Queensland Competition Authority

Interim consultation paper

Regulated retail electricity prices for 2018–19

December 2017

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SUBMISSIONS

Closing date for submissions: 16 January 2018

Public involvement is an important element of the decision-making processes of the Queensland Competition Authority (QCA). Therefore submissions are invited from interested parties concerning its assessment of 2018–19 regulated retail electricity prices. The QCA will take account of all submissions received.

Submissions, comments or inquiries regarding this paper should be directed to:

Queensland Competition Authority
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Tel (07) 3222 0555
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Confidentiality

In the interests of transparency and to promote informed discussion and consultation, the QCA intends to make all submissions publicly available. However, if a person making a submission believes that information in the submission is confidential, that person should claim confidentiality in respect of the document (or the relevant part of the document) at the time the submission is given to the QCA and state the basis for the confidentiality claim.

The assessment of confidentiality claims will be made by the QCA in accordance with the *Queensland Competition Authority Act 1997*, including an assessment of whether disclosure of the information would damage the person's commercial activities and considerations of the public interest.

Claims for confidentiality should be clearly noted on the front page of the submission. The relevant sections of the submission should also be marked as confidential, so that the remainder of the document can be made publicly available. It would also be appreciated if two versions of the submission (i.e. a complete version and another excising confidential information) could be provided.

A confidentiality claim template is available on request. We encourage stakeholders to use this template when making confidentiality claims. The confidentiality claim template provides guidance on the type of information that would assist our assessment of claims for confidentiality.

Public access to submissions

Subject to any confidentiality constraints, submissions will be available for public inspection at the Brisbane office, or on the website at www.qca.org.au. If you experience any difficulty gaining access to documents please contact us on (07) 3222 0555.

Contents

THE ROLE OF THE QCA—TASK, TIMING AND CONTACTS

The Queensland Competition Authority (QCA) is an independent statutory authority that promotes competition as the basis for enhancing efficiency and growth in the Queensland economy.

The QCA’s primary role is to ensure that monopoly businesses operating in Queensland, particularly in the provision of key infrastructure, do not abuse their market power through unfair pricing or restrictive access arrangements.

The QCA's primary role with respect to electricity pricing is to set regulated retail electricity prices in accordance with the *Electricity Act 1994* (the Electricity Act) and the requirements of the delegation from the Minister for Natural Resources, Mines and Energy (Appendix A).

Key dates

2017	
Release of the interim consultation paper	22 December
2018	
Submissions due on the interim consultation paper	16 January
Release of the public consultation timetable	January
Release of the draft determination	February
Workshops on the draft determination	March
Submissions due on the draft determination	April
Release of the final determination	31 May

Registration of interest

www.qca.org.au/Submissions

Contacts

Enquiries regarding this project should be directed to:

ATTN: Electricity Team
Tel (07) 3222 0555
www.qca.org.au/Contact-us

1 INTRODUCTION AND LEGISLATIVE FRAMEWORK

The QCA has received a delegation under the Electricity Act from the Queensland Minister for Natural Resources, Mines and Energy (the Minister) to determine regulated retail electricity prices (notified prices) that will apply to standard contract customers[1] outside the Energex distribution area from 1 July 2018 to 30 June 2019.[2]

This paper is the first stage of our 2018–19 price determination process. Submissions are invited in response to the paper and are due no later than 16 January 2018. While we have set out key issues on which we are seeking comments, stakeholders should take this opportunity to comment on any matters they consider relevant to our review, providing detailed arguments and evidence to support their views where possible. Details on how to make a submission appear on page i. An indicative timetable for the determination process appears on page iv.

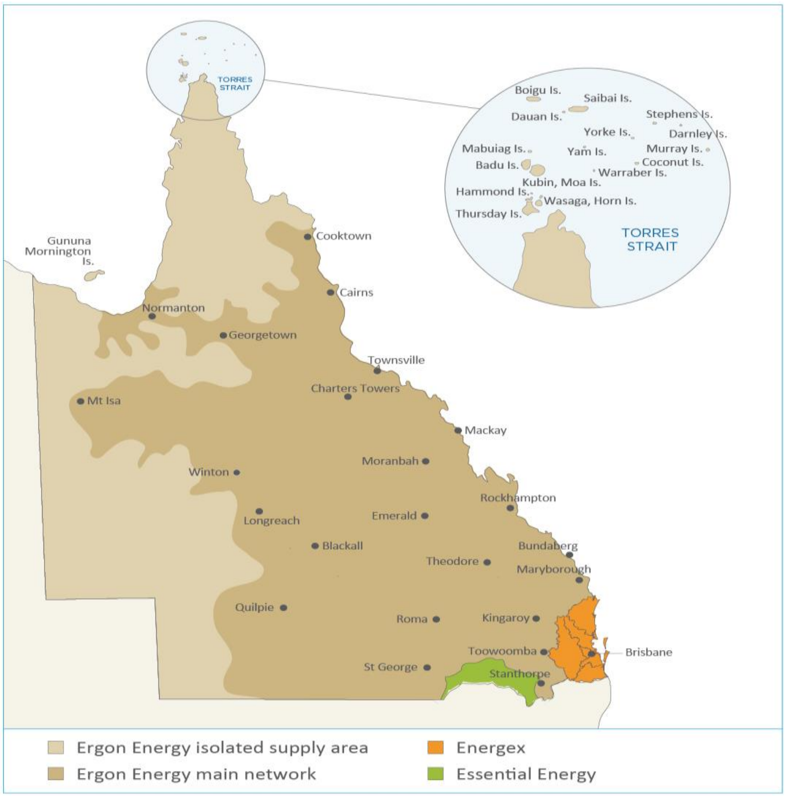
1.1 Access to notified prices

Retail price regulation in the Energex distribution area was removed on 1 July 2016. Consequently, notified prices only apply to standard contract customers outside the Energex distribution area.

For previous determinations, customers in the southern Queensland part of Essential Energy's distribution area have not had access to notified prices. However, Origin Energy receives a subsidy from the Queensland Government to ensure that standard contract customers in that area pay no more than similar customers with access to notified prices. For the 2018–19 price determination, the Minister has sought to clarify the arrangements for Queensland customers on Essential Energy's network, to ensure they receive the same price protections as other regional customers under the Government's Uniform Tariff Policy (UTP).

[1] Standard contract customers are customers on a standard retail contract with terms and conditions specified by the National Energy Retail Rules.
[2] See Appendix A for a copy of the delegation.

Figure 1 Queensland electricity distribution areas



1.2 Legislative framework—the Electricity Act

We determine notified prices in accordance with our obligations under the Electricity Act. While that Act does not specify criteria or principles to be applied in making a price determination, it directs us to have regard to the following matters:

(a) the actual costs of making, producing or supplying the goods or services

(b) the effect of the price determination on competition in the Queensland retail electricity market

(c) any matter we are required by delegation to consider.[3]

The Electricity Act also provides that we may have regard to any other matter we consider relevant.[4]

We consider the objects of the Electricity Act to be a relevant matter, and we therefore intend to have regard to those. The objects of the Electricity Act are to:

(a) set a framework for all electricity industry participants that promotes efficient, economical and environmentally sound supply and use

(b) regulate the electricity industry and electricity use

(c) establish a competitive electricity market in line with the national electricity industry reform process

[3] Section 90(5)(a) of the Electricity Act.
[4] Section 90(5)(b) of the Electricity Act.

(d) ensure that the interests of customers are protected

(e) take into account national competition policy requirements.[5]

1.3 Matters we are required by delegation to consider in setting notified prices

Section 90AA (3)(d) of the Electricity Act stipulates that the delegation may specify the matters that the QCA must consider when making the price determination. The matters we are required by delegation to consider when determining notified prices for 2018–19 are outlined below.

