

Queensland Competition Authority

Further Consultation Paper

Regulated retail electricity prices for 2015-16

May 2015

We wish to acknowledge the contribution of the following staff to this report:

Jennie Cooper and Adam Liddy

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SUBMISSIONS

Closing date for submissions: 18 May 2015

Public involvement is an important element of the decision-making processes of the Queensland Competition Authority (QCA). Submissions are invited from interested parties on this further consultation paper on the QCA's review of regulated retail electricity prices for 2015-16. The QCA will take account of all submissions received by the due date.

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

Queensland Competition Authority
GPO Box 2257
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Tel (07) 3222 0555

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www.qca.org.au/submissions

Confidentiality

In the interests of transparency and to promote informed discussion, the QCA would prefer submissions to be made publicly available wherever this is reasonable. However, if a person making a submission does not want that submission to be public, that person should claim confidentiality in respect of the document (or any part of the document). Claims for confidentiality should be clearly noted on the front page of the submission and the relevant sections of the submission should be marked as confidential, so that the remainder of the document can be made publicly available. It would also be appreciated if two copies of each version of these submissions (i.e. the complete version and another excising confidential information) could be provided. Where it is unclear why a submission has been marked 'confidential', the status of the submission will be discussed with the person making the submission.

While the QCA will endeavour to identify and protect material claimed as confidential as well as exempt information and information disclosure of which would be contrary to the public interest (within the meaning of the *Right to Information Act 2009* (RTI)), it cannot guarantee that submissions will not be made publicly available.

Public access to submissions

Subject to any confidentiality constraints, submissions will be available for public inspection at the Brisbane office, or on the website at www.qca.org.au. If you experience any difficulty gaining access to documents please contact us on (07) 3222 0555.

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THE ROLE OF THE QCA – TASK, TIMING AND CONTACTS

The Queensland Competition Authority (QCA) is an independent statutory authority that aims to promote competition as the basis for enhancing efficiency and growth in the Queensland economy.

The QCA's primary role is to ensure that monopoly businesses operating in Queensland, particularly in the provision of key infrastructure, do not abuse their market power through unfair pricing or restrictive access arrangements.

In 2012, that role was expanded to allow the QCA to be directed to: investigate, and report on, any matter relating to competition, industry, productivity or best practice regulation; and review and report on existing legislation.

Key dates

Government announces that prices will continue to be regulated in south east Queensland	28 April 2015
New delegation received from the Minister for Energy and Water Supply	28 April 2015
Further consultation paper released	4 May 2015
Workshop in Brisbane	12 May 2015
Submissions on further consultation paper due	18 May 2015
Release of final determination	12 June 2015

Contacts

Enquiries regarding this project should be directed to:

Tel (07) 3222 0555

<http://www.qca.org.au/Contact-us>

1 INTRODUCTION

On 28 August 2014, the Queensland Competition Authority (QCA) received a delegation from the former Minister for Energy and Water Supply to determine regulated retail electricity prices (known as notified prices¹) to apply from 1 July 2015 to 30 June 2016. As a result of the former government's decision to deregulate retail electricity prices in south east Queensland, we were only delegated the task of setting notified prices in the Ergon Energy (Ergon) distribution area, which covers regional and rural Queensland.

On 28 April 2015, the government announced that it would delay the deregulation of retail prices for residential and small business customers in south east Queensland by 12 months. This was to enable the Queensland Productivity Commission to assess the costs and benefits of deregulation and whether current market monitoring arrangements and consumer protections are adequate. On the same day as the announcement, we received a new delegation (the April 2015 delegation) to determine notified prices throughout Queensland².

Although legislative changes have not yet been made to prevent price deregulation from commencing on 1 July 2015, we understand that we have the power to determine notified prices to apply in south east Queensland for 2015-16. However, we also understand that legislative changes will be required for these prices to come into effect.

This change has occurred towards the end of our review process. We have already released, and received submissions on, a draft determination. However, as it is a significant change, we are releasing this further consultation paper to provide an opportunity for stakeholders to comment before we release a final determination under the April 2015 delegation.

