Queensland Competition Authority

Interim consultation paper

Regulated retail electricity prices for 2019–20

December 2018

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SUBMISSIONS

Closing date for submissions: 18 January 2019

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 our assessment of 2019–20 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
GPO Box 2257
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Tel (07) 3222 0555
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www.qca.org.au/submissions

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.

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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

2018	
Release of the interim consultation paper	21 December
2019	
Submissions due on the interim consultation paper	18 January
Release of the public consultation timetable	By 1 February
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: Leigh Spencer or Adam Liddy
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 2019 to 30 June 2020.[2]

This paper is the first stage of our 2019–20 price determination process. Submissions are invited in response to the paper and are due no later than 18 January 2019. 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.

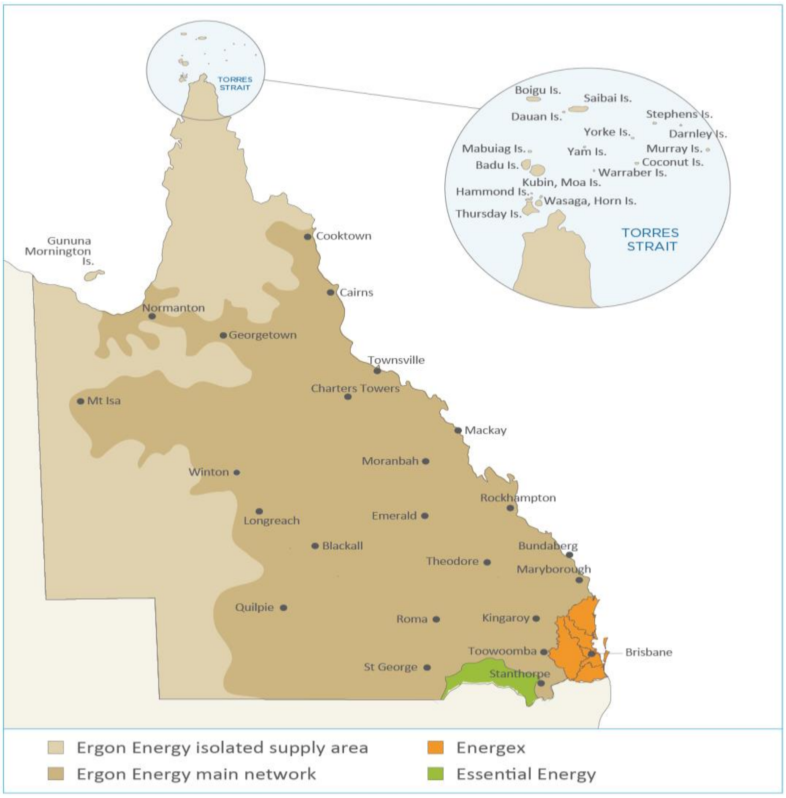
For determinations prior to 2018–19, customers in the southern Queensland part of Essential Energy's distribution area did not have access to notified prices. However, Origin Energy receives a subsidy from the Queensland Government to ensure that standard contract customers in that area pay no more than similar customers with access to notified prices.

For the 2018–19 price determination, the Minister 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). These arrangements will also apply for the 2019–20 price determination.

[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 Electricity prices

There are several factors which combine to make up the annual notified price electricity bill, all of which vary from year to year. These are:

- the costs of the transmission and distribution networks which transport electricity
- the costs of purchasing electricity from the wholesale market
- the costs of operating a retail business, such as call centres and billing systems
- the costs of government initiatives, such as the Renewable Energy Target (RET)
- other factors, such as cost pass throughs from previous decisions and the standing offer adjustment.

Figures 2 and 3 below show the notified price annual bills that the current typical customer[3] would have paid in each year since 2015–16, and the relative contributions of each factor. They show that network costs and energy costs are the largest contributors to an annual notified price bill.

[3] 4,184 kWh per annum for a residential customer on tariff 11, 6,835 kWh per annum for a small business customer on tariff 20.

Figure 2 Annual notified price bill breakdown for the typical residential (tariff 11) customer 2015–16 to 2018–19 (GST exclusive)

