



12 May 2020

Charles Millsteed,
Chief Executive Officer,
Queensland Competition Authority (QCA)
GPO Box 2257
BRISBANE QLD 4001

Dear Mr Millsteed,

Submission to the QCA Draft Determination on Regulated retail electricity prices for 2020-21

Regulatory pricing decisions relating to essential services such as energy materially impact people's financial wellbeing and their opportunities to engage and participate in economic and social activities. The cost of energy remains a key issue for communities across regional Queensland and must be front of mind for the QCA.

In our *Living affordability in Queensland* report we found that many people do not have enough money to get by, especially in regional areas and those on low incomes.¹

QCOSS' vision is for equality, opportunity and wellbeing for every person in every community in Queensland. As part of that vision we see every household confidently using the energy they need to stay well and prosper and families who do not need to take on dangerous levels of debt or make trade-offs between essentials such as health care, energy, food and housing.

This submission has been informed by engagement with Queensland consumers, consumer representative organisations and the community services sector, including through two special stakeholder workshops, through our Essential Services Consultative Group (ESCG), individual consultations, and the stories we hear directly from people with lived experience.

QCOSS engaged Etrog Consulting to provide detailed technical advice in making this submission, and this advice is attached. In this cover letter we draw particular attention to key issues as follows.

Determination of network costs

We recognise the challenge of the timelines in this draft determination, however it is very important that the QCA's final determination of the Network price component is based on actual network tariffs for 2020-21 and we would encourage QCA to view this as a priority.

Determining which price is lower: the Default Market Offer (DMO) or notified prices

We agree with the QCA that if the application of the standing offer adjustment results in a higher bill than the equivalent DMO, it should be discounted to the level of the equivalent DMO price. The methodology that the QCA plans to use to make this adjustment should have been detailed in the Draft Determination, enabling stakeholders to review and comment. We have subsequently asked for a worked example from the QCA and we ask that the methodology be provided with opportunity for consultation before the final determination is made.

¹ QCOSS (2019). *Living affordability in Queensland*.

<https://www.qcooss.org.au/publication/affordability-in-queensland-report/>

Proactive action for positive outcomes for people

In light of COVID-19 we agree with the QCA that 2020-21 is not the year to offer new retail tariff structures. The window of time available to complete the important task of recalculating retail costs is also too short. Looking ahead however, we strongly believe that the out-dated retail cost calculation and the imminent arrival of new tariff structures warrant additional work streams for the QCA, which we outline below:

- **Out-dated retail cost calculation:** 2020-21 will be the fifth annual regulatory price-setting period since the last retail cost calculation was made. The time available after the QCA receives its annual delegation from the Minister is not sufficient for the QCA to undertake a recalculation. We propose that the QCA should undertake an additional process – outside of the annual price-setting timeframes – to review the methodologies available for efficient and dynamic retail cost estimation, set and systematically improve a base methodology, and to calculate the year's retail costs (including one or two rounds of stakeholder consultation throughout). This is important and urgent work and we ask the QCA to clarify and commit to when and how they will recalculate retail costs.
- **New tariff structures:** New Tariff structures and trends in new retail contracts and offers must be considered carefully by the QCA. This would benefit from forward-planning by the QCA. For example, QCA's South East Queensland (SEQ) Retail monitoring should be expanded to cover additional information that covers uptake and use of new tariffs, as well as any associated social impacts. Ideally this monitoring would be within a consultative framework. This expanded monitoring would in turn support QCA's price-setting process, including informing which types of retail tariffs should be introduced into regional Queensland from 2021.

We ask the QCA to generate a proactive forward-plan of works on these two matters to ensure regional Queenslanders get the best outcomes from both the tariff reforms and other drivers of change in the retail market. We recognise the QCA works in line with the Ministerial Delegations it receives, we will also ask the Queensland Government for this plan of works.

Ensuring a fast and fair transition to a decarbonised energy system

In our previous submission we raised the need for the QCA to consider how it's role must shift as we move into a period of major transition to a future electricity system, including achieving decarbonisation for the benefit of all people. We acknowledge the QCA's response, which included the nomination of the Queensland Government as the relevant party for this issue and confirm we will be exploring this with the government.

Solar Bonus Scheme

Finally, we note the Solar Bonus Scheme is to be included within Energy Queensland's network tariffs and hence will be included by the QCA within notified prices. Our position is that the costs of this scheme should continue to be recovered from general revenue and we have recently written to the Queensland Government to ask that it be removed from residential electricity bills. In particular we note that the inclusion of the Solar Bonus Scheme will be a missed opportunity for Queensland customers to benefit from the material and significant reductions in network costs that would have eventuated had this jurisdictional scheme cost not been included.

