Queensland Competition Authority

Final determination

Regulated retail electricity prices for 2015–16

June 2015

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EXECUTIVE SUMMARY

The Queensland Competition Authority (QCA) has made a final determination of regulated retail electricity prices (known as notified prices) to apply from 1 July 2015 to 30 June 2016. In general, notified prices are paid by customers who have not entered into a negotiated or market contract with their retailer. Notified prices are available to residential and small business customers throughout Queensland and large business customers in regional Queensland.[1]

We began our review in September 2014 under a delegation from the former government. Under that delegation, we were directed to set notified prices that would only apply in regional Queensland because of the government's decision to deregulate retail electricity prices in south east Queensland from 1 July 2015. In April 2015, the new government announced that it would delay price deregulation for 12 months to enable the Queensland Productivity Commission to undertake a review. As a result of this decision, we received a new delegation to set notified prices to apply throughout Queensland.

Our approach to setting notified prices is largely consistent with our approach in previous determinations and the draft determination. In accordance with the uniform tariff policy, we have continued to base notified prices for residential and small business customers throughout the state on the costs of supply in south east Queensland. We have also continued to base notified prices for large business customers in regional Queensland on the lowest cost of supply in regional Queensland.

However, for the first time, we have established separate time-of-use tariffs for residential and small business customers based on their location. We have split the existing time-of-use tariffs (tariffs 12 and 22) into two tariffs—one for south east Queensland customers and one for regional Queensland customers. Each retail tariff is based on the network tariff that applies in each area, although the network tariff that applies in regional Queensland has been reduced to south east Queensland levels, consistent with the uniform tariff policy. We have also introduced new optional retail tariffs for residential, small business and large business customers in regional Queensland that feature seasonal demand components.

Customer impacts

In 2015–16, notified prices will generally decrease or moderately increase from their current levels. The customer impacts we present below are for levels and patterns of consumption that are typical[2] of customers on each regulated tariff. Customers that have consumption profiles and levels of consumption that differ from those assumed in this analysis will experience different impacts.

Residential and small business customers will pay metering charges in addition to notified prices in 2015–16. This reflects the Australian Energy Regulator's (AER's) decision to reclassify certain metering services, so that individual prices can be set to facilitate competition in the provision of metering services. These are not new charges. The costs associated with metering services were previously recovered through standard network prices paid by all customers through notified prices. However, compared to what they were paying previously, some customers may pay more and others less.

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[1] Price regulation was removed for large business customers in south east Queensland in 2012.

[2] Throughout this report, 'typical' refers to the median consumption level (and consumption profile, in the case of time-of-use tariffs) for each tariff, as advised by Energex and Ergon Energy. Where a tariff is only available in south east Queensland we have used data from Energex, otherwise we have used Ergon Energy data, for consistency with our draft determination. These assumptions are detailed in Appendix H and are used only for the purpose of illustrating expected customer impacts.

Although these metering charges are approved by the AER and are not included in notified prices, we have accounted for them when presenting customer impacts to allow a like-for-like comparison with 2014–15 annual total bills. Retailers will be responsible for incorporating metering charges into customer bills in 2015–16.

Impacts on residential customers

The main retail tariff for residential customers is tariff 11. Many customers on tariff 11 are also on one of the 'off-peak' or 'controlled load' tariffs (tariffs 31 and 33) for uses such as water heating and pool pumps.

Tariff 11

Historically, the components of tariff 11 have not reflected the costs of supply in south east Queensland, with the fixed charge set below cost and the variable charge above cost. In the 2013–14 determination, we established a three-year transition to rebalance the fixed and variable components of tariff 11 so that each component would be cost-reflective by 1 July 2015. As a result of completing the re-balance, the variable charge for tariff 11 will decrease by 3.1 cents per kWh (12%) in 2015–16, while the fixed charge will increase by 23.3 cents per day (28%). The charges for 2015–16 are set out in Table 1 below.