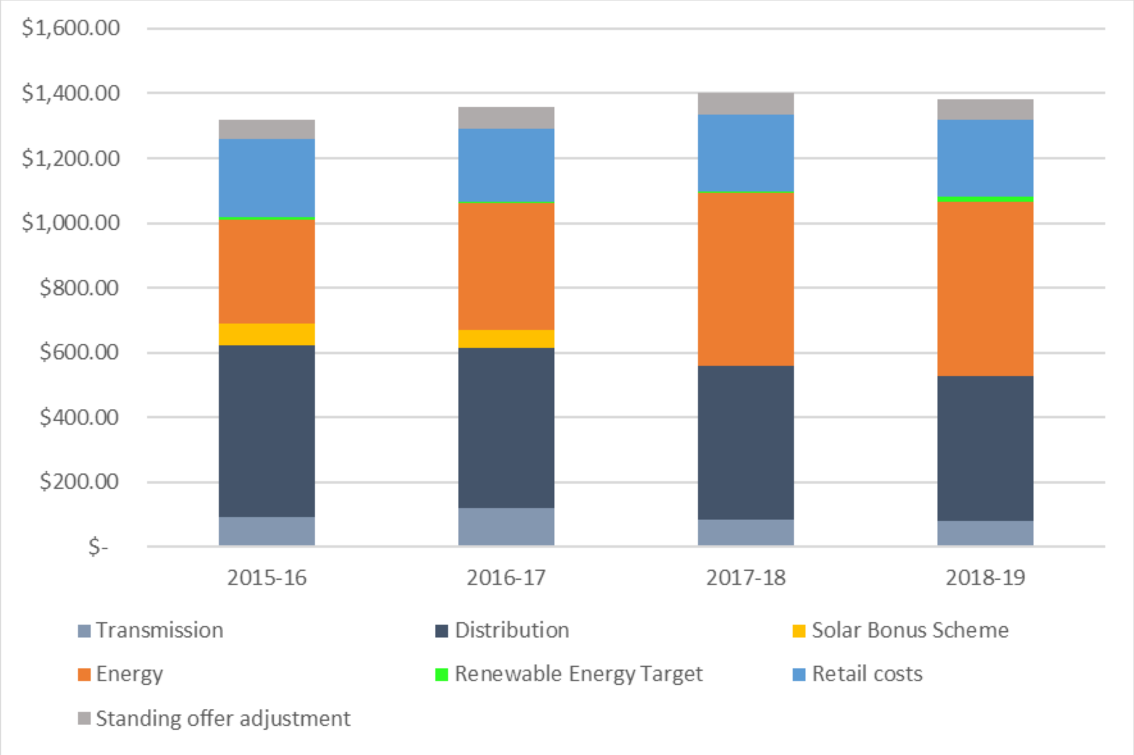
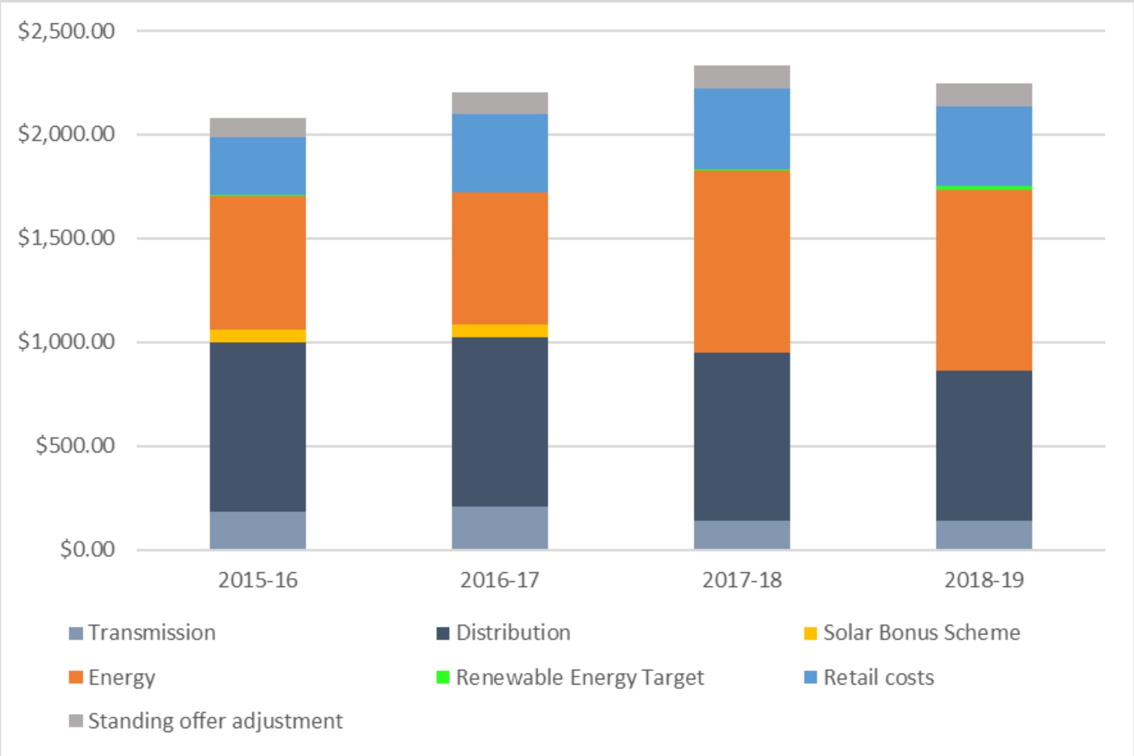


