Queensland Competition Authority

Interim consultation paper

Regulated retail electricity prices for 2021–22

January 2021

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Submissions

Closing date for submissions: 5 February 2021

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 regulated retail electricity prices for regional Queensland in 2021–22. The QCA will take account of all submissions received within the stated timeframes.

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

Queensland Competition Authority
GPO Box 2257
Brisbane Q 4001
Tel (07) 3222 0555
Fax (07) 3222 0599
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 our Brisbane office, or on our website at www.qca.org.au. If you experience any difficulty gaining access to documents please contact us on (07) 3222 0555.

CONTENTS

1 ABOUT OUR REVIEW

1.1 What have we been asked to do?

We have received a delegation from the Minister for Energy, Renewables and Hydrogen (the Minister) to set regulated retail electricity prices (notified prices) to apply in regional Queensland in 2021–22. We are delegated this task by the Minister in accordance with the *Electricity Act 1994* (Qld) (Electricity Act).[1]

1.2 Scope of the review

Since we set prices under a delegation from the Minister, the legislation that applies to the Minister when setting notified prices also applies to us. The framework is contained in the Electricity Act and sets out factors[2] we must have regard to when making a price determination. These are:

- the actual costs of making, producing or supplying the goods or services
- the effect of the price determination on competition in the Queensland retail electricity market
- any matter we are required by delegation to consider.

We may also have regard to any other matter we consider relevant.[3]

Matters we must consider under the delegation

The Minister's delegation includes the terms of reference, which provides particular details and matters relevant to our price determination[4], namely:

- the period—the price determination is to apply from 1 July 2021 to 30 June 2022
- the timeframes for publishing reports and making the draft and final price determinations (noting the final price determination must be made by 11 June 2021)[5]
- particular policies or principles—we are to set notified prices having regard to, among other matters, the Queensland Government's Uniform Tariff Policy (UTP)
- the pricing methodology—we are to set notified prices having regard to the network plus retail (N+R) cost build-up methodology
- consultation—we are required to consult at various stages before making the final price determination and to consider the merits of additional consultation, including holding stakeholder workshops, on identified key issues.

[1] Section 90AA of the Electricity Act.
[2] Section 90(5)(a) of the Electricity Act.
[3] Section 90(5)(b) of the Electricity Act.
[4] The Minister's delegation, including terms of reference, is provided in Appendix A.
[5] Appendix A: Minister's delegation, terms of reference, clause 15.

1.3 Consultation and key dates

This interim consultation paper (ICP) is the first step in our price determination process. It provides information on key issues we are considering in the context of setting notified prices for 2021–22.

The ICP also provides an opportunity for stakeholders to contribute and give feedback—we invite stakeholders to provide submissions on key issues raised in the ICP, or any other matters considered relevant to our price determination.

Information on making a submission, as well as our online submission form, is available on our website.[6]

Submissions on the ICP are due by Friday 5 February 2021.

We will consider all stakeholder submissions, along with other relevant information, when making our draft and final determination on notified prices.

Way forward and indicative consultation timetable

Stakeholder consultation is an integral part of our decision-making process. We invite stakeholders to participate at various stages throughout our price determination process.

The key milestones and dates for the review are shown below, including the required timeframes for publishing reports set out in the Minister's delegation. This gives an indication of when we will publish reports and seek further comments from stakeholders as part of this review.

We encourage stakeholders to subscribe to our email alerts to keep up to date with the latest developments on this project, as well as other energy projects.[7]

[6] Our submission policy is available at https://www.qca.org.au/submission-policy/. Our online submission form is available at https://www.qca.org.au/submissions/.

[7] https://www.qca.org.au/email-alerts/.

1.4 Report structure

The ICP is structured as follows:

- Overarching framework—which covers the key issues forming part of the broad policy and pricing considerations that affect how we set notified prices. Often these are matters in the delegation we need to consider (Chapter 2)
- Cost build-up components—which covers how the policy and pricing considerations are applied, and key issues to consider when calculating notified prices, including the cost elements that form part of the overall notified prices and other costs (or issues) relevant to setting notified prices (Chapter 3)
- Other matters—which covers metering and considerations relevant in setting the terms and conditions for accessing notified prices set out in the government gazette (section 2.3. and 3.3).

1.5 Supporting documents

Information booklet

An information booklet accompanies this paper. It provides an 'at a glance' overview of the price setting process and key issues in this report. It aims to help stakeholders to become quickly informed of key issues and is designed to be read in conjunction with the report (not as a substitute).

Consultant's report

A report prepared by our consultant ACIL Allen is published on our website. We engaged ACIL Allen to assist us in setting the retail cost component of notified prices for 2021–22 (discussed in section 3.2.2).

2 OVERARCHING FRAMEWORK

This chapter provides our views on key issues to consider in this year's price determination, including overarching framework matters that impact how we set notified prices.

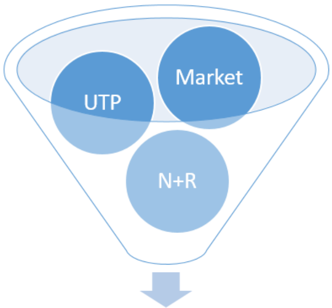
The key issues we have identified largely consist of matters included in the Minister's delegation (and terms of reference) that we must consider when setting notified prices. For instance, the Minister has provided additional considerations impacting the new retail tariffs we have been asked to introduce, and the terms and conditions for accessing tariffs set out in the tariff schedule.[8]

Beyond this, there are other matters that are relevant in setting notified prices. For instance, we have provided information on how particular policies may be considered and applied.

We need to have regard to the following key issues when making our price determination for 2021–22:

- the approach for setting notified prices, including specific considerations for new retail tariffs (section 2.2)
- other matters, including metering and tariff terms and conditions (section 2.3).

We will consider stakeholder views on these matters and other matters that stakeholders identify as relevant to our review.



Notified prices

2.1 Context

In recent years, the electricity sector has been undergoing substantial structural reforms. The reforms are expected to have ongoing impacts on the electricity market environment, including how market participants operate and manage risks.

This year, the key factors directly impacting the electricity market in Queensland include:

- the default market offer (DMO) for south east Queensland (SEQ)—the Australian Energy Regulator (AER) sets several DMOs that limit the prices charged to residential and small business customers on a standard retail contract. The DMO was first introduced in 2019–20. The AER indicated it will issue a final decision on the 2021–22 DMO by April 2021
- the ongoing network tariff reforms—the AER sets network revenues and tariffs for distributors in Queensland. As part of the 2020–25 regulatory determination process for Energex and Ergon Distribution (distributors), the AER approved new network tariffs with more complex structures aimed at facilitating a move towards greater cost reflectivity. A number of new tariffs have already been introduced (and commenced on 1 July 2020), with additional new tariffs to be introduced (and commence) in the future
- the five-minute settlement reform—the Australian Energy Market Commission (AEMC) made a rule (in 2017) to change the financial settlement period for wholesale electricity spot prices from 30 minutes to 5 minutes, commencing on 1 October 2021. The AEMC indicated this would provide better price signals for investment in fast-response technologies in the National Electricity Market (NEM), such as batteries, demand response and new generation

[8] The current 2020–21 tariff schedule of regulated retail electricity prices is available on our website.

gas peaking plants. This reform is likely to affect the operation of the NEM, the availability of ASX financial products and wholesale energy costs.

The Minister's covering letter of 8 January 2021 refers to the DMO and network reforms as important considerations this year. Additional considerations have been included in the delegation to reflect this. We also intend to consider the effects of the five-minute settlement reform on wholesale energy costs (section 3.2.1).

