requests by market participants, regulatory reform decisions are typically not based on detailed cost-benefit analyses that reflect participant costs. As retailers are hesitant to release the cost associated with their response to the market, compliance and investment costs remain hidden, but could be submitted to regulators such as the QCA upon request to inform cost decisions. We also disagree that there is no evidence to support a change in retail costs driven by regulatory reform when retailers have not been requested to provide this detail.

In addition, we refer the QCA to the AEMO Electricity Fee Structures Draft Report and Determination dated November 2020 which states that "*the volume of rule changes in the NEM has tripled in the past three years*."[7] We suggest that the level of detail and the financial repercussions

[6] https://www.aer.gov.au/communication/aer-releases-retail-energy-market-performance-update-for-quarter-2-2020-21

[7] AEMO, *Electricity Fee Structures Draft Report and Determination,* published November 2020, page 9 https://aemo.com.au/-/media/files/stakeholder_consultation/consultations/nem-consultations/2020/electricity-market-participant-fee-structure-review/second-stage/aemo-electricity-fee-structure-draft-report-and-determination.pdf?la=en

associated with these rule changes has similarly tripled, driving retailer compliance costs and capital spend.

Consequently, we recommend the QCA reconsider its decision with respect to the recovery of regulatory costs with the intent to incorporate these regulatory costs within the retail costs allowance.

Payment fees

We note that ACIL Allen has treated credit card fees and annual membership fees (which we assume relate to merchant payment services such as BPAY and Bpoint) as a negative price discount, based on the assumptions that 45 per cent of customers pay by credit card, 45 per cent by debit card, and 10 per cent by other means. However, no detail has been provided to enable Energy Queensland to understand the basis for the calculation.

Energy Queensland requests that the QCA provide us with details of the calculation methodology, cost inputs and assumptions used to inform this percentage breakdown. We also suggest there is a need to consider the preferences of regional customers when identifying the payment assumptions.

In our view it would be more appropriate for these payment fees to be netted out of the retail costs, and for the payment fees to be incorporated in the Retail Price Gazette as stand-alone fees, consistent with the approach adopted by the majority of retailers operating in south east Queensland. We point out that "hiding" these fees in retailer costs allows other retailers to effectively recover these fees twice from customers.

In summary, given the considerable concerns with the methodology proposed to determine retail costs, together with the condensed consultation timeframe restricting efforts to model and fully comprehend the impacts of this retail cost determination, we strongly recommend that the QCA index the 2020-21 small customer retail costs to set the 2021-22 retail prices, and work with retailers to enhance the ACIL Allen methodology to better reflect actual retail costs for the period 2022-23 onwards.

2.4 Other Costs and Pricing Issues

2.4.1 Standing offer adjustment – small customers

Energy Queensland acknowledges that the QCA does not intend to make a Default Market Offer (DMO) adjustment to the retail prices in the 2021-22 financial year as the "*relevant draft notified price bills do not exceed the equivalent DMO bills in SEQ*"[8]. However, we are concerned by the quantum of the price differential as outlined in the Technical Appendices accompanying the QCA's Draft Determination (noting that these price differentials are calculated using the higher

[8] QCA Draft Determination: Regulated retail electricity prices for 2021-22, page 47

consumption profiles incorporated in the AER's DMO price determination). We therefore question the severity of the QCA's price reductions which have been applied under the N+R pricing methodology. In our view, the significantly lower regional prices when compared to the DMO prices (noting both relate to standing offer prices) is a clear indication of an error in the calculation of retail costs.

2.5 Draft Notified Prices

2.5.1 Demand charges

Energy Queensland suggests that with the commencement of 5MS on 1 October 2021, clarification is required regarding how the demand charges should be calculated. That is, should demand be averaged over 30 minutes or charged over five minutes?

