



Part of Energy Queensland

420 Flinders Street, Townsville QLD 4810  
PO Box 1090, Townsville QLD 4810

[ergon.com.au](http://ergon.com.au)

17 April 2023

Mr Charles Millsted  
Chief Executive Officer  
Queensland Competition Authority  
GPO Box 2257  
Brisbane QLD 4001

Dear Mr Millsted

**Ergon Energy Retail submission to the Regulated Retail Electricity Prices for 2023-24 Draft Determination**

Ergon Energy Queensland Pty Ltd (EEQ) welcomes the opportunity to provide comment to the Queensland Competition Authority (QCA) on its Regulated Retail Electricity Prices for 2023-24 Draft Determination (Draft Determination).

**Wholesale Energy Costs (WEC)**

For the estimation of the WEC, EEQ raises two issues of concern which we consider necessitate a revision of the estimation:

*1. The heavy weighting of caps in the ACIL Allen hedging methodology.*

EEQ has raised the high percentage of assumed cap contract volume in the hedging portfolio on several occasions as we consider this assumed volume would be practically unachievable for an electricity retailer in the electricity market.

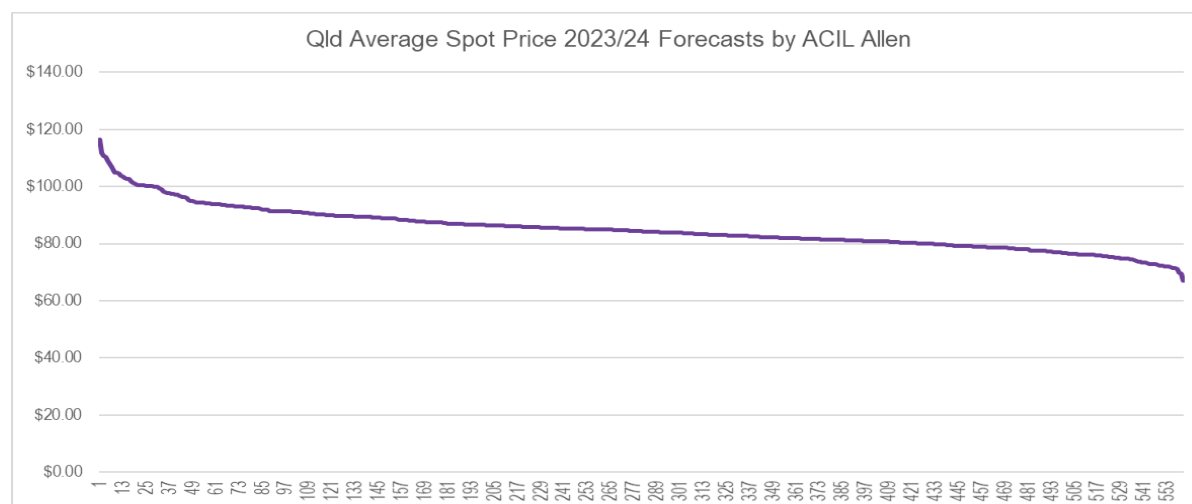
In the 2023-24 draft determination ACIL Allen has further increased their modelled use of caps despite their acknowledgement there has been no increase in the cumulative trade volume of caps. EEQ remains of the view that the more accurate indicator of the availability of caps for retailers is the ASX open interest position. We suggest some proportion of the assumed cap contract volume should be replaced with swaps in the modelled hedging portfolio. EEQ notes that, on average, the ASX open interest position for caps is only 11% of the ASX open interest position for swaps, whereas ACIL Allen has an assumed cap contract volume that is, on average, 248% larger than its assumed swap contract volume. EEQ has further set out its reasoning for this issue in Attachment 1.

2. The ACIL Allen spot price modelling appears to be low with a very narrow range of price outcomes that are inconsistent with recent actual outcomes and the current view of the forward market.