2.2 Approach for setting notified prices

The terms of the delegation require us to consider:

- the Queensland Government's UTP, which provides that wherever possible, customers of the same class should pay no more for their electricity, and should pay for their electricity via similar price structures, regardless of their geographic location. However, the UTP should not limit regional customers accessing a wider choice of prices and price structures than may be available within SEQ (the Energex distribution area)
- using the N+R cost build-up methodology when setting notified prices[9], including applying this approach flexibly for setting small customer retail tariffs 12A, 14, 22A, and 24.

The delegation also requires us to consider:

- maintaining all existing standard tariffs in the current tariff schedule, including price structures and access criteria (unless otherwise set out in the delegation)
- introducing new retail tariffs, based on specific new network tariffs approved by the AER
- specific cost considerations for the new retail tariffs.

The delegation is broadly consistent with previous years and with our approach to setting notified prices in previous price determinations—with some new considerations relating to the new retail tariffs.

On that basis, we are considering approaches that take into account the UTP and using the N+R cost build-up methodology for this price determination, as well as the new retail tariff considerations relevant for determining the new retail tariffs. This means setting notified prices having regard to:

- the UTP:
  - cost considerations—noting we have previously set notified prices
    - for small customers—based on the costs of supply in SEQ
    - for large business customers—based on the costs of supply in the Ergon Distribution pricing region with the lowest cost of supply[10]—that is, east zone, transmission region one
  - tariff structure considerations—where the delegation directs us to consider:
    - maintaining existing retail tariffs and structures
    - introducing new retail tariffs based on new network tariff structures

[9] Appendix A: Minister's delegation, terms of reference, clause 2(e).
[10] Being the Ergon Distribution pricing region with the lowest cost of supply that is connected to the NEM.

- using the N+R methodology:
  - under the standard approach—building up notified prices using the network tariffs as the basis for determining the structure of retail tariffs (i.e. passing through the N component) and adding the R component (i.e. energy and retail costs) determined by us
  - under the more flexible approach—for retail tariffs that do not have an underlying network tariffs, use of a price indexation methodology to determine the N component and adding the R component (i.e. energy and retail costs) determined by us.

In addition, we will have regard to the specific cost considerations relevant for setting the new retail tariffs based on transitional network tariffs.

Setting notified prices using the approaches outlined above has benefited most customers in previous price determinations through:

- lower electricity prices—having regard to the UTP allows us to set notified prices for most customers at a level lower than the actual cost of supply. The cost difference is met by the Queensland Government through the payment of a community service obligation subsidy to Ergon Energy Queensland (expected to be $454 million in 2020–21)[11]
- continued access to some retail tariffs—the additional flexibility provided under the N+R approach last year allowed us to maintain retail tariffs that no longer have an underlying network tariff on which to base the network costs under the standard N+R approach.

The specific cost considerations relevant for setting the new retail tariffs based on transitional network prices are discussed below, as well as information on other key issues we need to take account of when setting:

- new retail tariffs based on transitional network prices (section 2.2.1)
- other new retail tariffs (section 2.2.2).

Question 1

We seek stakeholders' views on the key issues we identified on our approach to setting notified prices, as well as any other matters considered relevant.

2.2.1 New retail tariffs—based on transitional network prices

The delegation requires us to consider introducing three new retail tariffs based on the following network tariffs from Ergon Distribution's 2020–25 tariff structure statement:

- Transitional Network ToU Energy Tariff 1 (small business)
- Transitional Network ToU Energy Tariff 2 (small business)
- Transitional Network ToU Energy Tariff 3 (small business).

These network tariffs are intended to mirror obsolete retail tariffs 62, 65 and 66 and will commence from 1 July 2021 (the obsolete retail tariffs are due to expire on 30 June 2021) but will

11 Queensland Government, *Budget Strategy and Outlook 2020–21*, Budget Paper 2, 2020, p. 200.

be grandfathered immediately.[12] The price levels of the network tariffs are to be approved by the AER as part of Ergon Distribution's annual pricing proposal for 2021–22.

For these tariffs, the delegation requires us to consider:

- incorporating the grandfathering arrangements for the network tariffs approved by the AER[13]
- basing the network cost component on the relevant Ergon Distribution network charges for the Ergon Distribution east zone, transmission region one to ensure pricing consistency with the application of the AER's approved network tariff transition pathway as customers move to more cost reflective tariffs
- not applying the geographical limitations of the network tariffs, which limit access to customers in Ergon Distribution east zone; instead, these tariffs should be available to eligible customers across the Ergon Distribution area.

We are considering approaches to setting these retail tariffs that are consistent with the terms of the delegation, including basing the costs on the relevant network tariff price for the Ergon Distribution east zone, transmission region one.

We note this approach is different to the usual approach under the UTP for small customers, which bases network costs on the cost of supply in SEQ (Energex network prices). However, the circumstances in this case are unique, in that the tariffs are:

- transitional in nature, replacing expiring obsolete farming and irrigation retail tariffs
- only available to certain customers.

In addition, as the network tariffs are specific to Ergon Distribution and are not available in SEQ, there would be no clear basis on which to determine an equivalent cost base in SEQ (like we do for other small customer tariffs).

We are also considering including the terms and conditions outlined in the delegation in the tariff schedule. This would pass through certain network requirements (i.e. grandfathering provisions), but not others (i.e. geographical limitations on access).

We will base our draft and final determination on this matter on the best available information within the timeframes for our determination, noting Ergon Distribution's 2021–22 pricing proposal will include information relevant to these tariffs.

Question 2

We seek stakeholders' views on the key issues we identified for setting these new retail tariffs, as well as any other matters considered relevant.

[12] Ergon Energy, *Ergon Energy Tariff Structure Statement 2020–25*, June 2020 (Erratum: version 6, August 2020, pp. 24–25).

[13] These network tariffs are to be available to existing small business customers where they accessed the corresponding obsolete retail tariff at some point between 1 July 2017 and 30 June 2020: Ergon Energy, *Ergon Energy Tariff Structure Statement 2020–25*, June 2020 (Erratum: version 6, August 2020, pp. 24–25).

2.2.2 Other new retail tariffs

The delegation requires us to consider two other new retail tariffs based on the following network tariffs from Ergon Distribution's 2020–25 tariff structure statement:

- 'Business customer (Basic)>100 MWh pa' network tariff
- 'Residential customer (Basic)>100 MWh pa' network tariff.

The terms of the delegation require us to consider introducing a retail tariff based on the business variant of this network tariff, but not to make a new retail tariff based on the residential variant unless such a tariff would satisfy a need for the new tariff at the retail level.[14] The delegation states this will avoid inequitable outcomes for large residential customers based on the type of meter they have and is appropriate given the range of tariffs already available to these customers.[15] If the residential tariff is made, the delegation also requires us to consider making it accessible to eligible customers only on a voluntary basis.

These network tariffs are similar in nature and apply to business or residential customers with basic metering and with energy consumption greater than 100 MWh per year. These tariffs are being developed to address concerns about the efficiency of pricing arrangements at the distribution level for customers (some of which are likely to be embedded networks).[16] The network tariffs are set to commence from 1 July 2021, with the price level and structure of these tariffs to be approved by the AER as part of Ergon Distribution's annual pricing proposal for 2021–22.[17]

We note the *National Energy Retail Law (Queensland)* (in combination with the National Energy Retail Regulations) establishes 100 MWh as a consumption threshold for distinguishing between small and large business customers; it does not establish a consumption threshold (100 MWh or otherwise) for residential customers.[18] This may indicate that there is no need for the residential network tariff variant at the retail level, as existing regulated retail tariffs for basic meters would continue to be available to residential customers in these circumstances. Nonetheless, we seek further information from stakeholders on this issue, including any other relevant energy law provisions.