2.5.2 Tariff names

In the interests of customers, Energy Queensland again requests that the QCA consider applying a customer-friendly naming convention to the retail tariffs (rather than the present numbering convention and descriptions) to make the tariffs more user friendly. Retailers in south east Queensland refer to their plans using simple naming conventions such as "Basic", "Solar Savers", "Plus", "No Frills". These are terms that customers understand and remember, particularly when compared to retail tariffs such as Tariff 14 "Residential seasonal TOU monthly demand primary tariff".

2.5.3 ICC customers

In 2020-21, the QCA introduced site-specific network charges for ICC customers, suggesting this provided optionality for customers, was in the interests of stakeholders, and was aligned with the Government's position. Similarly, Ergon Energy Retail suggests that the QCA introduce load shape retail charges for ICC customers to further enhance retail prices for this customer type as it is unfairly assumed that an ICC customer has an Ergon Energy Net System Load Profile load shape. Such an approach would, in our view, allow an ICC customer to enhance their management of electricity costs.

2.5.4 Inclining block structure of Tariff 22B

Ergon Energy Retail has been working with small business customers who have a digital meter installed, to move them from flat tariffs to tariff options which best serve their needs. Feedback from our customers is that the complexity of the retail tariffs available, and particularly retail Tariff 22B, is a deterrent to their take-up of tariff options. While customers understand the TOU windows, their concerns relate to understanding the daily supply charge (as outlined below).

22B	**Small business time-of-use inclining band primary tariff**	**Usage**		
		Peak (4pm – 9pm weekdays)	30.354	c/kWh
		Day (9am – 4pm)	18.270	c/kWh
		Night (all other times)	21.237	c/kWh
		Daily supply charge		
		Band 1	120.957	c
		Band 2	150.275	c
		Band 3	179.594	c
		Band 4	208.913	c
		Band 5	238.335	c

Ergon Energy Retail has formed the view that this retail tariff is overly complicated for the purpose it serves. Again, and as per the Minister's delegation to the QCA, we suggest the QCA has the ability to determine a retail tariff structure which departs from the underlying network tariff structure. We therefore recommend that the structure of retail Tariff 22B be simplified by removing bands 2 to 5 from the tariff structure. This would make retail Tariff 22B more attractive to customers and assist them with determining the benefits of a TOU tariff structure.

2.5.5 Modification of interval data commentary in the Retail Price Gazette

Energy Queensland takes this opportunity to flag the potential issue with the definition of demand as included in the Tariff Scheduled as published in the Retail Price Gazette.

Demand is the average rate of use of electricity over a 30-minute period as recorded in kilowatts (kW) on the associated metering, or as recorded or calculated in kilovolt-amperes (kVA) using data recorded on the associated metering. ***No adjustment to import demand is made for export to the distribution network."***

The issue for Energy Queensland is that when it comes to the demand figure for certain ICC and CAC customers, e.g., a Sugar Mill or a battery that are embedded generators, from a network tariff billing perspective the demand figure can be adjusted due to export.

Appendix E of Ergon Energy Network's Network Tariff Guide outlines the kVA calculation methodology as follows.

Modification of interval data explained

Within a metering interval, there may be both kWLoad and kWGen, where the real demand at a site swings through zero from load to generation or vice-versa. There may also be both kVArLag and kVArLead, where the reactive power swings from lagging to leading power factor, or vice-versa. Depending upon the excitation level of the embedded generator, it will contribute kVArLag or kVArLead. With kVA charging for loads, if the load demand were to be directly calculated as $kVA = \sqrt{(kW_{Load})^2 + (kVAr_{Lag})^2}$ *for each 30 minute interval, the kVArLag component may contain a contribution from the generator.*

