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Part of Energy Queensland

19 January 2022

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

Dear Mr Millstead

Ergon Energy Retail submission to the Regulated Retail Electricity Prices for 2022-23 Interim Consultation Paper

Ergon Energy Queensland Pty Ltd (Ergon Energy Retail) welcomes the opportunity to provide comment to the Queensland Competition Authority (QCA) on its Regulated Retail Electricity Prices for 2022-23 Interim Consultation Paper.

To support our claims, Ergon Energy Retail has included some commercial in confidence data in our submission. The confidential data is clearly identifiable in separate text boxes. As per the QCA's requirements, our request for confidentiality is attached for your consideration. For administrative ease, and as preferred by your organisation, I have also attached two versions of our submission; a complete version and one excising confidential information.

Ergon Energy Retail would welcome the opportunity to discuss these matters further with the QCA. Should the QCA require additional information in relation to any aspect of this submission, please contact Andrea Wold, Manager Retail Policy, Compliance and Assurance on 0428 384 448.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ayesha Razziq'.

Ayesha Razziq
Executive General Manager Retail

*Encl: Ergon Energy Retail Response to QCA Interim Consultation Paper
Ergon Energy Retail Confidentiality Claim*



Response to the Queensland Competition Authority's Interim Consultation Paper 2022-23

PUBLIC SUBMISSION

19 JANUARY 2022



Part of Energy Queensland

About Ergon Energy Retail

Ergon Energy Queensland Proprietary Limited (Ergon Energy Retail) is an electricity retailer operating in regional Queensland. Ergon Energy Retail is part of Energy Queensland Limited (Energy Queensland), 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); and affiliated contestable business, Yurika Proprietary Limited (Yurika), and its subsidiaries, including Yurika Metering.

Ergon Energy Retail sells electricity to 738,000 customers in regional Queensland with customers spread across a geographically diverse area ranging from Toowoomba in southern Queensland to remote communities in western Queensland to the Torres Strait in far north Queensland. Ergon Energy Retail is only permitted, by law, to sell electricity at the Queensland Government's regulated prices, which are set by the Queensland Competition Authority in accordance with the Government's Uniform Tariff Policy. Ergon Energy Retail is based in regional Queensland with offices in Cairns, Townsville, Rockhampton and Maryborough.

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Introduction

Ergon Energy Queensland Proprietary Limited (Ergon Energy Retail) welcomes the opportunity to provide comment to the Queensland Competition Authority (QCA) on its Regulated Retail Electricity Prices for 2022-23 Interim Consultation Paper (the Interim Consultation Paper).

Ergon Energy Retail has provided comments on the issues raised in the Interim Consultation Paper in the following sections of this submission.

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

Tariff Structures and Signals

Ergon Energy Retail supports the continued use of the network plus retail (N+R) pricing methodology to determine tariff prices. However, in our view, the transition to a distributed energy market with a strong focus on renewable energy cannot be achieved successfully with a number of the existing retail tariff structures contained within the Retail Price Gazette. As the market evolves towards a net zero emissions future, retail tariff structures must similarly adapt to send price signals to customers around the true cost of using electricity at different times of the day.

While Ergon Energy Retail acknowledges the need for a default tariff for customers in hardship or vulnerable circumstances, the majority of our customers could, over time, take up more cost reflective non-flat retail tariffs enabled by the increase in digital meter installations.

To achieve the move to cost-reflective retail prices, we recommend that the QCA consider using an “adjusted” N+R pricing methodology which can still align to the Uniform Tariff Policy (UTP). An adjusted N+R can set retail tariffs priced using an underlying network tariff as the N component but does not necessarily need to mirror the underlying network tariff structure or conditions. We also question the need for a retail tariff to be incorporated in the Retail Price Gazette for every network tariff available in the Tariff Structure Statements (TSS). For example, in south-east Queensland (SEQ) the QCA in its 2020-21 Market Monitoring Report identified that

“a number of retail tariff structures and plans were new or became more common in SEQ in 2020–21. These included ... plans with incentives for customers to reduce their consumption (e.g. during expected peak demand times or extreme weather events), plans that required customers to have a battery and/or provided additional discounts if customers had a battery, and plans with retail tariffs that reflected some of the new Energex network tariff structures.”¹

Based on evolving customer preferences and feedback, Ergon Energy Retail has also formed the view that there is a need for certain existing retail tariffs to be simplified to enable customers to undertake tariff comparisons and chose tariff products which are better suited to their lifestyle. We therefore propose that existing regulated retail tariffs evolve to encourage customers to adopt more cost reflective pricing structures as follows:

- **Remove extraneous retail tariffs with outdated price signals**

The large volume of retail tariffs in the Retail Price Gazette creates complexity for customers when choosing between the different tariffs. It is our experience that when customers are overwhelmed with choice they tend to remain on flat (default) tariffs. For example, there are currently nine primary small business retail tariffs plus two secondary controlled load tariffs, yet the majority of our small business customers remain on flat tariff 20.