Table 1 Tariff 11 Charges

	2014–15 Final Determination	***2015–16 Final Determination***	***Change (%)***
Tariff components:			
Fixed charge (cents/day)	83.414	106.728	27.9%
Variable charge (cents/kWh)	25.378	22.238	-12.4%
Other charges:			
Metering charge (cents/day)	n/a[a]	9.670[b]	-

a. Metering charges cannot be separately itemised in 2014–15 because metering costs were included in regulated distribution network charges.

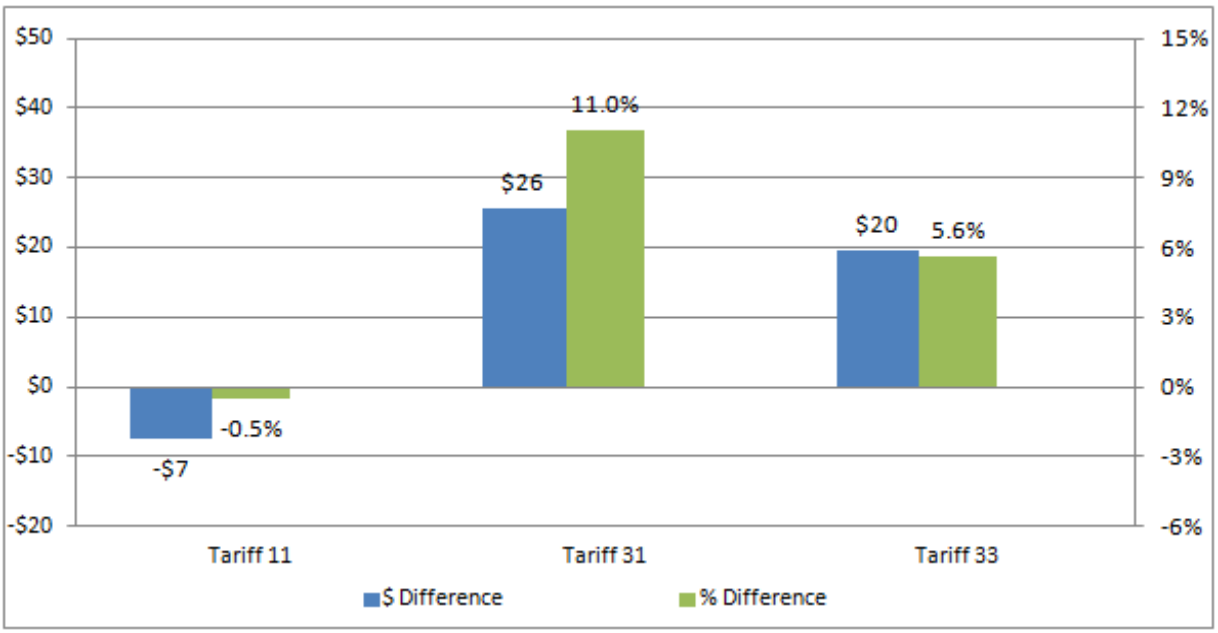
b. This is the Energex metering charge that applies to customers in south east Queensland. A slightly lower metering charge applies in regional Queensland.

Summary of impacts

In 2015–16, a typical customer on tariff 11 (consuming 4,053 kWh) will face a decrease in this portion of their annual bill from $1,467 to $1,459 (0.5% decrease compared to a 2.7% increase forecast in the draft determination). However, the impact on individual customers will vary depending on their consumption, with larger-use customers facing a bigger decrease and smaller-use customers facing an increase.