The Uniform Tariff Policy

According to the delegation, the Queensland Government's UTP 'provides that, wherever possible, standard contract customers of the same class should pay no more for their electricity, regardless of their geographic location'.[6] The covering letter to the delegation further specifies that, for the purposes of the delegation, prices for small customers in regional Queensland should continue to broadly reflect the expected prices for customers on standing offers in south east Queensland.[7]

In previous price determinations, the application of the UTP resulted in notified prices for small customers being based on the costs of supply for standing offer customers in south east Queensland (i.e. the Energex distribution area).

Since the removal of retail price regulation for large customers in south east Queensland, we have based notified prices for large business customers on the Ergon Distribution pricing region with the lowest cost of supply, i.e. east zone, transmission region one.[8] This approach is consistent with the Queensland Government's definition of the UTP and the requirement in the delegation for the QCA to consider basing the network costs for large customers on Ergon Distribution's network charges.[9]

The above approaches benefitted most customers in regional Queensland, who would otherwise have faced higher prices reflecting the higher costs of supplying electricity in regional areas. The difference between the costs of supply is largely due to the higher network costs associated with supplying electricity over long distances to a low-density customer base. These additional costs are significant, with the Queensland Government expecting to pay a subsidy of $441.1 million in 2017–18 to give effect to the UTP.[10]

'Network plus retail' cost build-up methodology

According to the delegation, we must consider using the network (N) plus retail (R) cost build-up methodology when determining notified prices for 2018–19. Under this methodology, the N costs are generally treated as a pass-through and the R costs (energy and retail costs) are determined by us.[11] This methodology is consistent with the approach we applied in previous determinations.

[5] Section 3 of the Electricity Act.
[6] Clause 5(b) of the delegation (Appendix A).
[7] A copy of the Minister's covering letter is provided in Appendix A.
[8] East zone, transmission region 1 has the lowest cost of supply among the Ergon Distribution pricing regions that are connected to the National Electricity Market (NEM).
[9] Clause 5(d) (iii) of the delegation (Appendix A).
[10] Queensland Government, *State Budget 2017-18—Budget Strategy and Outlook, Budget Paper No. 2*, June 2017, p. 195.
[11] Clause 5(c) of the delegation (Appendix A).

The network cost component

When determining the N components of flat rate retail tariffs[12] for residential and small business customers, we must consider using Energex's network charges and tariff structures. Adopting this approach would mean the N components would be below cost, as they would be based on network costs in south east Queensland, rather than regional Queensland.

When we determine time-of-use and time-of-use demand retail tariffs[13] for residential and small business customers (tariffs 12A, 14, 22A and 24), we must consider basing the N components on the price level of network charges to be levied by Energex and the network tariff structures of Ergon Distribution. Adopting this approach would mean the N components would be below cost, but the use of Ergon Distribution's network tariff structures would improve price signals and encourage customers to reduce consumption during peak periods in Ergon Distribution's distribution area.

For large business customers, we must consider using Ergon Distribution's network charges and tariff structures.

The above proposed approaches to determining the N components of retail tariffs are consistent with those we have adopted in previous price determinations.

Transitional arrangements

We are required to consider maintaining the transitional arrangements for tariffs classed as transitional or obsolete (e.g. farming and irrigation tariffs). We are also required to consider allowing all customers in Ergon Distribution's distribution area to access tariffs designated as transitional in 2013–14.

Tariff Trial

The delegation requires the QCA to consider offering new voluntary trial retail tariffs, based on the structure of any new cost reflective network tariffs submitted by Ergon Distribution to the Australian Energy Regulator (AER).

[12] Retail tariffs with usage charges that do not vary with the time and/or level of consumption. Tariffs 11, 20, 31, 33, 41 and 91. Tariff 91 applies to unmetered supplies (except street lighting).

[13] Retail tariffs with usage and other charge rates that vary with the time and/or level of consumption.

2 POTENTIAL PRICING APPROACHES

The matters we are required to consider under the Electricity Act indicate that cost-reflective prices and the promotion of retail competition are important guiding principles in making a price determination. Accordingly, in the 2017–18 price determination we considered cost reflectivity to be important for efficiency and equity reasons, and that notified prices were intended to support retail competition in the large business customer segment in regional Queensland.

Under the Minister's delegation, we are also required to consider the UTP. As noted in section 1.3, the application of the UTP in previous price determinations has resulted in most notified prices being based on costs of supply which are below the actual costs of supply.

Under the Electricity Act, we can also have regard to any other matter that we consider relevant. We consider that the impact on customers is certainly a relevant factor.

Given there is a degree of conflict among the various matters we are required to consider under section 90(5) of the Electricity Act, we are considering a broad range of possible pricing approaches for 2018–19, particularly for residential and small business customers.

2.1 Residential and small business customers

One possible pricing approach would be to maintain the approach we took in the 2017–18 price determination. This approach involves setting notified prices based on the costs of supply in south east Queensland (i.e. Energex costs), rather than in regional Queensland.

As the costs of supply in south east Queensland are generally lower than those in regional Queensland, adopting this approach would result in customers continuing to pay prices which do not reflect the actual costs of supply, potentially encouraging inefficient investment and consumption. It also requires the ongoing subsidisation of electricity prices by taxpayers (as noted in section 1.3, the cost of this subsidy is expected to be $441.1 million in 2017–18). However, this approach may be considered justifiable, as it would be consistent with the Queensland Government's definition of the UTP for 2018–19.

Another possibility would be to adopt the approach we have taken since 2012 in setting notified prices for large business customers. When retail price regulation for large business customers in south east Queensland was discontinued, we decided to base notified prices for large business customers outside south east Queensland on the large business customer network tariffs for Ergon Distribution's east pricing zone (which included almost 90% of Ergon Energy's large customers)[14] transmission region one.[15] We maintained this approach in subsequent price determinations.

Adopting this approach for residential and small business customers would improve cost reflectivity (relative to setting prices based on the costs of supply in south east Queensland) and reduce the amount paid by taxpayers to subsidise electricity prices in regional Queensland. However, it would be inconsistent with the Queensland Government's definition of the UTP for 2018–19 and result in substantial price increases, as the cost of supplying small customers in

[14] Queensland Competition Authority, *Regulated Retail Electricity Prices 2012–13*, final determination, May 2012 page 13.

[15] Queensland Competition Authority, *Regulated Retail Electricity Prices 2012–13*, final determination, May 2012.

Ergon Distribution's east pricing zone, transmission region one is generally higher than the cost of supplying comparable customers in south east Queensland.

A third approach would be to move gradually from prices that reflect the costs of supply in south east Queensland to prices that reflect the actual costs of supply in each of Ergon's distribution and transmission zones. This approach would promote retail competition and reduce the need to subsidise regional electricity prices. However, it would be inconsistent with the UTP, as some small customers on standard retail contracts would, based on their geographic location, pay more for their electricity than small standard retail contract customers of the same class in other areas of Queensland. Any shift to cost-reflective prices would also result in substantial price increases, particularly for customers in western Queensland and those supplied by isolated systems.

In balancing the various matters we are required to consider under section 90(5) of the Electricity Act, the QCA considers the most appropriate approach for 2018–19 is to continue to base notified prices for residential and small business customers on the costs of supply in south east Queensland.

2.2 Large business customers

In previous price determinations, we have set notified prices for large business customers based on the costs of supply in Ergon Distribution's east zone, transmission region one. This approach has the benefit of being more cost-reflective and requiring a lower taxpayer subsidy than an approach based on the costs of supply in south east Queensland. It is also consistent with the Queensland Government's definition of the UTP for 2018–19 and the requirement in the delegation for the QCA to consider basing the network cost components for large business customers' retail tariffs on Ergon Distribution's network charges.

Another option would be to move to cost-reflective notified prices. However, we consider that this approach would be inconsistent with the UTP.

In balancing the various matters we are required to consider under section 90(5) of the Electricity Act, the QCA considers the most appropriate approach for 2018–19 is to continue to base notified prices for large business customers on the costs of supply in Ergon Distribution's east pricing zone, transmission region one.