As noted above, the price level and structure of the network tariffs have yet to be determined. In making our draft and final determination, we will consider the best information available on these network tariffs within the timeframe for our determination.

Question 3

We seek stakeholders' views on the key issues identified for setting these new retail tariffs, particularly on whether there is a need for us to introduce a new retail tariff based on the residential network tariff.

[14] Appendix A: Minister's delegation, terms of reference, clause 2(d).
[15] Appendix A: Minister's delegation, terms of reference, clause 2(d).
[16] AER, *Ergon Energy distribution determination*, final decision, June 2020, attachment 18: tariff structure statement, pp. 25–26.
[17] Ergon Distribution 2020–25 TSS (August erratum), pp. 27–28.
[18] See ss. 5–6 of the *National Energy Retail Law (Queensland)*. Section 7 of the National Energy Retail Regulations establishes the upper consumption threshold at 100 MWh per annum for determining whether business customers are small or large customers of electricity.

2.3 Other matters

2.3.1 Metering

The delegation requires us to consider setting advanced digital metering (ADM) charges for small customers in regional Queensland, basing the charges on the cost of type 6 (standard) small customer meeting services in SEQ. The delegation states this ensures that customers, who do not have any genuine choice as to the type of meter they receive, pay the same regardless of what is installed at their premises.[19]

This is a new matter for us to consider for this determination, as in previous years metering charges for small customers were set separately by the Minister following our determination of notified prices.

If we set charges in the manner specified, it would result in customers paying less for ADM charges than the actual charges associated with supplying the service. However, this is consistent with the Minister's cover letter that states 'it is not appropriate that some customers pay more simply because they have an advanced digital meter (ADM)' and that it is appropriate for charges for small customer metering services to be based on the costs of type 6 meters.[20]

Question 4

We seek stakeholders' views on our approach to setting small customer advanced digital metering charges.

2.3.2 Terms and conditions in tariff schedule

The Minister has asked us to consider various aspects of the tariff schedule, including:

- network tariff requirements
- service provider discretions—retailer, distributor, metering and other service provider discretions
- voltage discounts
- threshold amounts for very large business customers.[21]

Network tariff requirements

The delegation requires us to consider making the tariff schedule as stand alone as is practicable by specifically including all reasonable and practical, from a retail perspective, network tariff requirements as applicable to each retail tariff (except those subject to other consideration in the delegation).[22]

There are two elements to this we must consider:

- making the tariff schedule as stand-alone as practicable
- not including network tariff requirements that are not reasonable and practical from a retail tariff perspective.

[19] Appendix A: Minister's delegation, terms of reference, clause 2(j).
[20] Appendix A: Minister's delegation, cover letter, p. 2.
[21] Connection Asset Customers (CAC) and Individually Calculated Customers (ICC).
[22] Appendix A: Minister's delegation, terms of reference, clause 2(p).

The terms and conditions in the tariff schedule set out a number of requirements based on the network tariff requirements. However, the schedule includes the following provision, which acts as a 'catch-all' provision that can incorporate other distribution requirements not otherwise specified:

> Distribution entities may have specific eligibility criteria in addition to retail tariff eligibility requirements set out in the Tariff Schedule, e.g. the types of loads and how they are connected to interruptible supply tariffs. Retailers will advise customers of any applicable distribution entity requirements upon tariff assignment or customer request.[23]

Removal of this provision will be a key amendment required to make the tariff schedule as stand-alone as practicable. This will mean that any network tariff requirements not otherwise included in the tariff schedule will need to be included to ensure they apply at the retail level.

To assist in this assessment, we ask stakeholders to inform us of any amendments required to the tariff schedule to incorporate network tariff requirements not currently reflected. While it may not be practicable to replicate all requirements in the tariff schedule, particularly those of a detailed and technical nature, it may be practical to reference the source of those requirements instead (e.g. connection and metering manual).

The delegation also requires us to consider not including network tariff requirements that are not reasonable and practical from a retail perspective. Relevantly, the Minister said that 'network tariff reform should be progressed, but it should not be expected that those reforms be directly mirrored at the retail level as a matter of course'.[24] Further, 'while certain terms and conditions are practical at a network level, in many cases they don't make sense in the retail context and if passed through, could have adverse impacts for customers'.[25]

The delegation also requires us to consider maintaining the existing nomination of a primary tariff for each class of small customer to apply to a customer's electricity account in the event the customer does not nominate a primary tariff when opening an electricity account.[26]

Under the N+R framework (discussed in section 2.2), our usual approach is to pass network tariffs (including requirements) through to retail tariffs. However, we may consider departures from network tariffs requirements based on issues identified by the Minister or stakeholders about the reasonableness and practicality of applying these tariff requirements at the retail level.

With regard to the default retail tariff arrangements, subject to stakeholder views, we propose to maintain our approach from previous determinations and not include default network tariff assignment requirements, including for the new retail tariffs. This will leave the existing default retail tariffs[27] as the only default retail tariff assignment arrangements.

[23] *Queensland Government Gazette*, no. 72, 11 December 2020, p. 519.
[24] Appendix A: Minister's delegation, cover letter, p. 1.
[25] Appendix A: Minster's delegation, cover letter, p. 1.
[26] Appendix A: Minister's delegation, terms of reference, clause 2(k).
[27] If a small customer does not nominate a tariff when they become a standard contract customer, they will be assigned to the applicable flat rate tariff (tariff 11 or 20), except where an existing meter configuration is for a primary load control tariff, in which case the customer must expressly nominate a suitable tariff.

Question 5

We seek stakeholders' views on any network tariff requirements:

- not currently reflected in the tariff schedule, including any amendments to incorporate any such requirements
- not reasonable and practical from a retail perspective and that should be removed from (or not included in) the tariff schedule.

Service provider discretions

The delegation requires us to consider removing retailer, distributor, metering and other service provider discretions from the tariff schedule as far as is practicable. We have been specifically directed to consider:

- removing the existing retailer discretion that makes tariff 33 available to residential customers as a primary tariff
- setting a sunset date by which all existing residential customers accessing this tariff as a primary tariff must be transitioned to a suitable non-interruptible supply primary tariff.[28]

We will consider, as part of our draft determination, whether it is practicable to remove specific service provider discretions. As a general principle, it may not be practicable to remove a discretion if it is necessary for the proper functioning of tariff arrangements. We will also consider these discretions in light of the N+R framework (see section 2.2), which may mean that we retain discretions that are reflected in network tariff requirements, or exclude discretions that provide tariff options that are not reflected in network tariffs. For example, it may not be practicable to remove the discretion of a distribution entity to interrupt supply under load control tariffs given the premise of these tariffs and the fact these discretions are reflected in the underlying network tariffs.

Table 1 sets out existing service provider discretions we have identified in the tariff schedule. To assist us with our assessment, we seek stakeholder views on any issues they consider may arise from removing these (and any other) service provider discretions from the tariff schedule. Without limiting stakeholder submissions, we have also included some specific questions on particular discretions for stakeholder comment.

Table 1 List of existing service provider discretions

Service provider discretion	***Request for stakeholder comment***
CAC or ICC customers can only access tariffs where specifically stated in the tariff description, or as agreed by the retailer.[29]	• We seek information on the circumstances in which a CAC or ICC would not seek to access a CAC or ICC retail tariff. • What is the number of CAC and ICC customers currently accessing retail tariffs that are not identified for CAC or ICC access?

[28] Appendix A: Minister's delegation, terms of reference, clause 2(i).
[29] *Queensland Government Gazette*, no. 72, 11 December 2020, p. 519.

