

4 April 2017



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

Dear Mr Millstead *Charles*

Regulated Retail Electricity Prices for 2017-18 – Draft Determination

Energy Queensland Limited (Energy Queensland) welcomes the opportunity to provide comment to the Queensland Competition Authority (QCA), on its consultation on the *Regulated Retail Electricity Prices for 2017-18 – 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) and Ergon Energy Queensland (EEQ).

Energy Queensland broadly supports the approach adopted by the QCA to determine the Notified Prices for 2017-18. Below are a few general comments in relation to the Draft Determination.

Network tariff structures

As noted in our submission to the Consultation Paper on Regulated Retail Electricity Prices for 2017-18, Energy Queensland's ultimate preference is that the network component of all regulated retail tariffs (except transitional tariffs) be based on Ergon Energy's network tariff structures. Ergon Energy's network tariffs have been specifically tailored to reflect the network conditions and cost drivers for regional Queensland. As such, they should be reflected in retail prices.

However, we recognise the limitations faced by the QCA in determining regulated retail prices – namely, the current Uniform Tariff Policy. Further, we are conscious of the impacts on residential and business customers from passing through real costs. Energy Queensland welcomes the QCA's decision to continue to base time-of-use, and seasonal time-of-use retail tariffs for residential and small business customers on Ergon Energy's network tariff structures and adjusted to Energex's price levels. However, Energy Queensland recommends that all residential and small business tariffs should be based on Ergon Energy's network tariff structures to improve cost reflectivity. Ergon Energy's network tariff structures and respective component rates are developed on an integrated basis to maximise overall lower future cost. Notified tariff outcomes in the current framework significantly change customer outcomes between the network and retail tariff layers and customer access to the benefits of network tariff reform. We acknowledge there would need to be a transitional path which considers customer impacts, but consider it is important to start to develop alternatives.

Energy Queensland welcomes the opportunity to continue to work with the QCA on development of this transitional pathway.

Energy costs

Energy Queensland supports a market based approach for determining energy costs. We note that the Draft Determination has accounted for energy costs up to November 2016. However, given the very high prices experienced between December 2016 and March 2017 we anticipate that this will result in a higher energy cost allowance. Recent high prices in the spot and contract market has again highlighted the limitations in the methodology used for determining energy costs when only using exchange information as the key input to the calculations. This is especially evident in the Large Renewable Energy Target (LRET) costs. We also note that the QCA's consultants have used the Australian Financial Markets Association curve up until the end of September in producing the Draft Determination. It is unclear to Energy Queensland how the consultants will be updating the LRET costs although we are assuming that broker supplied information will be used. Energy Queensland seeks clarification on the source of data used in producing the wholesale costs element in the Final Determination.

Retail costs

In our submission to the interim consultation paper Energy Queensland identified the Power of Choice program of work, which includes the competition in metering changes, as an unavoidable material cost to the retailer as a result of a change in the regulatory environment in which all participants must operate. These changes were introduced following a direction from the COAG Energy Council.

EEQ is taking a minimalist approach to system and business changes including compliance changes and provision of a minimum viable product offering for consumers. However, the extent of these changes to the billing system, front line staff and business processes is significant.

The costs associated with implementing the Power of Choice (competition in metering) changes include but are not limited to:

- Changes to EEQ's billing systems to comply with the changes to the National Electricity Rules, National Electricity Retail Rules, and the Australian Energy Market Operator's (AEMO) B2B procedures, the Schema and other market procedures as a result of the Power of Choice (competition in metering) decisions.
- Participation in AEMO working groups and consultation processes in relation to procedural changes.
- Redevelopment of EEQ's market system so that it is able to interact with AEMO's new e-Hub system currently under development.
- Development of business procedures and call centre scripting to comply with the changed rules and market procedures.
- Development of role-specific training material and deployment of training for impacted staff. In many cases this also requires the back-filling of operational staff (such as call centre staff) during these periods of training.
- Participation in external testing with AEMO e-Hub.
- Registration of EEQ as a market participant (approval to operate) in the national market with the AEMO systems.
- Pre deployment trials to develop work processes to ensure efficiency and quality of customer experience.

The Power of Choice program has necessitated changes to a significant number of procedures that govern the interactions between market participants and the market. These transactions include customer transfers, standing data for connections (meter configurations, life support notifications and network tariffs), metering information, and other information necessary to ensure that customers are billed correctly. These interactions are highly complex and can only be managed through a high degree of automation. These changes as a result of the Power of Choice (competition in metering) program resulted in changes to, merging, or creating over 20 national procedures documents. Additional jurisdictional changes also need to occur within these national documents.

EEQ has budgeted to spend substantial funds in complying with the Power of Choice (competition in metering) program of works through to January 2018, which allows for a short system stabilisation period. These costs are applicable to EEQ only and, because they are compliance-based, are unable to be avoided. These costs do not include the Energex and Ergon Energy network costs of compliance.