There is no room for complacency when it comes to the cost of living and affordable and equitable access to essential services, and in the context of COVID-19 these decisions are made even more critical. Thank you for the opportunity to make this submission. Should you wish to discuss please contact Wendy Miller at wendym@qcross.org.au.

Yours sincerely,



Aimee McVeigh
Chief Executive Officer



REPORT

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Regulated Retail Electricity Prices 2020-21: Draft Determination

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The information in this report is of a general nature. It is not intended to be relied upon for the making of specific financial decisions.

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The views expressed in this document do not necessarily reflect the views of Energy Consumers Australia.

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EXECUTIVE SUMMARY

Introduction

This report has been prepared by Etrog Consulting Pty Ltd for the Queensland Council of Social Service (QCOSS). It comments on the Draft Determination on regulated retail electricity prices to apply in Queensland from 1 July 2020 to 30 June 2021 which was published by the Queensland Competition Authority (the QCA) on 31 March 2020, inviting submissions from interested parties.¹

The QCA has requested that submissions to the Draft Determination should be received by 13 May 2020. This report has been developed in consultation with QCOSS with the understanding that QCOSS is intending to submit this report to the QCA as its response to the Draft Determination. This report comments on various matters in the QCA's Draft Determination. It builds on QCOSS' submission in January 2020 to the QCA's Interim Consultation Paper, and previous years' submissions from QCOSS to the QCA.

On the same basis, this report only considers the regulated retail electricity prices to apply to residential customers. It does not consider business customers or other customer classes.

COVID-19

In regard to COVID-19, our position agrees with the position taken by the AER in regard to the DMO prices for 2020-21: it is premature to adjust notified prices at this time to take into account COVID-19. There is no more certainty now about the impacts of COVID-19 than there was when the AER made its Final Determination on the DMO for 2020-21. Nor do we expect there to be any more certainty before the QCA completes its analysis for its Final Determination on notified prices for 2020-21. On that basis, we advise that the QCA should not attempt to make any further adjustment to its determination of notified prices for 2020-21 to take into account COVID-19.

We expect that if QCA is delegated by the Minister to set notified prices in future years, the Minister's Delegation might at that future time provide guidance as to how the QCA might account for implications of COVID-19 in notified prices in coming years. To our knowledge, the QCA has received no request from Government to adjust notified prices to take into account COVID-19 in 2020-21, so it has no basis on which to make an adjustment.

Notwithstanding this advice, should the QCA feel it necessary to make changes to its methodology to make further adjustment to notified prices for COVID-19, then that should only be done after a further period of consultation with stakeholders on that matter. It would not be appropriate for the QCA to make changes to its methodology in the absence of such stakeholder consultation.

¹ Relevant documentation has been published on the QCA website at <https://www.qca.org.au/project/customers/electricity-prices/regulated-electricity-prices-for-regional-qld-2020-21>. This documentation includes the QCA's Interim Consultation Paper, submissions to the Interim Consultation Paper, the Draft Determination and Appendices to the Draft Determination.

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Draft pricing approach

The QCA proposes to continue setting notified prices in accordance with the Queensland Government's Uniform Tariff Policy (UTP). We support that position.

Maintaining existing retail tariff structures

The QCA's draft position is to maintain the existing suite of retail tariffs and structures when setting notified prices for small customers in regional Queensland.

We agree that the existing suite of retail tariffs and structures should be maintained.

Introducing new retail tariff structures

The QCA's draft position is not to introduce new retail tariffs in 2020-21 that reflect proposed new complex network tariffs.

The QCA considers there is not enough certainty at this stage to establish new retail tariffs based on proposed new network tariffs for small customers.

We agree with the QCA that now is not a good time to create new retail tariff structures.

It is however a good time to prepare and get resources and approaches ready for such activities.

While now may not be an optimum time, we nevertheless still support the introduction of new retail tariffs in the future, with adequate consultation.

Introducing new retail tariffs based on the AER's approved new network tariff structures should be a longer term aim, and progress towards that aim needs to be made at the earliest opportunity.

The QCA should take on a longer-term monitoring role of the implementation of new retail tariffs, and the resulting customer impacts and customer benefits, alongside the QCA's existing monitoring of the operation of the retail electricity market in Queensland.

We would welcome seeing statements from the QCA accepting that important role and setting out how it might be undertaken.

Nomination of default retail tariffs

In our response to the QCA's Interim Consultation Paper, we said that the default retail tariff for residential customers should be a flat-rate tariff, of the same form as the current Tariff 11.

We understand that the QCA is also intending that in its Final Determination the default retail tariff for residential customers should be a flat-rate tariff, of the same form as the current Tariff 11, and we commend that approach.