2.3 Consultation questions

- **For residential and small business customers, should we maintain the 2017–18 approach of basing notified prices on the costs of supply in south east Queensland?**
- **For large business customers, should we maintain the 2017–18 approach of basing notified prices on the costs of supply in Ergon Distribution's east pricing zone, transmission region one?**

3 NETWORK COSTS

A retailer incurs network costs when electricity is supplied to its customers. These costs are associated with transporting electricity through the transmission and distribution networks and account for around 40 per cent of the final cost of electricity for small customers.[16]

Distributors and transmission entities are regulated monopoly businesses whose revenues are regulated by the AER. In addition to recovering their own distribution network costs, distributors also pass Powerlink's transmission network costs through to customers in network charges that are approved by the AER.

Under the 'network plus retail' (N+R) cost build-up approach that we have used to set notified prices in previous price determinations, the N costs are treated as a pass-through. However, to determine the network cost component to be passed through to retail customers, we need to decide (for each customer class):

- the level at which network charges should be set
- the network tariff structure on which the network cost component should be based.

Network tariff structures can include, for example, combinations of fixed charges, demand charges and usage charges.

For the 2017–18 price determination, we based network costs on the prices that Energex and Ergon Distribution submitted to the AER.

3.1 Residential, small business and unmetered supply (excluding street lighting) customers

For the 2018–19 price determination, the Minister's delegation requires that we consider:

- for residential and small business retail tariffs (except tariffs 12A, 14, 22A and 24), basing the network cost component on Energex network charges and tariff structures
- for residential and small business time-of-use retail tariffs (tariffs 12A and 22A) and time-of-use demand retail tariffs (tariffs 14 and 24), basing the network cost component on Energex network charges, but using the relevant Ergon Distribution network tariff structures.

The level of network charges

In determining the network cost components of regulated retail tariffs, the first issue we must consider is the level at which network charges should be set to be consistent with the UTP. As discussed in Chapter 2, our approach in previous determinations was to base notified prices for residential and small business customers on the costs of supply in south east Queensland. This means setting network charges at Energex price levels. As a result, residential, small business and unmetered supply (excluding street lighting) customers in regional Queensland generally pay the same for network services as customers in south east Queensland.

[16] In 2017–18, around 40 per cent of the annual bill of a typical customer on tariff 11, 20 or 22A was attributed to network costs.

Network tariff structures

The second issue we must consider is which are the most appropriate network tariff structures to use. Key differences between the tariff structures of distributors include:

- the proportion of costs recovered through fixed charges
- the approach to usage charge rates (e.g. flat usage rates versus three-part inclining block tariffs)
- the applicable time-of-use and demand charging periods (e.g. different peak and off-peak periods)
- the methodology for calculating demand charges.[17]

For the 2017–18 price determination, we used Energex's network tariff structures as the basis for setting flat rate retail tariffs for residential, small business and unmetered supply (excluding street lighting) customers,[18] as those structures reflected the costs of supply in south east Queensland. We used Ergon Distribution's network tariff structures as the basis for setting time-of-use and time-of-use demand retail tariffs for residential and small business customers, but adjusted them to reflect Energex cost levels to maintain consistency with the UTP.

3.2 Large business and street lighting customers

For the 2018–19 price determination, the Minister's delegation requires that we consider basing the network cost component of retail tariffs for large business customers and street lighting customers on Ergon Distribution's network charges and tariff structures. This requirement is consistent with our approach in the 2017–18 price determination, where we based the network cost components of those retail tariffs on the network charges for Ergon Distribution's east pricing zone, transmission region one. This approach is also consistent with the Queensland Government's definition of the UTP as east zone, transmission region 1 has the lowest cost of supply among the Ergon Distribution pricing regions that are connected to the National Electricity Market (NEM).

3.3 Obsolete and transitional retail tariffs

For the 2018–19 price determination, the Minister's delegation requires that we consider maintaining transitional arrangements for retail tariffs classed as transitional or obsolete. As these tariffs are not based on actual costs, there is no need to determine network charges for these tariffs. Obsolete and transitional tariffs are discussed further in Chapter 6.

3.4 Tariff Trial

For the 2018–19 price determination, the Minister's delegation requires that we consider offering new voluntary trial tariffs, based on the structure of any new cost-reflective network tariffs submitted by Ergon Distribution to the AER.

At the time of the publication of this consultation paper, Ergon Distribution has yet to submit its 2018–19 pricing proposal to the AER. We expect that Ergon Distribution will submit its latest pricing proposal in time for consideration as part the 2018–19 draft determination process.

[17] More information on the difference between Energex's and Ergon Distribution's network tariff structures is provided in Appendix B.
[18] Tariffs 11, 20, 31, 33, 41 and 91.

3.5 Consultation questions

- **Should we use Energex's network tariff structures as the basis for all retail tariffs for residential, small business and unmetered supply (excluding street lighting) customers?**
- **Alternatively, should we use Ergon Distribution's network tariff structures as the basis for some or all retail tariffs for residential, small business and unmetered supply (excluding street lighting) customers? If so, how should Ergon Distribution's network tariff structures be adjusted to reflect the UTP?**
- **Should we use Ergon Distribution's network tariffs as the basis for retail tariffs for large business customers and street lighting customers?**
- **Should we introduce new voluntary trial tariffs, based on the structure of any new cost-reflective network tariffs submitted by Ergon Distribution to the AER?**
- **Are there any other issues that we should consider?**

4 ENERGY COSTS

Retailers incur energy costs when purchasing electricity to supply to their customers. Energy costs can be split into three general categories:

(1) wholesale energy costs

(2) other energy costs

(3) energy losses.

When we set the retail (R) component of notified prices, we must include an allowance for energy costs. In the 2017–18 price determination, our estimate of energy costs was based on advice from ACIL Allen. For the 2018–19 price determination, we have again engaged ACIL Allen to provide advice on energy costs.

We have instructed ACIL Allen to provide cost estimates for both south east Queensland and regional Queensland. In previous price determinations, we used the south east Queensland estimates to set notified prices for residential and small business customers. The regional Queensland estimates were used to set notified prices for large business customers and street lighting customers.

A brief explanation of each cost component and how it was calculated in the 2017–18 price determination is provided below.[19]

4.1 Wholesale energy costs

Retailers incur wholesale energy costs when purchasing electricity from the NEM to meet the electricity demand of their customers.

The NEM is a volatile market where prices are settled every half hour and can range from –$1,000 per megawatt hour (MWh) to $14,200 per MWh.[20] Retailers can, and do, adopt a range of strategies to reduce their exposure to these volatile prices, including:

- pursuing a 'hedging strategy' by purchasing financial derivatives, such as swaps and options
- entering long-term power purchase agreements with generators
- investing in their own electricity generators.

In previous price determinations, we considered two main approaches for determining wholesale energy costs—a hedging-based approach and a long-run marginal cost approach (LRMC) which attempts to estimate the long-run costs of generation.[21] In the 2017–18 price determination we used a hedging-based approach, as we considered it was transparent and best reflected the actual costs retailers incur when purchasing electricity from the NEM in a given year. Hedging-based approaches have also been adopted by other Australian regulators and have been endorsed by

[19] A detailed explanation of how each cost component was calculated for 2017–18 is provided in the 2017–18 price determination and ACIL Allen's reports, which are available on the QCA's website, www.qca.org.au.

[20] The minimum spot price is defined in clause 3.9.6(b) of the National Electricity Rules. The Market Price Cap is published by the Australian Energy Market Commission (AEMC) every February. For more information, see www.aemc.gov.au.

[21] In previous price determinations, we also considered a statistical model that estimated the price a retailer might be willing to pay to enter hedging contracts (the price distribution approach).

the Australian Energy Market Commission (AEMC) in its final report on best practice retail regulation, produced for the Standing Council on Energy and Resources.[22]

4.2 Other energy costs

In addition to wholesale energy costs, we must account for other energy costs that retailers incur when purchasing electricity from the NEM, which are:

- Renewable Energy Target (RET) costs
- NEM participation fees and ancillary services charges
- prudential capital costs.