In addition, certain retail tariffs include outdated peak periods (e.g. all day) disincentivising usage at times of low demand and high solar output meaning these tariffs are not in the best interests of customers (over the long-term) or the energy sector. Consequently, we support the simplification of the suite of retail tariffs contained within the Retail Price Gazette and encourage the QCA to focus on tariffs that send appropriate price signals to customers. Ergon Energy Retail’s recommendations for tariff consolidation are provided in the next section.

¹ QCA 2021, *SEQ Retail Electricity Market Monitoring 2020-21*, p. v

- **Remove pricing and structural barriers to the uptake of non-flat retail tariffs**

We refer the QCA to the Australian Energy Regulator's (AER) draft Consumer Vulnerability Strategy which suggests that complex market structures and pricing are "*factors that can cause unnecessary or harmful confusion, difficulty and inaccuracy [for customers] when making comparisons and decisions, and increase the risk of a consumer disengaging or making a decision that is not in their best interests*".² There is an opportunity to enhance tariff 22B to make it more attractive to customers.

Tariff 22B - Small business time-of-use inclining-band primary tariff.

The small business time-of-use (TOU) retail tariff 22B includes a TOU energy component with a fixed inclining block charge making this tariff structure more complex than is necessary. The block charge is calculated for each bill meaning a customer with seasonal operations can move between the bands each billing cycle making it difficult for customers to assess the financial benefits of this tariff.

Where a customer has a relatively stable consumption and can determine the likely fixed charge, the customer must still consider whether the potential savings in the usage charge are sufficient to outweigh the higher fixed charge when compared to retail tariff 20. Due to the complexity of the tariff structure, customers have been unwilling to accept the financial risk and as a result there has been limited uptake of this tariff.

To improve the uptake of this TOU small business retail tariff, Ergon Energy Retail recommends that the QCA consult with Energex³ around the options available to address the underlying network tariff in the next regulatory period. Alternatively, the QCA could consider just including Band 1 fixed charges for this retail tariff.

- **Enhance the price signal of existing retail tariffs to better reflect the wholesale market price**

Rather than create new retail tariffs, Ergon Energy Retail suggests that a time varying wholesale energy component could be incorporated into the existing TOU retail tariffs to create sharper price signals which better incentivise customers to shift their load to the middle of the day and soak up the excess solar energy being exported into the network. Improved price signals would also provide an opportunity for customers without the means to install solar photovoltaic systems to access cheaper daytime electricity.

In particular, Ergon Energy Retail supports the enhancement of the solar soaker retail tariffs 12B (residential) and 22B (small business) through the introduction of a time varying wholesale energy component to share the benefits of low-priced wholesale energy during the middle of the day. There is also potential for TOU residential and small business retail tariffs to have a two-part volume charge (instead of the three-part volume charge of tariffs 12B and 22B) to make the tariffs simpler. Ergon Energy Retail recommends that the QCA consult with stakeholders to determine whether there is a customer appetite for this structure.

Finally, we consider it possible to add a TOU energy component to existing demand tariff structures using the same peak and off-peak periods of the demand charge. Ergon Energy Retail requests that the QCA consult with stakeholders on the pricing impacts of moving to a TOU energy component in the existing demand retail tariffs 14B (residential) and 24B (small business).

Re-pricing existing retail tariffs in our view achieves the goal of tariff consolidation by not introducing new retail tariffs into the gazette at the same time as the QCA is looking to rationalise the number of tariffs made available.

² AER 2021, *Consumer Vulnerability Strategy Draft for Consultation*, p. 27

³ Noting that the notified prices for Small customers are based on Energex network tariffs

Tariff Consolidation

Ergon Energy Retail welcomes the Minister’s delegation requesting the QCA review the existing tariff schedule with a view to rationalising the number of retail tariffs available. It is important that while customers should have a choice of retail tariff structure, that level of choice should not be so overwhelming to create inertia and a lack of engagement around choosing the most appropriate retail tariff for their home or business.

In making our assessment, Ergon Energy Retail considered the following factors in determining whether to retain or remove a retail tariff:

- Whether the tariff structure is widely available in SEQ to ensure consistency with the intent of the UTP
- The number of impacted customers and level of financial impact (a low number of impacted customers is considered to be less than 500 customers)
- The number of impacted customers with digital metering to allow for easier transition to alternative tariff structures
- Whether there is an alternative retail tariff that is of a similar type (e.g. TOU, demand etc)
- Whether the retail tariff is supported by a current network tariff
- Whether there is strong public support for the continuation of the tariff (where known).