Network costs

The AER has stated that it will publish approved 2020-21 network prices for Energex and Ergon Energy by mid-June, and earlier if possible.²

²

See the Pricing Process Timetable, available at <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/sa-power-networks-determination-2020-25/updates>

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We have also been advised by the AER that the network tariff structures for residential customers will be those set out in the network businesses' revised proposals, which were provided to the AER on 10 December 2019.³

The Minister's Delegation to the QCA states that the QCA must publish its Final Determination by 26 June 2020. This will give the QCA some time (maybe two weeks) to take the published approved 2020-21 network prices and place them in the Final Determination. It is incumbent on the QCA Board and staff to align their internal work and approval processes to ensure that this will enable those approved network prices to be used in the Final Determination.

As shown in Chapter 6 of the Draft Determination, the QCA is determining the following residential retail tariffs:

- Tariff 11 – flat rate
- Tariff 12A – time of use
- Tariff 14 – time of use demand
- Tariff 31 – controlled load (super economy)
- Tariff 33 – controlled load (economy)

The AER will be determining network tariffs for 2020-21 that have exactly the same structure as retail tariffs 11, 31 and 33. Therefore there is no impediment to the QCA using the actual network tariffs to determine those retail tariffs.

Tariffs 12A and 14 are more challenging, because there may not be network tariff structures exactly corresponding to the retail tariff structures. The QCA needs to find a different method of setting the N component for these two retail tariffs, and should consult on its application in the coming weeks before finalising its Determination in June.

Solar bonus scheme (SBS) and AEMC levy costs

Having regard to the relevant factors, stakeholder comments and its own analysis, the QCA's draft decision is to reflect these jurisdictional scheme amounts in the draft notified prices set out in its Draft Determination.

Our advice is that the QCA should only include the SBS and AEMC levy costs in its Final Determination on notified prices for 2020-21 if the AER includes those costs in the approved network charges for 2020-21. If this occurs, it will have a negative impact on the affordability of electricity for regional Queensland customers. It will also be a missed opportunity for all Queensland customers to benefit from the material reductions in network costs that would have eventuated had these jurisdictional scheme costs not been included.

³ See <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/energex-determination-2020-25/revised-proposal> and <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/ergon-energy-determination-2020-25/revised-proposal>

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Energy costs

We support the QCA's estimation of energy costs for 2020-21 being based on the application of the same methodology that was used in previous years.

We note that contract prices and other components of the energy cost calculation published after the set cut-off date are not taken into account in calculating energy costs.

Given that the QCA's Final Determination is being published later this year than in previous years (in June rather than in May), the QCA should consider setting the cut-off date this year to be later than in previous years – at least to the end of May, and preferably into June.

Should the QCA use later available energy cost data than that used by the AER in its DMO calculations, this will be consistent with the QCA also using later available network cost data than that used by the AER in its DMO calculations. In both cases, this would need to be appropriately considered in comparing the DMO and notified prices.

Retail costs and margins

Transparency of retail costs is an important principle. Clearly it is now too late to undertake up-to-date calculation of efficient retail costs based on current efficient costs in time for the QCA's final determination.

This has been the case for the last several years. The time available after the QCA receives its annual delegation from the Minister does not seem to allow the QCA sufficient time to undertake re-calculation.

We are concerned that the indexed data from 2016-17 still continues to be used, even when the underlying data is now being used for the fifth year. Unless something changes in the QCA processes, this underlying data will seemingly continue to be used indefinitely into the future, long after it is reflective of up-to-date efficient costs.

We therefore propose that the QCA should in future years undertake an additional process – outside of the annual price-setting timeframes – to review the methodologies that are now available for efficient and dynamic retail cost estimation. This process is aligned to the purpose of the QCA that the most efficient retail costs are known and used in this price-setting process.

This work would inform an improved pathway forward, which might be able to take advantage of additional data captured by the ACCC, and possible further retail data availability in the future. This additional process should include one or two rounds of consultation with stakeholders.

Standing offer adjustment – residential and small business customers

The QCA has chosen to maintain the 5% standing offer adjustment. We maintain that this is not an appropriate adjustment, for reasons which are by now well known to the QCA. Should the QCA be amenable to addressing this in its Final Determination we refer the QCA to our report on the QCA's Interim Consultation Paper, which also referenced our previous submissions on this subject.

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Default market offer (DMO)

Once the equivalent Default Market Offer as set by the Australian Energy Regulator for South East Queensland is known, the value of the standing offer adjustment should be discounted so that the resulting bill does not exceed the equivalent Default Market Offer.

We note that it is not a trivial exercise to make the adjustment. Factors to be taken into account include:

- The DMO is a single number whereas the notified prices comprise tariff structures and values.
- The DMO includes metering costs but notified prices do not. Care needs to be taken to strip the metering costs out of the DMO before comparison with notified prices.
- The DMO is usually quoted including GST; notified price components are calculated initially without GST. Care must be taken to compare like with like.
- The QCA's Final Determination of notified prices is being undertaken at a later date than the AER's Final Determination of DMO prices for 2020-21. Therefore, the QCA can take into account more up-to-date information than the AER was able to do. The network costs and energy costs that the AER assumed in its DMO Final Determination are expected not to be the same as those used by the QCA in its Final Determination. Inflation assumptions between 2019-20 and 2020-21 may also differ. Decisions need to be made regarding what adjustments to the DMO price will be made before application to notified prices.