1.1 New delegation

The April 2015 delegation requires that we set notified prices for residential and small business non-market³ customers throughout Queensland, and large business non-market customers in regional Queensland (see Appendix A).

We do not need to restart the price review process as a result of receiving a new delegation, because the terms of reference under the April 2015 delegation are largely the same as the terms of reference under the previous delegation. However, there are two changes we need to consider:

- minor revisions to the definition of the Uniform Tariff Policy
- the requirement to consider basing the existing residential and small business customer time-of-use (TOU) tariffs (tariffs 12 and 22) on the network tariff structures of Energex (for south east Queensland customers) and Ergon Distribution (for regional Queensland customers).

¹ As defined in section 90(4) of the *Electricity Act 1994*.

² There are two exceptions. First, customers in the Essential Energy distribution area in southern Queensland do not have access to notified prices, although Origin Energy receives a subsidy to ensure that non-market customers pay no more than similar customers that have access to notified prices. Second, large business customers in south east Queensland do not have access to notified prices, as price regulation for this group of customers was removed in 2012.

³ Although there are some exceptions, a non-market customer is generally a customer that has not entered into a negotiated contract with a retailer.

Definition of the Uniform Tariff Policy

For the purposes of the previous delegation, the former government defined the Uniform Tariff Policy for small customers by reference to expectations of standing offer prices in south east Queensland. This definition provided that⁴:

... regional prices should, as much as is practicable, aim to ensure that small customers outside south east Queensland do not pay more than reasonable expectations of the prices which would be available to standing offer customers in south east Queensland.

However, as a result of the Government's decision to retain price regulation in south east Queensland, the definition has been revised for the purposes of the April 2015 delegation. The new definition provides that⁵:

... wherever possible, non-market customers of the same class should pay no more for their electricity, regardless of their geographic location.

The new definition is slightly different to the definition that applied when we made determinations in previous years. In particular, there is no longer a reference to customers accessing uniform tariffs. This is consistent with the requirement in the terms of reference to consider establishing different retail tariffs for customers in south east Queensland and regional Queensland, based on the different network tariff structures of Energex and Ergon Distribution.

Nevertheless, the reference to non-market customers of the same class paying no more for their electricity implies that retail tariffs should continue to be based on the lowest cost of supplying customers that have access to notified prices. This is also consistent with the requirement in the terms of reference to consider reflecting Energex (or south east Queensland) price levels in notified prices for residential and small business customers and Ergon Distribution (or regional Queensland) price levels in notified prices for large business customers.

Time-of-use tariffs

We are required to consider basing the existing time-of-use tariffs for residential and small business customers (tariffs 12 and 22) on the network tariff structures of Energex (for south east Queensland customers) and Ergon Distribution (for regional Queensland customers). If this proposal is adopted, it means that customers will have access to different retail tariffs based on their location. However, in accordance with the Uniform Tariff Policy, the overall level of network prices would be the same and set to reflect the level of Energex network prices.

For other residential and small business customer tariffs, we are required to consider basing retail tariffs on Energex network tariffs and prices. This is consistent with our draft determination and would mean that flat and controlled load tariffs are uniform across the state.

1.2 Consultation

The terms of reference requires that we take all reasonable steps to consult with relevant stakeholders, including consideration of written submissions. In accordance with the previous delegation and terms of reference, we have already consulted extensively. We appreciate the valuable contribution that stakeholders have made to this process, especially those that have attended workshops and made submissions. So far, the consultation process has included:

⁴ Letter to the QCA from the former Minister for Energy and Water Supply, dated 25 September 2014.

⁵ Paragraph 5(b) of the terms of reference (see Appendix A).

- releasing an interim consultation paper (in September 2014) and draft determination (in December 2014)
- receiving submissions on both papers
- holding workshops in Brisbane and five regional centres on the draft determination (in February 2015).