EEQ notes that ACIL Allen considered the Government intervention into gas and coal pricing in the Estimated Energy Cost report. EEQ further notes ACIL Allen agreed with our submission that it is unclear what the actual impact of the intervention will be given there are several exemptions to the price caps. Despite this, ACIL Allen elected to set a simple overriding cap on all gas and coal prices of \$12/GJ and \$125/tonne for the entire 2023-24 determination period in their spot price modelling (even though the emergency price caps end in December 2023). This assumption is incorrect as it doesn't accommodate the allowed exceptions under the *Competition and Consumer (Gas Market Emergency Price) Order 2022*. For example, gas delivered within three days at gas supply hubs is exempt to allow for higher gas prices at times of high gas demand during summer heat waves and during winter cold snaps. The high spot gas prices and extreme electricity prices, such as those that occurred on 5 and 6 July 2022 could be repeated this coming winter, noting the ACIL Allen modelling does not allow for this possibility.

In EEQ's view, this assumption has led to ACIL Allen's spot price forecast again appearing low with a narrow range. The range of their simulated spot price outcomes is shown in Figure 1.

Figure 1 – Average Spot price Forecasts by ACIL for 2023-24



The average ACIL Allen forecast for 2023-24 is \$85.08/MWh and the highest of their 561 simulations was just \$116.46/MWh, well below actual spot prices for the current financial year to 4 April 2023 at \$151.03/MWh. EEQ also notes the current forward market for 2023-24 swap is at \$125.52/MWh. The narrow range of spot price outcomes contributes to the narrow range of modelled hedged price outcomes which implies a lower risk wholesale electricity market than that experienced over the last two years.

EEQ therefore recommends to the QCA a new spot price simulation be performed that allows fuel prices to exceed the emergency price cap during high demand events (as allowed

under permitted exemptions) and the modelled price caps only apply until December 2023 when the emergency price cap is terminated. This should produce a range of spot price simulations that would be consistent with recent historical outcomes and the current view of the forward market within that range.

### **Metering Costs**

EEQ welcomes the incorporation of a combined Type 6 Alternative Control Services (ACS) charge and Type 4 Digital Meter charge into the 'R' daily supply component of small customer tariffs. In particular, this aligns with the AER's approach to incorporate digital meter costs in the Default Market Offer (DMO) prices.

We note the Minister's delegation to the QCA requires the QCA to set small customer metering costs on the *"Energex rate for Type 6 small customer metering services plus costs incurred by retailers operating in the Energex distribution area for small customer advanced digital metering services"*. However, we consider that the rate determined by the QCA in response to the Minister's request is not sufficient to enable a prudent retailer to recover digital meter costs. As digital meter penetration increases to comply with installation targets, this under-recovery will have significant financial repercussions for retail businesses. As such, we consider it imperative that the QCA allow for full cost recovery of digital meter costs. EEQ would welcome the opportunity to explain its digital meter costs with the QCA prior to the final price determination.

EEQ acknowledges the QCA's proposed retail charge for manually reading a Type 4A meter. While we are concerned this may not be a cost reflective solution given the geographical spread of our customers across regional Queensland, we expect this to be a short-term solution as Energy Queensland remains committed to working with the Australian Energy Market Commission and key energy stakeholders to remove the ability for a customer to disable meter communications.

### **Solar Soaker Tariffs – 12C and 22C**

EEQ is supportive of the QCA's pricing of the new solar soaker tariffs 12C and 22C and their availability to all small customers. We suggest that customers who are able to shift load to the off-peak hours should be able to save money on these tariffs. Notwithstanding, the amount of saving will be largely dependent on the customer's behaviour change.

To simplify customer choice and to avoid the need to build further tariff structures in the billing engine, EEQ again recommends 'B' tariffs being immediately replaced with the 'C' tariffs. This immediately delivers customers access to savings opportunities provided they are able to shift their load out of peak. EEQ also anticipates that these tariffs may be a viable replacement option for those customers moving off the expiring retail tariffs 12A, 14, 22A and 24.

## **Conclusion**

EEQ acknowledges that the outcomes of the QCA's draft determination will have financial consequences for our customers. We appreciate the Cost of Living rebate recently announced by the Honourable Anastacia Palaszczuk MP, Premier of Queensland to assist customers with increasing financial pressures. In addition to this payment, EEQ is committed to working with our customers to ensure they receive effective assistance should they struggle to pay their energy bills.