There may be other subtleties besides these that will only come to light when an attempt at the calculation is made.

We request that at the earliest opportunity the QCA should provide a worked example (with illustrative numbers) as to how it will take the DMO into account in the finalisation of notified prices for 2020-21. An illustrative example where the DMO comes in "lower" so that the notified prices have to be adjusted would be most helpful, and could still allow for quick turnaround stakeholder comment in advance of the QCA finalising its determination this year.

Cost pass-through mechanism

We disagree with the QCA that pass-through of under-recovery of costs in 2019-20 in notified prices for 2020-21 aligns prices with the UTP-consistent costs of supply. Clearly it does not. The costs of supply in 2019-20 are not relevant to the costs of supply in 2020-21.

We note that the AER's DMO calculations do not allow under-recovery of costs from one year to be added to the next year's tariffs. We recommend that approach to the QCA.

Stakeholder engagement

The final section of this report comments on how the QCA could improve on its stakeholder engagement processes so that it achieves fair and meaningful stakeholder engagement.

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1. INTRODUCTION

This report has been prepared by Etrog Consulting Pty Ltd for the Queensland Council of Social Service (QCOSS). It comments on the Draft Determination on regulated retail electricity prices to apply in Queensland from 1 July 2020 to 30 June 2021 which was published by the Queensland Competition Authority (the QCA) on 31 March 2020, inviting submissions from interested parties.⁴

The QCA has requested that submissions to the Draft Determination should be received by 13 May 2020. This report has been developed in consultation with QCOSS with the understanding that QCOSS is intending to submit this report to the QCA as its response to the Draft Determination. This report comments on various matters in the QCA's Draft Determination. It builds on QCOSS' submission in January 2020 to the QCA's Interim Consultation Paper, and previous years' submissions from QCOSS to the QCA.

QCOSS is the state-wide peak body in Queensland representing the interests of individuals experiencing or at risk of experiencing poverty and disadvantage, and organisations working in the social and community service sector. QCOSS therefore focuses on the interests of residential customers, and examines the impacts of regulatory processes and decisions on those experiencing or at risk of experiencing poverty and disadvantage in particular.

On the same basis, this report only considers the regulated retail electricity prices to apply to residential customers. It does not consider business customers or other customer classes.

⁴ Relevant documentation has been published on the QCA website at <https://www.qca.org.au/project/customers/electricity-prices/regulated-electricity-prices-for-regional-qlld-2020-21>. This documentation includes the QCA's Interim Consultation Paper, submissions to the Interim Consultation Paper, the Draft Determination and Appendices to the Draft Determination.

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2. OVERARCHING FRAMEWORK

2.1. MARKET ENVIRONMENT

The QCA's Draft Determination discusses various aspects of the market environment in which the Draft Determination is being made. However, it omits discussion of any aspect of COVID-19, which has significantly impacted on the Queensland economy as well as the Australian economy more generally.

Clearly, COVID-19 is adversely affecting affordability, and is affecting energy costs and demand forecasts. The QCA's determination of notified prices is based on a defined methodology that includes energy costs based on available wholesale market contracts for energy, and network prices set by the AER. The QCA's methodology also may adjust notified prices for 2020-21 based on the AER's determination of the Default Market Offer (DMO) price for 2020-21 that is determined by the AER.

To the extent that wholesale market contract prices and determinations by the AER are being influenced by COVID-19, those are automatically accounted for in the QCA methodology. The question then remains whether the QCA should attempt to make changes to its methodology to take into account COVID-19 in other parts of its determination, such as its determination of retail costs and the standing offer adjustment.

The AER invited submissions from stakeholders on the implications of COVID-19 for its DMO price determination for 2020-21.⁵

The AER received 22 submissions. Based on the available information and taking into account the submissions, the AER decided not to make any form of adjustment to its DMO Final Determination in response to COVID-19. This was primarily due to the current uncertainty about the impacts of COVID-19 and the paucity of information to make an adjustment at this time.⁶

In regard to COVID-19, our position agrees with the position taken by the AER in regard to the DMO prices for 2020-21: it is premature to adjust notified prices at this time to take into account COVID-19. There is no more certainty now about the impacts of COVID-19 than there was when the AER made its Final Determination on the DMO for 2020-21. Nor do we expect there to be any more certainty before the QCA completes its analysis for its Final Determination on notified prices for 2020-21. On that basis, we advise that the QCA should not attempt to make any further adjustment to its determination of notified prices for 2020-21 to take into account COVID-19.