Typical customers on the 'off-peak' or 'controlled load' tariffs (tariffs 31 and 33) will face increases in the controlled load portion of their bills of 11% ($26) and 5.6% ($20) respectively (compared to increases of 7.9% and 3.8% in the draft determination). These increases are due to higher network prices and the introduction of metering charges. We understand from Energex that network prices for tariff 31 and 33 are increasing, despite a decrease in total network revenue, as a result of Energex reducing cross-subsidies from tariff 11 customers to controlled load customers. Typical residential customers on tariff 11 and the most widely used controlled load tariff (tariff 33) will face an increase in their annual bill of 3.2% ($46).

Figure 1 Changes in relevant component of annual residential bills for typical customers in 2015–16

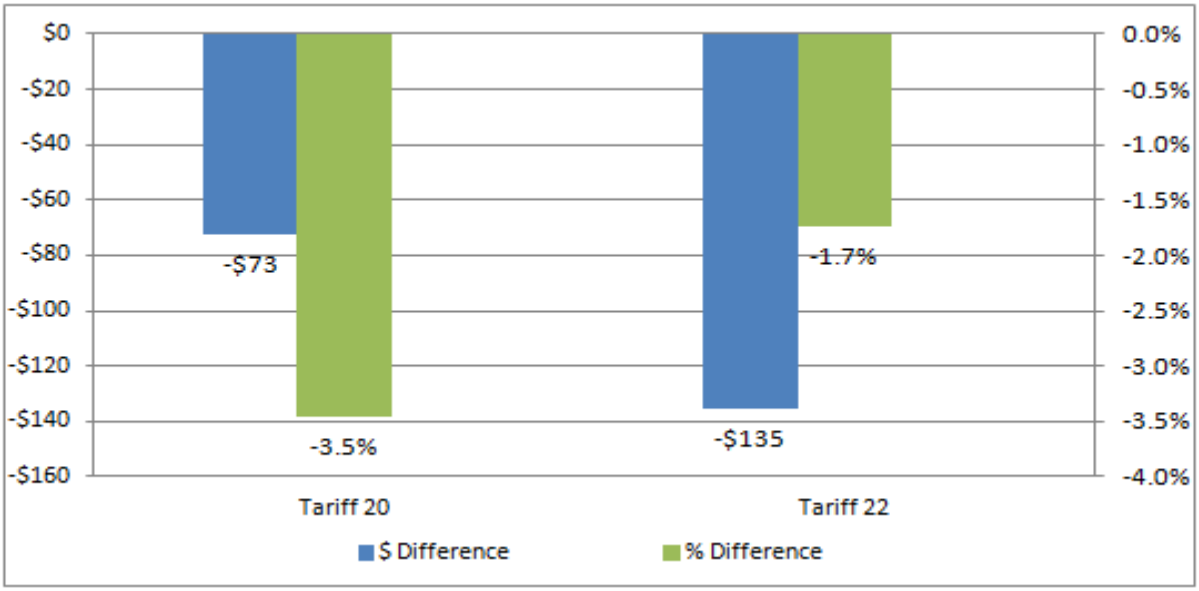


Note: Based on typical levels of consumption using 2013–14 data from Ergon Energy for consistency with the draft determination. Includes impact of Energex metering charges, although a slightly lower metering charge will apply in regional Queensland for tariff 11.