Ergon Energy Retail has focussed its comments on residential and small business notified prices.

Residential

There are currently six retail tariffs for residential customers in the tariff schedule, noting the majority of households are on the default flat retail tariff 11 meaning these customers see no price signals and have no reason to change their usage pattern (load shift).

To simplify tariff choices for our customers, Ergon Energy Retail recommends the retention of three residential retail tariffs providing customers with an option of flat, TOU or demand tariffs, and the removal of the seasonal and transitional demand retail tariffs. We support the retention of the existing two controlled load retail tariffs. We recommend the expiry of the seasonal retail tariffs as they are not typically offered in SEQ, there is no underlying network tariff, and there are alternative TOU and demand tariff structures available for affected customers. Further, the number of impacted customers is low. Our preference is that these tariffs be grandfathered from 1 July 2022 with an expiration date of 30 June 2023, allowing customers 12 months to transition to an alternative retail tariff.

Tariff 14A Transitional Demand currently has a very low customer uptake which is not expected to increase over the next few years as demand is a difficult concept for residential customers to understand. For those few customers interested in a residential demand tariff, they can continue to access a demand structure via retail tariff 14B TOU Demand.

Retain	Retain with Enhancements	Remove
Tariff 11 Flat	Tariff 12B TOU Energy	Tariff 12A Seasonal TOU Energy
Tariff 31 Secondary Load Control	Tariff 14B TOU Demand	Tariff 14 Seasonal Demand
Tariff 33 Secondary Load Control		Tariff 14A Transitional Demand

As discussed above, Ergon Energy Retail supports a TOU energy component being applied to the residential TOU and demand retail tariffs to provide further incentive for customers to use electricity in the middle of the day. In our view, the QCA should consult on the optimal structure and pricing methodology for the time varying energy component.

Small Business

Ergon Energy Retail recommends the retention of four of the nine small business retail tariffs providing customers with an option of flat, TOU, demand or primary load control tariffs. The two secondary controlled load retail tariffs should also be retained.

Our preference is that the following five retail tariffs be expired:

- Retail tariff 20A which has a flat energy rate plus inclining block fixed charge. No customers have adopted this tariff, or are likely to opt into this tariff, due to the high fixed charges and the tariff having the same energy rate as the flat tariff 20.
- Retail tariffs 22A and 24 are seasonal retail tariffs that can be removed for the same reasons as described above for residential customers. We note that while the seasonal demand retail tariff 24 has a moderate number of impacted customers, this number is still less than 1000 customers.
- Retail tariff 24A is a transitional demand retail tariff that has low customer uptake. It is preferred to transition these customers to retail tariff 24B TOU Demand, which is the preferred demand structure and pricing of the Queensland network businesses.
- Retail tariff 41 has a network component based on Energex network tariff 8300, which is an anytime demand tariff for large business customers. There is no longer a need for this retail tariff as there is an alternative small business demand tariff that has been developed specifically for small businesses and has a preferable peak period of 4pm to 9pm. There are a low number of customers on tariff 41.

In our view, these tariffs should be grandfathered from 1 July 2022 and expired on 30 June 2023 allowing customers 12 months to transition to an alternative retail tariff. As recommended for residential customers, Ergon Energy Retail requests that a time varying energy component be applied to small business TOU and demand retail tariffs to encourage electricity consumption in the middle of the day. Again, the QCA would need to undertake further consultation on the wholesale energy component methodology and its application to the existing retail tariffs.

Retain	Retain with Enhancements	Remove
Tariff 20 Flat	Tariff 22B TOU Energy	Tariff 20A Fixed Inclining Block
Tariff 31 Secondary Load Control	Tariff 24B TOU Demand	Tariff 22A Seasonal TOU Energy
Tariff 33 Secondary Load Control		Tariff 24 Seasonal Demand
Tariff 34 Primary Load Control		Tariff 24A Transitional Demand
		Tariff 41 Demand

Limited Access Obsolete Agriculture Tariffs

Ergon Energy Retail requests that the QCA consult on an expiry date for the limited access obsolete agriculture tariffs 62A, 65A and 66A for improved customer certainty.

Large Business: Tariff 50

We note that the underlying network tariff for retail tariff 50 (Ergon Energy Network Large Seasonal Time of Use tariff) has been grandfathered. In line with the current QCA application of the N+R methodology, this raises the issue of whether retail tariff 50 will continue. Ergon Energy Retail suggests that customers accessing this tariff require certainty around the longevity of this retail tariff and that the QCA provide guidance, and if required consult, around their intentions for retail tariff 50.