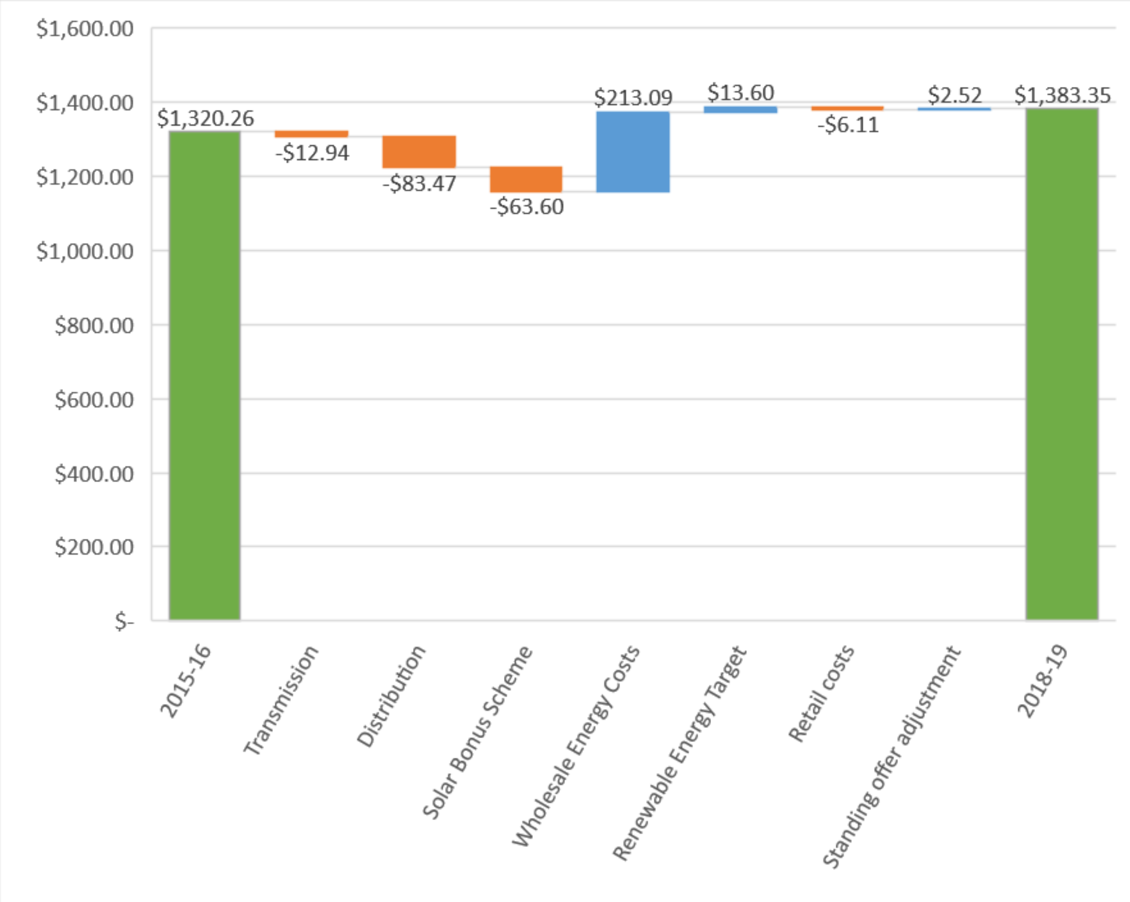
Figure 3 Annual notified price bill breakdown for the typical small business (tariff 20) customer 2015–16 to 2018–19 (GST exclusive)



What factors have driven changes in notified price annual bills?

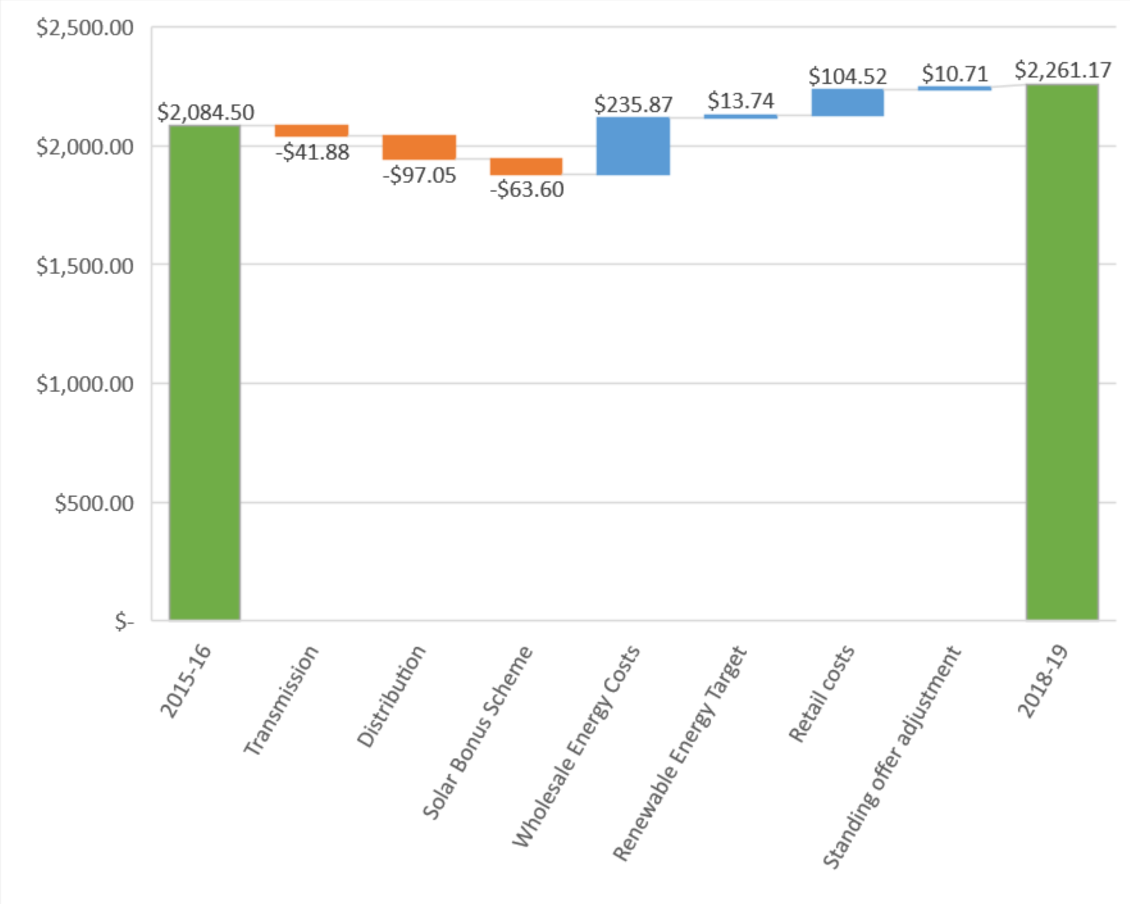
As figures 4 and 5 show, overall the typical residential and small business customer has seen an increase in their notified price electricity bill since 2015–16. For both types of customer, wholesale energy costs have been the largest cause of this price increase, while network costs, and the removal of the Solar Bonus Scheme costs, have been the largest factors reducing costs.