⁵ See <https://www.aer.gov.au/communication/aer-invites-submissions-on-the-implications-of-covid-19-for-the-dmo-price-determination-for-2020-21>

⁶ See Default Market Offer Prices 2020-21, Final Determination, 30 April 2020, available at <https://www.aer.gov.au/retail-markets/retail-guidelines-reviews/retail-electricity-prices-review-determination-of-default-market-offer-prices-2020-21/final-decision>

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We expect that if QCA is delegated by the Minister to set notified prices in future years, the Minister's Delegation might at that future time provide guidance as to how the QCA might account for implications of COVID-19 in notified prices in coming years. To our knowledge, the QCA has received no request from Government to adjust notified prices to take into account COVID-19 in 2020-21, so it has no basis on which to make an adjustment.

Notwithstanding this advice, should the QCA feel it necessary to make changes to its methodology to make further adjustment to notified prices for COVID-19, then that should only be done after a further period of consultation with stakeholders on that matter. It would not be appropriate for the QCA to make changes to its methodology in the absence of such stakeholder consultation.

2.2. DRAFT PRICING APPROACH

The QCA proposes to continue setting notified prices in accordance with the Queensland Government's Uniform Tariff Policy (UTP). We support that position.

2.2.1. Maintaining existing retail tariff structures

The QCA's draft position is to maintain the existing suite of retail tariffs and structures when setting notified prices for small customers in regional Queensland.

We agree that the existing suite of retail tariffs and structures should be maintained.

2.2.2. Introducing new retail tariff structures

The QCA's draft position is not to introduce new retail tariffs in 2020-21 that reflect proposed new complex network tariffs.

The QCA considers there is not enough certainty at this stage to establish new retail tariffs based on proposed new network tariffs for small customers.

We set out in our response to the QCA's Interim Consultation Paper:

Before new retail tariffs are introduced, customer impact assessment and forward thinking approaches to managing the transition for customers to new tariffs is essential.

Any such new retail tariffs should then be implemented with accompanying communications and education, alongside a well-planned and sufficient transition period which includes introductory / grace periods.

The QCA should take on a longer-term monitoring role of the implementation of new retail tariffs, and the resulting customer impacts and customer benefits, alongside the QCA's existing monitoring of the operation of the retail electricity market in Queensland.

We maintain the views we set out in our response to the QCA's Interim Consultation Paper regarding pre-requisites before new tariff structures are introduced. We concur that there is not enough time to meet these pre-requisites before notified prices are set for 2020-21.

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Further, with COVID-19, now is not a good time to undertake customer impact assessment and trials, and nor is it a good time to try to engage customers on tariff reform, while customers have more basic impacts to manage including health issues, financial issues, and disruptions to personal and business relationships on account of COVID-19.

On that basis, we continue to agree with the QCA that now is not a good time to create new retail tariff structures.

It is however a good time to prepare and get resources and approaches ready for such activities.

While now may not be an optimum time, we nevertheless still support the introduction of new retail tariffs in the future, with adequate consultation. As we said in our response to the QCA's Interim Consultation Paper:

We support the concept that options for introducing new retail tariffs based on the AER's approved new network tariff structures be considered and made available to customers.

Introducing new retail tariffs based on the AER's approved new network tariff structures should be a longer term aim, and progress towards that aim needs to be made at the earliest opportunity. We reiterate the importance of our recommendation:

The QCA should take on a longer-term monitoring role of the implementation of new retail tariffs, and the resulting customer impacts and customer benefits, alongside the QCA's existing monitoring of the operation of the retail electricity market in Queensland.

We would welcome seeing statements from the QCA accepting that important role and setting out how it might be undertaken.

2.2.3. Nomination of default retail tariffs

In our response to the QCA's Interim Consultation Paper, we said that the default retail tariff for residential customers should be a flat-rate tariff, of the same form as the current Tariff 11.

We understand that the QCA is also intending that in its Final Determination the default retail tariff for residential customers should be a flat-rate tariff, of the same form as the current Tariff 11, and we commend that approach.

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3. NETWORK COSTS

3.1. ACTUAL OR EXPECTED NETWORK COSTS

In our response to the QCA's Interim Consultation Paper we said:

The QCA's final determination should determine the N component based on actual network tariffs for 2020-21. The QCA's draft determination may use X-factor adjustments of 2019-20 tariffs, based on the best available estimates, noting that these estimates are placeholders, pending publication of actual tariffs for 2020-21.

At the time of publication of the QCA's Draft Determination, the AER's Final Determination had not yet been published. Because of that, in its Draft Determination the QCA applied a price indexation approach to reflect the changes in network costs for residential customers.

We see this Draft Determination approach as being a "place holder", to be replaced in the QCA's Final Determination of notified prices by network tariffs based on the AER's Final Determination of network tariffs for 2020-21.