Service provider discretion	**Request for stakeholder comment**
	• What are the implications of removing this discretion for CACs and ICCs and whether transitional arrangements would be needed for existing affected customers if this discretion was removed?
The retailer, at its absolute discretion, may switch a customer to an obsolete tariff only once, if that customer: • *Is participating in the Drought Relief from Electricity Charges Scheme (DRECS) on 30 June 2019 and is accessing a tariff classified as obsolete from 1 July 2019; and* • *Loses eligibility for DRECS before 30 June 2021; and* • *Nominates to return to the tariff now classified as obsolete that they were accessing immediately before their current period of participation in the DRECS.*[30]	We seek information on whether there is a continuing need for this discretion.
Customers on an obsolete tariff on its scheduled phase-out date whom have not notified their retailer of their preferred applicable standard tariff, will be transferred to an applicable standard tariff at the discretion of the retailer upon the tariff being discontinued.[31]	We seek stakeholder views on what practical impact the removal of this discretion would have for customers on expiring obsolete tariffs who do not nominate a new tariff upon the discontinuation of the obsolete tariff.
Where a customer's aggregate load that is connected to an interruptible supply tariff exceeds 20 amperes per phase, additional load control equipment must be installed in accordance with the QECMM. Such equipment must be installed at the customer's expense unless otherwise agreed with the metering service provider.[32]	
Tariff 31 *…* *Times when supply is available is subject to variation at the absolute discretion of the distribution entity. In general, this supply will be between the hours of 10.00 pm and 7.00 am.*[33]	
Tariff 33 *…* *Times when supply is available is subject to variation at the absolute discretion of the distribution entity.*[34]	
Tariffs 34, 60A and 60B *Times when supply is available is subject to variation at the absolute discretion of the distribution entity.*[35]	
Tariffs 31, 33 and 60B *These tariffs are applicable where there is no provision to supply approved apparatus, or any specified part of an approved apparatus*	

[30] *Queensland Government Gazette*, no. 72, 11 December 2020, p. 519.
[31] *Queensland Government Gazette*, no. 72, 11 December 2020, p. 520.
[32] *Queensland Government Gazette*, no. 72, 11 December 2020, p. 520.
[33] *Queensland Government Gazette*, no. 72, 11 December 2020, pp. 520–521.
[34] *Queensland Government Gazette*, no. 72, 11 December 2020, p. 521.
[35] *Queensland Government Gazette*, no. 72, 11 December 2020, p. 521.

Service provider discretion	***Request for stakeholder comment***
connected to an interruptible supply tariff, via another tariff (e.g. via a change-over switch to a primary tariff), except as agreed by the retailer, and electricity supply is: • *connected to approved apparatus (limited to electric vehicle supply equipment (residential customers only), and pool filtration systems) via a socket-outlet as approved by the retailer; or* • *permanently connected to approved apparatus (e.g. electric hot water system, battery energy storage system, solar power system), or approved specified parts of apparatus (e.g. hot water system booster heating unit) as approved by the retailer. Where the retailer has approved the connection of a specified part of apparatus to another tariff (e.g. for a one-shot booster for a solar hot water system), the specified part must be metered under and charged at the primary tariff of the premises concerned, or if more than one primary tariff exists, the tariff applicable to general power usage at the premises.*[36]	
Tariff 33 *This tariff is applicable as a primary residential tariff at the absolute discretion of the retailer.*[37]	• We seek information on the number of residential customers currently accessing this tariff as a primary tariff. • We seek views on, if this discretion was removed, what an appropriate sunset date (e.g. 6 or 12 months) would be for existing customers to be transitioned to an alternative tariff.
Tariff 91 *It is available only to customers with small loads other than streetlights as approved by the retailer, and applies where:* *(a) the load pattern is predictable;* *(b) for the purposes of settlements, the load pattern (including load and on/off time) can be reasonably calculated by a relevant method set out in the metrology procedure; and* *(c) it would not be cost effective to meter the connection point taking into account:* *(i) the small magnitude of the load;* *(ii) the connection arrangements; and* *(iii) the geographical and physical location.*[38]	We seek information on the need for this discretion and on the customers that would be affected (and potential impacts to those customers) if it was removed.
Tariff changes *Customers on seasonal time-of-use tariffs cannot change to another tariff less than one year from the application of the tariff to the customer's account without the retailer's agreement unless expressly allowed or permitted by energy law.*[39]	
Tariffs in this Schedule can only be accessed by customers taking supply at low voltage as set out in the Electricity Regulation 2006	We seek further information on the circumstances in which this discretion may be needed.

[36] *Queensland Government Gazette*, no. 72, 11 December 2020, p. 521.
[37] *Queensland Government Gazette*, no. 72, 11 December 2020, p. 521.
[38] *Queensland Government Gazette*, no. 72, 11 December 2020, p. 521.
[39] *Queensland Government Gazette*, no. 72, 11 December 2020, p. 522.

Service provider discretion	Request for stakeholder comment
unless it is a designated high voltage tariff, or otherwise agreed with the retailer.[40]	
Meter wiring and equipment to house meters is the customer's responsibility and must be installed and maintained at the customer's expense unless otherwise agreed with the metering service provider.[41]	
Card-operated meter customers *If a customer is an excluded customer (as defined in section 23 of the Electricity Act), the distribution entity may at its absolute discretion agree with the relevant local government authority on behalf of the customer, and the customer's retailer, that the electricity used by the customer is to be measured and charged by means of a card-operated meter.*[42]	

Question 6

We seek stakeholders' views on any issues they consider may arise from removing service provider discretions from the tariff schedule.

Voltage discounts

The delegation requires us to consider the ongoing appropriateness of the discounts applied where supply is given and metered at high voltage, and the tariff applied is not a designated high voltage tariff.

Specifically, the tariff schedule includes the following provision:

> Where supply is given and metered at high voltage and the tariff applied is not a designated high voltage tariff, after billing the energy and demand components of the tariff a credit will be allowed of:
>
> - 5 percent of the calculated tariff charge where supply is given at voltages of 11kV to 33kV; or
> - 8 percent of the calculated tariff charge where supply is given at voltages of 66kV and above.[43]

Question 7

We seek stakeholders' views on whether the inclusion of the voltage discount provision remains appropriate in the tariff schedule.

[40] *Queensland Government Gazette*, no. 72, 11 December 2020, p. 522.
[41] *Queensland Government Gazette*, no. 72, 11 December 2020, p. 522.
[42] *Queensland Government Gazette*, no. 72, 11 December 2020, p. 522.
[43] *Queensland Government Gazette*, no. 72, 11 December 2020, p. 522.

Threshold amounts used in CAC and ICC definitions

The delegation requires us to consider updating the threshold amounts used in the tariff schedule definitions for a connection asset customer (CAC) and an individually calculated customer (ICC) to generally reflect the equivalent network tariff thresholds.

The tariff schedule includes the following definitions:

- A CAC is a large business customer whose required capacity generally exceeds 1500 kVA and annual energy usage generally exceeds 4 GWh as classified by the distribution entity.
- An ICC is a large business customer whose annual energy usage generally exceeds 40 GWh as classified by the distribution entity.[44]

The equivalent network tariff thresholds differ in that:

- for the CAC network tariff class description, there is an installed capacity threshold of above 1,000 kVA and the network tariff definition does not include an annual energy usage threshold
- for the ICC network tariff class description, there is an installed capacity threshold of above 10 MVA and the network tariff definition does not include an annual energy usage threshold.[45,46]

While different, we note the definitions in the tariff schedule do provide some flexibility in that the thresholds are expressed in such a way that they do not need to be strictly met in all instances.

Question 8

We seek stakeholders' views on whether there would be any issues with updating the thresholds in the tariff schedule to generally reflect the equivalent network tariff thresholds.

