



18 January 2019

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

Email: www.qca.org.au/submissions

Dear Mr Millsteed,

RE: REGULATED RETAIL ELECTRICITY PRICES FOR 2019-20

Origin Energy appreciates the opportunity to provide a submission in response to the Queensland Competition Authority's (QCA) interim consultation paper on establishing regulated retail prices for 2019-20.

The national electricity retail market is currently experiencing significant scrutiny and intervention. Specifically, the Australian Energy Regulator (AER) is currently undertaking work to develop a mechanism for determining the price of a default market offer (DMO) and the Essential Service Commission of Victoria (ESC) is also undertaking work to develop a methodology for a Victorian Default Offer (VDO) to apply to residential and small business electricity customers. These interventions create significant risks for the efficient operation of competitive retail markets.

We recognise that the QCA is guided in its decision making by Ministerial delegation, its obligations under the Electricity Act and has a limited application (i.e. regional Queensland). However, given the continuity and maturity of its decisions, we fully expect that the AER and ESC to take guidance from the QCA's work. As a result, this current QCA decision is of great importance. For this reason, we believe it is vitally important that the QCA continue to ensure that its method and decision produces results that reflect the objective for a regulated tariff to support the development and maintenance of competition.

Our views on specific matters raised by the QCA in its interim consultation paper are provided below.

Potential Pricing Approaches

The QCA is required to consider a range of matters in undertaking its function, including the importance of cost-reflective pricing and the promotion of retail competition. As a result, it is considering a broad range of possible pricing approaches for 2019-20.

While we recognise the value in examining whether the current approach remains fit for purpose, to ensure there is a continuity and consistency in the application of notified prices, we support the position that the QCA should continue to base notified prices for residential and small business customers on the costs of supply in south east Queensland.

Network Costs

The QCA highlight that its new delegation is specific in its intent for the QCA to consider basing the N component of notified prices on the costs in the Energex distribution area. For this reason, the QCA consider it appropriate to continue to base residential and small business flat rate retail tariffs and controlled load tariffs on Energex network tariff structures.

For residential and small business seasonal time-of-use retail tariffs (tariffs 12A and 22A) and time-of-use demand retail tariffs (tariffs 14 and 24), the QCA note that it has been directed to consider adopting Ergon distribution network tariff structures.

We agree that it is important that the seasonal time-of-use and time-of-use demand retail tariffs reflect Ergon distribution network tariff structures, as these retail tariffs send signals to customers about those network costs that retailers incur due to the time and/or level of electricity usage and demand. However, not all customers subject to the QCA's decision are connected to the Ergon network. For this reason, we believe that where a customer is connected to a different network (for example the Essential Energy network) that the time of use tariff should align with the signals of that network. We discuss this issue further under Other Matters below.

Energy Costs

Small Scale Energy Costs

Small scale solar installations continue to experience a rapid growth in the rate of installation. This growth has outstripped the Clean Energy Regulator's (CER) estimates of the volume of small-scale certificates (STC) created. This is relevant for two reasons:

- Under-recovery of 2018-19 SRES costs; and
- Flow-on impacts for estimations of the small-scale technology percentages (STP) for Cal 2019 and Cal 2020.

Because the rate of solar installation has exceeded that assumed in the published STP, retailers are likely to have under-recovered SRES costs for 2018-19 based on the QCA's final determination. Consistent with previous determinations we encourage the QCA to recognise this under recovery when setting prices for 2019-20.

We note that the most recent update from the CER in December 2018 indicates a significant surplus of STCs created in Cal 2018 estimated at around 6-8 million STCs, this represents a variance of over 20 per cent above the published STP. This surplus will need to be added to the STP for 2019, which will be relevant to this determination. As the final binding STP for 2019 will not be published until March 2019, we suggest the QCA consults with the CER to obtain an up to date estimate for inclusion in the QCA's draft determination.

Further, as the Cal 2020 STP is also relevant to this determination, we suggest that the QCA also consider revising upward the estimation provided by the CER's current non-binding STP. We would be happy to discuss our view of the Cal 2020 STP based on our expectations of the rate of installation. We note that various State incentives have increased installation rates, and that further policy announcements may further accelerate activity.