The QCA's Draft Determination also noted that the AER's Final Determinations for Ergon Energy and Energex for the five-year period commencing on 1 July 2020 was due by 30 April 2020. While this was the case when the QCA published its Draft Determination, the AER has since announced that its Final Determinations have been postponed to 29 May 2020.⁷

The AER has stated that it will publish approved 2020-21 network prices for Energex and Ergon Energy by mid-June, and earlier if possible.⁸

We have also been advised by the AER that the network tariff structures for residential customers will be those set out in the network businesses' revised proposals, which were provided to the AER on 10 December 2019.⁹

The Minister's Delegation to the QCA states that the QCA must publish its Final Determination by 26 June 2020. This will give the QCA some time (maybe two weeks) to take the published approved 2020-21 network prices and place them in the Final Determination. It is incumbent on the QCA Board and staff to align their internal work and approval processes to ensure that this will enable those approval network prices to be used in the Final Determination.

⁷ See <https://www.aer.gov.au/communication/aer-delays-final-decisions-for-sa-power-networks-energex-ergon-energy-directlink-and-jemena-gas-networks>

⁸ See the Pricing Process Timetable, available at <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/sa-power-networks-determination-2020-25/updates>

⁹ See <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/energex-determination-2020-25/revised-proposal> and <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/ergon-energy-determination-2020-25/revised-proposal>

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The Minister's Delegation allows the QCA to use a price indexation methodology to determine the N component of tariffs only in the event of significant uncertainty of **both** the prices and price structures of network tariffs to apply during the tariff year, **and** the QCA determines that there is insufficient time for the determination of the N component based on actual tariffs and tariff structures.

We note the use of the words "both" and "and" as highlighted in the paragraph above. It means that essentially the AER can only use a price indexation methodology in its Final Determination if all three of the following apply.

1. There is significant uncertainty of the prices of network tariffs to apply in the tariff year; **and**
2. There is significant uncertainty of the price structures of network tariffs to apply in the tariff year; **and**
3. There is insufficient time for the determination of the N component based on actual tariffs and tariff structures.

The status of each of these factors in regard to residential tariffs is:

1. There is currently significant uncertainty of the prices of network tariffs to apply in the tariff year, but that will be resolved by mid-June, before the Final Determination of notified prices is required.
2. There is no uncertainty of the price structures of network tariffs to apply in the tariff year, because they are those in the network businesses' revised proposals to the AER.
3. There should be sufficient time for the determination of the N component based on actual tariffs and tariff structures.

Given point 2 - There is no uncertainty of the price structures of network tariffs to apply in the tariff year – the QCA cannot use a price indexation methodology in its Final Determination in regard to residential tariffs – even if the QCA claims the other points apply.

As shown in Chapter 6 of the Draft Determination, the QCA is determining the following residential retail tariffs:

- Tariff 11 – flat rate
- Tariff 12A – time of use
- Tariff 14 – time of use demand
- Tariff 31 – controlled load (super economy)
- Tariff 33 – controlled load (economy)

The AER will be determining network tariffs for 2020-21 that have exactly the same structure as retail tariffs 11, 31 and 33. Therefore there is no impediment to the QCA using the actual network tariffs to determine those retail tariffs.

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Tariffs 12A and 14 are more challenging, because there may not be network tariff structures exactly corresponding to the retail tariff structures. The QCA needs to find a different method of setting the N component for these two retail tariffs, and should consult on its application in the coming weeks before finalising its Determination in June.

3.2. SOLAR BONUS SCHEME (SBS) AND AEMC LEVY COSTS

On 21 February 2020, the QCA received advice from Energy Queensland of Energex and Ergon Distribution's intention to include jurisdictional scheme amounts, which include SBS and Australian Energy Market Commission (AEMC) levy costs, in their respective annual pricing proposals for network tariffs. These proposals are due to the AER in May 2020 to take effect from 1 July 2020.

Energy Queensland has said that the QCA should include these costs as part of its draft determination of notified prices.

Having regard to the relevant factors, stakeholder comments and its own analysis, the QCA's draft decision is to reflect these jurisdictional scheme amounts in the draft notified prices set out in its Draft Determination.

Our advice is that the QCA should only include the SBS and AEMC levy costs in its Final Determination on notified prices for 2020-21 if the AER includes those costs in the approved network charges for 2020-21. If this occurs, it will have a negative impact on the affordability of electricity for regional Queensland customers. It will also be a missed opportunity for all Queensland customers to benefit from the material reductions in network costs that would have eventuated had these jurisdictional scheme costs not been included.

4. ENERGY COSTS

In our response to the Interim Consultation Paper, we said:

As in previous years, we support the QCA's estimation of energy costs for 2020-21 being based on the application of the same methodology that was used in previous years.

In its Draft Determination, the QCA has maintained this position, which we support. We also support this being maintained in the QCA's Final Determination.