RET costs

The RET scheme, comprised of the Large-scale Renewable Energy Target (LRET) and Small-scale Renewable Energy Scheme (SRES), provides incentives for the electricity sector to increase generation from renewable sources and reduce greenhouse gas emissions. The costs of these incentives are paid by retailers through the purchase of Large-scale Generation Certificates (LGCs) and Small-scale Technology Certificates (STCs).

For the 2017–18 price determination, we accepted ACIL Allen's recommended approaches to estimating the costs of the RET scheme, as follows:

- LRET costs—estimated by using a market-based approach. This approach based LGC prices on forward prices for certificates published by the Australian Financial Markets Association (AFMA) up until September 2016. As AFMA ceased publication of this data at the end of September 2016, ACIL Allen used TFS broker data from October 2016 to April 2017. ACIL Allen examined LGC forward prices provided by TFS prior to September 2016, and was satisfied they were consistent with AFMA prices.
- SRES costs—estimated by using the final 2017 small-scale technology percentage (STP) target for the first half of the pricing period, and the latest available non-binding 2018 STP target for the second half of the pricing period. STC prices were based on the clearing house price.[23]

NEM participation fees and ancillary services charges

Retailers purchasing electricity from the NEM are required to pay NEM participation fees and ancillary services charges to the Australian Energy Market Operator (AEMO). NEM participation fees are levied by AEMO to cover the costs of operating the NEM and funding Energy Consumers Australia. Ancillary services charges cover the costs of the services used by AEMO to manage power system safety, security and reliability.

For the advice ACIL Allen provided to the QCA for the 2017–18 price determination, it used AEMO budget and fee projections to estimate NEM participation fees. ACIL Allen's estimate of ancillary services charges was based on the average historical costs observed over the preceding 52 weeks.[24]

[22] AEMC, *Advice on best practice retail price methodology*, final report, 27 September 2013.
[23] A detailed explanation of how each cost component was calculated in 2017–18 is provided in the 2017–18 price determination and ACIL Allen's reports, which are available on the QCA's website, www.qca.org.au
[24] Ibid.

Prudential capital costs

Prudential capital costs are the costs that a retailer incurs to provide financial guarantees to AEMO and to lodge initial margins with hedge providers for futures contracts. For its advice on the 2017–18 price determination, ACIL Allen estimated prudential capital costs in line with the latest published AEMO requirements and margin requirements for trading in the futures market.[25]

Some stakeholders suggested in the 2017–18 price determination process that we should use the Ergon net system load profile (NSLP) instead of the Energex NSLP to determine prudential costs. To be consistent with the UTP, we need to use the Energex NSLP to determine the prudential costs for small customers. However, should we continue to base large customer costs of supply on Ergon Distribution's east zone, transmission region one, it would be possible to use the Ergon NSLP rather than the Energex NSLP.

4.3 Energy losses

Some electricity is lost when it is transported over transmission and distribution networks to customers. As a result, retailers must purchase additional electricity to allow for these losses when supplying customers.

For its advice on the 2017–18 price determination, ACIL Allen accounted for these losses by applying transmission and distribution loss factors published by AEMO, in a manner that aligned with AEMO's settlement process.

4.4 Data extension

During the 2017–18 price determination process, wholesale energy prices changed significantly over the summer months. Because the data cut-off date for the 2017–18 draft determination was mid-November 2016, these changes were not captured in the wholesale energy cost estimates for the draft determination. As a consequence, there was a large change in the energy cost estimates between the draft determination and final determination.

To account for as much of the changes in wholesale energy costs that may occur over the summer period as is possible, while still meeting our draft determination deadline, it may be possible to extend the energy data cut-off date for the draft determination to the end of January. We intend to consider the potential benefits and practicalities of doing so, as part of development of the draft determination for 2018–19.

[25] A detailed explanation of how each cost component was calculated in 2017–18 is provided in the 2017–18 price determination and ACIL Allen's reports, which are available on the QCA's website, www.qca.org.au.

4.5 Consultation questions

- **In the absence of AFMA data, should ACIL Allen continue to use TFS broker data to estimate LGC prices? Are there any other data sources ACIL Allen should consider?**
- **Should we use the Ergon NSLP rather than the Energex NSLP to estimate prudential costs for large customers?**
- **If practical, should we consider extending the energy cost data cut-off date to the end of January to account for the majority of the summer period and any corresponding changes in wholesale energy costs?**
- **What improvements could be made to the current approaches?**
- **Are there any other issues we should consider when estimating energy costs?**

5 RETAIL COSTS

When the QCA sets the R component of notified prices, it must also include an allowance for retail costs. Retail costs are the costs associated with services provided by a retailer to its customers, which typically include customer administration, call centres, corporate overheads, billing and revenue collection, IT systems, regulatory compliance, customer acquisition and retention costs, depreciation, interest payments and tax expenses. Retail costs also include a return to investors for retailers' exposure to systematic risks associated with providing retail electricity services.

As part of the 2016–17 price determination process, we conducted a comprehensive review of the retail cost components of retail tariffs. We engaged ACIL Allen to provide advice on efficient retail costs. ACIL Allen used a combination of bottom-up and benchmarking methods to estimate retail costs for servicing residential and small business customers, informed by analysis of publicly available data, observed market offers, and detailed confidential information provided by retailers. For large and very large business customers[26], ACIL Allen advised there was no compelling evidence that retail costs varied materially in real terms from the QCA's previous allowances.

Consequently, we established separate retail cost allowances for residential and small business customers, based on the averages of ACIL Allen's benchmarking observations. For large and very large business customers, we based the retail cost allowances on our 2015–16 allowances, with the fixed components escalated by forecast inflation to maintain them in real terms.

A detailed explanation of how the retail cost components were calculated for 2016–17 is provided in the 2016–17 price determination and ACIL Allen's reports, which are available on the QCA's website, www.qca.org.au.

For 2017–18, the QCA maintained retail costs for residential and small business customers by:

- adjusting the fixed retail cost allowances estimated for 2016–17 by the Reserve Bank of Australia's forecast of the change in the CPI for 2017–18[27], to maintain them in real terms
- maintaining the variable retail cost percentage allocators at 11.27 per cent for residential customers and 12.8 per cent for small business customers, the same proportions of other variable costs established in the 2016–17 final price determination.

We consider that the retail cost allowances and methodology used for setting notified prices for 2017–18 are an appropriate starting point for setting notified prices for 2018–19.

Indexation

In the 2015–16 price determination, we escalated the benchmark retail cost allowances for all customers by the forecast change in the consumer price index (CPI) to maintain them in real terms. This was drawn from the Reserve Bank of Australia's Statement on Monetary Policy (May 2015). As we estimated new retail cost allowances for residential and small business customer

[26] A large business customer is a business that is classified as a Standard Asset Customer (greater than 100 MWh per annum). A very large business customer is a business that is classified either as a Connection Asset Customer or an Individually Calculated Customer.

[27] A CPI of 2.0% was applied, consistent with the mid-range of the RBA forecast of 1.5% to 2.5% for the 12 months to 30 June 2018. See Reserve Bank of Australia, *Statement on Monetary Policy*, November 2016, Table 6.1, p.57.

tariffs in the 2016–17 price determination, those allowances were not adjusted. In the 2017–18 price determination, the fixed retail cost allowances for all tariffs were adjusted by the forecast change in CPI. For the 2018–19 price determination, we propose to escalate the fixed retail cost allowances for all tariffs by the forecast change in CPI to maintain them in real terms.

5.1 Consultation questions

- **Is there any new information available to suggest that the approach used in the 2017–18 price determination is no longer appropriate, or that a new methodology would be better?**
- **Is there any evidence that would suggest retail costs have changed materially (i.e. current costs have changed significantly or new costs have emerged) since the 2017–18 price determination?**
- **Should the retail cost allowances be indexed? If so, how should they be indexed (e.g. by CPI)?**
- **Are there any other issues we should consider when estimating retail costs?**

6 OTHER ISSUES

This chapter discusses other issues relevant to the 2018–19 price determination, including:

- the standing offer differential
- competition and headroom
- a cost pass-through mechanism
- transitional arrangements for tariffs classed as transitional or obsolete
- metering charges
- the Gazette Notice

6.1 Standing offer differential—residential and small business customers

The QCA uses the N+R cost build-up methodology to derive the estimated efficient costs of supplying small customers in south east Queensland, which serve as a basis to set notified prices. In broad terms, this produces price levels that we would expect to reflect efficient market offer prices.