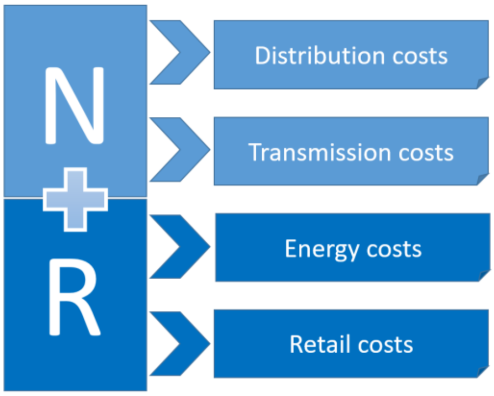
[44] *Queensland Government Gazette*, no. 72, 11 December 2020, p. 519.
[45] See Ergon Energy, *Ergon Energy Tariff Structure Statement 2020–25*, June 2020 (Erratum: version 6, August 2020, p. 16).
[46] The ICC tariff class description also includes a set of circumstances in which customers with installed capacity below 10 MVA may also be allocated to the ICC tariff class—see Ergon Energy, *Ergon Energy Tariff Structure Statement 2020–25*, June 2020 (Erratum: version 6, August 2020, p. 16).

3 INDIVIDUAL COST COMPONENTS

This chapter provides our views on the key issues to consider in this year's price determination, including on the individual cost build-up components we use to set notified prices.

Many of these key issues are identified in the delegation (and terms of reference) which we must consider when setting notified prices. For instance, the Minister has provided specific matters for us to consider in determining the network component (for the new retail tariffs) and the retail component (updating the retail operating costs included in notified prices).

Beyond this, there are other matters that are relevant in setting notified prices. For instance, we have provided information on the energy costs, including approaches to setting these cost elements and other factors which may be relevant to consider.



We have also discussed other costs and matters relevant to setting notified prices, including adjustments we need to consider when setting notified prices.

This chapter discusses costs under:

- the N component—distribution and transmission costs associated with transporting electricity to customers (section 3.1)
- the R component—the costs of buying and selling electricity to customers (section 3.2)
- other costs and price matters—any relevant adjustments to consider for small and large customer notified prices (section 3.3).

We will consider stakeholder views on these matters, and any other matters stakeholders identify as relevant to our review.

3.1 Network Component

The prices charged for transporting electricity through transmission and distribution networks are regulated by the AER. In addition to recovering their own distribution network costs, distributors also pass through Powerlink's transmission network charges (also approved by the AER) to customers as part of the network prices.

The terms of the delegation require us to consider determining the N component in a manner that reflects overarching framework matters—that is, the UTP and N+R methodology previously discussed (see Chapter 2). Namely, basing the N component:

- for small customers on:
  - flat and secondary load control tariffs—on the relevant Energex network prices (being the charges and tariff structures levied by Energex that apply in SEQ)
  - tariffs 12A, 14, 22A and 24—on the N component used in the 2020–21 price determination, adjusted using a price indexation methodology (on the basis these tariffs no longer have an underlying network tariff)

- all other tariffs—on the price level of the relevant Energex charges but utilising Ergon Distribution tariff structures

- for large customer retail tariffs—on the relevant network prices for Ergon Distribution's east zone, transmission region one[47]
- for the three new transitional network tariffs—on the relevant network prices for Ergon Distribution's east zone, transmission region one
- for the new large customer retail tariff based on the 'Business customer (Basic)>100 MWh pa' network tariff—on the relevant network prices for Ergon Distribution's east zone, transmission region one
- pending the need for it, for the new residential retail tariff based on the 'Residential customer (Basic)>100 MWh pa'[48] network tariff—on the price level of the relevant Energex charges but utilising Ergon Distribution tariff structures.

The delegation is broadly consistent with previous years and how we have set the N component of notified prices in previous price determinations, with some new considerations relating to the new retail tariffs.

On that basis, we are considering setting the N component:

- for all existing tariffs, using the same approach as we applied in the previous price determination; that is:
  - for existing retail tariffs with an underlying network tariff, passing through the relevant network prices approved by the AER (as identified above)
  - for existing retail tariffs with no underlying network tariff (tariffs 12A, 14, 22A and 24), by using a price indexation methodology, specifically an 'X-factor' approach,[49] which will allow for the pass-through of AER-approved changes in network costs to customers on these retail tariffs[50]
- for the three new retail tariffs associated with transitional network tariffs, in a similar manner to existing tariffs that have an underlying network tariff, passing through the relevant network prices approved by the AER (as identified above)
- for the other new retail tariffs (based on the new 'Business customer (Basic)>100 MWh pa' and, potentially, the 'Residential customer (Basic)>100 MWh pa' network tariffs), in a similar manner to existing tariffs that have an underlying network tariff, passing through the relevant network price approved by the AER (as identified above).

[47] Being the Ergon Distribution pricing region with the lowest cost of supply that is connected to the NEM.
[48] As discussed in section 2.2.2, we have been directed by the Minister to consider introducing this residential tariff variant only if it would satisfy a need for the tariff at the retail level. We have sought stakeholder comments on this matter, and it is uncertain at this time whether this tariff will be introduced at the retail level.
[49] As part of the revenue determination process, the AER produces five X-factors for the purposes of revenue smoothing (the X-factor for the first year is also known as P_0). Mathematically, X-factors are weights that are applied to allowable revenue for one year to calculate the allowable revenue for the next year using a price formula of the form—(CPI-X).
[50] Specifically, we propose to use the N component set for these tariffs as part of our 2020–21 determination as the starting point, which will then be indexed by using the relevant AER X-factors and the *CPI minus X* price formula. For further details on how we set the N component for these tariffs in our 2020–21 price determination, see Appendix C of our 2020–21 notified prices final determination.

This approach would allow us to maintain the suite of existing notified prices, including the less common small customer tariffs that no longer have an underlying network tariff. In those instances, using a price indexation methodology allows us to continue to set (and customers to access) retail tariffs in the absence of having underlying network tariffs on which the network costs can be based. Besides this, the approach for setting the N component described above for all other retail tariffs is consistent with the standard approach we usually apply under the N+R methodology.

The approach for setting the N component of the three new tariffs (based on transitional network tariffs) also has regard to the specific cost considerations we discussed in section 2.2.1. That is, these notified prices are based on the network prices in Ergon Distribution's east zone, transmission region one, consistent with price path for these tariffs approved by the AER.

Question 9

We seek stakeholders' views on the key issues we identified for setting the N component of notified prices, as well as any other matters considered relevant.

3.2 Retail Component

3.2.1 Energy costs

Energy costs relate to the costs retailers incur when purchasing electricity to meet the demands of customers. These costs include wholesale energy costs, other energy costs (including the Renewable Energy Target) and energy losses.

Wholesale energy costs

Retailers incur wholesale energy costs when purchasing electricity from the National Electricity Market (NEM) to meet the electricity demand of their customers. Retailers typically adopt a range of strategies to reduce their exposure to rapidly changing wholesale electricity prices when purchasing from the NEM, including:

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

In previous determinations, we estimated wholesale energy costs using a market hedging approach, which takes into account retailers' hedging strategies. We consider this approach best reflects the actual costs retailers incur when purchasing electricity from the NEM.[51] This approach is also adopted by other regulators and endorsed by the Australian Energy Market Commission (AEMC).[52]

For new retail tariffs without existing observable load profiles (such as the new load control tariffs for small and large business customers), we need to estimate representative load profiles to determine wholesale energy costs. In our October 2020 determination, when estimating

[51] For further information on how these costs were estimated, see our reports for the 2019–20 and 2020–21 determinations, which are available on our website, www.qca.org.au.
[52] AEMC, *Advice on best practice retail price methodology*, final report, September 2013.

representative load profiles for the new tariffs, we assessed the relevant load data to determine which data were fit-for-purpose and reliable.