Figure 4 Typical residential (tariff 11) customer[4] notified price bill impacts 2015–16 to 2018–19 (GST exclusive)



[4] 4,184 kWh per annum.

Figure 5 Typical small business (tariff 20) customer[5] notified price bill impacts 2015–16 to 2018–19 (GST exclusive)



1.3 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.[6]

The Electricity Act also provides that we may have regard to any other matter we consider relevant.[7]

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

[5] 6,835 kWh per annum.
[6] Section 90(5)(a) of the Electricity Act.
[7] Section 90(5)(b) of the Electricity Act.

(b) regulate the electricity industry and electricity use

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

(d) ensure that the interests of customers are protected

(e) take into account national competition policy requirements.[8]

1.4 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 2019–20 are outlined below.

The Uniform Tariff Policy

According to the delegation, the Queensland Government's UTP:

> *provides that, wherever possible, customers of the same class should pay no more for their electricity, regardless of their geographic location. However, as residential and small business customers paying notified prices are on standard retail contracts, the Government is of the view that QCA must consider incorporating into notified prices, an appropriate value reflecting the more favourable terms and conditions of standard retail contracts compared to market contracts.*[9]

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—that is, east zone, transmission region one.[10] 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.[11]

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 lower-density customer base. These additional costs are significant, with the Queensland Government expecting to pay a subsidy of approximately $460 million in 2018–19 to give effect to the UTP.[12]

'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 2019–20. Under this methodology, the N costs

[8] Section 3 of the Electricity Act.

[9] Clause 5(b) of the delegation (Appendix A).

[10] 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).

[11] Clause 5(d)(iii) of the delegation (Appendix A).

[12] Queensland Government, *State Budget 2018-19—Budget Strategy and Outlook, Budget Paper No. 2*, June 2018, p.162.

are generally treated as a pass-through and the R costs (energy and retail costs) are determined by us.[13] This methodology is consistent with the approach we applied in previous determinations.

The network cost component

When determining the N components of flat rate retail tariffs[14] 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[15] 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 reclassifying transitional tariffs as obsolete tariffs in 2019–20. This is discussed in section 6.4 of this paper.

Tariff Trial

The delegation requires the QCA to consider basing the N component for tariff 15 (the 'lifestyle' tariff) on the price level of network charges to be levied by Energex and the network tariff structures of Ergon Distribution (as for tariffs 12A, 14, 22A and 24). This is discussed in section 3.4 of this paper.

[13] Clause 5(c) of the delegation (Appendix A).
[14] 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).
[15] 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 2018–19 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 2019–20, 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 2018–19 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 approximately $460 million in 2018–19). However, this approach may be considered justifiable, as it would be consistent with the Queensland Government's definition of the UTP for 2019–20.

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)[16] transmission region one.[17] 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 2019–20 and result in substantial price increases, as the cost of supplying small customers in

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

[17] 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 2019–20 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 2019–20 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 2019–20 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 2018–19 approach of basing notified prices on the costs of supply in south east Queensland?**
- **For large business customers, should we maintain the 2018–19 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 38 per cent of the final cost of electricity for small customers.[18]

Distributors and transmission entities are regulated monopoly businesses whose revenues are regulated by the Australian Energy Regulator (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 generally 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 2018–19 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 2019–20 price determination, the Minister's delegation requires that we consider:

- for residential and small business retail tariffs (except tariffs 12A, 14, 15, 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), time-of-use demand retail tariffs (tariffs 14 and 24), and the 'lifestyle' tariff (tariff 15) 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.

[18] In 2018–19, around 38 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 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.[19]

For the 2018–19 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,[20] 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 2019–20 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 2018–19 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 one 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 2019–20 price determination, the Minister's delegation requires that we consider reclassifying transitional tariffs as obsolete. We also note that, in accordance with previous arrangements, 2019–20 will be the final year for most of the transitional tariffs. 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 15

For the 2019–20 price determination, the Minister's delegation requires that we consider basing the N component for tariff 15 (the 'lifestyle' tariff) on the price level of network charges to be levied by Energex and the network tariff structures of Ergon Distribution (as for tariffs 12A, 14, 22A and 24).

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

In its submission on the 2018–19 draft determination, Energy Queensland suggested that network charges underpinning tariff 15 should be adjusted so as to retain the long-run marginal cost (LRMC) signals[21] of the Ergon lifestyle tariff—this would be consistent with the proposal contained in the 2019–20 delegation.