Retail Tariffs for Electric Vehicles

At the end of October 2021, Queensland had 8,147 electric vehicles (EVs) registrations, excluding motorcycles. Approximately 9.9% (806) of these EVs are registered in regional Queensland⁴. At this current penetration the impact of EVs can be managed, however, it is anticipated that EV uptake will grow significantly over the coming decade. Consequently, it is important to establish the appropriate retail tariff structures now so future EV owners can make informed decisions around the cost of 'fuel' for their vehicle.

Ergon Energy Retail recommends the provision of a price signal to EV owners, specifically a non-flat retail tariff, to incentivise EV owners to charge their EV battery in non-peak periods. This is consistent with how most vehicle owners with traditional internal combustion engines operate; that is, they respond to fluctuations in petrol prices and make an informed choice regarding when and how much they fuel their vehicle. Currently, there is little incentive for households to charge EVs or other storage devices outside peak periods as most residential customers are on flat retail tariff 11. An optimal household EV tariff would provide a price signal to charge at times when there are low wholesale prices and less demand on the network.

As EV penetration increases, commercial charging stations will become more commonplace. We expect potential locations to include shopping centres, commercial buildings, large apartment buildings, commercial car parks and existing petrol stations. While we expect the Queensland Distribution Network Service Providers (DNSPs) to specifically consider EV network tariffs in their next TSS, we are concerned that current retail tariffs for large customers may not be appropriate for commercial EV charging stations in the short term. Consequently, we recommend that the QCA further explore retail tariff solutions for public EV charging infrastructure as part of a future consultation.

We also recommend that the QCA consult further on non-flat retail tariff options for small customer EVs and what would be an appropriate level of regulation around EV electricity tariffs (e.g. voluntary versus mandatory tariff assignment) taking into account requirements for notification of retailers and DNSPs around EV charging stations and how EV owners are treated in SEQ.

⁴ Ergon Energy Network 2021, *EV Insights*, Ergon Energy Network, viewed 21 December 2021, <www.ergon.com.au/network/smarter-energy/electric-vehicles/ev-insights>

QCA Pricing Methodology

Network Component

Ergon Energy Retail supports the continued use of Energex network tariffs for the network component of residential and small business retail prices.

As per our comments above, Ergon Energy Retail supports the grandfathering and expiry of retail tariffs 12A, 14, 22A and 24 on the basis that there is no underlying network tariff to support these retail tariffs, and that there are alternative retail tariffs with more contemporary structures and pricing that better reflect the current periods of low and high demand on the Queensland network. For 2022-23, we support the adjustment of the current network component of these tariffs by the same percentage rate as the escalation of the N component of the default residential and small business retails (tariffs 11 and 20, respectively).

Ergon Energy Retail supports the continued use of Ergon Distribution's east zone, transmission region one network tariffs for the network component of the limited access obsolete tariffs 62A, 65A and 66A, and for large business notified prices.

For improved transparency and clarity, Ergon Energy Retail requests that the QCA document which network tariff has been used to support each notified price in its Draft and Final Determinations. For example, Energex NTC8400 is used as the network tariff component of Tariff 11 etc.

Energy Cost Component

Wholesale Energy Costs

The QCA propose to adopt a similar approach to calculating the wholesale energy cost (WEC) component for 2022-23 as previous years. Ergon Energy Retail supports the continuation of a market-based approach to determining the WEC.

However, Ergon Energy Retail has observed that Queensland spot prices are currently tracking well above the estimation of ACIL Allen for wholesale spot prices for the 2021/22 financial year (estimation completed as part of the 2021-22 pricing determination process). ACIL Allen's modelling had a range of \$40/MWh to \$70/MWh for the full year⁵ yet the average financial year to date Queensland spot price is \$88.74/MWh. This outcome is not surprising given that the ACIL Allen modelling was completed prior to the Callide Power Station incident in May 2021 which has been a significant factor (but not the only factor) in the on-going spot price volatility and surging forward market prices the market has seen this financial year.

The Callide Power Station event, along with other power station outages including the current Swanbank outage, demonstrate that unexpected and severe supply side events can occur and, with an aging power station fleet, the possibility of these events need to be factored into market modelling for the energy cost component of retail tariffs.