As always, EEQ would welcome the opportunity to discuss the matters contained within this submission with the QCA.

Should the QCA require additional information in relation to any aspects of this submission, please contact Andrea Wold, Manager Retail Policy Compliance & Assurance on 0428 384 448.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ayesha Razzaq', is positioned above a horizontal line. The signature is fluid and cursive, with a large loop at the end.

Ayesha Razzaq  
**Executive General Manager Retail**

## Attachment 1 – Assumed cap contract volume in the ACIL Allen hedging portfolio

EEQ remains concerned with the assumed liquidity of the cap contract market position which has been used to determine the WEC. We note that to hedge ~1,000 megawatts (MW) of load under the QCA hedging methodology requires a volume of cap contract which is greater than the total Open Interest of Caps on the ASX for Queensland.

The table below shows the Open Interest ASX Swaps and Caps for each quarter in FY24 and compares this with the QCA assumed contract volumes. The observable cap/swap ratios in the market are vastly different to the cap/swap ratios that the QCA assumes. For example, there was an average of 483MW of Open Interest in ASX Caps for FY24, compared to QCA assuming an average of 1,374MW (or on average the market has 11% whereas the QCA has assumed 248% in its hedge portfolio).

The assumed heavy weighting of cap contract volume is unachievable in practice and results in lower modelled hedged price outcomes.

**Table 1 ASX Cap/Swap ratios as at 21 March 2023**

Quarter	Open Interest ASX Swap	Open Interest ASX Cap	Market cap/swap ratio	QCA Portfolio Swap*	QCA Portfolio Cap*	QCA cap/swap ratio
Q323	4,722	514	11%	600	1,000	167%
Q423	4,618	595	13%	550	1,700	309%
Q124	3,897	522	13%	700	1,700	243%
Q224	4,062	299	7%	400	1,100	275%
FY (Avg over 4 quarters)	4,328	483	11%	562	1,374	248%

\*EEQ estimate derived from the ACIL Allen chart 'Contract volumes used in hedge modelling of 561 simulations for 2023-24 for Energex NSLP + small interval meter load'

EEQ notes the QCA refers to **Traded Volume** rather than **Open Interest** when assessing market liquidity which results in the multiple counting of caps. For example, 1MW of cap contract traded 100 times between market participants does not mean 100MW of caps are available to retailers to hedge. The Traded Volume is impacted by speculative trading by market traders or by retailers/generators adjusting their contract position. EEQ considers that Open Interest more accurately measures the volume available for hedging purposes as it shows positions that are actually "open" at the time of modelling. For example in Table 2 below, Q3-23 has traded 1,276MW of caps, noting only 514MW are currently "open". In EEQ's view, 514MW represents a more reflective picture of the cap volumes available for hedging.

**Table 2 Comparison - Traded Volume vs Open Interest**

Quarter	Traded Volume QLD ASX Cap	Open Interest QLD ASX Cap
Q3-23	1,276	514
Q4-23	1,373	595
Q1-24	1,158	522
Q2-24	564	299