The interim consultation paper, draft determination and non-confidential submissions are available on our [website](#)⁶.

We recognise that releasing an additional consultation paper late in the review process places an additional burden on stakeholders. However, we consider that further consultation is important given the change in the scope of the delegation and the potential impact this will have on stakeholders.

We will hold an additional workshop in Brisbane on 12 May 2015 and invite stakeholders to register their interest on our [website](#)⁷. Submissions in response to this paper are due by 18 May 2015. Information on how to make a submission is at the front of this paper. In preparing our final determination, we will consider all submissions received by the due date. Given the tight timeframes we must work within, it is unlikely that we will be able to consider late submissions.

We will take into account submissions we have already received, where we consider that the issues raised are relevant in the context of the April 2015 delegation and terms of reference. However, we will give stakeholders an opportunity to elect that their submission, or part of their submission, should not be considered.

We previously advised that we would release our final determination by 31 May 2015. However, to allow for extra consultation, we will extend the release date to 12 June 2015.

1.3 Purpose of this paper

This paper should be read in conjunction with the draft determination, which is available on our [website](#)⁸. The purpose of this paper is to explain the key issues we are considering for the final determination. This includes changes we are considering to the draft determination as a result of the new delegation and terms of reference, new information since the release of our draft determination and our preliminary review of submissions to the draft determination.

⁶ <http://www.qca.org.au/Electricity/Regional-consumers/Reg-Electricity-Prices/In-Progress/Regulated-Electricity-Prices-2015-16>.

⁷ <http://www.qca.org.au/workshops>.

⁸ <http://www.qca.org.au/Electricity/Regional-consumers/Reg-Electricity-Prices/In-Progress/Regulated-Electricity-Prices-2015-16>.

2 KEY ISSUES

In making our draft determination, we largely followed the same approach to set notified prices for customers in regional Queensland that we followed to set notified prices across the state in previous years. Other than extending the scope of the determination to south east Queensland, changes to the delegation, terms of reference and the Uniform Tariff Policy are relatively minor. Therefore, we are not proposing to make significant changes to our approach in the draft determination.

In this chapter, we explain the key issues we are considering for the final determination. This includes changes we are considering to the draft determination as a result of the new delegation and terms of reference, new information since the release of our draft determination and our preliminary review of submissions to the draft determination. However, at the time of releasing this paper, we were still considering submissions.

2.1 Overall framework and headroom

In accordance with the Uniform Tariff Policy, we propose to continue basing notified prices for residential and small business customers throughout Queensland on the costs of supply in south east Queensland. However, as the Uniform Tariff Policy is no longer defined by reference to standing offer prices in south east Queensland, the basis on which we proposed to include an allowance for headroom in the draft determination no longer applies.

Consistent with previous decisions, we consider that it is appropriate to continue to include an allowance for headroom, so that the level of notified prices is not a constraint on competition in south east Queensland. In accordance with the requirement in the *Electricity Act 1994* (the Electricity Act) to consider the effect of our determination on competition, we will consider whether the 5% level proposed in the draft determination (and included in previous decisions) is appropriate, by assessing the state of competition in south east Queensland. Consistent with previous decisions, we propose to assess competition against the following indicators:

- the switching rate
- the number of active retailers and degree of market concentration
- available market offers
- the degree of customer participation and engagement in the market.

We will also consider the findings of the Australian Energy Market Commission's 2014 report into the state of competition in retail energy markets across the National Electricity Market, which, for the first time, involved an extensive assessment of the south east Queensland retail electricity market⁹.

We are not proposing to change our approach to set notified prices for large business customers. The decision to continue to regulate prices for customers in south east Queensland only applies to residential and small business customers. The terms of reference applicable to large business customers is also unchanged.

⁹ Australian Energy Market Commission, *2014 Retail Competition Review - Final Report*, 22 August 2014.

