



# **Submission on the *Regulated Retail Electricity Prices for 2015-16 – Consultation Paper***

28 October 2014

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## **Queensland Competition Authority**

**28 October 2014**

This submission, which is available for publication, is made by:

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## Introduction

Ergon Energy Corporation Limited (Ergon Energy), in its capacity as a Distribution Network Service Provider (DNSP) in Queensland, welcomes the opportunity to provide comment to the Queensland Competition Authority (QCA) on its *Regulated Retail Electricity Prices for 2015-16 – Consultation Paper* (Consultation Paper).

Ergon Energy is supportive of the overall approach the QCA is taking to developing regulated retail tariffs for 2015-16, and in particular, Ergon Energy supports the move to using Ergon Energy Distribution network tariffs.

In response to the QCA's invitation to provide comments on the Consultation Paper, Ergon Energy has focused on the questions presented in the Consultation Paper, Ergon Energy is available to discuss this submission or provide further detail regarding the issues raised, should the QCA require.

## Table of detailed comments

Question(s)	Ergon Energy Response
<i>Legislative requirements and pricing approaches</i>	
<p>2.1 (a) For residential and small business customers, should we:</p> <p>(i) maintain the 2014-15 approach, which is to base notified prices on south east Queensland costs? Why or why not?</p> <p>(ii) keep notified prices at south east Queensland levels, but use Ergon Distribution's tariff structures for some or all tariffs? Why or why not?</p>	<p>Ergon Energy supports the principle that tariffs should be cost-reflective as that provides appropriate signals to customers which should result in an increase in economic efficiency. Ergon Energy notes there are several issues that are unique to our regional Queensland network and which impact how cost-reflective tariffs should be structured and priced. Many of these issues are material in nature and include:</p> <ul style="list-style-type: none"> <li>• Ergon Energy has a significant amount of sub-transmission network compared to Energex;</li> <li>• South East Queensland (SEQ) has very meshed electricity networks which serve a very dense customer population compared to regional Queensland. As a consequence, the cost to supply customers in SEQ is much lower in comparison to the cost to supply customers in Ergon Energy's more radial and sparsely populated regional network, which is also less homogenous;</li> <li>• SEQ is a very small area, and as a consequence time periods for tariffs are not adversely impacted in the same manner in which they are across a broad section of the remainder of the State. This is one of the reasons why the use of time of use (ToU) schedules for Ergon Energy are important to enable us to achieve the desired network outcomes of improved utilisation for all areas of the network; and</li> <li>• All customers in SEQ experience very similar temperatures whilst the variation in temperature across regional Queensland can be quite significant. This means that customers use space cooling very differently across the state, when compared to Energex.</li> </ul> <p>In consideration of these key differences, Ergon Energy suggests that it would be appropriate that at a minimum, its network tariff structures should be used for all tariffs. Ergon Energy has been undertaking significant work to ensure its network tariff structures are as cost reflective as possible and these should be reflected in retail prices.</p>

	<p>However, Ergon Energy's ultimate preference is that the network component of notified prices be based on the cost to supply customers across the regional distribution areas of the State and this should be implemented through a transitional path commencing with the introduction of a network Community Service Obligation (CSO).</p> <p>Whatever approach the QCA decides to pursue, it is essential that regard is had to the relativities between tariffs to ensure unintended distortions are not introduced as a result of the approach taken.</p> <p>Ergon Energy also notes that it may be necessary to introduce transitional arrangements for some tariffs where meter changes are required to support the new tariffs. For example it may be necessary for there to be T22 and T22A where T22 continues to be based on Energex's network tariffs so that customers of Ergon Energy Queensland can continue to be charged while meters are changed over to reflect Ergon Energy's network tariff structures. Once the meter change occurs, customers could then be moved to T22A. This approach allows cost reflective tariff structures to be introduced as soon as possible while also allowing for a staged metering program to be undertaken.</p>
2.1 (b) For large business customers, should we: (i) maintain the 2104-15 approach, which is to base notified prices on regional Queensland costs? Why or why not?	Ergon Energy agrees that the 2014-15 approach should be maintained on the basis that it will promote efficiency in capital expenditure and improved asset utilisation because customers will see cost-reflective network tariff structures that send signals about their use of the network.
<i>Network costs</i>	
3.1 (a) Should we continue to use Energex's tariff structures as the basis for retail tariffs for residential and small business customers?	Ergon Energy does not support the continued use of Energex's tariff structures as the basis for retail tariffs for residential and small business customers. Refer response to 2.1(a) above.
3.1 (b) Alternatively, should we use Ergon Distribution's tariff structures for some or all retail tariffs for residential and small business customers?	Ergon Energy supports the use of Ergon Energy's distribution tariff structures for all retail tariffs for residential and small business customers. Refer response to 2.1(a) above.
3.1 (c) Are there any other issues we should consider?	Nil comment.
<i>Energy costs</i>	
4.1 (a) Is there any new information available to suggest alternative approaches to those used in the 2014-15 determination might be more appropriate?	Nil comment.

4.1 (b) What improvements could be made to the current approaches?	Nil comment.
4.1 (c) Are there any other issues we should consider when estimating energy costs?	Nil comment.
<i>Retail costs</i>	
4.2 (a) Are there any compelling reasons why the benchmarking approach should not be used to estimate retail costs in 2015-16?	Nil comment.
4.2 (b) What matters should we consider when deciding whether to include an allowance for CARC?	Nil comment.
4.2 (c) Are there any other issues we should consider when estimating retail costs?	Nil comment.
<i>Competition and headroom</i>	
5.1 (a) Should headroom continue to be included in notified prices for residential and small business customers? Why or why not?	Nil comment.
5.1 (b) Should headroom continue to be included in notified prices for large business customers? If so, at what level? If not, why not?	Nil comment.
5.1 (c) What other issues should we consider in relation to competition and headroom?	Nil comment.
<i>Cost pass-through mechanism</i>	
5.2 We seek stakeholders' views on whether a cost pass-through mechanism should be included when setting notified prices for 2015-16.	Nil comment.
<i>Possible removal of tariffs 13 and 41</i>	
5.3 We seek stakeholders' views on whether tariffs 13 and 41 should be removed from the tariff schedule.	Ergon Energy agrees the removal of tariff 13 is justified on the basis that there is currently only one customer in regional Queensland accessing this tariff and that Ergon Energy does not have a network tariff on which to base retail tariff 13. Ergon Energy suggests that a transitional period may be required to move

	customers from tariff 41 to one of the other small business tariffs.
<i>Transitional arrangements</i>	
5.4 (a) What issues should we take into account when deciding whether to complete the rebalancing of tariff 11 using the approach established in the 2013-14 determination?	<p>Ergon Energy believes an inclining block tariff needs to be considered with the 1<sup>st</sup> step of energy (e.g. 1000kWh) being at zero cost, to assist low income customers. An inclining block tariff will help the transitioning of customers to tariff 12 as well as hardship customers.</p> <p>Further as discussed above, it is important that the QCA have regard to the relativities between tariffs especially T12 when considering the rebalancing of T11.</p>
5.5 (a) Is there any new information that suggests the overall approach we proposed to take for transitional and obsolete tariffs is no longer appropriate?	Ergon Energy supports appropriate transitional arrangements and suggests the QCA may need to review the overall approach once it has determined the basis it will use for setting prices. That is, until the approach to set prices is confirmed it is difficult to comment on the appropriateness of any transitional arrangements.
5.5 (b) What other issues should we consider (please provide supporting evidence where possible)?	Nil comment.