Energex Limited

Regulated Retail Electricity Prices 2013/14

Response to Queensland Competition Authority – Draft Determination

22 March 2013

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1 Introduction

Energex Limited (Energex) welcomes the opportunity provided by the Queensland Competition Authority (the Authority) to submit comments in response to its *Draft Determination on Regulated Retail Electricity Prices 2013/14* (Draft Determination).

Energex fully supports a robust and consultative approach to electricity pricing reform and looks forward to continuing to participate in the Authority's public consultation process. Obtaining the understanding and support of customers in our distribution area is a major consideration for Energex when reviewing tariffs and implementing reforms.

Energex's submission is targeted towards addressing matters raised in the Draft Determination, by the Authority, regarding network issues. As such, comments predominantly focus on the treatment of network costs regarding Tariff 12 and Tariff 22, the operation of the new residential Time of Use (ToU) tariff, Tariff 13, the proposed new business 3-part ToU network tariff to support a potential new farm and irrigation retail tariff, and matters regarding Solar Photovoltaic (PV), ToU pricing and the alignment between network and retail.

To date, the Authority has released three consultation papers regarding 2013/14 regulated retail electricity prices. Energex has responded to each of these papers, and some information contained in these previous responses is referred to in this submission. Each of Energex's previous submissions is available on the Authority's website.

2 Residential network tariffs

This section provides Energex's comments regarding residential network tariffs, including the attractiveness of Tariff 12 compared to Tariff 11, the operation of Tariff 13 (the new PeakSmart ToU tariff) and matters regarding Solar PV.

2.1 Comparative attractiveness of Tariff 12 to Tariff 11

The Authority stated in the Draft Determination[1],that:

> "A true comparison of the relative attractiveness of Tariffs 11 and 12 will only be possible once the fixed and variable components of Tariff 11 are rebalanced to their cost-reflective levels… Once completed, this is likely to reveal the more fundamental problem… that the underlying network charges make Tariff 12 unattractive relative to Tariff 11 for most customers."

Energex has commissioned consultants, Ernst & Young, to undertake an independent review of its approach to ToU pricing for Tariff 12 (Network Tariff Code (NTC) 8900). This review compared Energex's ToU tariff structure to those applied in other Australian jurisdictions.

While there are differences across the jurisdictions with respect to the length and time of peak, shoulder and off-peak periods, and the sharpness of the peak price signal, the review found that Energex's ToU tariff structure is not fundamentally different to that of other Distribution Network Service Providers. Further, the review confirmed that a number of factors, some of which are outside Energex's control (such as the price freeze applied to Tariff 11 in 2012/13), impact the number of customers who would be better off on Tariff 12 relative to Tariff 11. A copy of the report from Ernst & Young is attached and provided to the Authority confidentially.

As noted in its submission in response to the Transitional Issues and Cost Components Consultation Papers, Energex believes that the effectiveness of any approach to pricing Tariff 12 will be enhanced through the equivalent treatment of all regulated tariffs for residential customers. Energex believes that stronger ToU retail tariff signals should be provided to customers by reinforcing network ToU price signals with ToU energy charges. This is discussed further in Section 4.1.

2.2 Operation of Tariff 13, PeakSmart ToU

The Authority stated in the Draft Determination[2] that the PeakSmart ToU tariff (Tariff 13) would require a customer to 'relinquish control' of their appliances to Energex. This terminology is of

[1] Section 2.1.1, page 8

concern for Energex as it suggests that if a customer connects to this tariff, Energex may switch of their supply off or even stop them from using critical appliances, which is incorrect.

It is important to note that:

- Tariff 13 is an anytime supply tariff; similar to Tariff 11 or Tariff 12, electricity supply will be provided to the premise at all times; and,
- Ultimately, there will be a number of specific 'controllable' appliances within the premise. Depending on the type of appliance, Energex's control signal will either put the appliance in economy mode or put the appliance in sleep mode. Appliances such as air conditioning (A/C) would maintain comfort levels by operating in economy mode, whereas pool pumps may operate in sleep mode, effectively turning it off for a period of time. It should be noted that a large number of appliances, including televisions and computers, would not be affected.

2.2.1 Technical information about PeakSmart

To be eligible for Tariff 13, customers must purchase a PeakSmart (Demand Response Ready – DRR) A/C unit. PeakSmart A/C units (i.e. DRR capable) can cap their energy use when activated by an economy mode signal sent by Energex. The PeakSmart capable units are only activated when a signal receiver (Demand Response Enabling Device - DRED) is installed in the unit.

The PeakSmart units are built to a new Australian Standard (AS4755) which outlines the Demand Response Modes (DRMs) that PeakSmart units can activate when signalled. The DRMs are:

- DRM 3 – Compressor input energy capped to 75%
- DRM 2 – Compressor input energy capped to 50%
- DRM 1 – Compressor input energy off (fan continues to run).

When a DRM is activated by a signal from Energex to the signal receiver, the A/C unit continues to circulate cool air engaging efficiency settings in the units to minimise any impact on customer comfort. Energex trials have demonstrated that DRMs can be activated on the hottest peak days with only negligible (and generally unnoticed) impacts on customer comfort levels.