Impacts on business customers

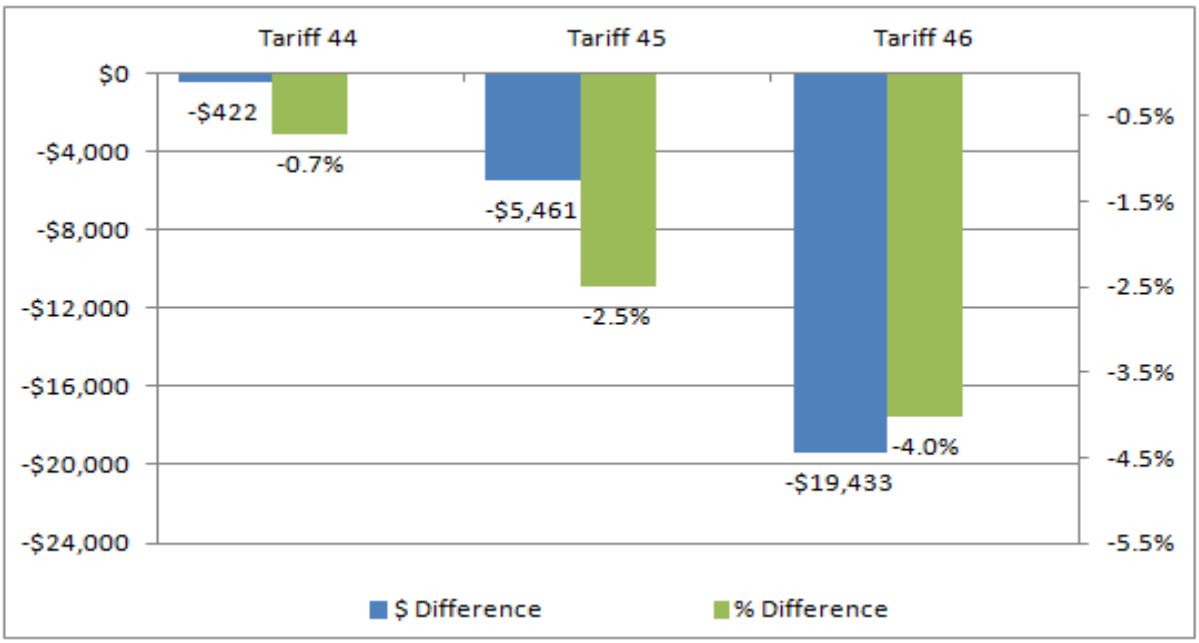
Typical business customers can expect reductions in their annual bill in 2015–16. Typical customers on the main small business tariff (tariff 20) can expect a decrease of 3.5% or $73 (compared to a 1.3% increase forecast in the draft determination), while a typical customer on tariff 22 can expect a reduction of 1.7% or $135 in their annual bill. Typical large business customers can expect decreases of between 0.7% and 4% (compared to decreases of 3% to 4.3% forecast in the draft determination).

Figure 2 Changes in annual bills for typical small business customers in 2015–16



Note: Based on typical levels and patterns of consumption using 2013–14 data from Ergon Energy for consistency with the draft determination. Includes impact of Energex metering charges, although slightly lower metering charges will apply in regional Queensland for these tariffs.

Figure 3 Changes in annual bills for typical large business customers in 2015–16



Note: Based on typical levels and patterns of consumption using 2013–14 data from Ergon Energy.

Impacts on business customers on obsolete and transitional tariffs

In the 2013–14 determination, we established transitional arrangements for customers on most obsolete and transitional tariffs, as many customers would have faced significant price impacts if they moved immediately to a standard business tariff. We have maintained these transitional arrangements for 2015–16.

In the draft determination, we proposed to increase the prices in transitional and obsolete tariffs by 5%, based on expectations that the standard small business tariffs would increase in 2015–16. We undertook to reassess our position if the anticipated price increases did not eventuate. Given that the standard business tariffs are decreasing, we have decided that prices will not increase in 2015–16. Instead, customers on transitional and obsolete tariffs will continue to pay the same prices as 2014–15.

New customers will continue to be allowed to access transitional tariffs. However, as scheduled, tariffs 41 (large) and 43 (large) will be removed from 1 July 2015 and customers will need to move to a new tariff.

Cost drivers

Since the draft determination, we have updated cost inputs using the latest information. In 2015–16, cost inputs are generally decreasing or increasing by a relatively moderate amount.

Network costs

Customers can expect relief from the large price increases that they have faced in recent years, with most network prices decreasing as a result of the AER's preliminary decision on the distributors' allowable revenue for next regulatory period, beginning on 1 July 2015.