Ergon Lifestyle tariff

The Ergon lifestyle tariff, approved by the AER, consists of three charging components—a fixed network access allowance charge[22] (for five different bands), a summer peak top-up charge[23] and a volume charge.[24]

Energy Queensland has incorporated the LRMC signals of the Ergon lifestyle tariff in the network access allowance charge (for Band 2 to 5) and the summer peak top-up charge.[25] However, these LRMC-based charging components do not fully recover the revenue required under this tariff. This revenue shortfall, also known as residual costs, will be recovered primarily from the network access allowance charge for Band 1 and volume charge of the lifestyle tariff.[26]

Energy Queensland's proposed approach

Using the network charges of the Ergon lifestyle tariff as a basis, Energy Queensland has proposed the following adjustments to derive UTP-consistent network charges for tariff 15:

- reduce the network charges of charging components used to recover residual costs such that the total network revenue recovered under the Ergon lifestyle tariff would be the same as revenue recovered under the Energex lifestyle tariff
- leave the network charges, that reflect the LRMC signals, unchanged.

Energy Queensland is of the view that this suggested approach will result in recalibrated network charges that are UTP-consistent, and retain the LRMC signals of the Ergon lifestyle tariff.

At the time of the publication of this consultation paper, Ergon Distribution has yet to submit its 2019–20 network pricing proposal to the AER. We expect that Ergon Distribution will submit its latest network pricing proposal to the AER in time for consideration as part of the QCA's 2019–20 draft determination process. Energy Queensland has indicated that Ergon distribution's proposal to the AER will be consistent with its proposed approach for the retail tariff (i.e. tariff 15).

[21] The LRMC signals refer to the price signals associated with the costs of future network augmentation.
[22] This is a fixed charge in $/month, which varies depending on the customer's nominated network access band for the summer peak window (SPW).
[23] The top-up charge ($/kWh) is applicable to the single maximum daily energy consumed above the limit of the customer's nominated access band during the month. This charge is only applicable to network use during the SPW (between 4 pm and 9 pm on any day during November to March).
[24] The volume charge (S/kWh) is applicable to all metered consumption for the billing period.
[25] More information on how the LRMC signals are incorporated into the Ergon lifestyle tariff is available at https://www.ergon.com.au/_data/assets/pdf_file/0005/631490/Pricing-Proposal-2018-19-V2.0_AER-approved.pdf.
[26] Energy Queensland advised that the network allowance access charge (for Band 2 to 5) consists not only of a component that reflects LRMC signals but also a component that recovers the residual costs.

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 use the proposed adjusted Ergon Distribution's 'lifestyle' network tariff as the basis for the retail 'lifestyle' tariff (tariff 15)?**
- **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 2018–19 price determination, our estimate of energy costs was based on advice from ACIL Allen. For the 2019–20 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 2018–19 price determination is provided below.[27]

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 $14,500 per MWh.[28] 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.[29] In the 2018–19 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

[27] A detailed explanation of how each cost component was calculated for 2018–19 is provided in the 2018–19 price determination and ACIL Allen's reports, which are available on the QCA's website, www.qca.org.au.

[28] 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.

[29] 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.[30]

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 management 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 2018–19 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, with LGC prices based on available forward prices for the certificates. As the Australian Financial Markets Association (AFMA) ceased publication of this data at the end of September 2016, ACIL Allen used TFS broker data for subsequent periods. 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 2018 small-scale technology percentage (STP) target for the first half of the pricing period, and the latest available non-binding 2019 STP target for the second half of the pricing period. STC prices were based on the clearing house price.[31]

NEM management fees and ancillary services charges

Retailers purchasing electricity from the NEM are required to pay NEM management fees and ancillary services charges to the Australian Energy Market Operator (AEMO). NEM management fees are levied by AEMO to cover the costs of operating the NEM and to fund 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 2018–19 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.[32]

[30] AEMC, *Advice on best practice retail price methodology*, final report, 27 September 2013.
[31] A detailed explanation of how each cost component was calculated in 2018–19 is provided in the 2018–19 price determination and ACIL Allen's reports, which are available on the QCA's website, www.qca.org.au
[32] 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 2018–19 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.[33]

Some stakeholders suggested in the 2017–18 and 2018–19 price determination processes 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, for the 2018–19 determination we decided to use the Ergon NSLP to estimate prudential costs for customers on the Ergon NSLP (i.e. large business and street lighting customers), so as to improve the accuracy of the cost estimates. We propose to follow this same approach for the 2019–20 price determination.

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 2018–19 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.

For the 2018–19 price determination process, we extended the data cut-off date to 10 January 2018. This was so as 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. We intend to follow a similar approach for the 2019–20 determination.

[33] A detailed explanation of how each cost component was calculated in 2018–19 is provided in the 2018–19 price determination and ACIL Allen's reports, which are available on the QCA's website, www.qca.org.au.

4.5 Consultation questions

- **Should we continue to use the Ergon NSLP rather than the Energex NSLP to estimate prudential costs for large customers?**
- **Should we again extend the energy cost data cut-off date to into January, so as to account for a significant amount 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.

In the 2018–19 price determination process, the QCA set the allowance for retail operating costs based on benchmarks established as part of the 2016–17 price determination process, adjusted for inflation.

For the 2016–17 price determination process 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. As the retail electricity market in Queensland had been recently deregulated, ACIL Allen considered market offer data from multiple Australian jurisdictions.

For large and very large business customers[34], 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 2018–19, the QCA maintained retail costs for residential and small business customers by:

- adjusting the fixed retail cost allowances estimated for 2017–18 by the Reserve Bank of Australia's forecast of the change in the CPI for 2018–19[35], 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.