The Queensland Government's definition of the UTP requires us to set 2018–19 notified prices for residential and small business customers that broadly reflect the expected level of standing offer prices in south east Queensland (see Section 1.3). Consequently, it is necessary to add an amount that represents a reasonable expectation of the difference between the expected efficient market offer prices and the expected standing offer prices (the standing offer differential).

In the 2017–18 price determination, the use of the N+R methodology and the application of the UTP also resulted in us adding a standing offer differential. Retail electricity prices of small customers observed in south east Queensland generally reveal that most retailers' standing offer prices[28] are higher than their best market offers, albeit by varying amounts. In the 2017–18 final determination, we did not consider there was sufficient similarity between south east Queensland and other jurisdictions (Victoria, New South Wales and South Australia), or sufficient maturity in the south east Queensland retail market to use those price differentials to calculate retail prices.

For 2017–18, we considered it reasonable and prudent to leave the standing offer adjustment at the level determined for the 2016–17 price determination. This meant we maintained the standing offer adjustment at five per cent of total estimated efficient costs above the efficient costs of supply in south east Queensland.

For the 2018–19 price determination, the Minister's delegation states that the QCA should consider maintaining the standing offer adjustment at the level applied in setting 2017–18 notified prices when determining the level of standing offer adjustment for 2018–19.

The Minister's delegation states:

[28] In 2015–16, prior to pricing deregulation, standing offer prices were notified prices. Since 1 July 2016, retail electricity prices have been deregulated in south east Queensland and retailers can set standing offer prices at levels they choose themselves.

> *The deregulation of retail electricity prices for small customers in south-east Queensland (SEQ) on 1 July 2016 removed a reference point for the determination of prices in regional Queensland. As you will be aware, the Delegation for the setting of prices in 2017-18 identified that Government considered that regulated prices for small customers in regional Queensland should broadly reflect the expected prices for small customers on Standing Offers in SEQ.*
>
> *The Government is of the view that a Standing Offer adjustment continues to be an important component of notified prices. The Government considers that a Standing Offer contract provides additional value for consumers compared to a Market Offer, for example through additional protections to consumers contained in the terms and conditions in a Standing Offer contract, as well as providing a signal for retail competition in regional Queensland. As such the QCA should give consideration to maintaining the Standing Offer adjustment at the current level.*[29]

Alternatively, we could consider the following matters to form a view on the expected price differential between market offers and standing offers:

- the experience in other deregulated jurisdictions
- the observed price differentials in the newly deregulated south east Queensland retail market.

This latter approach would be unlikely to result in a standing offer adjustment differential exactly the same as for 2017–18, but could potentially deliver an outcome that more closely reflects standing offers in south east Queensland.

Consultation questions

- **Does a standing offer adjustment differential of five per cent adequately reflect the additional value that a standing offer contract provides, compared to a market offer?**
- **Is a standing offer adjustment differential of five per cent consistent with the current definition of the UTP?**
- **Is there any new information available to suggest an alternative approach (to that used in the 2017–18 price determination) to estimate the standing offer adjustment differential might be more appropriate?**
- **Are there any other issues we should consider when estimating the standing offer adjustment differential?**

6.2 Competition and headroom—large business customers

Under section 90(5)(a) of the Electricity Act, we are required to have regard to the effect of our price determination on competition in the Queensland retail electricity market. We also intend to have regard to the objects of the Electricity Act, which include:

- establishing a competitive electricity market in line with the national electricity industry reform process
- taking into account national competition policy requirements.

Where it is effective, we consider that competition provides the best means of delivering the goods and services that customers demand at prices that reflect efficient costs. While there is very limited competition in the small customer market in regional Queensland, competition in

[29] The Minister's delegation is provided at Attachment A.

the large customer segment shows greater promise of developing further, particularly in areas where notified prices more closely reflect the actual costs of supply.

As at 30 June 2016, around 38 per cent of large and very large customers in regional Queensland were supplied under a market contract. However, in the Ergon Distribution east pricing zone, transmission region one—where notified prices are based on the estimated efficient costs of supply—the proportion of both large and very large customers on market contracts is higher and has been gradually increasing. For example, in 2012–13, around 73 per cent of very large customers in this area were on market contracts; this figure has increased to 76 per cent as of June 2016.[30]

In previous price determinations, we have included an allowance for 'headroom' to facilitate the development of retail competition in regional Queensland for large business customers. The headroom allowance is an amount, in addition to the estimated efficient cost of providing customer retail services, that is included in notified prices for the purpose of ensuring that notified prices are not a barrier to the continued development of a competitive market. The headroom allowance reflects that notified prices for large business customers are based on an estimate of efficient costs, and there is a danger that if the estimate is too low, the emerging competitive market may be damaged—to the long-term detriment of the large business customers. Since the 2012–13 determination, we have set the headroom allowance at five per cent of total estimated efficient costs.

Consultation questions

- **Should headroom continue to be included in notified prices for large business customers? If so, at what level? If not, why not?**
- **What other issues should we consider in relation to competition?**

6.3 Cost pass-through mechanism

Cost pass-through mechanisms are used by regulators to mitigate the risk that costs allowed for in regulated prices are higher or lower than actual efficient costs. Cost pass-through mechanisms are usually restricted to events that are outside the control of the regulated entity.

We applied a cost pass-through mechanism for the first time in the 2014–15 price determination to pass through an under-recovery of costs in 2013–14, associated with the SRES. We also decided that the mechanism could be used to account for material differences in network charges, in the event that the charges billed to retailers (usually the AER-approved charges) differed from those used to set notified prices. However, this application of the mechanism has not been needed to date. In the 2017–18 price determination, we applied a cost pass-through mechanism to require the negative pass-through of a small over-recovery of costs incurred during 2016–17, associated with the SRES.

The Minister's delegation is for the determination of notified prices for 2018–19. This means that, while we may consider applying a cost pass-through mechanism to pass through an under- or over-recovery of costs incurred during 2017–18, we cannot commit to the continued availability of a cost pass-through mechanism beyond the 2018–19 price determination period.

[30] Queensland Competition Authority, *Regulated Retail Electricity Prices 2017–18*, final determination, May 2017, p. 47.

Consultation questions

- **Should we allow for any pass-through of SRES under- or over-recoveries incurred during 2017–18 into 2018–19 notified prices?**

6.4 Transitional arrangements

Since 2012–13, we have set notified prices using the N+R cost build-up methodology. The introduction of this methodology meant that a number of existing retail tariffs, including farming and irrigation tariffs, did not align with a network tariff.

In previous price determinations, we decided that most of these tariffs should continue to be available for several years because some customers would face significant financial impacts if they were moved to alternative tariffs.

Under the Minister's delegation, we are required to consider maintaining transitional arrangements for tariffs classed as transitional or obsolete.

Transitional period and access to transitional tariffs

When we established transitional periods in the 2013–14 price determination, we decided that all customers should have access to transitional tariffs, subject to individual tariff terms and conditions[31] which have been maintained in subsequent price determinations. Tariffs 20 (large), 21, 22 (small and large), 37, 62, 65 and 66 were made available to 2020. The QCA allowed new customers to access transitional tariffs in the interest of equity for all businesses—but recognised there could be an adverse impact on competition, and the level of government subsidy, if retailers ended up supplying too many customers below cost.

In subsequent price determinations, we noted that we would consider closing access to transitional tariffs to new customers if there was a significant increase in the number of customers accessing transitional tariffs, and thereby an increase in the subsidy paid by taxpayers.