⁵ ACIL Allen 2021, *Estimated energy costs for use by the Queensland Competition Authority in its Final Determination of 2021-22 retail electricity tariffs*, p. 37

Based on our trading experience, Ergon Energy Retail also anticipates that the following observations of the wholesale market will be reflected in the ACIL Allen calculation of the WEC for 2022-23:

1. There is low interest in quarterly caps as published by the ASX in Queensland due to the inherent risk to sellers in offering this product when spot prices are volatile. While this does not include over the counter (OTC) interest, ACIL Allen should not assume that retailers can hedge the majority of their exposure in the visible and liquid cap market.

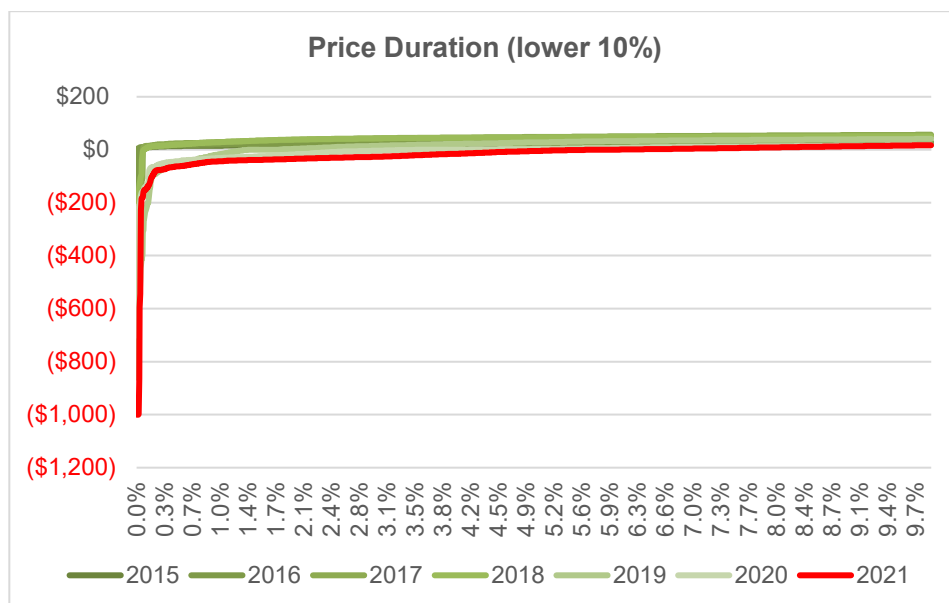
Date	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024	Q4 2024
Open Interest (MW)	949	548	594	607	402	219	190	196	70	70	10	10

Source: ASX Data

2. There is a continued steep increase in the occurrences of negative spot price events in Queensland driven by the sustained uptake of rooftop solar in the Queensland as per the table below. This trend also correlates with the decline in black coal generation⁶.

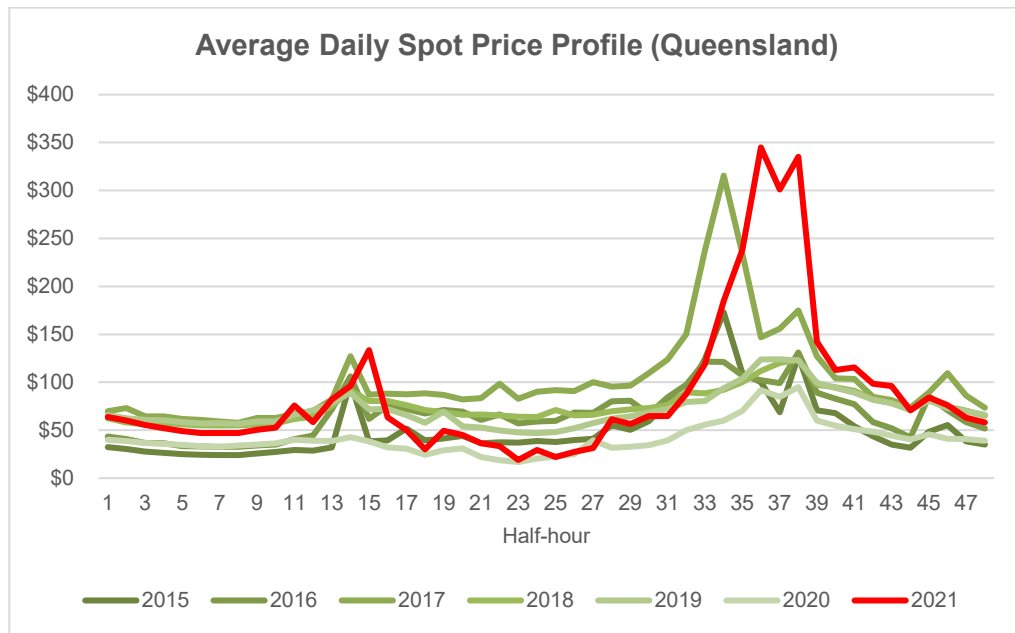
Year	Positive spot half-hours	Negative spot half-hours
2015	17,518	2
2016	17,567	1
2017	17,507	13
2018	17,504	16
2019	17,272	248
2020	16,919	649
2021	16,498	1,022

During 2021, almost 6% of prices were below \$0, compared to less than 1% in 2015, noting that in 2021, Ergon Energy Retail saw several half-hours of around -\$1,000/MWh, while the lowest price in 2015 was around -\$160/MWh.