2.2 Network costs

As we discussed in the draft determination, a new five-year regulatory period for the distribution businesses begins on 1 July 2015. The Australian Energy Regulator (AER) published its draft revenue determination on 30 April 2015. Based on the AER's draft determination, the distribution businesses must submit their proposed network tariffs and prices for 2015-16 to the AER by 21 May 2015. These are the prices we will use for the final retail price determination.

Network tariffs for residential, small business and unmetered supply customers

In the draft determination, we proposed to base retail tariffs on:

- Energex network tariffs and prices for flat rate and controlled load tariffs (tariffs 11, 20, 31, 33, 41 and 91).
- Calculated network tariffs and prices for time-of-use tariffs (tariff 12 for residential customers and new tariff 22A for small business customers) based on Ergon Distribution tariff structures. We maintained the level of the Energex fixed charge and decreased the Ergon Distribution consumption charges to a level where regional customers would, on average, pay the same as customers in south east Queensland.

We proposed to retain the existing time-of-use tariff for small business customers (tariff 22) for two years and to continue to base the tariff on Energex network tariffs and prices. We also proposed to make tariff 22 obsolete, meaning that it would only be available to current customers.

Flat rate and controlled load tariffs

The terms of reference in the April 2015 delegation requires that we consider continuing with the same approach we adopted in the draft determination for flat rate and controlled load tariffs, which is to use Energex network tariffs and prices. Adopting this approach would mean that the retail tariffs are uniform in level and structure across the state. This would be consistent with our previous decisions and mean that customers would face the correct network tariff signals if they are in south east Queensland, but incorrect network tariff signals if they are in regional Queensland.

In the draft determination, we decided against using Ergon Distribution network tariffs to set flat rate and controlled load retail tariffs for regional customers because nearly all customers would be affected by the change in tariff structure. We considered that this change may be too significant to make in 2015-16 and also noted that it would not align with the proposal in the terms of reference to use Energex network tariffs and prices.

In its submission to the draft determination, QCOSS suggested that we should more thoroughly examine the merits of applying the Ergon Distribution tariff structure to the main residential tariff (tariff 11). QCOSS considered that adopting the same approach we used in the draft determination to adjust tariff 12 (i.e. adopting the Energex fixed charge and adjusting the Ergon Distribution consumption charges) may positively impact lower usage regional customers, relative to our proposed approach of completing the re-balance of the tariff 11 charges to Energex levels.

The decision to maintain the Energex fixed charge in tariff 12 was made in the context of our decision to base tariff 11 on the Energex tariff structure and tariff 12 on the Ergon Distribution tariff structure. We considered that maintaining the Energex fixed charge in tariff 12 would improve incentives for customers to adopt TOU tariffs. If tariff 11 and tariff 12 were both based

on Ergon Distribution tariff structures, we consider that it would be more appropriate to adjust all tariff components uniformly to maintain the relativities between the tariff components. On the basis of this adjustment, a typical tariff 11 customer would see a bill increase of 5.3% with the Ergon Distribution tariff structure, compared to 2.7% with the Energex tariff structure¹⁰. As a result of the much higher fixed charge in the Ergon Distribution tariff structure, lower usage regional customers would face even larger increases than they would with the completion of the re-balance of fixed and variable charges to Energex levels. Using Ergon Distribution tariffs for the other flat rate and controlled load tariffs would also result in higher fixed charges or, in the case of controlled load tariffs, introduce fixed charges.

Our preliminary view is that we should continue to use Energex network tariffs and charges for the flat rate and controlled load tariffs.

Time-of-use tariffs

The terms of reference requires that we consider splitting each of the existing TOU tariffs for residential and small business customers (tariffs 12 and 22) into two tariffs - one based on Energex tariff structures for customers in south east Queensland and one based on Ergon Distribution tariff structures for customers in regional Queensland. This is the approach we proposed in the draft determination for regional customers¹¹.