In 2017–18, we classified tariff 47 and 48 as obsolete, closing them to new customers while allowing existing customers to access them. We consider the five-year transitional period announced in our 2017–18 price determination for these tariffs remains appropriate.

Canegrowers Isis[32], in its submission in response to the 2017–18 interim consultation paper, suggested that its members would benefit from increased flexibility in choosing different tariffs, but it did not specifically state that these members are using access to transitional tariffs to increase their level of government subsidy. The Australian Sugar Milling Council highlighted that Ergon had provided its members with an opportunity to switch tariffs (between tariff 48 and tariff 22) twice a year at specified intervals. This arrangement delivered Ergon, 'a crude and deliberate form of demand management'[33], leading to reduced or delayed investment in infrastructure to manage peak demand events over the summer. The Australian Sugar Milling Council's submission suggests that by switching tariffs mills are able to lower their electricity bills.

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[31] New customers cannot access tariffs that have been classed as obsolete.

[32] Canegrowers ISIS, submission to the QCA, *Regulated retail electricity prices for 2017–18, interim consultation paper*, November 2016, http://www.qca.org.au/getattachment/7ed6c2cb-0b57-4455-9e9a-f1794f25f675/Canegrowers-Isis.aspx.

[33] Australian Sugar Milling Council, submission to the QCA*, Regulated retail electricity prices for 2017–18*, *draft determination,* April 2017, http://www.qca.org.au/getattachment/24122195-2e9f-4245-93d4-7d44d25c0430/Australian-Sugar-Milling-Council.aspx.

The timing for making the 2017–18 price determination did not allow for an investigation into whether customers on existing transitional tariffs are using access to transitional tariffs to increase their level of subsidy and move further away from the prices of standard business tariffs. The QCA therefore maintained its approach of allowing new customers to access tariffs 20 (large), 21, 22 (small and large), 62, 65 and 66 in 2017–18.

However, the QCA noted that, should we receive a delegation from the Minister to set 2018–19 notified prices, we would investigate the prevalence of these practices and consider whether it remains appropriate to continue to allow new customers to access transitional tariffs.

We invite stakeholders to provide comment and evidence on whether maintaining access for new customers to tariffs 20 (large), 21, 22 (small and large), 62, 65 and 66 is increasing the level of subsidy customers receive, thereby also increasing the gap between the amount such customers pay and the prices of standard business tariffs.

Escalating transitional and obsolete tariffs

Transitional and obsolete tariffs, unlike other retail tariffs, are not determined using the N+R methodology. In previous price determinations, our general approach to setting charges for each transitional or obsolete tariff was to escalate the charges based on the percentage increase in the charges in the standard business tariff that customers would otherwise pay. We then applied an additional escalation factor to the increase to limit the charges for the transitional or obsolete tariff falling further below cost in real terms.[34] We propose to set transitional and obsolete tariffs for 2018–19 in accordance with that general approach.

Consultation questions

- **Should the five-year transitional period for tariffs 47 and 48 be maintained?**
- **Are transitional periods for tariffs 20 (large), 21, 22 (small and large), 62, 65 and 66 increasing the level of subsidy customers receive, thereby also increasing the gap between the amount such customers pay and the prices of standard business tariffs?**
- **Should tariffs 20 (large), 21, 22 (small and large), 62, 65 and 66 be made obsolete in 2018–19 to reduce the level of subsidies customers receive and move them closer to the prices of standard business tariffs?**
- **Is there any new information that suggests the overall approach we propose to take for transitional and obsolete tariffs is no longer appropriate?**
- **What other issues should we consider? Please provide supporting evidence where possible.**

6.5 Metering charges

In accordance with the Electricity Act[35], it was not possible for the QCA to include metering charges in notified prices in previous price determinations, as they were distribution non-network charges. However, as a result of the recent rule change by the AEMC, charges for digital meters (also known as smart meters) are no longer distribution non-network charges. Unlike standard

[34] As any given percentage increase in a higher bill will be greater in dollar terms than the same percentage increase in a smaller bill. For example, if a bill of $1,000 (Bill A) and a bill of $2,000 (Bill B) both increase by 10 per cent to $1,100 and $2,200 respectively, the dollar difference between Bill A and Bill B increases by $100—from $1,000 to $1,100.

[35] Section 90(3)(e)

meters, digital meters are open to competition and do not have a single standard price. Digital meters, and their associated services, are provided by multiple companies each setting their own prices for the digital meters and associated services.

Given this, the QCA may now need to include the costs of digital metering services in notified prices. We see two possible approaches to calculating these charges. The QCA can base the charges on the costs in regional Queensland, or those in SEQ. In addition, if the QCA bases these charges on costs in SEQ they can be based on the costs incurred by retailers, or by the amounts retailers charge standard contract customers in SEQ.

Consultation questions

- **Should the QCA base digital meter charges on costs in regional Queensland or SEQ?**
- **If the QCA bases these on SEQ costs, should we use the costs incurred by retailers, or the costs passed on to standard contract customers by retailers?**
- **What other issues should we consider? Please provide supporting evidence where possible.**

6.6 Gazette Notice

The Direction requires the QCA to consider to continue including two items currently in the Gazette Notice. The first, which has been included in the Gazette notice for a number of years relates to the purchase of 'Green' power and reads as follows:

> *Amounts in accordance with a program or scheme for the purchase of electricity from renewable or environmentally-friendly sources (whether or not those additional amounts are calculated on the basis of the customer's electricity usage), but only if:*
>
> *(a) the customer voluntarily participates in such program or scheme;*
>
> *(b) the additional amount is payable under the program or scheme; and*
>
> *(c) the retailer gives the customer prior written notice of any change to the additional amount payable under the program or scheme.*

The second item relates to the EasyPay Rewards scheme,[36] introduced by the Queensland Government as part of its Affordable Energy Plan.[37] The Government added the Easy Pay rewards Program to the Gazette Notice on 26 October 2017 to give effect to the policy decision. The QCA is required to consider including the following wording in the Gazette Notice to maintain the EasyPay Rewards scheme for the 2018-19 tariff year:

> *Easy Pay Rewards*
>
> *From 1 December 2017, Ergon Energy Queensland Pty Ltd may allow Standard Contract Customers an annual reward of:*
>
> - *for an eligible residential customer— $75; or*
> - *for an eligible non-residential small customer—$120, (each, an annual reward amount).*
>
> *To be an eligible customer, a residential or a non-residential small customer must 'opt-in' by agreeing to each of the following (eligibility requirements):*
>
> - *to receive bills electronically (i.e. no paper bills);*

[36] See https://www.ergon.com.au/retail/residential/account-options/easypay for more information.
[37] See https://www.dews.qld.gov.au/electricity/affordable-energy-plan for more information.

- *to pay bills either weekly, fortnightly or monthly (as agreed) by direct debit or CentrePay by the due date; and*
- *to accept bill smoothing.*

An eligible customer 'opts-out' if, at any time:

- *the customer notifies Ergon Energy Queensland Pty Ltd the customer wants to opt-out; or*
- *the customer stops agreeing to 1 or more of the eligibility requirements.*

The reward scheme will operate as follows:

(a) Ergon Energy Queensland Pty Ltd must allow an eligible customer who has opted in under a Standard Contract to defer payment of the annual reward amount as to that Standard Contract.

(b) The deferred annual reward amount for a Year becomes payable if, within 6 months of opting in, the eligible customer:

(i) opts out; or

(ii) does not maintain payment of bills by direct debit or CentrePay (as relevant).

(c) For an eligible customer, any deferred annual reward amount for a Year ceases to be payable (and not just deferred) on the first anniversary of the commencement of that Year.

(d) An eligible customer, having opted out, may subsequently opt in under the same Standard Contract, provided that:

(i) any deferred annual reward amount payable for that Standard Contract under paragraph (b) has been paid; and

(ii) if no amount is payable under paragraph (b), the customer has not received a deferred annual reward amount within the 12 months before the day the customer opts back into the scheme

(e) The 'Year' for the purposes of the annual reward for an eligible customer commences on the day the customer pays the bill issued after:

(i) The customer opts-in;

(ii) A meter reading is taken with respect to that Standard Contract; and

(iii) A bill is issued with respect to that Standard Contract.