This has the potential to increase the total kVA and kVAr and may create the monthly maximum load demand and a kVAr level that exceeds the permissible quantity. It is not the intent of load side kVA charging for demand to include this generator impact. Therefore, the generator's contribution to kVA charges for the load needs to be negated. For the purposes of Ergon Energy network billing for loads, where an ICC or CAC is also an Embedded Generator, the interval data is modified so that in any 30-minute interval where Bi≠0, Qi is made equal to 0. With the half hourly interval values of kWLoad and kVArLag modified to remove generator contribution as described the monthly maximum load kVA charge will be based on the vector sum of Ei and Qi interval data. A load that swings from export to import within an interval would receive a charge based only on the energy exported from the grid to the customer for the interval and would not include any kVArLag contribution by the generator. Where a peak period has been nominated by Ergon Energy the charge would be based on the load based maximum demand occurring during this period.

This creates an issue when read in conjunction with the Retail Price Gazette. Our interpretation of the Retail Price Gazette suggests that from a retail tariff billing perspective, we should disregard export as there is the potential for a retailer to determine, and then bill, a demand figure that does not align to the demand figure determined and billed by the network. This would pose a dilemma, for example, for a Sugar Mill which has a site specific retail tariff, but Ergon Energy Retail imposes the demand charge based on a demand figure we determine, and not the demand number that Ergon Energy Network has used to determine the actual network charges.

We note that in south east Queensland Energex does not account for generation in their kVA demand methodology.

2.5.6 Large customer metering charges

Energy Queensland notes that SAC Large customer metering charges incorporated in the Gazette are classified by annual consumption. In our view it would be a more appropriate to align the description to the type of metering installed at the premises. It is also appropriate for the retailer and the Metering Coordinator to know if a customer's consumption exceeds the limits for metering type set out in NER Schedule 7.4.3 so the Metering Coordinator can make the necessary arrangements for metering to be updated, especially if it is consistently above a scheduled threshold.

Description	Replace with
Standard asset customer (annual consumption 750MWh or less)	Comms type 4
Standard asset customer (annual consumption greater than 750MWh)	Comms type 3
CAC	Comms type 2
ICC	Comms type 1

2.6 Additional Comments

2.6.1 kW to KVA

Ergon Energy Retail has a large number of customers moving off obsolete tariffs on 30 June 2021. The tariffs these customers will move (or be moved) to will vary depending on factors including customer type, meter type, and tariff history. However, many of the customers moving off the heavily subsidised obsolete tariffs will see a substantial price increase, which could be further escalated by a move from the kW charging parameter to the kVa charging parameter. Ergon Energy Retail is therefore seeking to limit any price shock for impacted customers who already have a digital meter installed by ensuring that the twelve-month transition period applies to these customers should they move to a tariff which has the kVa charging parameter.

2.6.2 Fees and charges

Energy Queensland acknowledges that the QCA's ability to review fees and charges is limited to the terms of the delegation it receives from the Minister, and that a review of the fees and charges incorporated in the Retail Price Gazette is outside the scope of the current price determination. Nonetheless, Energy Queensland suggests there is a need for a review of fees and charges incorporated in the Gazette to ensure prices reflect the actual cost of providing the service, and all the fees and charges which may reasonably be charged for services provided by Ergon Energy Retail are incorporated in the Gazette.

Ergon Energy Retail is finding that it is increasingly absorbing costs received from market participants (other than Ergon Energy Network) such as Metering Providers, as appropriate charges are not listed in the Retail Tariff Schedule. For example, when installing new digital meters at customer premises, Metering Providers often install meter backing boards into a customer's meter housing to enable the installation of the meter. Without this backing board, a customer would be required to upgrade their meter housing in order to accommodate a new digital meter. As the cost of the meter backing board is less than the cost of a wasted site visit from the Metering Provider, the use of a meter backing board is an appropriate customer outcome as it avoids the cost of upgrading the meter housing, the inconvenience of having to arrange another appointment to install the digital meter, as well as enabling immediate access to detailed usage data. However, Ergon Energy Retail is unable to pass this backing board cost through to the customer due to the lack of a relevant fee in the Retail Price Gazette.