We note that contract prices and other components of the energy cost calculation published after the set cut-off date are not taken into account in calculating energy costs.

Given that the QCA's Final Determination is being published later this year than in previous years (in June rather than in May), the QCA should consider setting the cut-off date this year to be later than in previous years – at least to the end of May, and preferably into June.

Should the QCA use later available energy cost data than that used by the AER in its DMO calculations, this will be consistent with the QCA also using later available network cost data than that used by the AER in its DMO calculations. In both cases, this would need to be appropriately considered in comparing the DMO and notified prices (see section 7 below).

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5. RETAIL COSTS AND MARGINS

In our response to the Interim Consultation Paper, we said:

Up-to-date calculation of efficient retail costs based on current efficient costs, and not indexation of previous costs, must be carried out as a matter of urgency for the setting of notified prices for 2020-21, and for each future year that a similar Delegation is provided to the QCA for setting notified prices. The recalculation should take into account expected efficiencies that all businesses should be achieving, including more use of online channels to service customers, and increasing use by customers of more efficient electronic payment methods, as well as economies of scale, and an appropriate retail margin.

The QCA has not accepted this advice.

We retain the view that transparency of retail costs is an important principle. Clearly it is now too late to undertake up-to-date calculation of efficient retail costs based on current efficient costs in time for the QCA's final determination.

This has been the case for the last several years. The time available after the QCA receives its annual delegation from the Minister does not seem to allow the QCA sufficient time to undertake re-calculation.

We are concerned that the indexed data from 2016-17 still continues to be used, even when the underlying data is now being used for the fifth year. Unless something changes in the QCA processes, this underlying data will seemingly continue to be used indefinitely into the future, long after it is reflective of up-to-date efficient costs.

We therefore propose that the QCA should in future years undertake an additional process – outside of the annual price-setting timeframes – to review the methodologies that are now available for efficient and dynamic retail cost estimation. This process is aligned to the purpose of the QCA that the most efficient retail costs are known and used in this price-setting process.

This work would inform an improved pathway forward, which might be able to take advantage of additional data captured by the ACCC, and possible further retail data availability in the future. This additional process should include one or two rounds of consultation with stakeholders.

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6. STANDING OFFER ADJUSTMENT – RESIDENTIAL AND SMALL BUSINESS CUSTOMERS

The QCA has chosen to maintain the 5% standing offer adjustment. We maintain that this is not an appropriate adjustment, for reasons which are by now well known to the QCA. Should the QCA be amenable to addressing this in its Final Determination we refer the QCA to our report on the QCA's Interim Consultation Paper, which also referenced our previous submissions on this subject.

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7. DEFAULT MARKET OFFER (DMO)

In our response to the Interim Consultation Paper, we said:

Once the equivalent Default Market Offer as set by the Australian Energy Regulator for South East Queensland is known, the value of the standing offer adjustment should be discounted so that the resulting bill does not exceed the equivalent Default Market Offer.

The QCA agrees, and will make the adjustment in its Final Determination, but has not done so in its Draft Determination.

The reason that the QCA has given for not making the adjustment in its Draft Determination is as follows:

The AER has not yet determined the final DMO, and the draft DMO does not provide an appropriate basis to make an adjustment, because it does not include an allowance for the recovery of jurisdictional scheme charges (including the solar bonus scheme costs), unlike our draft notified prices (see chapter 3). By the time we make our final determination, the AER will have published its final decision, so it will then be clear whether the standing offer adjustment should be reduced.

It is our view that the QCA could still have made a draft adjustment. Even if the values were inaccurate or illustrative or even clearly annexed as an Appendix it would have shown how the methodology / method that the QCA was applying to make the adjustment. Our view is that the QCA should have made that calculation, so that stakeholders could see the method and comment on it if appropriate. Currently, stakeholders have no ability to comment on the methodology of adjustment.

We accept that the Final Determination will ultimately address the DMO, but nonetheless the draft calculation should also have been made.

We note that it is not a trivial exercise to make the adjustment. Factors to be taken into account include:

- The DMO is a single number whereas the notified prices comprise tariff structures and values.
- The DMO includes metering costs but notified prices do not. Care needs to be taken to strip the metering costs out of the DMO before comparison with notified prices.
- The DMO is usually quoted including GST; notified price components are calculated initially without GST. Care must be taken to compare like with like.
- The QCA's Final Determination of notified prices is being undertaken at a later date than the AER's Final Determination of DMO prices for 2020-21. Therefore, the QCA can take into account more up-to-date information than the AER was able to do. The network costs and energy costs that the AER assumed in its DMO Final Determination are expected not to be the same as those used by the QCA in its Final Determination. Inflation assumptions between 2019-20 and 2020-21 may also differ. Decisions need to be made regarding what adjustments to the DMO price will be made before application to notified prices.