(f) Key Easy Pay Reward dates:

Commencement of Easy Pay Reward: 1 December 2017

Closure of Easy Pay Reward (final bill credits to be applied by this date): 31 December 2019

Consultation question

- **Should the QCA include the above wording in the Gazette Notice for 2018-19 notified prices?**

ACRONYMS

A	
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
AFMA	Australian Financial Markets Association
C	
CAC	Connection Asset Customer
CPI	Consumer price index
c/day	Cents per day
c/kWh	Cents per kilowatt hour
E	
Ergon Distribution	Ergon Energy Corporation Limited
Ergon Retail	Ergon Energy Queensland Limited
Electricity Act	*Electricity Act 1994* (Qld)
I	
ICC	Individually Calculated Customer
K	
kVa	Kilovolt ampere
kWh	Kilowatt hour
L	
LGC	Large-scale Generation Certificate
LRET	Large-scale Renewable Energy Target
LRMC	Long-run marginal cost
M	
MWh	Megawatt hour
N	
N	Network
N+R	Network plus retail cost build-up methodology
NEM	National Electricity Market
Notified prices	Regulated retail electricity prices
NSLP	Net system load profile
Q	
QCA	Queensland Competition Authority
R	
R	Retail

RET	Renewable Energy Target
S	
SAC	Standard Asset Customer
SRES	Small-scale Renewable Energy Scheme
STC	Small-scale Technology Certificate
STOUD	Seasonal time-of-use demand
STP	Small-scale technology percentage
U	
UTP	Uniform Tariff Policy

APPENDIX A: MINISTERIAL DELEGATION

Queensland Government

The Honourable Dr Anthony Lynham MP
Minister for Natural Resources, Mines and Energy

Our Reference: CTS 26070/17

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Queensland 4002 Australia
Telephone +61 7 3719 7360
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Professor Roy Green
Chair
Queensland Competition Authority
Level 27
45 Ann Street
BRISBANE QLD 4000

Dear Professor Green

Re: Determination of Regulated Retail Electricity Prices for 2018–19

I write to you to issue a Delegation and Terms of Reference (ToR) to the Queensland Competition Authority (QCA) for the determination of regulated retail electricity prices in regional Queensland for 2018–19 under section 90AA(1) of the *Electricity Act 1994.*

The Queensland Government's Uniform Tariff Policy (UTP) and promoting greater levels of retail competition are important considerations when setting regulated retail electricity prices in regional Queensland. While the attached Delegation and ToR for 2018–19 are generally consistent with the approaches in the Delegation and ToR for 2017–18, there are some additional considerations. These include:

- Clarifying the arrangements for regional Queensland customers on Essential Energy's network to ensure they receive the same price protections as other regional customers under the UTP;
- Enabling the QCA to consider the benefits in allowing new customers to access transitional tariffs over the next two years; and
- Continuing the inclusion of Ergon Energy retail's Easy Pay Reward scheme, and allowing Ergon Energy to offer a voluntary tariff trial in 2018-19 based on network tariffs approved by the Australian Energy Regulator.

The deregulation of retail electricity prices for small customers in South East Queensland (SEQ) on 1 July 2016 removed a reference point for the determination of prices in regional Queensland. As you will be aware, the Delegation for the setting of prices in 2017–18 identified that Government considered that regulated prices for small customers in regional Queensland should broadly reflect the expected prices for small customers on Standing Offers in SEQ.

The Government is of the view that a Standing Offer adjustment continues to be an important component of notified prices. The Government considers that a Standing Offer contract provides additional value for consumers compared to a Market Offer, for example through additional protections to consumers contained in the terms and conditions in a Standing Offer contract, as well as providing a signal for retail competition in regional Queensland. As such, the QCA should give consideration to maintaining the Standing Offer adjustment at the current level.

The Queensland Government has committed to the establishment of 'CleanCo' which will involve a restructuring of the two publicly-owned electricity generation companies into three with a strategic portfolio of low and no emission power generation assets. One of the objectives of CleanCo is to increase competition in the wholesale market and the QCA should consider the impact of CleanCo, where relevant, when determining regulated retail electricity prices for 2018–19.

Public consultation is a vital part of the QCA's process for determining retail electricity prices. As such, the ToR requires the Draft Determination to be issued in February 2018. I trust this provides sufficient time to undertake the necessary consultation to support the Draft Determination and to allow for delivery of the Final Determination by 31 May 2018.

If your officers have any questions regarding the Delegation and ToR, please contact
Ms Kathie Standen, Acting Deputy Director-General, Energy Division on 07 3181 5113 or via email at: kathie.standen@dews.qld.gov.au.

Yours sincerely

Dr Anthony Lynham MP
Minister for Natural Resources, Mines and Energy

Att: Delegation and ToR – Determination of Regulated Retail Electricity Prices for 2018–19

ELECTRICITY ACT 1994
Section 90AA(1)

DELEGATION

I, Honourable Dr Anthony Lynham, Minister for Natural Resources, Mines and Energy, in accordance with the power of delegation in section 90AA(1) of the *Electricity Act 1994* (the Act), delegate to the Queensland Competition Authority (QCA) the function under section 90(1) of the Act of deciding the prices that a retail entity may charge its Standard Contract Customers for customer retail services in Queensland, other than those in the Energex distribution area, for the tariff year 1 July 2018 to 30 June 2019.

The following are the Terms of Reference of the price determination:

Terms of Reference

1. These Terms of Reference apply for the tariff year 1 July 2018 to 30 June 2019.

2. The QCA is to calculate the notified prices and publish an annual price determination, in the form of a tariff schedule, in accordance with these Terms of Reference.

3. In accordance with section 90(5)(a) of the Act, in making a price determination for each tariff year the QCA must have regard to the matters set out in paragraph 5 of these Terms of Reference.

4. In accordance with section 90(5)(b) of the Act, the QCA may have regard to any other matter that the QCA considers relevant.

5. The matters that the QCA is required by this delegation to consider are:

   (a) On 1 July 2016, price regulation in the Energex distribution area was removed for small customers. This means that notified prices do not apply to customers in the Energex distribution area;

   (b) Uniform Tariff Policy - QCA must consider the Government's Uniform Tariff Policy, which provides that, wherever possible, Standard Contract Customers of the same class should pay no more for their electricity, regardless of their geographic location;

   (c) Framework – use of the Network (N) plus Retail (R) cost build-up methodology when working out the notified prices and making the price determination, where N (network cost) is treated as a pass-through and R (energy and retail cost) is determined by the QCA;

Page 1 of 5

(d) When determining the N components for each regulated retail tariff:

(i) For residential and small business customer tariffs (with the exception of Tariffs 12A, 14, 22A and 24) - basing the network cost component on the network charges to be levied by Energex and the relevant Energex tariff structures;

(ii) For Tariff 12A (residential time-of-use), Tariff 14 (residential seasonal time-of-use), Tariff 22A (small business time-of-use) and Tariff 24 (business seasonal time-of-use demand) - basing the network cost component on the price level of network charges to be levied by Energex, but utilising the relevant EECL tariff structures, in order to strengthen or enhance the underlying network price signals and encourage customers to switch to time-of-use and demand tariffs and reduce their energy consumption during peak times; and

(iii) For large business customers who consume 100MWh or more per annum - basing the network cost component on the network charges to be levied by EECL;

(e) Transitional Arrangements - maintaining transitional arrangements for tariffs classed as transitional or obsolete (i.e. farming, irrigation, declining block, non-domestic heating and large business customer tariffs).

(f) Tariff trial - to offer a voluntary trial tariff, based on the structure of any new cost reflective residential network tariff that is submitted to the Australian Energy Regulator (AER) in the 2018-19 Ergon Energy Pricing Proposal. Ergon Energy will adjust the rates to align with the Uniform Tariff Policy and Long-Run Marginal Cost (LRMC) pricing principles.