The AER's preliminary decision was to reduce the distributors' proposed revenues by 23% for Energex and 27% for Ergon Distribution over five years.[3] In 2015–16, allowable revenues are 5% lower for Energex and 11% lower for Ergon Distribution compared to 2014–15. The distributors recover their allowed revenue through network prices in a way that is consistent with pricing principles established under the National Electricity Rules and pass-through charges for the use of Powerlink's transmission network. As a result, individual network prices will not necessarily change in a way that aligns with the overall reduction in allowable revenue. The AER approved the distributors' proposed network prices for 2015–16 on 12 June 2015 and these are the network prices we have used in this determination. While network prices are generally lower in 2015–16 than 2014–15, some prices are higher.

Overall, the network component of notified prices (including metering) has decreased in 2015–16 by 2.9% for a typical customer on the main residential tariff (tariff 11) and 5.9% for a typical customer on the main small business tariff (tariff 20). The Solar Bonus Scheme continues to be a major component of network costs.[4] The Solar Bonus Scheme component of network costs has increased by 19.2% (tariff 11) and 18.3% (tariff 20). Excluding the costs of the Solar Bonus Scheme, the network component has decreased by around 6.1% (tariff 11) and 9.4% (tariff 20).

Energy costs

Energy costs are either increasing moderately or decreasing, depending on the retail tariff. The overall energy cost allowance has increased by 1.2% in south east Queensland and decreased by 2.6% to 3.0% (depending on the tariff) in regional Queensland. Energy costs for tariffs 31 and 33 (controlled loads) have also decreased (by 2.1% and 1.5% respectively).

Retail costs

Retail operating costs have increased marginally from 2014–15, in line with the forecast rate of inflation. The retail margin is unchanged at 5.7% of costs.

[3] AER, *Preliminary Decision: Energex determination 2015–16 to 2019–20*, April 2015, Attachment 1 - Annual Revenue Requirement; and AER, *Preliminary Decision: Ergon Energy determination 2015–16 to 2019–20*, April 2015, Attachment 1 - Annual Revenue Requirement.

[4] The Solar Bonus Scheme is a Queensland Government scheme that pays eligible customers for electricity generated from solar photovoltaic (PV) systems and exported to the Queensland electricity grid.

1 INTRODUCTION

The QCA has received a delegation from the Minister for Energy and Water Supply (the Minister) to determine regulated retail electricity prices (known as notified prices[5]) from 1 July 2015 to 30 June 2016.

In general, the notified prices we set are paid by customers that have not entered into a negotiated contract with their retailer. If a customer has entered into a negotiated retail contract, they will pay a price determined by their retailer, not the QCA.

We have determined notified prices that are accessible by the following customers:[6]

- *residential and small business customers throughout Queensland*
- *large business customers in regional Queensland.[7]*

1.1 Background

In August 2014, we received a delegation from the former Minister for Energy and Water Supply to determine notified prices for 2015–16 (the August 2014 delegation). 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.

Under the August 2014 delegation, we released an interim consultation paper and draft determination, considered submissions on both papers, and held workshops in Brisbane and five regional centres.

On 28 April 2015, the Queensland Government announced that it would delay the deregulation of retail prices for residential and small business customers in south east Queensland by 12 months.[8] 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. As a consequence, we received a new delegation (the April 2015 delegation) to determine notified prices to apply throughout Queensland.

We were not required to restart the price review process as a result of receiving the new delegation. The terms of reference under the April 2015 delegation are largely the same as the terms of reference under the August 2014 delegation. They also provide for the continuation of the uniform tariff policy, which allows notified prices for most customers to be based on the costs of supply in south east Queensland (i.e. the Energex distribution area). Therefore, we were able to continue the broad approach we developed to set the notified prices required by the August 2014 delegation to set the notified prices required by the April 2015 delegation.

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[5] As defined in section 90(4) of the *Electricity Act 1994*.

[6] Note that 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.

[7] 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.