5.1 Approach for 2019–20

We consider there are two potential approaches to setting the retail cost allowances for setting notified prices for 2019–20. The QCA could:

[34] 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.

[35] A CPI of 2.125% was applied, equal to the average of forecast inflation at 30 June 2018 and 30 June 2019. See Reserve Bank of Australia, *Statement on Monetary Policy*, February 2018, Table 6.1, p.63.

(1) establish new allowances, based on more recent market data, to set notified prices for 2019–20, or

(2) use the allowances originally established in the 2016–17 price determination as the starting point for setting notified prices for 2019–20.

The QCA considers that it may be prudent to establish new retail cost allowances based on up-to-date market data. For residential and small business customers this would create allowances which would better reflect the current level of competition in the south east Queensland market, and by extension the retail costs being recovered from south east Queeensland customers. For large customers, reviewing the retail cost benchmarks may result in allowances which more accurately reflect actual retail cost.

On the other hand, continuing to use the 2016–17 allowances would provide greater certainty to stakeholders.

5.2 Consultation questions

- **Should the QCA establish new retail cost allowances based on up-to-date market data, or continue to base retail costs on the allowances established in the 2016–17 price determination?**
- **If stakeholders support establishing new retail cost allowances, what methodology(ies) and data sources should the QCA consider?**
- **Are there any other approaches to establishing retail cost allowances we should consider?**
- **Are there any other issues we should consider when estimating retail costs?**

6 OTHER ISSUES

This chapter discusses other issues relevant to the 2019–20 price determination, including:

- standard and market contracts
- competition and headroom
- a cost pass-through mechanism
- transitional arrangements for tariffs classed as transitional or obsolete
- metering charges
- the Gazette Notice.

6.1 Standard and market contracts—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 definition of the UTP contained in the delegation requires the QCA to consider that, wherever possible, customers of the same class should pay no more for their electricity, regardless of their geographic location. However, the delegation also notes that, as residential and small business customers paying notified prices are on standard retail contracts, the Government is of the view that the QCA must consider incorporating into notified prices, an appropriate value reflecting the more favourable terms and conditions of standard retail contracts compared to market contracts.

Further, the Minister's cover letter to the delegation specifies that:

> *The government is aware of the divergence in standing offers and market offers in the South East Queensland (SEQ) electricity market, as expressed in your quarterly SEQ market monitoring reports. As such, I consider that standing offer prices in the SEQ market, no longer provide an appropriate reference point for setting prices in regional Queensland. However, the government holds the view that standard contracts provide additional value to customers compared to market contracts, for example, through additional protections contained in the terms and conditions of standard contracts.*
>
> *In order to reflect the intent of the UTP, the QCA should give consideration to including an adjustment in notified prices that appropriately reflects the additional value of the terms and conditions of standard retail contracts. I consider the standing offer adjustment made by the QCA in previous determinations appropriately reflects this additional value, and as such, the QCA should consider including an adjustment of a similar magnitude in notified prices for 2019–20.*

Given the above, the QCA considers that, as for previous determinations, an adjustment to reflect differences between standard contract prices and market offer prices is warranted.

For the 2016–17 and 2017–18 determinations, the QCA applied an adjustment of five per cent, which was described as reflecting a 'standing offer differential'—that is, the difference between standing offers and market offers. While there was some empirical evidence for these years to suggest that the differential between standing and market offers would in fact be greater than five per cent, we considered there was not sufficient similarity between south east Queensland

and other jurisdictions, or sufficient maturity in the south east Queensland retail market, to use those differentials to calculate retail prices.

In the 2018–19 determination, the QCA again applied an adjustment of five per cent. In doing so, we accepted there was some value to consumers associated with the terms and conditions in standing offer contracts, and placed weight on the view of the Minister (expressed in the cover letter to the 2018–19 delegation) that 'the QCA should give consideration to maintaining the Standing Offer adjustment at the current level.'

However, in the 2018–19 determination, the QCA also noted that empirical evidence for the (now mature) south east Queensland market suggested the differential between standing and market offers was now around 13.5 per cent. We further noted that the position taken in the determination did not meet the then literal definition of the UTP, and that the Government could improve the transparency and certainty of the price determination process by addressing the misalignment between the literal definition of the UTP and the intent of any 'standing offer adjustment', in future delegations.

The 2019–20 delegation, and the Minister's cover letter (as quoted above), have attempted to address the misalignment. In particular, these documents indicate that the Government considers that:

- notified prices for residential and small business customers should include an adjustment to reflect the value of more favourable terms and conditions associated with standard contracts (compared to market contracts)
- an adjustment of similar magnitude to previous determinations—that is, five per cent—would be appropriate.

The QCA considers there are a number of different ways in which an appropriate adjustment for 2019–20 notified prices could be determined, including:

- placing significant weight on the Government's view, and determining that an adjustment of five per cent remains appropriate
- conducting a more detailed empirical examination of the value of the terms and conditions associated with standard contracts, as compared to market offers
- returning to an adjustment more closely reflecting a 'standing offer differential', based on evidence from the mature south east Queensland market.

We note that the second and third options described above could result in an adjustment that differs from the adjustment made in previous determinations.