(g) Enabling retailers to also charge Standard Contract Customers for the following customer retail service that is not included in regulated retail tariffs:

Amounts in accordance with a program or scheme for the purchase of electricity from renewable or environmentally-friendly sources (whether or not those additional amounts are calculated on the basis of the customer's electricity usage), but only if:

(a) the customer voluntarily participates in such program or scheme;
(b) the additional amount is payable under the program or scheme; and
(c) the retailer gives the customer prior written notice of any change to the additional amount payable under the program or scheme.

(h) Continuing Ergon Energy Queensland Pty Ltd's Easy Pay Rewards scheme to give the following effect:

Easy Pay Rewards

From 1 December 2017, Ergon Energy Queensland Pty Ltd may allow Standard Contract Customers an annual reward of:

- for an eligible residential customer— $75; or
- for an eligible non-residential small customer—$120,

(each, an *annual reward amount*).

To be an eligible customer, a residential or a non-residential small customer must 'opt-in' by agreeing to each of the following (*eligibility requirements*):

- to receive bills electronically (i.e. no paper bills);
- to pay bills either weekly, fortnightly or monthly (as agreed) by direct debit or CentrePay by the due date; and
- to accept bill smoothing.

An eligible customer 'opts-out' if, at any time:

- the customer notifies Ergon Energy Queensland Pty Ltd the customer wants to opt-out; or
- the customer stops agreeing to 1 or more of the eligibility requirements.

The reward scheme will operate as follows:

(a) Ergon Energy Queensland Pty Ltd must allow an eligible customer who has opted in under a Standard Contract to defer payment of the annual reward amount as to that Standard Contract.

(b) The deferred annual reward amount for a Year becomes payable if, within 6 months of opting in, the eligible customer:

(i) opts out; or

(ii) does not maintain payment of bills by direct debit or CentrePay (as relevant).

(c) For an eligible customer, any deferred annual reward amount for a Year ceases to be payable (and not just deferred) on the first anniversary of the commencement of that Year.

(d) An eligible customer, having opted out, may subsequently opt in under the same Standard Contract, provided that:

(i) any deferred annual reward amount payable for that Standard Contract under paragraph (b) has been paid; and

(ii) if no amount is payable under paragraph (b), the customer has not received a deferred annual reward amount within the 12 months before the day the customer opts back into the scheme

(e) The 'Year' for the purposes of the annual reward for an eligible customer commences on the day the customer pays the bill issued after:

(i) The customer opts-in;
(ii) A meter reading is taken with respect to that Standard Contract; and
(iii) A bill is issued with respect to that Standard Contract.

(f) Key Easy Pay Reward dates:

Commencement of Easy Pay Reward: **1 December 2017**
Closure of Easy Pay Reward (final bill credits to be applied by this date): **31 December 2019**

Interim Consultation Paper

6. The QCA must publish an interim consultation paper identifying key issues to be considered when making the price determination.

7. The QCA must publish a written notice inviting submissions about the interim consultation paper. The notice must state a period during which anyone can make written submissions to the QCA about issues relevant to the price determination.

8. The QCA must consider any submissions received within the consultation period and make them available to the public, subject to normal confidentiality considerations.

Consultation Timetable

9. The QCA must publish an annual consultation timetable within two weeks after submissions on the interim consultation paper are due, which the QCA can revise at its discretion, detailing any proposed additional public papers and workshops that the QCA considers would assist the consultation process.

Workshops and additional consultation

10. As part of the interim consultation paper and in consideration of submissions in response to the interim consultation paper, the QCA must consider the merits of additional public consultation (workshops and papers) on identified key issues.

Draft Price Determination

DELEGATION TO QCA

11. The QCA must investigate and publish its draft price determination on regulated retail electricity tariffs, with each tariff presented as bundled prices appropriate to the retail tariff structure.

12. The QCA must publish a written notice inviting submissions about the draft price determination. The notice must state a period during which anyone can make written submissions to the QCA about issues relevant to the draft price determination.

13. The QCA must consider any submissions received within the consultation period and make them available to the public, subject to normal confidentiality considerations.

Final Price Determination

14. The QCA must investigate and publish its final price determination on regulated retail electricity tariffs, with each tariff presented as bundled prices appropriate to the retail tariff structure, and gazette the retail tariffs.

Timing

15. The QCA must make its reports available to the public and, at a minimum, publicly release the papers and price determinations listed in paragraphs 6 to 14.

16. The QCA must publish the interim consultation paper for the 2018–19 tariff year no later than one month after the date of this Delegation.

17. The QCA must publish the draft price determination on regulated retail electricity tariffs in February 2018.

18. The QCA must publish the final price determination on regulated retail electricity tariffs for the 2018–19 tariff year, and have the retail tariffs gazetted, no later than 31 May 2018.

DATED this 18th day of DEC 2017.

SIGNED by the Hon Dr Anthony Lynham,)
Minister for Natural Resources, Mines and Energy) ....
) *(signature)*

APPENDIX B COMPARISON OF NETWORK TARIFF STRUCTURES

Table 1 Energex and Ergon Distribution residential and small business customer time-of-use and demand tariffs

Distributor		*Peak*	*Shoulder*	*Off-peak*
Residential (time-of-use)				
Energex	Usage	4 pm–8 pm weekdays (weekdays include government specified public holidays)	7 am–4 pm, 8 pm–10 pm weekdays (weekdays include government specified public holidays) 7 am–10 pm weekends	10 pm–7 am every day
Ergon Distribution (retail tariff 12A)	Usage	3 pm–9:30 pm any day of the week, summer[a] only		All other times
Residential (time-of-use and demand)				
Energex (introduced on 1 July 2016)	Usage	Flat usage charge		
	Demand	4 pm–8 pm workdays (workdays are weekdays but exclude government specified public holidays)		
Ergon Distribution (retail tariff 14)	Usage	Flat usage charge		
	Demand	3pm–9:30 pm any day of the week, summer[a] months only		3 pm–9:30 pm any day of the week, non-summer[a] months
Small business (time-of-use)				
Energex	Usage	7 am–9 pm, weekdays (weekdays include government specified public holidays)		All other times
Ergon Distribution (retail tariff 22A)	Usage	10 am–8 pm on summer[a] weekdays		All other times
Small business (time-of-use demand)				
Energex (introduced on 1 July 2017)	Usage	Flat usage charge		
	Demand	9 am–9 pm workdays (workdays are weekdays but exclude		

Distributor		Peak	Shoulder	Off-peak
		government specified public holidays)		
Ergon Distribution (retail tariff 24)	Usage	Flat usage charge		
	Demand	10am–8pm on summer[a] weekdays		10 am–8 pm weekdays in non-summer[a] months

***a** Summer months are December, January and February.*

Table 2 Energex and Ergon Distribution non time-of-use tariffs

Type	Distributor	Fixed	Usage		
Residential (tariff 11)	Energex	c/day	Flat rate c/kWh		
	Ergon Distribution	c/day	c/kWh 1st 1,000 kWh/year	c/kWh next 5,000 kWh/year	c/kWh >6,000 kWh/year
Small business (tariff 20)	Energex	c/day	Flat rate c/kWh		
	Ergon Distribution	c/day	c/kWh 1st 1,000 kWh/year	c/kWh next 19,000 kWh/year	c/kWh >20,000 kWh/year
Small business demand (tariff 41)	Energex	c/day	Flat rate c/kWh	$/kVa/month	
	Ergon Distribution	No network tariff			
Night controlled load (tariff 31)	Energex	n/a	Flat rate c/kWh		
	Ergon Distribution	c/day	Flat rate c/kWh		
Controlled load (tariff 33)	Energex	n/a	Flat rate c/kWh		
	Ergon Distribution	c/day	Flat rate c/kWh		
Unmetered (tariff 91)	Energex	n/a	Flat rate c/kWh		
	Ergon Distribution	c/day	Flat rate c/kWh		