2.3 Matters regarding Solar PV

In the Draft Determination[3], the Authority stated that, regardless of arguments in favour of introducing charging structures specifically for Solar PV customers to mitigate the burden being placed on non-PV customers:

[2] Section 2.1.1, page 9
[3] Section 2.1.1, page 8

"Energex has not included a new PV customer specific network tariff for 2013/14. As a result, PV customers will continue to contribute less than their fair share to network costs, with the shortfall picked up through higher charges to non-PV customers."

Energex is regulated by the Australian Energy Regulator (AER) and must comply with the National Electricity Rules (the *Rules*). Clause 6.18.4(3) of the *Rules* states that "retail customers with micro-generation facilities should be treated no less favourably than retail customers without such facilities but with a similar load profile."

It is Energex policy to treat Solar PV customers in a manner that complies with this requirement of the *Rules*. Assignment of Solar PV customers to a tariff class will be made on the same basis as non-PV customers; this being the extent and nature of usage and the nature of connection to the network. Energex believes that it would be the responsibility of the Government to apply any limitations to the credit for electricity produced by small PV generators in accordance with Section 44A of the *Electricity Act 1994* (Qld).

3 Business network tariffs

This section provides Energex's comments regarding network tariffs for business customers, including the peak and off-peak differential for Tariff 22 and the implementation of the new Business 3-part ToU.

3.1 Tariff 22 Peak / Off-Peak differential

The diminished differential between the peak and off-peak rates for Tariff 22 (underlying network tariff NTC8800) has been widely criticised by stakeholders, particularly business customers who feel that the tariff does not provide sufficient incentive to shift use into the off-peak period and/or who have structured their businesses to benefit most from the reduced off-peak rates. Energex understands and acknowledges these criticisms and is reviewing its prices for 2013/14.

Recognising feedback, Energex is proposing to materially increase the difference between the peak and off-peak rates for Tariff 22. The stronger ToU price signal has been achieved by allocating more costs to fixed charges. Energex is of the opinion that network price signals should be reinforced by ToU energy charges to deliver retail tariffs that provide stronger ToU price signals to customers. This is discussed further in Section 4.1.

3.2 Implementation of the new Business 3-part ToU network tariff

In its Final Determination for 2012/13, the Authority flagged the removal of obsolescent tariffs, including all specific farm and irrigation tariffs (Tariffs 62, 63, 64, 65 and 66), and indicated that all customers on these tariffs would need to transfer to cost reflective business tariffs, either Tariff 20 or Tariff 22, by 30 June 2012. Since then, this decision has been the subject of significant stakeholder opposition due in most part to the lack of strong ToU signals in Tariff 22 and the significant financial impact this would have on farmers and irrigators who have established their businesses based on ToU signals delivered through the now obsolescent tariffs.

In response to this feedback, Energex identified an opportunity to base a new ToU tariff for farm and irrigation tariffs on the existing network tariff, NTC8900 which currently underpins the residential ToU tariff, Tariff 12.

NTC7200 is the proposed new ToU network tariff for farm and irrigation customers. Similar to NTC8900, this new tariff is a 3-part ToU structure with off-peak, shoulder and peak periods, and its ToU periods and network charges are also the same. For this tariff to be offered to farm and irrigation customers in 2013/14, the Authority would need to provide a separate retail tariff, with limited access to farmers and irrigators, that is mapped to NTC7200.

Energex understands that the Authority is currently awaiting stakeholder feedback from consultation undertaken on the Draft Determination to inform its decision about whether to introduce this new retail tariff in 2013/14.

4 Other matters

4.1 Time of Use network pricing

Despite comprising the greater proportion of regulated tariffs at the low voltage supply level, Energex believes that the onus for sending ToU price signals to customers should not rest entirely with the 'N' component. Strong overall signals are dependent on the 'R' component integrating a ToU element reflecting the costs of generation.

Energex acknowledges that the Authority has not pursued ToU energy pricing as this is not reflective of the current Net System Load Profile approach to market settlements; however, Energex also notes that stakeholders are 'broadly supportive of the inclusion of time-of-use signals in wholesale energy costs, but only to the extent that they could be implemented on a cost-reflective basis.'

With this in mind, Energex supports the Authority further investigating options for implementing cost-reflective ToU energy pricing reflective of the real costs of energy.

4.2 Alignment between network and retail

In its response to the Interim and Cost Components Consultation Papers, Energex outlined a range of risks around the publication dates for the Authority's pricing documents in 2014/15 and 2015/16. These risks are due to the tight timeframes within which Energex's draft prices would need to be prepared and a lack of alignment between the Authority's and the AER's regulatory timeframes.

Energex appreciates the Authority's acknowledgement of these risks and the introduction of a cost pass through mechanism in the case of material differences between the draft network prices provided to the Authority and those subsequently approved by the AER. Regardless of this recovery mechanism, in Energex's view, acceptance by stakeholders and customers that Draft Prices and Final Prices may vary is necessary due to the risk of change being very material.

5 Glossary

A list of acronyms, abbreviations and terminology used throughout this submission is provided below.

A/C	Air-Conditioning
AER	Australian Energy Regulator
DRR	Demand Response Ready
DRED	Demand Response Enabling Device
DRM	Demand Response Mode
c/kW.h	Cents per kilowatt hour
'N'	Network charge/s
NTC	Network Tariff Code
PV	Photovoltaic (i.e. Solar PV)
'R'	Retail charge/s
The Authority	The Queensland Competition Authority
The *Rules*	The National Electricity Rules
ToU	Time of Use