We consider that this approach more accurately reflects the costs of supplying regional customers and is, therefore, more aligned with our obligations in the Electricity Act to consider the actual costs of supply and the objectives of the Electricity Act. We also consider that the definition of the Uniform Tariff Policy does not preclude the establishment of different retail tariffs for customers in different areas, as long as the overall level of prices is similar. The requirement in the terms of reference to consider setting different retail tariffs supports this interpretation.

In the draft determination, we acknowledged that changing from an Energex-based tariff structure to an Ergon Distribution-based tariff structure would negatively impact some customers. However, we highlighted that a relatively small proportion of customers are on time-of-use tariffs, that the impacts on tariff 12 customers were unlikely to be significant and that many customers could be better off. We noted that impacts may be significant for some tariff 22 customers, and proposed that they would be allowed to access the Energex-based tariff 22 for a two-year transitional period. It may also be possible for customers to switch to a flat-rate tariff (tariff 11 or 20) if the time-of-use tariff is not suitable.

Therefore, consistent with the terms of reference, we are considering using different network tariffs (and therefore, setting different retail tariffs) for customers in south east Queensland and regional Queensland to reflect the different pricing signals in Energex and Ergon Distribution network tariffs. We invite comments from stakeholders on the merits of this approach.

Time-of-use demand tariffs for regional customers

In its submission to the draft determination, Ergon Distribution advised that it will introduce new network tariffs, featuring a seasonal time of use demand (STOUD) structure, for residential and small business customers in 2015-16, as shown in Table 1. We understand that, subject to consultation, Energex intends to introduce voluntary TOU demand network tariffs for residential customers in 2016-17 and small business customers in 2017-18.

¹⁰ Based on draft determination data.

¹¹ While there is another time-of-use tariff for residential customers - tariff 13, we are proposing to remove this tariff from the tariff schedule (see below).

Table 1 Proposed seasonal time of use demand tariff structure¹²

<i>Tariff component</i>	<i>Non-summer months (March-November)</i>	<i>Summer months (December-February)</i>
Anytime Energy	c/kWh	
Summer Demand ¹		\$/kW/month
Non-summer Demand ²	\$/kW/month	

Note: Although the proposed distribution tariff does not include a fixed charge, a fixed charge consisting of transmission network charges and retail costs would apply.

¹ Demand charge is applied to the average of the top 4 demand days each summer month during the hours of 3pm-9:30pm for residential customers and 10:00am-8pm weekdays for business customers. No demand charge applies outside these times in summer months.

² Demand charge is applied to actual maximum kW recorded in each non-summer month. Customers will be charged for a minimum of 3kW per month.

The terms of reference does not refer to the introduction of these new network tariffs. However, it could be argued that introducing new retail tariffs for regional customers would be consistent with basing other time-of-use tariffs on Ergon Distribution tariff structures. Ergon Distribution considers that these demand tariffs should be introduced so that customers are charged on the basis of the costs they impose on the network, which will reduce cross subsidies, encourage efficient investment and lead to lower overall costs¹³. However, we understand that it may not be possible to supply customers on these tariffs immediately because advanced meters must be installed and billing systems may need to be upgraded.

While STOU retail tariffs may be more efficient and will only impact customers who choose to be supplied on them, there are some issues with introducing new retail tariffs in 2015-16. First, there are no comparable Energex network tariffs, which makes it more difficult to establish a suitable baseline to apply the Uniform Tariff Policy. Second, we would need to establish new retail tariffs before the AER has approved the network tariffs. Third, while not a component of notified prices, retailers are prevented from recovering the costs of the new meters from customers¹⁴. Fourth, there is limited time to consult on their introduction.

We invite comments from stakeholders on the merits of introducing new STOU retail tariffs in 2015-16 and, should we decide to introduce new tariffs, the most appropriate methodology to calculate network prices that are consistent with the Uniform Tariff Policy.

Tariff 13

Tariff 13 is a time-of-use (TOU) retail tariff that is based on an Energex network tariff. It is available to residential customers with a PeakSmart Air Conditioning Unit. In the draft determination, we proposed to remove tariff 13 from the tariff schedule because Ergon Distribution does not have an equivalent network tariff and setting tariff 13 based on an Energex network tariff would be inconsistent with basing the other residential TOU tariff (tariff 12) on an Ergon Distribution network tariff.