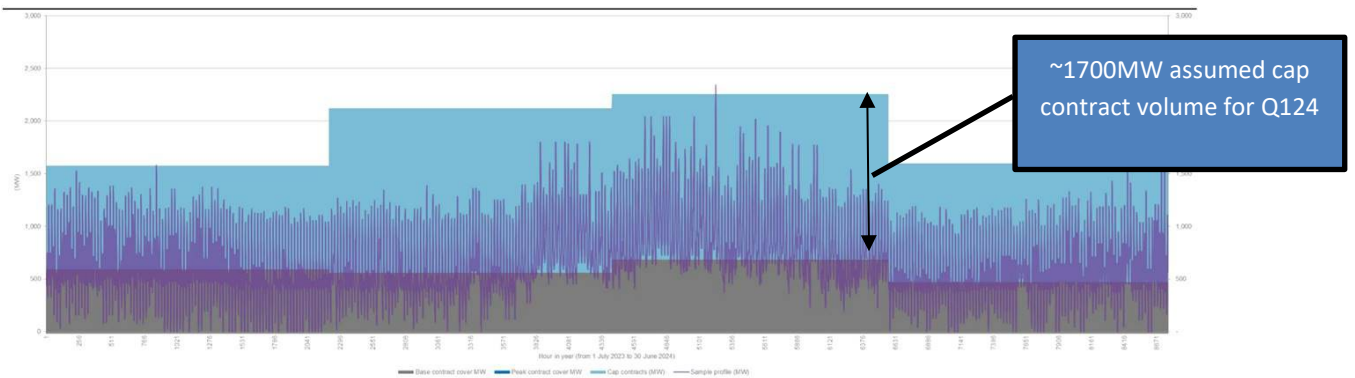
Source: EEQ

With respect to cap liquidity, ACIL Allen states “Setting aside 2021-22, when cap volumes were much lower due to the transition to 5MS, cumulative trade volumes for 2023-24 are for most quarters on par to trade volumes of previous years (noting that volumes for 2022-23 were very high). On this basis, we see no reason to alter the methodology”. EEQ notes that while cumulative trade volumes are consistent with previous years, the assumed use of caps in the ACIL Allen hedge model have increased dramatically to the point they exceed the cumulative trade volume for the relevant quarters.

This can be seen in a comparison of cap contract volumes assumed in the FY19 hedge model (~850MW) compared to the FY24 hedge model (~1,374MW).

**FY24**

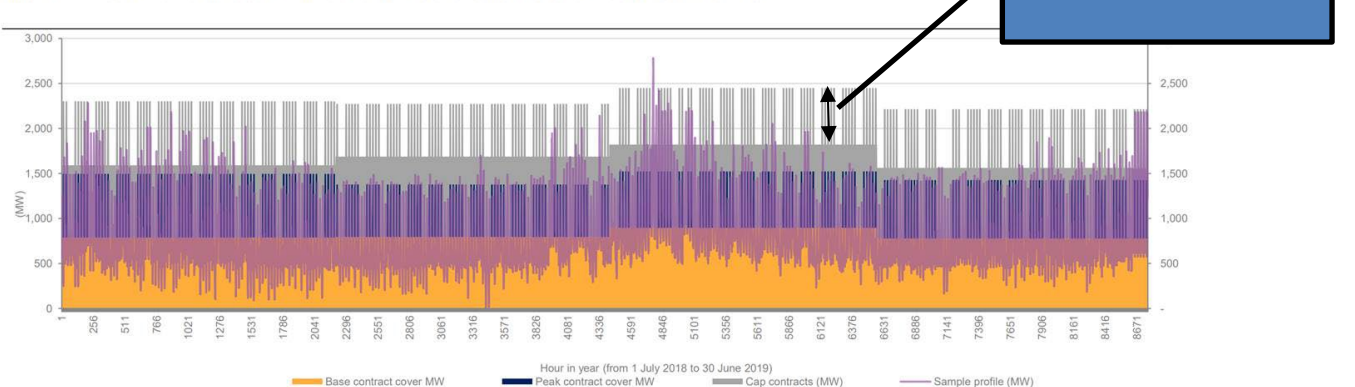
**Figure 4.10** Contract volumes used in hedge modelling of 561 simulations for 2023-24 for Energex NSLP + small interval meter load



Source: ACIL Allen analysis

**FY19**

**FIGURE 4.14** CONTRACT VOLUMES USED IN HEDGE MODELLING OF 517 SIMULATIONS FOR 2018-19 FOR ENERGEX NSLP



SOURCE: ACIL ALLEN

EEQ therefore recommend the QCA to:

- consider the Open Interest in ASX Caps and Swaps; and
- adjust the QCA hedging methodology to align more closely with the market weightings shown in Table 1.

Alternatively, EEQ would welcome the QCA engaging an independent third party or confirming with a market specialist body such as AFMA, the cap contract volume available for retailers to hedge in Queensland.