⁶ AER 2021, Wholesale Markets Quarterly Q1 2021 January-March, p. 12

- The spread between middle of the day and evening peak is increasing significantly and is not expected to dissipate.



Ergon Energy Retail acknowledges that forecasting wholesale prices is a challenging exercise given the potential for unforeseeable impacts and events. However, there is no trigger to re-open the WEC or the retail tariffs when an unexpected event occurs. For example, the Callide C4 explosion in May 2021 has had significant and protracted impacts on the wholesale market and will continue to do so while this capacity remains unavailable. Further, the unavailability of Swanbank Power Station during Summer 2021-22 is placing further upward pressure on wholesale prices at evening peak. Finally, delays in returning the QNI to service following upgrade works has caused several market price cap events over the past 6-12 months. While other retailers are able to manage these financial repercussions and risks via changes in their retail prices (within the bounds of the DMO), as the QCA is aware, Ergon Energy Retail does not have this flexibility and must accept the WEC and the retail prices as determined by the QCA. Given this, we recommend the QCA update its scenario modelling to allow for supply side events, additional volatility and spread in the wholesale prices aligned with current market trends.

In response to the QCA's question relating to the potential impacts of COVID-19 on estimating wholesale energy costs, Ergon Energy Retail does not consider that COVID-19 had any material impacts on wholesale energy costs during 2020-21.

With respect to the impact of digital meters on customer demand profiles, over time, as digital meter penetration increases, Ergon Energy Retail supports the determination of retail prices using this data. We note that the Net System Load Profile (NSLP) was historically used as the representative load profile for residential and small business customers because the majority (~85%) of small customers in Queensland were on accumulation (basic) meters. This resulted in a single WEC for residential and small business customers.

The QCA needs to consider how best to manage the issues associated with a transition to digital meter data, including, but not limited to, the transparency of the load profile used for a regulated retail price (a retailer would be reluctant to publicly release their load shape) and the volume of meter data required to appropriately reflect the load profile of different customer classifications (segments). Potentially, DNSPs may be able to provide load profile data that could be published. Until these issues are considered and addressed, our preference is that the NSLP continue to be used.

NEM Management Fees and Ancillary Services Charges

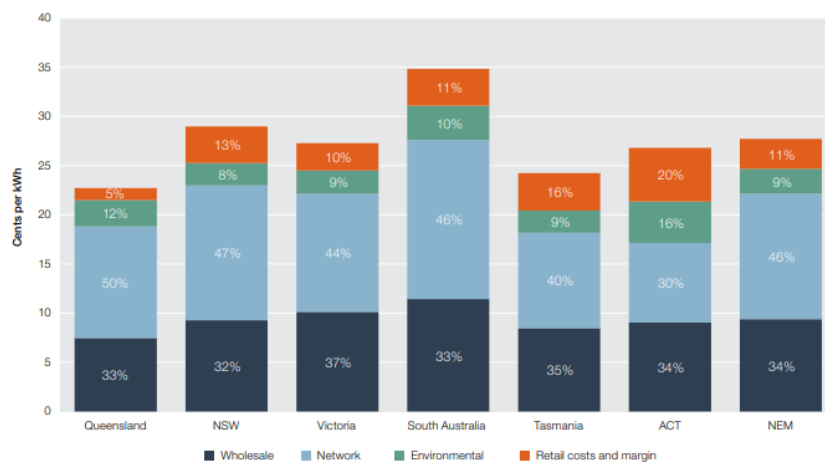
Ergon Energy Retail notes the oversight of the inclusion of the Australian Energy Market Operator (AEMO) fees levied on retailers for five-minute settlement (5MS) and for the DER integration program. Since 1 July 2021, and in accordance with AEMO’s Electricity Fee Structures, AEMO has been able to recover its costs associated with information technology upgrades and 5MS and Global Settlement compliance, and for the cost recovery of the DER integration program, as a separate fee on electricity retailers⁷. These costs were not incorporated by the QCA in 2021-22 prices yet are a cost to the retail business. Consequently, Ergon Energy Retail is of the view that there is a need for an adjustment, through the cost pass-through mechanism, to recover the 2021-22 AEMO 5MS and DER fees. These fees are documented in Table 28 of the 2021-22 AEMO Budget and Fees document and are designed to recover \$21.6M and \$4.6M from market customers for 5MS and DER, respectively. We also request that the AEMO 2022-23 5MS and DER fees are allowed for in the 2022-23 retail prices.