¹² Further information, including indicative charges, can be found on Ergon Distribution's website at <https://www.ergon.com.au/network/network-management/network-pricing/network-tariff-strategy-consultation/future-network-tariffs>.

¹³ Ergon Distribution, *Consultation Paper: The Case for Demand Based Tariffs*, March 2015.

¹⁴ In addition to notified prices, retailers are only permitted to charge non-market customers for 'distribution non-network charges', as this term is defined in the Electricity Act (see section 90). We understand that type 1 to 4 meters do not meet this definition, because they are not regulated by the AER.

We have been advised by Energex that it will not offer the network tariff underpinning tariff 13 in 2015-16, and that it will transfer tariff 13 customers to the tariff 12 network tariff. Therefore, we propose to maintain our draft decision to remove tariff 13.

Summary

In summary, we are considering the following approaches for the final determination:

- For the flat rate and controlled load tariffs, using Energex network tariffs and prices (consistent with our draft determination and previous determinations).
- For existing time-of-use retail tariffs, establishing separate retail tariffs for customers in south east Queensland and regional Queensland, as follows:
 - for south east Queensland customers, using Energex network tariffs and prices (consistent with previous determinations)
 - for regional customers, using Ergon Distribution network tariff structures, but reducing network prices to Energex levels (consistent with the draft determination).
- Whether to introduce two new (optional) retail tariffs for regional customers, based on Ergon Distribution's proposed STOUT tariffs.
- Removing tariff 13 from the tariff schedule, so that it is no longer available to residential customers. This is consistent with our draft determination and Energex's decision to remove the network tariff underlying tariff 13.

Network tariffs for large business and street lighting customers

We propose to maintain the approach to network tariffs for large business and street lighting customers in the draft determination. We do not expect that Ergon Distribution will make changes to the network tariffs that underpin retail tariffs for large business¹⁵ and street lighting customers.

2.3 Energy costs

Consistent with the draft determination, we propose to continue to use a market-based approach to estimate wholesale energy costs. Our consultant, ACIL Allen, is considering submissions on technical aspects of the application of the approach.

In the draft determination, we included an allowance for prudential capital costs in the energy cost allowance. In its submission to the draft determination, QCOSS argued that a separate allowance for prudential capital costs was not justified because they are already accounted for in the retail operating cost (ROC) allowance. Since 2012-13, we have used a benchmarking approach to set ROC, which has largely relied on the ROC allowance determined by the Independent Pricing and Regulatory Tribunal (IPART) in NSW. While it was previously unclear whether an allowance for prudential capital costs was included in IPART's ROC allowance, IPART's 2013 decision indicated that an allowance was included in ROC. IPART confirmed that this is correct. Based on draft determination data, prudential capital costs contribute about 0.094c/kWh or \$4 to the annual bill of a typical tariff 11 customer.

In light of this information we are considering whether a separate allowance for prudential capital costs in the energy cost allowance remains appropriate.

¹⁵ While Ergon Distribution had signalled in its submission that it may remove the high voltage network tariff underpinning tariffs 47 and 48, we now understand that this change will not be made in 2015-16.

2.4 Retail costs

Consistent with the draft determination, we propose to continue to use a benchmarking approach to estimate ROC and the retail margin.

2.5 Cost pass-through arrangements

In the draft determination, we advised that we would consider passing through differences in Small-scale Renewable Energy Scheme costs (SRES costs), where the amounts provided in the 2014-15 determination are found to be materially understated or overstated as a result of differences between the non-binding and binding small-scale technology percentage (STP) for 2015. We propose to maintain this approach.