For our standard draft determinations, we used market data up until January. This allowed us to account for the most current information (including any developments that occurred over the potentially volatile summer period), while still meeting our draft determination deadline.

Subject to stakeholder views, we intend to adopt similar approaches for 2021–22.

Due to recent market developments and stakeholders' feedback, we also intend to consider the impacts of the following factors for 2021–22:

- the effects of the five-minute settlement reform on the NEM, the availability of ASX financial products and wholesale energy costs[53]
- the manner in which the potential effects of covid-19 are taken into account when estimating wholesale energy costs.

Other energy costs and losses

Retailers incur other energy costs when purchasing electricity from the NEM, namely:

- Renewable Energy Target (RET) costs—costs associated with the purchase of certificates to meet the targets mandated under the RET[54]
- NEM management fees and ancillary services charges—the costs levied by the Australian Energy Market Operator (AEMO) to cover the cost of operating the NEM and services used to manage power system safety, security and reliability
- Reliability and Emergency Reserve Trader (RERT) scheme charges—charges levied by AEMO to cover the costs of maintaining power system reliability and security using reserve contracts. The RERT scheme allows AEMO to contract for emergency reserves, such as generation or demand response outside of the NEM[55]
- prudential capital costs—the costs a retailer incurs to provide financial guarantees to AEMO and to lodge initial margins with the ASX for futures contracts.

Also, retailers incur costs associated with energy losses. This is because retailers need to purchase more electricity than is demanded by customers to allow for losses that occur when electricity is transported (via transmission and distribution networks).

[53] The five-minute settlement will commence on 1 October 2021. One key change due to this reform is the reduced availability of ASX cap contracts. In August 2020, ASX Energy announced that quarterly cap contracts are only available until 30 September 2021. This means that for the three remaining quarters of 2021–22, no cap contract price and trade volume data are available from ASX Energy.

[54] The RET, comprising 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.

[55] For 2020–21, we estimated that no RERT costs will be incurred in Queensland. For more details on the RERT scheme, refer to Appendix E and ACIL Allen's final report for our June 2020 determination.

In previous determinations, we used estimates of other costs and losses based on reliable sources of information and applied judgment to ensure these costs appropriately reflected those likely to be incurred by retailers[56]:

RET costs	• Large-scale Renewable Energy Target (LRET) costs—estimated using a market-based approach, where Large-scale Generation Certificate (LGC) prices were based on forward prices for certificates in the market • Small-scale Renewable Energy Scheme (SRES) costs—estimated using data and targets from the Clean Energy Regulator
NEM fees and ancillary charges	• NEM management fees—estimated using AEMO's budget and fee projections • Ancillary services charges—estimated using the average historical costs observed over the preceding 52 weeks
Prudential costs	• Prudential costs—estimated using AEMO's prudential requirements and margin requirements for trading in the ASX futures market
RERT scheme charges	• RERT scheme charges—estimated using the historical costs published by AEMO for the preceding 52 weeks
Energy losses	• Energy losses—estimated by applying transmission and distribution loss factors published by AEMO, in a manner that aligned with AEMO's settlement process

Subject to stakeholder views, we intend to adopt similar approaches for 2021–22.

Question 10

We seek stakeholders' views on our approach for estimating energy costs, as well as any other matters considered relevant.

3.2.2 Retail costs

Retail costs are the costs of running a retail business. They include:

- retail operating costs, such as administrative costs and costs related to operating call centres, operating billing systems and collecting revenue
- a retail margin, which is the return to investors for retailers' exposure to systematic risks associated with providing retail electricity services.

The terms of the delegation require us to consider determining this R component by undertaking a review of retail operating costs, but does not specify a particular approach or methodology for setting this allowance. However, to undertake a more fulsome review, we intend to review all retail related costs (which includes the retail operating costs and retail margin).

In previous price determinations, we set the retail cost allowance using an established benchmark (set as part of the 2016–17 price determination process), adjusted for inflation. During previous notified price reviews, stakeholders have expressed a desire for retail costs to be reviewed and updated estimates to be used to set notified prices.

[56] For further information on how these costs were estimated, see our reports for the 2019–20 and 2020–21 determinations, which are available on our website, www.qca.org.au.

This year, we are considering updating the retail cost allowances using a benchmark approach, similar to the approach used to establish benchmark retail cost allowances for 2016–17. We have engaged ACIL Allen to help us determine the retail cost component of notified prices for this review, including the method and approach to update the existing retail cost benchmark allowances.

We intend to base new estimates on recent market data, adjusted to account for recent developments affecting the electricity market, noting that market changes (such as the AER's DMO and network tariff reforms) may impact retailer pricing strategies and costs observed in the market.

To update retail cost allowances for small customers, ACIL Allen proposes to use retail market tariffs that were offered for 2020–21 in SEQ. Retail cost estimates for residential and small business customers will be updated by deconstructing the components (network, energy and other costs) of each of the retail electricity tariffs (flat rate, time of use, demand and load control) to then benchmark the retail cost component.

To update retail cost allowances for large customers, ACIL Allen proposes to use a bottom-up approach. An information request issued to retailers will seek to obtain the retail costs that are estimated to be incurred in 2020–21 to supply electricity to large customers. The information will cover categories such as the cost to operate IT systems, provide customer service, maintain billing systems and customer acquisition and retention.

Given the tight review timeframes, we asked ACIL Allen to prepare a report that outlines the potential methodology for updating the retail cost allowances and for small and large customers.[57] This will give stakeholders the opportunity to consider the key issues for reviewing the retail costs and comment on those issues early on in this review.

We are interested in stakeholders' submissions on the approach to updating the retail costs, the methodology outlined in ACIL Allen's paper and any other factors we should consider.

Question 11

We seek stakeholders' views on our approach for estimating retail costs, particularly on the methodology set out in ACIL Allen's report.

3.3 Other matters

3.3.1 Standing offer adjustment

The delegation requires us to consider incorporating a 'standing offer adjustment' amount into notified prices for residential and small business customers. This is intended to reflect the additional value that standard contracts provide compared to market contracts, for example, through additional protections contained in their terms and conditions.

The Minister said that we 'should again consider including an adjustment similar to that applied in 2020–21 [i.e. 5 per cent of total costs of supply] that appropriately reflects this additional value.'[58]

[57] This report is available on our website, www.qca.org.au.
[58] Appendix A: Minister's delegation, cover letter, p. 1.

However, when considering the value of the adjustment, the delegation also requires us to consider:

- the AER’s DMO—should the application of this value result in a notified price bill that exceeds the equivalent DMO bill in SEQ, that value should be discounted such that the resulting bill does not exceed the equivalent DMO bill (provided that value is not discounted below zero)
- maintaining price relativity between tariffs—if a tariff is subject to the DMO adjustment described above, we must also consider discounting the value of other similar tariffs that are not subject to a DMO comparison to maintain price relativity. This involves comparing tariffs of the same type (primary or secondary) within a customer class (residential or small business).

While the delegation is broadly consistent with last year, discounting the value of other tariffs (not only those with an equivalent DMO) has not formed part of previous delegations and is a new matter to consider for this price determination.

Given the timing of our review and the AER's DMO process, we are considering having regard to our previous approach—of including a standing offer adjustment and setting the level of this adjustment at 5 per cent, subject to further information being available on the DMO to assess whether the value should be reduced.

If there is a need for further adjustments to maintain price relativity between tariffs, we will also need to consider:

- the appropriateness of such an adjustment—specifically whether it achieves the intended outcome of maintaining price relativity between tariffs
- the application of such an adjustment—we are seeking comments from stakeholders on approaches that may be appropriate in circumstances where a further adjustment is required. If, for example, one or more DMO adjustments are required (which may be different values), what criteria would we use to adjust the value of other (non-DMO) tariffs to maintain price relativity between tariffs?