Large Scale Energy Costs

The forward price curve for LGC's is in decline reflecting the anticipated delivery of enough large-scale renewable generation to meet the peak Renewable Energy Target in 2020 and no planned extension of the scheme. The QCA should carefully consider whether its current approach of using the market price will adequately compensate retailers for their prudent LGC costs over the remaining years of the scheme. Retailers have progressively invested in renewables or entered into PPA's over the duration of the scheme with prices for earlier renewable projects generally made at a significantly higher price point, which may now be in excess of the current LGC/energy market price. There appears to be a risk of a perverse regulatory outcome over the remaining years of the scheme if the current LGC market price is applied without adjustment. Retailers will effectively be penalised for acting commercially and prudently by supporting sufficient renewable investment to meet scheme obligations.

Origin acknowledges that the QCA has previously not adjusted its methodology when energy market prices are either higher or lower than long run costs. However, the decline in LGC prices is a

consequence of policy/regulatory mechanisms rather than market conditions. The RET will peak in 2020 with no replacement carbon scheme in place to provide value for renewables. The marginal value of an LGC has fallen because retailers collectively supported enough renewable build to meet their legislated RET obligations. Had this not been the case then renewable supply would be reduced and the LGC market price (and QCA cost allowance) would naturally be higher.

Wholesale Energy Costs

As Origin's previous submissions noted we encourage the QCA to ensure that modelled load profiles and pool price simulations reflect the variability of outcomes experienced in the NEM over an extended period.

The QCA will need to carefully consider the appropriate hedging strategy to be modelled in light of a tighter supply/demand balance and continued reduction in 'middle of day' demand due to solar penetration.

With respect to updating the data for its wholesale energy modelling, on the basis that the QCA's draft is likely to be considered by other regulators we believe the draft should include the most relevant data available; i.e. the end of January 2019. This would provide more accurate guidance to other regulators observing the QCA decision as well as minimising fluctuations in outcomes between the QCA's draft and final decisions.

Retail Costs

In the 2018–19 price determination process, the QCA set the allowance for retail operating costs based on benchmarks established as part of the 2016–17 price determination process, adjusted for inflation. This benchmark was intended to include retail operating costs and a retail margin.

This method used both benchmarking and a bottom-up assessment to estimate an efficient retailer cost for a representative electricity retailer serving residential and business customers in Queensland in 2016-17.

For its 2019-20 determination, the QCA has suggested that it could either: 1) establish new allowances, based on more recent market data, to set notified prices for 2019–20, or 2) use the allowances originally established in the 2016–17 price determination as the starting point for setting notified prices for 2019–20.

In light of the potential re-introduction of regulated prices in Victoria and the application of a benchmark reference rate in other jurisdictions, we believe that it would be prudent to revisit the calculation method once these reforms are fully understood and implemented. Given the current environment, we also consider that providing certainty to stakeholders is important. For these reasons, we think a prudent approach would be to use the existing allowances as the starting point and to apply an appropriate carry forward such as the Consumer Price Index.

Allowances

We agree with the QCA's historic approach to adjust the estimated efficient costs of supply in south east Queensland to account for the expected price differential between lowest-priced and standing offers.

To achieve this, the QCA has added an adjustment of 5 per cent of the total estimated efficient cost of supply in south east Queensland. We believe that this consistent with the QCA's historical approach to including headroom for south east Queensland, which supported the development and maintenance of competition. On that basis we support the continuation of a standing offer allowance of 5 per cent.

Other Matters

Historically, customers in Essential Energy's distribution area in southern Queensland did not have access to notified prices. Under a Special Approval between Origin Energy and the Queensland

Government, Origin Energy received a subsidy to ensure that standard contract customers in this distribution area paid no more than similar customers that have access to notified prices. However, in 2018-19, the Minister's delegation stated that the QCA is to decide the prices that a retail entity may charge standard contract customers other than those in the Energex distribution area, where retail price regulation was removed on 1 July 2016. This meant that Queensland notified prices are intended to apply to customers in the Essential Energy distribution area.