In the 2014-15 determination, we applied the 2015 non-binding STP of 10.10%, which is lower than the final 2015 STP of 11.71%¹⁶. This means that retailers are likely to under-recover SRES costs relative to the allowance we included. We will assess the materiality of the under-recovery when deciding whether to make a pass-through adjustment in the final determination. Preliminary calculations indicate that passing through the under-recovered SRES costs would add about 0.04c/kWh or \$1.75 to the annual bill of a typical tariff 11 customer.

2.6 Transitional arrangements

In the draft determination, we proposed the following:

- to complete the re-balancing of the fixed and variable components of tariff 11 using the approach established in the 2013-14 determination
- to maintain the transitional arrangements for tariffs classed as transitional or obsolete; escalate the charges in each tariff by 5%; retain tariffs for a further 5 years (except for tariffs 41 (large) and 43 (large), which will be removed as foreshadowed in the 2014-15 determination); and continue to allow all business customers access to transitional tariffs.

We propose to maintain this approach to transitional arrangements. However, as foreshadowed in the draft determination, if the anticipated price increases for the standard business tariffs do not eventuate, we will re-consider the 5% escalation factor applied to transitional and obsolete tariffs.

¹⁶ <http://ret.cleanenergyregulator.gov.au/About-the-Schemes/About-the-small-scale-technology-percentage/The-current-STP>.

GLOSSARY

A

AER	The Australian Energy Regulator
April 2015 Delegation	The Minister's delegation received on 28 April 2015

E

Electricity Act	<i>Electricity Act 1994 (Qld)</i>
Ergon Distribution	Ergon Energy Corporation Limited (electricity distributor)
Ergon Retail	Ergon Energy Queensland Pty Ltd (electricity retailer and subsidiary of Ergon Energy Corporation Limited)

G

Government	Queensland Government
GST	Goods and services tax

I

IBT	Inclining block tariff
IPART	Independent Pricing and Regulatory Tribunal

K

kWh	Kilowatt hour
-----	---------------

M

Minister	Minister for Energy and Water Supply
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N

Notified prices	Regulated retail electricity prices
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Q

QCA	Queensland Competition Authority
QCOSS	Queensland Council of Social Service

R

ROC	Retail operating costs
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S

SRES	Small-scale Renewable Energy Scheme
STOUD	Seasonal time of use demand
STP	Small-scale technology percentage

T

TOU	Time-of-use
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U

UTP	Uniform Tariff Policy
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APPENDIX A: NEW DELEGATION AND COVER LETTER



Minister for Main Roads, Road Safety and Ports
Minister for Energy and Water Supply

Our Reference: DEWS-CLLO-CIC-15004

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22 APR 2015

Dr Malcolm Roberts
Chairman
Queensland Competition Authority
GPO Box 2257
BRISBANE QLD 4001

Dear Dr ~~Roberts~~ ^{Malcolm,}

Thank you for the Queensland Competition Authority's (QCA's) efforts in preparing its Draft Determination on Regulated Retail Electricity Prices for 2015–16 and conducting extensive public consultation as part of the determination process.

The current Delegation and Terms of Reference for determining these electricity prices, as issued on 29 August 2014 under Section 90AA(1) of the *Electricity Act 1994*, require the QCA to only determine prices for customers in Ergon Energy's regional electricity network. This is due to the former Government's planned introduction of price deregulation in South East Queensland (SEQ) from 1 July 2015.

However, the Government has decided to delay the introduction of price deregulation in SEQ by 12 months. This will enable the new Queensland Productivity Commission to assess the costs and benefits of deregulation and whether the current market monitoring arrangements and consumer protections are adequate, as part of its public inquiry into electricity prices.

I am therefore issuing the QCA with the attached revised Delegation and Terms of Reference under Section 90AA(1) of the *Electricity Act 1994* to prepare a Final Determination that will apply to the relevant customers in South East and regional Queensland.

Robust public consultation is a cornerstone of the QCA's price setting process. While my revised Delegation does not require the QCA to publish a second Draft Determination, it does require the QCA to take all reasonable steps to consult with relevant stakeholders, including consideration of written submissions.