Transitional tariffs

Energy Queensland supports the QCA's approach to transitional tariffs, and in particular the proposal to adjust the transitional and obsolete tariffs in line with changes in standard business tariffs and applying an escalation factor to limit charges for these tariffs falling further below cost. However, Energy Queensland recommends a 3 year transitional period for tariffs 47 and 48 to align the end date for all transitional and obsolete tariffs would be appropriate. It is noted that the Draft Determination suggests a 2 year transitional period for these tariffs is consistent with the earlier transitional periods for Tariffs 41 and 43. Energy Queensland suggests that a 3 year transitional period to align the end date for all transitional and obsolete tariffs will avoid further confusion as well as eliminating equity issues between customers who may be able to access some of these tariffs and not others.

Drafting corrections

In addition to the issues mentioned above, Energy Queensland has identified a number of small corrections for the Final Determination and Gazette.

Controlled load tariffs

- In the General Terms in the draft Gazette, it notes that 'These tariffs are applicable when electricity supply is permanently connected to approved apparatus as approved by the retailer'. As controlled load tariffs are controlled by distribution authorities, Energy Queensland is of the firm belief that access should remain at the absolute discretion of the distribution authority.
- Tariff 31 makes reference to retailer approval when it comes to connecting to supply to specified parts of an apparatus under this tariff (i.e. hot water system booster units). As noted above, the approval of connection to controlled load tariffs has been at the discretion of the distribution authority and should remain as such.
- Tariff 33 now notes an additional requirement that the tariff is applicable as a primary tariff at the absolute discretion of the retailer. Access to Tariff 33 is currently only available in conjunction with a residential or business tariff at the same NMI at the discretion of the distribution authority. As above, controlled load tariffs are controlled by distribution authorities, and therefore access should be at the absolute discretion of the distribution authority. As such, to

allow access to this tariff as a primary tariff should also only be at the absolute discretion of the distribution authority.

Discussions with the Department of Energy and Water supply about the abovementioned provisions has identified them as intentional, given that the National Energy Retail Rules (NERR) provisions relating to tariff changes are centred on the relationship between a customer and their retailer. However notwithstanding, we note that in accordance with the applicable NERR provisions, a retailer's consent to a customer requested tariff change is contingent on it satisfying all of the conditions relating to that other tariff and any conditions imposed by the customer's distributor. With this in mind Energy Queensland considers it would be most appropriate to retain the wording in the Gazette which makes it clear to customers that access to such tariffs is at the discretion of the distributor and also details the types of conditions that would be applicable to accessing a particular tariff.

Billing information for application of monthly or annually based charges

Energy Queensland believes there would be benefit from retaining the detail relating to the billing information for application of monthly or annually based charges in the body of the Gazette. Given that demand charges in particular are calculated on a pro rata basis, being able to refer customers to a document outlining the underlying calculations can help to minimise confusion arising from effectively different dollar figures being applied to kW demand figures each month.

Tariff changes

As a number of tariffs are now built on the N+R methodology, Energy Queensland believes there is merit in aligning retail tariff changes to the rules established by the distribution businesses around their network tariffs.

As noted in previous gazettes, a retailer, at the request of a customer may permit a change to another tariff within a period of twelve months if –

- i. a tariff that was not previously in force is offered and such tariff is applicable to the customer's installation; or
- ii. the change does not require a change to the customer's network tariff and the customer meets certain costs associated with changing to another tariff.

Energy Queensland continues to support the above approach, particularly as it relates to the seasonal time of use energy and seasonal time of use demand retail tariffs, and believes that further refinement of the tariff change requirements will assist as we move closer to the closure of transitional and obsolescent tariffs in 2020.

To support a prudent and efficient transfer of customers off transitional and obsolete tariffs at their respective end date, Energy Queensland proposes amending the Gazette to reflect that customers previously supplied under tariffs which have now been discontinued or redesignated (whether by number, letter or name) in their distribution area will be supplied under other tariffs appropriate to their installations. Furthermore, the date of effect of a tariff change for each affected customer will be *the last read date prior to the date the tariff is discontinued or redesignated*. This will prevent a customer remaining on an obsolete tariff after its expiry date.

Energy Queensland also proposes the following addition to the gazette:

If a change to the customer's meter is required to support the applicability of a tariff to a customer, the customer may request the retailer to arrange for the required meter to be installed at the customer's cost.

Typos

In previous Gazettes both Tariffs 21 and 37 have a "Minimum Payment per day". This mechanism meant that the minimum payment only applied if the customer did not consume enough energy so that the consumption costs exceeded the minimum payment amount. In the Draft Gazette tariff 21 and 37 now has a "Daily Supply Charge". As drafted, this would mean that regardless of consumption this charge would be levied per day. This is a fundamental change in the design of these tariffs. Energy Queensland is confident that this is a "typo" and can easily be reverted back to the current mechanisms in the Final Gazette.

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

Yours Sincerely



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