[8] The Honourable Curtis Pitt, Treasurer, *Media Statement: Deregulation deferred as Productivity Commission conducts power price probe*, 28 April 2015.

Nevertheless, given the expanded scope of the delegation and the potential impact on stakeholders, we decided to consult further before making this final determination.

1.2 The review process

On 30 September 2014, we released an interim consultation paper advising interested parties of the commencement of the review. We received 13 submissions to this paper.

On 10 December 2014, we released our draft determination and ACIL Allen's draft report on the cost of energy (ACIL's draft report). In February 2015, we held workshops to discuss the draft determination in six locations: Brisbane, Bundaberg, Cairns, Mount Isa, Toowoomba and Townsville. We received 18 submissions to the draft determination.

Following receipt of the April 2015 delegation, we released an additional consultation paper on 4 May 2015. We also held a workshop in Brisbane on 12 May 2015. We received 16 submissions to the further consultation paper.

We are now releasing this final determination, which includes final regulated retail tariffs and prices for 2015–16, and explains how they were determined. In making our final determination, we have taken into account the requirements of the *Electricity Act 1994* (the Electricity Act) and the delegation, matters raised in submissions, ACIL Allen's final report on the cost of energy (ACIL's final report) and our own investigations.

We appreciate the valuable contribution that stakeholders have made to this process, especially those that have attended workshops and made submissions. While we have not necessarily referenced all arguments or submissions, we have carefully considered each submission received by the relevant due date. We note, however, that some issues raised are outside the scope of our review.

Documents and non-confidential submissions relating to our review are available on our website.[9]

[9] www.qca.org.au

2 LEGISLATIVE REQUIREMENTS AND PRICING FRAMEWORK

When we receive a delegation to determine notified prices, we must make that determination in accordance with our obligations in the Electricity Act. In this chapter, we explain those obligations and our decision on the overall framework for setting notified prices for 2015–16.

2.1 Legislative requirements

The Electricity Act does not specify criteria or principles that must be applied when making a price determination. However, section 90(5) of the Electricity Act lists the matters we must have regard to in making a determination:

- the actual costs of making, producing or supplying the goods or services
- the effect of the price determination on competition in the Queensland retail electricity market
- any matter required by delegation
- any other matter we consider relevant.

When we make a determination, we also have regard to the objects of the Electricity Act, which are to:

- set a framework for all electricity industry participants that promotes efficient, economical and environmentally sound electricity supply and use
- regulate the electricity industry and electricity use
- establish a competitive electricity market in line with the national electricity industry reform process
- ensure that the interests of customers are protected
- take into account national competition policy requirements.

2.1.1 Key matters we are required to consider by delegation

The terms of reference in the delegation set out additional matters we are required to consider. Consistent with the approach of previous decisions, we are required to consider applying the network plus retail (N+R) cost build-up methodology.

We are also required to consider the Government's 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. As a result of the Government's decision to retain price regulation in south east Queensland, the definition was revised for the purposes of the April 2015 delegation. The new definition provides that:[10]

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

[10] See paragraph 5(b) of the terms of reference in Appendix A.

This 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 retail tariffs and prices.

This is consistent with the requirement in the terms of reference to consider basing the existing time-of-use tariffs for residential and small business customers (tariffs 12[11] and 22) on the network tariff structures of Energex (for south east Queensland customers) and Ergon Distribution (for regional Queensland customers). Adopting this approach would mean that, for the first time, non-market customers would have access to different retail tariffs based on their location. For other residential and small business customer tariffs (i.e., tariffs 11, 20, 31, 33, 41 and 91[12]), the terms of reference require that we consider using Energex network tariffs, which is consistent with our approach in previous decisions.

The reference in the definition of the uniform tariff policy 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 consistent with the requirement in the terms of reference to consider reflecting Energex (or south east Queensland) price levels in notified prices for all residential and small business customers.