Retail Cost Component

Ergon Energy Retail acknowledges the QCA’s proposed approach to maintain the 2021-22 retail cost allowances but potentially adjust these allowances to account for recent developments such as inflation and COVID-19.

Ergon Energy Retail expressed our concerns with respect to the methodology for setting the 2021-22 retail cost allowance for residential and small business customers in Energy Queensland’s submissions to the 2021-22 price determination process. We note that AEMO in its State of the Energy Market 2021 has identified that Queensland had the lowest retail costs and margin of any NEM jurisdiction as per the following graph (5% when compared to a NEM average of ~14%). We also acknowledge this graph pertains to the 2020-21 financial year. For reasons outlined in previous submissions, Ergon Energy Retail considers that 2020-21 was not a reasonable base year for setting retail costs and the below graph shows what an outlier this year was compared to other jurisdictions. Ergon Energy Retail also incurs unique costs by operating in regional Queensland under the provisions of the Retail Price Gazette. For example, we are unable to require customers to use e-billing or to limit tariff changes, options available to market retailers to reduce cost to serve. This makes the reduced retail cost component more challenging.

Figure 6.8 Composition of a residential electricity bill



kWh: kilowatt hour.

Note: Data are estimates for 2020-21. Average residential customer prices excluding GST. Percentages may not add to 100% due to rounding.

Source: AEMO, Residential electricity price trends 2020, Final report, December 2020.

Source: AEMO State of the Energy Market 2021, Page 263

⁷ AEMO 2021, *Electricity Fee Structures Final Report and Determination March 2021*

While we do not agree that the methodology used in 2021-22 produced an efficient retail cost component, our comments below focus on how this cost component can be improved for 2022-23.

Ergon Energy Retail supports the current retail cost allowance being escalated to account for inflation and note that Queensland Treasury on 27 October 2021 reported an annual CPI increase of 3.9%⁸.

With respect to the impacts of COVID-19 on retail costs, the prolonged nature and uncertainty of the virus is anticipated to increase retail costs. The spread of the current Omicron variant across regional Queensland is expected to have significant economic consequences for those communities which rely upon tourism to underpin their economy, and which ultimately impacts their capacity to pay.

While these issues need to be considered, in our view the QCA should supplement the existing retail cost allowance with the on-going expense of regulatory reform. The pace and scope of regulatory reform in the energy market continues to accelerate as the market evolves towards a decentralised electricity market with greater consumer participation. During 2020-21, the AEMC alone completed 31 rule changes and nine reviews with 24 projects underway as at 30 June 2021⁹. During the 2021 calendar year, Ergon Energy Retail's regulatory policy team reviewed ~120 regulatory consultations to identify and/or quantify their impact on our business. In particular, the body of work completed to support the Energy Security Board's post 2025 market redesign project was substantial. We also consider that the ESB's final report delivered to energy Ministers is the impetus for an avalanche of regulatory reform required to develop and implement complex wholesale market reforms such as the design of a capacity market.

The impost of regulatory reform on electricity retailers should not be underestimated as they require significant resources to review, analyse and respond to rule changes and reviews, to implement the changes necessary to become compliant, and to ensure continued compliance given the tiered penalty provisions and the risks to a retailer of non-compliance. We also make clear that many of the more recent regulatory reforms have required substantial investment in information technology upgrades causing expensive capital investment in new systems, and operational investment in new processes, reporting and training.

We note that the QCA considered in its Final Determination 2021-22 there was no need to make any adjustment to the retail cost component to account for increased regulatory costs, specifically stating that the "majority of costs for the five-minute settlement reform [...] would have been incurred before 2021-22 (given implementation is due to occur in October 2021)"¹⁰.

Ergon Energy Retail strongly disagrees that most of the 5MS costs occurred prior to 2021-22. It is common for large information technology projects to incur costs across multiple years with the year of implementation often incurring costs associated with final payments to external providers and for post implementation support. As an example, as with any large information technology project, defect remediation occurs post implementation, often for up to six months. Additionally, Ergon Energy Retail has separately budgeted for Global Settlement regulatory costs, with these costs expected to be incurred in 2021-22 and 2022-23.

