



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

Ref CTS 04524/20

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Professor Flavio Menezes
Chair
Queensland Competition Authority
GPO Box 2257
BRISBANE QLD 4001

Dear Professor

I am writing to ask the Queensland Competition Authority (QCA) to undertake a review of the operation of price caps listed in the Electricity Regulation 2006 (the Regulation) and provide written advice to me by 12 February 2021.

The Queensland Government is committed to delivering stable and affordable electricity to all Queensland households and businesses, regardless of their location.

The Queensland Productivity Commission's 2016 Inquiry into Electricity Prices specifically noted distributor concerns that price caps in Schedule 8 of the Regulation can impede efficient price signals and act as a barrier to productivity opportunities.

In particular, the disconnection and reconnection costs for "move-in move-out" (MIMO) customers is set at zero in Queensland. This means it is less expensive and less risky, for a retailer to request that a distributor disconnect and then reconnect supply, than accept liability for any energy that could be used in MIMO situations.

The government published an issues paper on energy legislation reform in 2018 that sought comment on Schedule 8 price caps but the question received limited feedback.

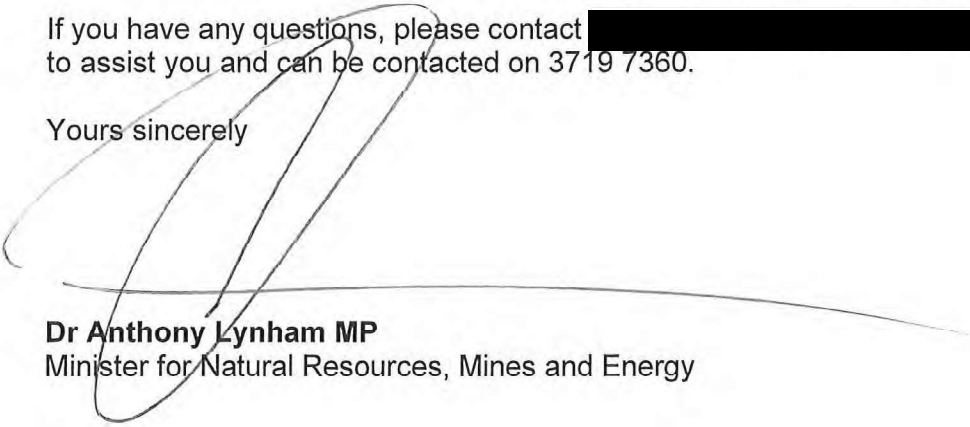
Given the lack of feedback received and the substantial changes to the energy market since Schedule 8 was introduced, additional investigation is required to understand the operation of Schedule 8 and any impacts associated with change. The government is therefore seeking QCA's advice on whether the original intent of the price caps in the Regulation is still being achieved.

Accordingly, I am issuing the attached direction notice, under section 253AA of the *Electricity Act 1994*, requesting QCA to provide advice. I request QCA publish this direction on its website.

When undertaking this review, QCA should consider the principle behind the government's Uniform Tariff Policy, under which regulated prices for regional customers reflect the cost of supplying equivalent customers in South East Queensland, rather than the actual cost of supply.

If you have any questions, please contact [REDACTED] who will be pleased to assist you and can be contacted on 3719 7360.

Yours sincerely



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

Att

ELECTRICITY ACT 1994
Section 253AA

MINISTER'S DIRECTION NOTICE

Pursuant to section 253AA of the *Electricity Act 1994* (the Act), I hereby direct the Queensland Competition Authority (QCA) to provide a report on:

- whether the original intent of Schedule 8 of the *Electricity Regulation 2006* (the Regulation), as set out in Regulation Impact Statement introducing the Regulation, is still being achieved and in the most efficient manner
- The costs and benefits to each relevant party in the electricity supply chain, including customers currently incurred by the application of Schedule 8
- The impact on the electricity supply chain of removing Schedule 8 for some or all customer groups.

The following are the Terms of Reference of this direction:

Terms of Reference

1. This report should consider:
 - a. The frequency with which the services covered by Schedule 8 of the Regulation (Schedule 8 services) are provided to the Queensland customer base as a whole, and secondly, to the following groups:
 - i. customers receiving a Queensland Government energy rebate or concession;
 - ii. customers currently subject to a hardship payment plan with their retailer; or
 - iii. customers located on a long rural feeder or isolated network.
 - b. The expected changes to services covered by Schedule 8 of the Regulation as a result of the expected rise of digital smart meters, specifically:
 - i. any expected notable change in the cumulative number of Schedule 8 service requests
 - ii. any expected trends in the types of Schedule 8 services requested by retailers.
 - c. The expected annual financial impact on each relevant group (including the separate customer groups identified in (1a) as subsets of the general customer group) in the electricity supply chain if Schedule 8 services were provided at the cost reflective prices approved by the Australian Energy Regulator.
 - d. Any duplication or overlap of Schedule 8 with existing electricity regulation and the costs incurred at each stage of the electricity supply chain as a result of the duplication.
 - e. Which customer classes access the capped cost of \$0 for non-residential services such as temporary connections for short-term electricity use, in what proportions and what this costs distributors.
 - f. Any other matter the QCA considers relevant.
2. The report should set out potential direct and indirect costs and benefits of removing price caps for each relevant group in the electricity supply chain, including the customer sub-groups listed in 1a and where possible be supported by the QCA's consideration of:
 - a. The cost reflective price for each Schedule 8 service in the Ergon and Energex distribution areas and, if there appear to be significant differences due to the location in which the services are performed, the basis for the differences.
 - b. Whether the regulated prices potentially inhibit or disincentivise the take-up of digital smart meters.
 - c. As far as possible, how the projected uptake of digital smart meters could affect:
 - i. the costs incurred by distributors when performing Schedule 8 services
 - ii. the costs incurred by retailers when performing Schedule 8 services.
 - d. Whether the price caps on Schedule 8 services have resulted in market inefficiencies with regard to potential duplication from the Australian Energy Regulator's determination of prices for those services and if so, how those inefficiencies have affected each relevant entity in the electricity supply chain.
 - e. The outcome for each customer group referred to in section 1a above, if the price set reflected the equality principle in the Queensland Government's Uniform Tariff Policy (UTP) and the cost of the UTP to distributors of applying these prices.

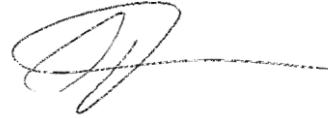
Timing of advice

In accordance with section 253AA(2) of the Act, the QCA must provide me a final version of its written advice no later than 12 February 2021.

DATED this

6th day of April 2019.

SIGNED by the Honourable)



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

(signature)

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