Consistent with our consultation timetable, we expect to release a draft determination by the end of February 2021—we are hopeful by this time, and with the benefit of the AER's draft DMO decision being released, that it will be evident whether we need to consider adjusting the value of the standing offer adjustment incorporated into notified prices this year.

We intend to update stakeholders as part of our draft determination—noting stakeholders will have an opportunity to comment on this (and other matters in the draft determination), and we will consider any comments provided, as part of developing our final determination.

Question 12

We seek stakeholders' views on the key issues raised in relation to the standing offer adjustment and DMO considerations, including potential approaches that may be appropriate in circumstances where a further adjustment is required.

3.3.2 Competition and headroom–large business customers

We are required to have regard to, among other things, the effect of the price determination on competition in the Queensland retail electricity market.[59]

Prior to the 2020–21 determination, we included a headroom allowance of five per cent (of total costs of supply) in notified prices for large and very large customers. The purpose of including headroom was to promote retail competition in this market segment, including by potentially incentivising retailers to enter the market and compete for customers.

In our 2020–21 determination, we did not include a headroom allowance in notified prices. We considered there was no compelling evidence headroom was effective in promoting competition.

It is relevant to examine whether incorporating a headroom allowance in notified prices is appropriate this year. Subject to stakeholder comments, we are considering maintaining our previous position of not including a headroom allowance unless there is evidence that including it would further promote competition in the large customer market.

Question 13

We seek stakeholders' views on the headroom allowance, including whether the approach of not including a headroom allowance remains appropriate this year.

[59] Section 90(5)(a)(ii) of the Electricity Act.

GLOSSARY

ADM	Advanced digital metering
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
CAC	Connection Asset Customer
CPI	Consumer price index
Delegation	The delegation issued by the Minister for Energy, Renewables and Hydrogen on 8 January 2021 (see Appendix A)
DMO	Default market offer
DRECS	Drought Relief from Electricity Charges Scheme
Energex	Energex Distribution
Ergon Distribution	Ergon Energy Corporation Limited (electricity distribution arm)
Electricity Act	*Electricity Act 1994* (Qld)
GWh	Gigawatt hour
ICC	Individually calculated customer
ICP	Interim consultation paper
kV	Kilovolt
kVA	Kilovolt ampere
LRET	Large-scale renewable energy target
MWh	Megawatt hour
MVA	Megavolt ampere
N	Network costs
NEM	National Electricity Market
Notified prices	Regulated retail electricity prices
N+R	Network + retail cost build-up methodology
QCA	Queensland Competition Authority
QECMM	Queensland Electricity Connection and Metering Manual
R	Energy and retail costs
RERT	Reliability and Emergency Reserve Trader
RET	Renewable energy target
SEQ	South east Queensland
SRES	Small-scale renewable energy scheme
ToU	Time-of-use
UTP	Uniform Tariff Policy

APPENDIX A: MINISTER'S DELEGATION

Queensland Government

Minister for Energy, Renewables and Hydrogen
Minister for Public Works and Procurement

Our Ref: CTS 24465/20

1 William Street
Brisbane Queensland
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8 JAN 2021

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

Dear Professor Menezes

Pursuant to section 90AA of the *Electricity Act 1994* (the Act), I have delegated to the Queensland Competition Authority (QCA) my functions under section 90(1) of the Act for the determination of regulated retail electricity prices in regional Queensland for 2021–22.

The attached delegation and terms of reference for 2021–22 are generally consistent with the approaches of previous delegations, however there are some important additional considerations. Many of these are associated with managing impacts on retail customers of the last of the changes to network tariffs. These changes stem from the Australian Energy Regulator's (AER) 2020-25 Tariff Structure Statement decisions for Queensland's electricity distributors. A balance between the continued advancement of network tariff reform and positive retail customer experience is essential.

The government's uniform tariff policy (UTP) and costs to consumers are important considerations when setting regulated retail electricity prices in regional Queensland. The delegation and terms of reference maintain this long-standing policy. Consistent with the arrangements in 2020-21, this includes a requirement to adjust for the additional value provided by standard contracts compared to market contracts, while also ensuring that the Default Market Offers set by the AER for south east Queensland act as a ceiling on regional prices. The QCA should again consider including an adjustment similar to that applied in 2020-21 that appropriately reflects this additional value.

In consideration of outcomes for customers, it is important to differentiate retail tariffs from network tariffs and there are some elements of the delegation which provide policy guidance in this regard.

Network tariff reform should be progressed, but it should not be expected that those reforms be directly mirrored at the retail level as a matter of course. Market retailers will balance the reforms with the expectations and needs of their customers in many different ways and those responses can inform future regulated pricing decisions. While certain terms and conditions are practical at a network level, in many cases they don't make sense in the retail context and if passed through, could have adverse impacts for customers.

- 2 -

Another important policy consideration relates to the equitable pricing of metering services for customers. Under national Power of Choice reforms, all new and replacement meters must be advanced digital meters. I note that the Australian Energy Market Commission has recently opened a review of these arrangements, but the Queensland Government remains concerned about the cost of digital meter services for small customers. In particular the slow progress toward benefit realisation by the electricity supply industry as identified by the QCA in 2019. It is not appropriate that some customers pay more simply because they have an advanced digital meter (ADM). While some customers may initiate actions that result in an ADM being installed, such as installing a solar PV system, upgrading their switchboard to improve its safety, or simply connecting a new house, other customers have their meter replaced because of age or failure. None of these represent genuine customer choice about the meter they have.

Further, and in consideration of the QCA's September 2019 advice to the government on the realisation of benefits from ADM, it is apparent that the current approach to ADM deployment, particularly by the distribution businesses, will likely result in loss of the opportunity to realise most of the value from ADM. While the government is working with Energy Queensland to identify ways to maximise these opportunities, customers should not be expected to foot this shortfall. As such, I consider the appropriate charges for small customer metering services, be they ADM or standard, continue to be those that the AER has approved for Energex's small customer standard metering services. The QCA is to consider those charges as they apply to ADM.

I have also included a number of other matters for the QCA's consideration in the delegation's Terms of Reference.

Public consultation is a vital part of the QCA's process for determining retail electricity prices. In this regard, the terms of reference set out the consultation needs and requires the QCA to publish its draft determination by the end of March 2021 and its final determination by 11 June 2021.

Delivering affordable electricity bills for households and businesses and driving economic recovery in the wake of the COVID-19 pandemic is a core commitment of this government. My department will be available to consult with the QCA on specific wording for the 2021–22 gazette notice and Tariff Schedule, ensuring regional customers continue to benefit from the electricity cost protection provided by the UTP and the benefits of owning our electricity assets.

If you have any questions, [redacted] Executive Director, Policy, Department of Energy and Public Works will be pleased to assist you and can be contacted on telephone [redacted]

Yours sincerely

Mick de Brenni MP
Minister for Energy, Renewables and Hydrogen
Minister for Public Works and Procurement

DELEGATION TO QCA

DEPARTMENT OF NATURAL RESOURCES, MINES AND ENERGY

Electricity Act 1994

ELECTRICITY (MINISTERIAL – QCA) DELEGATION (NO. 3) 2020

Power to delegate

1. Under section 90AA(1) of the *Electricity Act 1994* (the Act), the Minister may delegate to the Queensland Competition Authority (QCA) all or any of the Minister's functions under section 90(1) of the Act.

Powers delegated

2. Subject to the limitations and requirements listed in paragraphs 3 and 4, I delegate the functions of the Minister under section 90(1) of the Act to the QCA.