⁸ Queensland Treasury 2021, Consumer Price Index (State), viewed on 6 January 2022 < <https://www.qgso.qld.gov.au/statistics/theme/economy/prices-indexes/consumer-price-index-state> >

⁹ AEMC 2021, *Annual Report 2020-2021*, p. 6

¹⁰ QCA 2021, *Final Determination Regulated Retail Electricity Prices for 2021-22 Regional Queensland June 2021*, p. 47

Upcoming regulatory reforms that are likely to have significant impact on retail costs, especially information technology costs, are:

- On 20 December 2021, the AER released the draft Better Bills Guideline for consultation. Of particular concern in the Guideline is a draft requirement that retailers provide better offer information on small customer bills, which would require retailers to calculate the customer's bill, calculate mock bills for the customer based on other retail tariffs and then compare. If the customer may be better off on another retail tariff by a prescribed amount, then this information must be included on the customer's bill¹¹. This has the potential to significantly increase billing costs and complexity for all retailers.

The Better Bills Guideline will take effect from 4 August 2022, noting the potential for transitional arrangements between August 2022 and March 2023. As such, the 2022-23 retail cost allowance should be supplemented to account for the regulatory impost of the Better Bills Guideline. However in addition to the comparison costs are the costs to educate staff and customers on new bill templates and information requirements, and as a direct consequence of increased information obligations, factor in the cost that small customer bills will likely double in length (page numbers), increasing printing (and potentially postage) costs.

Finally, significant system changes and development will need to occur to facilitate Ergon Energy Retail's compliance with the new Billing Guideline. While the AER suggests that these changes are in the customer interest, we are firmly of the view that these changes will have the impact of increasing our retail costs. Given the very low retail costs and margin in Queensland, as made clear by AEMO (refer above), there is no option but for the QCA to pass through these higher billing costs to customers as retailers cannot be expected to also absorb these costs into their low retail margin.

- Electricity retailers are incurring costs now in preparation for the implementation of the Australian Government's Consumer Data Right (CDR) in the energy sector from 1 November 2022 for the three top Tier 1 retailers and 1 November 2023 for all other retailers. At a minimum, retailers need to assess their current data sets and technology, and improve their data governance, data security, privacy and identity controls to meet minimum compliance standards. Further, retailers will need to implement new information technology to provide gateway access, authentication and consent controls to provide third party access to data. This requires significant time, effort and investment.

Ergon Energy Retail acknowledges the challenges in estimating future costs of the CDR implementation on the electricity sector. We suggest that the QCA consult with retailers and stakeholders to assess the financial costs of retail compliance of upcoming regulatory reform, such as the CDR, and make a provision for recovery of these costs in notified prices.

Frequency of Retail Costs Review

Given the rapidly evolving nature of the electricity market and upcoming regulatory reforms which will have significant cost impact on electricity retailers, Ergon Energy Retail requests that the QCA undertake a Retail Costs Review more frequently than it has previously employed. We again recommend that the QCA adopt a maximum of three years between reviews (i.e. a new retail cost allowance baseline to commence from 1 July 2024 at the latest) given the short implementation periods provided to retailers to implement significant reforms and the increasing pace of such reform.

¹¹ AER 2021, *Notice of Draft Instrument – Draft AER Better Bills Guideline – version 1 – December 2021*, p. 41-43

Metering Charges

Ergon Energy Retail continues to be concerned over its continued inability to recover the costs of digital meters from Small customers. With the implementation of the Power of Choice reform in late 2017, all new electricity meters for residential and small business customers are Type 4 digital (advanced) meters and are installed by a Meter Provider (MP), instead of the network businesses. This regulatory reform resulted in a change in the way retailers are charged for the supply and installation of electricity meters and the on-going provision of metering data.

The AER is currently considering whether to include a separate allowance for digital meter cost recovery in its Default Market Offer (DMO) determination. Most respondents to the AER consultation supported the inclusion of an allowance for digital meter costs, with the preferred approach an allowance calculated on a weighted basis consistent with the proportion of customers with advanced meters in each region. A similar approach could be applied to regional Queensland.

Retail Price Gazette - Proposed Amendments

Amendment to 12 month kVA grace period

Large business customers currently receive a 12 month grace period before moving from kW to kVA demand charges when their meter is upgraded from Type 6 to a Type 1 to 4, or when moving from an obsolete tariff to a standard retail tariff. Ergon Energy Retail supported this grace period as it allowed affected customers time to adjust their equipment and/or operations in preparation for kVA demand charges. However, Ergon Energy Retail considers that this grace period has achieved its purpose as most large business customers will be on kVA demand charging by 30 June 2022. Therefore, this provision in the Retail Price Gazette can be removed and Ergon Energy Retail will work with the small number of remaining large business customers who will transition to kVA demand post 30 June 2022.