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There may be other subtleties besides these that will only come to light when an attempt at the calculation is made.

We request that at the earliest opportunity the QCA should provide a worked example (with illustrative numbers) as to how it will take the DMO into account in the finalisation of notified prices for 2020-21. An illustrative example where the DMO comes in “lower” so that the notified prices have to be adjusted would be most helpful, and could still allow for quick turnaround stakeholder comment in advance of the QCA finalising its determination this year.

The alternative is that the next we will hear from the QCA is when it releases its Final Determination. At that stage it will be very difficult if not impossible to change the notified prices for 2020-21 because of a problem with the DMO adjustment. It will be much more satisfactory for all stakeholders if an opportunity to review the methodology is provided in an additional consultation round before the Final Determination is published.

8. COST PASS-THROUGH MECHANISM

In its draft determination, the QCA states:

Our draft position is to require a pass-through of the under-recovery of 2019-20 SRES costs into 2020-21 notified prices. We consider this to be appropriate, given that it aligns notified prices with the UTP-consistent costs of supply.

We disagree with the QCA that pass-through of under-recovery of costs in 2019-20 in notified prices for 2020-21 aligns prices with the UTP-consistent costs of supply. Clearly it does not. The costs of supply in 2019-20 are not relevant to the costs of supply in 2020-21.

We note that the AER's DMO calculations do not allow under-recovery of costs from one year to be added to the next year's tariffs. We recommend that approach to the QCA.

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9. STAKEHOLDER ENGAGEMENT

The purpose of this section of our report is to comment on how the QCA could improve on its stakeholder engagement processes so that it achieves fair and meaningful stakeholder engagement.

9.1. STAKEHOLDER WORKSHOPS

As part of its stakeholder engagement, in previous years, the QCA has held stakeholder workshops in person in Brisbane and in various locations in the Ergon Energy area. This year virtual workshops were held instead, because of COVID-19.

We commend the QCA for holding workshops, and would also like to make a few suggestions regarding the workshops that might be helpful to the QCA when organising future workshops, be they in person or virtual.

9.1.1. Workshop timing

As set out in the material provided for the virtual workshop, the purpose of the workshop was to highlight the key components of the QCA's draft decision and help stakeholders to provide submissions. We were assigned to a workshop on Thursday 7 May, with submissions due by Wednesday 13 May – just four business days later.

It takes time to write submissions, and it also takes time to get internal organisational approval to send submissions to the QCA. Four business days is really not sufficient time for the workshop content to be taken into account in submissions. The workshop was somewhat late to meet its objective to “help stakeholders to provide submissions”.

We propose that in future years the QCA should hold workshops much sooner after release of the Draft Determination, in order that stakeholders can genuinely be helped by the workshops to provide submissions.

We thought that perhaps the workshops were being held late in the process to enable further developments such as implications of the AER's final DMO decision and delay of the EQ network determinations to be included. However, the QCA materials for the workshop we attended covered solely the pre-existing Draft Determination that had been published over a month earlier.

9.1.2. Workshop content and format

We would expect a workshop to include activities to engage stakeholders, and to support discussion and practical working.

The Delegation also asks the QCA to consider the merits of workshops “on identified key issues”.

There are opportunities for the QCA to turn its future workshops into intensive discussions on key issues – what might be called “deep dives”, where it is possible to discuss and debate the merits of various ways to address key issues.

For the future, we recommend that stakeholders who wish to engage at a general high-level and those who wish to fully engage in a deeper way are able to do so effectively.

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It is essential that the staff who run the workshops have a sufficient degree of autonomy or seniority to allow a meaningful exploration of viewpoints and options and are able to move beyond the specific wording and text of the published material and into genuine discussion. We understand that formal decisions are made by the QCA Board. This does not need to prevent members of staff from having degrees of freedom to engage with stakeholders in the workshop. In our experience, such expression of viewpoints to further stakeholder consultation is a standard feature in public forums with other regulatory bodies such as the AER where the Board also makes formal decisions, or Commissions such as the Australian Energy Market Commission or the Essential Services Commission where commissioners make decisions.

In all cases, there is always a clear understanding that ultimately the Board Members or Commissioners will make decisions. Often those organisations have Board Members / Commissioners present in public forums, to demonstrate to stakeholders the importance that they attach to these forums, and to be able to speak with authority.

9.2. TIMING OF INTERIM CONSULTATION PAPER

The QCA published its Interim Consultation Paper on 11 December 2019, inviting submissions by 13 January 2020. Thus the consultation period straddled seasonal holidays and vacation time for most Australians. We believe this may have contributed to the relatively small number of responses to the Interim Consultation Paper that were received by the QCA. We suggest that the QCA and Queensland Government should seek ways to change the annual timetable to avoid this scheduling of consultations over the December / January holiday period.