However, these customers remain connected to a NSW distribution network and therefore are assigned a NSW network tariff. For those customers on a flat tariff, this does not pose any problems. For customers on time of use or controlled tariffs this is problematic because the customer is either on a pre-programmed accumulation meter owned and operated by Essential Energy or, with respect to controlled load, has a relay that sits behind the meter which allows Essential Energy to switch the controlled load on or off as required.

The problem with the time of use and controlled load arrangements is that the Essential Energy charging intervals differ from the charging intervals historically set by the QCA for time of use tariff 12A and controlled load tariffs 31 and 33. Because Origin has no visibility of a customer's actual usage intervals, it is not possible to charge these customers the notified prices during the QCA set intervals.

To address this issue for tariff 12A, we are offering to replace these customers' meters with an interval meter. This would then allow Essential to continue to apply its TOU network charge but would also provide Origin with half hourly consumption records and therefore the ability to apply the QCA's Tariff 12A. However, this solution would not extend to around the 3,600 controlled load customers in this area. To highlight the problem, the table below compares the differences in the charging intervals.

Table 1: Essential versus Ergon Controlled Load Charging Intervals

Essential Energy Controlled Load Tariffs	Queensland Controlled Load Tariffs
CL1 = Electricity is supplied for 5 to 9 hours overnight on weekdays, with possible extra hours on weekends (except where the load is controlled by a time clock).	T31 = Power is available for a minimum of 8 hours each day. The times when power is switched off may change from day to day and vary in duration.
CL2 = Electricity is supplied for 10 to 18 hours overnight on weekdays and all hours on weekends (except where the load is controlled by a time clock).	T33 = Power is available for a minimum of 18 hours each day. The times when power is switched off may change from day to day and vary in duration.

To resolve this issue, Origin has engaged with Essential Energy to identify possible solutions. A number of options were examined including changing relays and developing a dedicated control load channel that aligns with the timing and supply conditions of the Queensland notified prices. However, preliminary analysis indicated that this would be a complex and costly and arguably the benefits would not outweigh the costs.

On this basis, we believe a more practicable alternative would be for the QCA to establish notified controlled load tariffs for the Essential Energy cross border customers where the charging interval aligned with the Essential Energy charging intervals. Under this approach, these customers would still be subject to Queensland notified prices as required by the Minister's direction, but these would simply apply during the Essential timing intervals. We also believe this approach is consistent with the intent that tariffs should send signals to customers about those network costs that retailers incur due to the time and/or level of electricity usage and demand.

For these reasons, Origin propose the adoption of the following definition for controlled load customers connected to the Essential Energy distribution network:

Tariff: Essential BLNC1AU Controlled Load 1 *To all residential and business premises where the premise has another primary metering point present at the same metering point as the secondary load and the load is remotely controlled. Applicable to loads such as water heating, swimming pool pumps etc. Loads must be permanently connected or on a*

dedicated power circuit with indicators to show when supply is available. Supply will be made available for 5 to 9 hours overnight on weekdays and extra hours on weekends except where the load is controlled by a time clock. Note: This tariff is not available for the top boost element of a two element water heater for new connections.

Tariff: Essential BLNC2AU Controlled Load 2 As per BLNC1AU Controlled Load 1, except the supply will be made available for 10 to 18 hours per day on weekdays and all hours on weekends except where the load is controlled by a time clock.

Closing

Origin supports the continuation of the QCA's existing method to calculate notified prices for regional Queensland. In doing so, we believe that in the current environment it is vitally important that the QCA continue to ensure that its method and decision produces results that reflect the objective for a regulated tariff to support the development and maintenance of competition.

We also request the QCA's consideration to introduce specific charging intervals to apply to controlled load customers in the Essential Energy distribution network, while still retaining the Queensland notified tariff values.

If you have any questions regarding this submission, please contact Sean Greenup in the first instance on (07) 3867 0620.

Yours sincerely



Keith Robertson
General Manager, Regulatory Policy