Part of Energy Queensland

19 January 2022

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

Dear Professor Menezes

Regulated Retail Electricity Prices for 2022-23 – Interim consultation paper

Ergon Energy Corporation Limited (Ergon Energy Network) and Energex Limited (Energex), operating as distribution network service providers in Queensland, welcome the opportunity to provide comment to the Queensland Competition Authority (QCA) on its Interim Consultation Paper for Regulated Retail Electricity Prices for 2022-23 (Interim Consultation Paper).

We broadly support the Minister's delegation to the QCA outlining the key matters the QCA must consider when determining the notified prices for 2022-23 and note the Minister's concerns regarding encouraging a sustainable uptake of electric vehicles (EVs) that limits adverse impacts on the electricity system. We agree the QCA could develop a retail tariff which encourages EV charging in a manner which does not exacerbate existing network demand issues. We provide further detail on how this could be achieved below.

Removal of retail tariffs

Ergon Energy Network and Energex believe there is merit in rationalising the number of regulated retail tariffs where the economic benefit does not exceed the on-going costs associated with the continued existence of the tariff. In particular, we support removal of retail tariffs where there is no underlying network tariff (e.g. tariffs 12A, 14, 22A and 24).

We support in-principle removal of these tariffs provided adverse impacts on these customers is managed through appropriate transitional arrangements. To that end, we suggest a 12-month period would be appropriate for those customers who have been on these tariffs for a considerable time.

However, we do not support removal of any retail tariffs that are based on existing network tariffs that play a critical role in our network tariff strategy. For example, there are currently approximately 161,284 customers in regional Queensland on our transitional network tariff and the number of customers on this network tariff will increase significantly in the future as basic accumulation meters continue to be replaced or upgraded over time. It should be noted that while there are approximately 100 customers currently on our Residential Demand tariff and 1 customer on our Residential Time-of-Use Energy tariff, we do not support the removal of the associated retail cost-reflective tariffs. This is because they provide end customers with a choice of cost-reflective tariff structures and support both our future strategy and customer uptake. We also anticipate that more customers will embrace cost reflective tariffs in the future as new advanced digital meters enter service and the customers currently accessing the default Residential Transitional Demand tariff develop sufficient interval data.

Retail tariffs for electric vehicles

Ergon Energy Network and Energex consider that the existing suite of network tariffs are not sufficiently cost-reflective to ensure that customers with an EV are incentivised to charge their EV at optimal times from an electricity network perspective.

We note that it is difficult to design a tariff structure that specifically addresses the issues relating to the EV roll-out as some of the customers with EVs are also likely to have other forms of distributed energy resources such as rooftop solar and batteries. It is also likely that some of these customers will have a Home Energy Management System (HEMS) in the future. The need to keep tariff structures simple does not apply to customers with a HEMS given that they could potentially save more money on their electricity bills under more complex tariff structures. This supports the argument that an EV specific tariff structure should be designed so that customers will pay less to charge EVs during off-peak times and pay a higher price to charge during the peak period.

Ergon Energy Network and Energex will be working closely with stakeholders to develop its network tariff reform proposal for the next Tariff Structure Statement (TSS). A key focus of our next TSS will be on ensuring that our customers, particularly those with EVs, have appropriate economic price signals to encourage more efficient use of the electricity distribution network. These reforms to network tariffs will be introduced on 1 July 2025, subject to approval by the Australian Energy Regulator (AER).

While the optimal long-term network tariff reform solution will need to be developed as part of the next TSS, we believe that under the current network tariff arrangements, the QCA could develop a reasonably cost-reflective tariff that encourages charging during off-peak periods at the retail level for EV customers based on existing cost-reflective residential network tariffs. This would enable the QCA to introduce a 'solar soak time of use' energy consumption charge at the retail level with price signals that would encourage customers to charge their EV during the middle of the day when minimum demand is more likely to be contributing to network costs. However, it is important to note that we cannot under the current TSS introduce a new network tariff or modify the structure of an existing residential demand network tariff to convey these types of price signals. As noted above, this will be an issue explored during the next TSS process.

Notwithstanding the above, we note that EV owners currently have access to controlled load Retail Tariffs 31 and 33 which provides a convenient option for customers who do not want to actively manage their network usage. Under these tariffs, Ergon Energy network will restrict energy supply to ensure that the customer only charges their EV at times which do not adversely affect the electricity network. It is therefore important that the QCA maintains price relativity between the control load tariffs and the primary residential tariffs.

Network component

Ergon Energy Network and Energex agree with the proposed N+R methodology by passing through the relevant AER-approved network prices and suggest any new retail tariffs introduced should continue to be developed on this basis. As noted early, we support the removal of those retail tariffs

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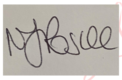
that no longer have an underlying network tariff and agree these tariffs could be adjusted using a price indexation methodology during the transitional period to them becoming obsolete.

Should the QCA require additional information or wish to discuss any aspect of this submission, please contact either myself, on 0429 567 429 or Sarah Williamson on 0409 239 883.

Yours sincerely



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