3. The functions of the Minister specified in paragraph 2 above must only be exercised for the purpose of deciding the prices, or the methodology for fixing the prices, for the tariff year 1 July 2021 to 30 June 2022 that a retail entity may charge its Standard Contract Customers in Queensland, other than Standard Contract Customers in the Energex distribution area.

4. Pursuant to section 90(5)(a)(iii) of the Act, in exercising the functions specified in paragraphs 2 and 3 above, the QCA must have regard to the terms of reference in the schedule.

Revocation

5. All earlier delegations of the Minister's powers under section 90(1) of the Act are revoked.

6. Unless earlier revoked in writing, this delegation ceases upon gazettal by the QCA of its final price determination on regulated retail electricity tariffs for the 2021–22 tariff year under section 90AB of the Act.

This delegation is made by **The Honourable Mick de Brenni MP**, Minister for Energy, Renewables and Hydrogen:

Signed:

The Honourable Mick de Brenni MP
Minister for Energy, Renewables and Hydrogen
Minister for Public Works and Procurement

Dated: 7/1/21

DELEGATION TO QCA

SCHEDULE
Terms of Reference
Section 90(5)(a)(iii) and 90AA of the Act

Period for which the price determinations will apply (section 90AA(3)(a) of the Act)

1. These Terms of Reference apply for the tariff year 1 July 2021 to 30 June 2022.

Policies, principles and other matters the QCA must consider when working out the notified prices and making the price determinations (sections 90(5)(a)(iii), 90AA(3)(c) and 90AA(3)(d) of the Act)

2. The policies, principles and other matters that the QCA is required by this delegation to consider are:

   (a) Uniform Tariff Policy — the Government's Uniform Tariff Policy, which provides that, wherever possible, customers of the same class should pay no more for their electricity, and should be able to pay for their electricity via similar price structures, regardless of their geographic location.

   However, this should not limit Standard Contract Customers outside the Energex distribution area accessing a wider choice of prices and price structures than may be available within the Energex distribution area.

   Additionally, 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 (**value**). Should the application of this value result in a bill that exceeds an equivalent Default Market Offer as set by the Australian Energy Regulator for southeast Queensland (**DMO**), that value should be discounted so that the resulting bill does not exceed the equivalent DMO. For the avoidance of doubt, if the appropriate value is discounted to zero and the resulting bill is still greater than the equivalent DMO, no further discount should be applied.

   (b) Where one or more tariffs of a type (primary or secondary), within a customer class (residential or small business), is subject to comparison with a DMO and adjustment on the basis described in (a) above, the QCA must consider if it should also discount the value for other tariffs of the type available to the customer class that are not subject to comparison with a DMO. This is intended to maintain pricing relativity and the attractiveness of these tariff options for customers;

DELEGATION TO QCA

(c) Making four new retail tariffs based on new network tariffs as approved by the Australian Energy Regulator, including grandfathering arrangements, and as described in EECL 2020-25 Tariff Structure Statement as:

(i) Transitional Network ToU Energy Tariff 1 (small business);
(ii) Transitional Network ToU Energy Tariff 2 (small business);
(iii) Transitional Network ToU Energy Tariff 3 (small business); and
(iv) Business customer (Basic)>100 MWh pa (large business).

To ensure that these tariffs are available to eligible customers across the Ergon network area, do not apply the Australian Energy Regulator's approved geographic limitations of the network tariffs set out in c(i) to (iii) above;

(d) Not making a new retail tariff based on a new network tariff as approved by the Australian Energy Regulator and as described in EECL's 2020-25 Tariff Structure Statement as "Residential customer (Basic)>100 MWh pa" unless such a tariff would, in the view of the Queensland Competition Authority, satisfy a need for the new tariff at the retail level. This will avoid inequitable outcomes for large residential customers based on the type of meter they have and is appropriate given the range of tariffs already available to these customers. If made, the retail tariff should be accessible to eligible customers only on a voluntary basis;

(e) 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;

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

(i) For residential and small business customer Tariffs 11, 20, 31 and 33 - basing the network cost component on the relevant Energex network charges to be levied by Energex and the relevant Energex tariff structures;

(ii) For residential and small business customer Tariffs 12A, 14, 22A and 24, use of a price indexation methodology applied to the N component used in the 2020–21 price determination on the basis that these tariffs no longer have an underlying network tariff;

(iii) For all other residential and small business customer tariffs, except for those set out in f(iv) below - basing the network cost component on the price level of the relevant Energex network charges to be levied by Energex, but utilising the relevant Ergon Energy Corporation Limited (**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;

(iv) For the three new retail tariffs associated with the transitional network tariffs set out in c(i) to (iii) above – basing the network cost component on the relevant EECL network charges to be levied by EECL in the 'East distribution pricing zone - Transmission pricing zone T1' to ensure pricing consistency with the application of the Australian Energy Regulator's approved network tariff transition pathway as customers move to more cost reflective tariffs.

(v) For large business retail tariffs for customers who consume 100MWh or more per annum - basing the network cost component on the relevant EECL network charges to be levied by EECL in the 'East distribution pricing zone - Transmission pricing zone T1'.

(g) Retail Operating Costs – undertake a full review of these costs as used in the N plus R framework;

(h) For all existing Standard tariffs as set out in Part 2 of the current Tariff Schedule – maintaining these tariffs including price structures and access criteria unless otherwise set out in this delegation;

(i) Removing the retailer discretion that enables residential customers to access Tariff 33 as a primary tariff, and setting a sunset date by which all existing residential customers accessing Tariff 33 as a primary tariff must be transitioned to a suitable non-interruptible supply primary tariff;

(j) Setting small customer advanced digital metering service charges at the Energex rate for standard Type 6 small customer metering services. This ensures that customers, who do not have any genuine choice as to the type of meter they receive, pay the same regardless of what is installed at their premises;

(k) Default tariffs – maintaining the existing nomination of a primary tariff for each class of small customer to apply to a customer's electricity account in the event the customer does not nominate a primary tariff when opening an electricity account;

(l) Updating the threshold amounts in the definitions of Connection Asset Customer and Individually Calculated Customer to generally reflect the equivalent network tariff thresholds;

(m) The ongoing appropriateness of the discounts applied where supply is given and metered at high voltage and the tariff applied is not a designated high voltage tariff;

(n) Removing expired transitional customer choice provisions on the application of kW and kVA demand charges;

(o) Removing retailer, distributor, metering and other service provider discretions as far as is practicable;

(p) Making the Tariff Schedule as stand-alone as is practicable by specifically including all reasonable and practical, from a retail perspective, network tariff requirements as applicable to each retail tariff, except those subject to other consideration in these Terms of Reference;

(q) 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;

(r) Removing from the Tariff Schedule Ergon Energy Queensland Pty Ltd's EasyPay Reward scheme as this scheme has now ended.

Consultation Requirements (section 90AA(3)(e) of the Act)

Interim Consultation Paper

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

4. 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.

5. 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

6. 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

7. 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

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

9. 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.

10. 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

11. The QCA must investigate and publish its final price determination on regulated retail electricity tariffs, with each tariff (to the extent practicable) to be presented as bundled prices appropriate to the retail tariff structure, and gazette the retail tariffs in the form of a Tariff Schedule.

Time frame for QCA to make and publish reports (section 90AA(3)(b) of the Act)

12. The QCA must make its reports available to the public and, at a minimum, publicly release the papers and price determinations listed in paragraphs 3 to 11.

13. The QCA must publish the interim consultation paper for the 2021–22 tariff year no later than one month after the date of this Delegation.

14. The QCA must publish the draft price determination on regulated retail electricity tariffs no later than March 2021.

15. The QCA must publish the final price determination on regulated retail electricity tariffs for the 2021–22 tariff year, and have the retail tariffs gazetted no later than 11 June 2021.

(SCHEDULE ENDS)