Consultation questions

- **Would an adjustment of similar magnitude to previous determinations appropriately reflect the additional value associated with standard contracts (as compared to market contracts)?**
- **Would an adjustment of similar magnitude to previous determinations be consistent with the current definition of the UTP?**
- **Are there any alternative approaches to making an adjustment that might be more appropriate?**
- **Are there any other issues we should consider when seeking to make an appropriate adjustment?**

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

Since 2012–13, more than 30 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 2017.[36]

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.

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

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 2018–19 price determination, we applied a cost pass-through mechanism to require the pass-through of a significant under-recovery of costs incurred during 2017–18, associated with the SRES.

The Minister's delegation is for the determination of notified prices for 2019–20. 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 2018–19, we cannot commit to the continued availability of a cost pass-through mechanism beyond the 2019–20 price determination period.

Consultation questions

- **Should we allow for any pass-through of SRES under- or over-recoveries incurred during 2018–19 into 2019–20 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 for 2019–20, we are required to consider reclassifying transitional tariffs as obsolete (i.e. tariffs 20 (large), 21, 22 (small and large), 37, 62, 65 and 66).

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[37] 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 30 June 2020. In the 2018–19 determination, the QCA allowed all eligible customers to access transitional tariffs. Given these

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

tariffs are due to expire at the end of the 2019–20 determination period, the QCA is concerned that businesses may commence, or make investment decisions, based on tariffs which will shortly expire. The QCA intends to investigate whether these tariffs should be closed to new customers for the final year of the transitional period. We encourage stakeholders to provide comment, and evidence, on whether allowing new customers to access tariffs 20 (large), 21, 22 (small and large), 62, 65 and 66 in the final year of their transition is appropriate.

Tariffs 47 and 48

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.

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.[38]

However, in the 2015–16 and 2018–19 price determinations, for which standard business tariffs were forecast to decrease, the QCA maintained transitional and obsolete tariffs at their existing price levels. In these years, we considered it unnecessary to increase the tariffs or apply escalation factors—as the reduction in standard business tariffs would act to somewhat reduce the difference between transitional and standard business tariffs in dollar terms.

For the 2019–20 determination, we propose to set transitional and obsolete tariffs in accordance with the approach used for past years, as described above.

Consultation questions

- **Should the five-year transitional period for tariffs 47 and 48 be maintained?**
- **Should tariffs 20 (large), 21, 22 (small and large), 62, 65 and 66 be closed to new customers in 2019–20?**
- **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

The majority of electricity customers pay metering charges that reflect the capital cost and operation of their meter. Metering charges for most customers are regulated by the AER and are not part of notified prices.

[38] 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.

The Minister's delegation for determining 2019–20 notified prices excludes the setting of unregulated metering charges[39] for residential and small business customers. We understand metering charges will be investigated under a separate Direction from the Minister, as was the case for 2018–19 notified prices.

6.6 Default price proposal

The QCA is aware that the Commonwealth Government has recently announced an intention to introduce a 'default market offer' for residential and small business customers in each NEM network distribution region that does not have a regulated standing offer price. The default market offer would replace standing offers for those customers who are not subject to state-based price regulation. The AER has been requested to produce a final determination setting a maximum price for the default market offer for each relevant network region by 30 April 2019 (with the prices to take effect from 1 July 2019).

The QCA notes that the notified prices which we have been delegated by the Minister to determine for 2019–20 will constitute a 'regulated standing offer price' for the purposes of the Commonwealth Government's directive to the AER. The notified prices will apply in regional Queensland (the Ergon distribution and Essential Energy network regions)—thus the AER's default market offer will not apply in regional Queensland.

However, under the Commonwealth Government's proposal, the default market offer would apply in south east Queensland (the Energex distribution network region). While this would not have direct implications for the QCA's task of determining notified prices for regional Queensland, we do note that, in accordance with the UTP, the QCA's standard methodology involves basing notified prices for regional residential and small business customers on south east Queensland costs. This means there may be some interplay between the QCA's task to determine notified prices for regional Queensland and any AER process to determine a default market offer for south east Queensland.

Consultation questions

- **Do stakeholders consider that the Commonwealth Government's proposal for the AER to determine a 'default market offer' for south east Queensland has any implications for the QCA's task of setting notified prices for regional Queensland?**

6.7 Gazette Notice

The delegation requires the QCA to consider enabling retailers to also charge standard contract customers for the following customer retail services that are 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*

[39] Metering charges for type 4 and 4A meters, also known as 'smart' meters.

(c) the retailer gives the customer prior written notice of any change to the additional amount payable under the program or scheme.

The Minister's cover letter also makes reference to the EasyPay Reward scheme,[40] introduced by the Queensland Government as part of its Affordable Energy Plan.[41] The Government added the EasyPay Reward scheme to the Gazette Notice on 26 October 2017 to give effect to the policy decision. The QCA also included the relevant wording in the Gazette Notice for 2018–19 notified prices. The 2019–20 cover letter indicates the Government will consult with the QCA on specific wording regarding the EasyPay Reward scheme for the 2019–20 Gazette Notice.

Consultation question

- **Should the QCA include wording in the Gazette Notice for 2019–20 notified prices to facilitate renewable or environmentally friendly schemes and/or the EasyPay Reward scheme?**

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

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

Ref CTS 27475/18

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Professor Flavio Menezes
Chair
Queensland Competition Authority
Level 27, 145 Ann Street
BRISBANE QLD 4000

Dear Professor Menezes

I write to you to issue a delegation and terms of reference to the Queensland Competition Authority (QCA) for the determination of regulated retail electricity prices in regional Queensland for 2019–20 under section 90AA(1) of the *Electricity Act 1994*.