Should you require anything further on these matters, please contact Mr Ken Sedgwick, Acting Deputy Director-General Energy, on [REDACTED] or [REDACTED]

Yours sincerely



Mark Bailey MP
Minister for Main Roads, Roads Safety and Ports
Minister for Energy and Water Supply

Att: - Revised Delegation and Terms of Reference

DELEGATION TO QCA

**ELECTRICITY ACT 1994
Section 90AA(1)****DELEGATION**

I, Mark Bailey, the Minister for Energy and Water Supply, in accordance with the power of delegation in section 90AA(1) of the *Electricity Act 1994* (the Act), delegate to the Queensland Competition Authority (QCA) the function under section 90(1) of the Act of deciding the prices that a retail entity may charge its non-market customers for customer retail services for the tariff year 1 July 2015 to 30 June 2016.

The following are the Terms of Reference of the price determination:

Terms of Reference

1. These Terms of Reference apply for the tariff year 1 July 2015 to 30 June 2016.
2. The QCA is to calculate the notified prices and publish an annual price determination, in the form of a tariff schedule, in accordance with these Terms of Reference.
3. In accordance with section 90(5)(a) of the Act, in making a price determination for each tariff year QCA must have regard to the matters set out in paragraph 5 of these Terms of Reference.
4. In accordance with section 90(5)(b) of the Act, QCA may have regard to any other matter that QCA considers relevant.
5. The matters that QCA is required by this delegation to consider are:
 - (a) It is the Government's intention that price regulation will be retained for residential and small business customers in the Energex Limited distribution area from 1 July 2015 to 30 June 2016. This will mean that notified prices will continue to apply to all non-market customers in Queensland;
 - (b) Uniform Tariff Policy - QCA must consider the Government's Uniform Tariff Policy, which provides that, wherever possible, non-market customers of the same class should pay no more for their electricity, regardless of their geographic location;
 - (c) Framework - QCA must use 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 QCA;

DELEGATION TO QCA

- (d) When determining the N components for each regulated retail tariff, QCA must consider the following:
- (i) For residential and small business customer tariffs (with the exception of Tariffs 12 and 22) - basing the network cost component on the network charges to be levied by Energex and the relevant Energex tariff structures;
 - (ii) For Tariff 12 residential time-of-use and Tariff 22 small business time-of-use tariffs
 - a. In the Energex distribution area - basing the network cost component on the network charges to be levied by Energex and the relevant Energex tariff structures;
 - b. In the EECL distribution area - basing the network cost component on the network charges to be levied by Energex, but utilising the relevant EECL tariff structures, in order to strengthen or enhance the underlying network price signals and encourage customers to switch to time-of-use tariffs and reduce their energy consumption during peak times;
 - (iii) For large business customers in the Ergon Energy Corporation Limited (EECL) distribution area who consume 100MWh or more per annum - basing the network cost component on the network charges to be levied by EECL.
- (e) Transitional Arrangements - QCA must consider:
- (i) for the standard regulated residential tariff (Tariff 11), complete the rebalancing of the fixed and variable components of Tariff 11 using the approach established in the 2013–14 Determination;
 - (ii) maintaining transitional arrangements for tariffs classed as transitional or obsolete (i.e. farming, irrigation, declining block, non-domestic heating and large business customer tariffs), and
 - (iii) continuing to allow all customers access to tariffs designated as transitional in 2013–14.

Consultation

9. The QCA must take all reasonable steps to consult with relevant stakeholders, including consideration of written submissions.

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Final Price Determination

- 14. QCA must investigate and publish its final price determination on regulated retail electricity tariffs, with each tariff to be presented as a bundled price, and gazette the bundled retail tariffs.

- 19. This Delegation revokes the previous Minister for Energy and Water Supply's Delegation issued on 28 August 2014.

DATED this 22nd day of April 2015.



SIGNED by the Honourable)
Mark Bailey,)
Minister for Main Roads, Road Safety and Ports) (*signature*)
Minister for Energy and Water Supply)