The 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. The attached delegation and terms of reference for 2019–20 are generally consistent with the approaches in my delegation and terms of reference for 2018–19, however, there are some additional considerations. These include more clearly defining the intent of the standing offer adjustment, excluding the determination of metering charges for small customers, the status of transitional tariffs and clarifying the approach for Tariff 15.

The government is aware of the divergence in standing offers and market offers in the South East Queensland (SEQ) electricity market, as identified in your quarterly SEQ market monitoring reports. As such, I consider that standing offer prices in the SEQ market no longer provide an appropriate reference point for setting prices in regional Queensland. However, the government holds the view that standard contracts provide additional value to customers compared to market contracts, for example, through additional protections contained in the terms and conditions of standard contracts.

In order to reflect the intent of the UTP, the QCA should give consideration to including an adjustment in notified prices that appropriately reflects the additional value of the terms and conditions of standard retail contracts. I also consider the standing offer adjustment made by the QCA in previous determinations appropriately reflects this additional value and as such, the QCA should consider including an adjustment of a similar magnitude in notified prices for 2019–20.

Under Power of Choice reforms, all new and replacement meters must be advanced digital meters. Due to my concerns about the impact the cost of these meters would have on customers, on 26 April 2018, I asked the QCA to provide advice on the charges regional residential and small business customers should face on the basis of advanced digital meter costs being spread across those customers. This contrasted to the alternative approach of applying those costs only to customers receiving the new meters. As the government remains concerned about the cost of digital meters for small customers, this delegation excludes the determination of notified prices for retail metering services for residential and small business customers. I am separately issuing a direction notice to the QCA seeking advice similar to that I sought in April 2018.

The government is committed to customers in regional Queensland having more choice in electricity tariffs while maintaining the UTP. With this in mind, the government supports efforts by Ergon Energy to develop new tariff structures in regional Queensland. The government encourages the QCA and Ergon Energy to consult closely in determining charges for Tariff 15.

In addition to customers having more choice in tariffs, the government also considers more choice in products to be equally important. Last year, the government introduced EasyPay Reward, which was designed to provide regional electricity customers with another product in the market where households and small business customers could make real savings. The government is committed to delivering lower electricity bills, is further investigating options for regional customers and will consult with the QCA on specific wording for the 2019–20 gazette, while ensuring regional customers continue to benefit from the electricity cost protection provided by the UTP.

I understand that since 2012–13, the QCA has been gradually phasing-out legacy retail tariffs for businesses in regional Queensland, as they are not based on the actual costs of supplying electricity. Transitional tariffs are set to expire in 2019–20 and all customers on transitional tariffs will need to switch to a standard business tariff before 1 July 2020. To assist in this process and ensure new businesses make investment decisions based on the cost of standard business tariffs, the QCA should consider making all transitional tariffs 'obsolete' so that new customers cannot access these tariffs for the short remaining period of 2019–20. The government recognises that some customers currently accessing transitional tariffs will face challenges adjusting to standard business tariffs. To assist these customers, the government is delivering a range of programs including the $20 Million Business Energy Savers Program, as part of our Affordable Energy Plan. In addition, these customers will continue to be supported through the UTP.

Public consultation is a vital part of the QCA's process for determining retail electricity prices. In this regard, the terms of reference requires the draft determination to be issued in February 2019, consultation to occur and a final determination to be delivered by 31 May 2019.

If you have any questions, please contact Ms Gayle Leaver, General Manager, Consumer Strategy and Innovation, Department of Natural Resources, Mines and Energy who will be pleased to assist you and can be contacted on 3199 4907.

Yours sincerely

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

Att

ELECTRICITY ACT 1994
Section 90AA(1)

DELEGATION

I, Anthony Lynham, the 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 2019 to 30 June 2020.

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 2019 to 30 June 2020.

2. The QCA is to calculate the notified prices, other than the notified prices associated with the provision of residential and small business customer retail metering services, 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, customers of the same class should pay no more for their electricity, regardless of their geographic location. However, as residential and small business customers paying notified prices are on standard retail contracts, the Government is of the view that QCA must consider incorporating into notified prices, an appropriate value reflecting the more favourable terms and conditions of standard retail contracts compared to market contracts;

(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;

(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, 15, 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 Tariffs 12A, 14, 15, 22A and 24 - 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 – The QCA should consider reclassifying transitional tariffs as obsolete tariffs (i.e. Tariffs 20 (large), 21, 22 (small and large), 37, 62, 65, and 66).

(f) Continue enabling retailers to also charge Standard Contract Customers for the following customer retail services that are not included in regulated retail tariffs:

(i) 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;

(g) Continuing Ergon Energy Queensland Pty Ltd's EasyPay Reward scheme.

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 can be revised at the discretion of the QCA, 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

11. The QCA must investigate and publish its draft price determination on regulated retail electricity tariffs, with each tariff to be 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 to be 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 2019–20 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 2019.

18. The QCA must publish the final price determination on regulated retail electricity tariffs for the 2019–20 tariff year, and have the retail tariffs gazetted, no later than 31 May 2019.

DATED this 17/12/18 day of MMMM 2018.

SIGNED by the Honourable)
Anthony Lynham,) ....
Minister 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

Distributor		Peak	Shoulder	Off-peak
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 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		