It is also consistent with the requirement to consider reflecting Ergon Distribution's network tariffs and charges in retail tariffs for large business customers in regional Queensland. This has been our approach since the 2012–13 determination.

We are also required to consider specific issues in relation to transitional arrangements for certain tariffs, in particular:

- completing the rebalancing of the fixed and variable components of tariff 11 (the standard residential tariff) using the approach established in the 2013–14 determination
- maintaining transitional arrangements for transitional and obsolete tariffs (for example, farming and irrigation tariffs).

2.2 Pricing framework

Cost-reflectivity and competition are important guiding principles under the Electricity Act. Cost-reflectivity is important for efficiency and equity reasons. Effective competition generally provides the best means of delivering the goods and services that customers demand at prices that reflect efficient costs.

2.2.1 Retail tariffs for residential and small business customers

Our previous decisions on notified prices for residential and small business customers in south east Queensland balanced the principles of cost-reflectivity and competition by:

- estimating the efficient costs of a retailer that supplies customers in south east Queensland
- adding an allowance for headroom on top of estimated efficient costs for competition purposes.

However, these principles are in conflict with the Government's uniform tariff policy, which provides that regional customers should be supplied at prices that are lower than their costs of

[11] The delegation does not refer to tariff 13, which is very similar to tariff 12. We discuss our approach to tariff 13 in Chapter 3.
[12] Tariff 91 applies to unmetered supplies (except street lighting).

supply. For example, a typical[13] tariff 11 customer (consuming 4,053 kWh per year) paying cost-reflective prices in 2014–15 would pay at least 30% more if they lived in regional Queensland, instead of south east Queensland. Regional customers in western areas of the state or in isolated communities would pay at least 140% more.[14]

Given the conflict between the principles of cost-reflectivity and competition on the one hand and the uniform tariff policy on the other hand, we explored a spectrum of possible pricing approaches for regional customers in our draft decision. This ranged from setting fully cost-reflective prices to our current approach of basing notified prices on the cost of supply in south east Queensland. Consumer groups and Ergon Retail supported a continuation of the current approach. The ERAA and ESAA highlighted that cost-reflective pricing will improve efficiency and competition, but acknowledged the Government's commitment to the uniform tariff policy.

We highlighted that achieving cost-reflectivity would avoid the need to subsidise electricity prices and provide a basis for the development of a competitive retail market. However, we recognised that the result would be significantly higher prices for regional customers, which would also be inconsistent with the uniform tariff policy. Consistent with our draft decision, we have continued to base notified prices for residential and small business customers throughout the state on the costs of supply in south east Queensland.

QCA position

We have decided to continue to base notified prices for residential and small business customers on the costs of supply in south east Queensland. We will estimate the costs of supply for each retail tariff in accordance with an N+R cost build-up approach, where we treat the N (network cost) component as a pass-through and determine the R (energy and retail cost) component. We discuss our decisions on each cost component in Chapters 3 to 5 and our approach to the inclusion of an allowance for headroom for competition purposes in Chapter 6.

2.2.2 Retail tariffs for large business customers

Since the 2012–13 determination, we have based notified prices for large business customers on the lowest cost of supply in regional Queensland. This is more cost reflective and less costly to subsidise than basing notified prices on south east Queensland costs. We also consider that it is consistent with the uniform tariff policy and the requirement in the terms of reference to consider basing the network cost component on Ergon Distribution's network charges. Ergon Distribution and Ergon Retail both submitted that we should maintain this approach.

QCA position

We have decided to base notified prices for large business customers on the lowest costs of supply in regional Queensland, which is Ergon Distribution's east pricing zone, transmission region one. This is consistent with our draft decision and our approach in previous decisions.

[13] Throughout this report, 'typical' refers to the median consumption level (and consumption profile, in the case of time-of-use tariffs) for each tariff, as advised by Energex and Ergon Energy. Where a tariff is only available in south east Queensland we have used data from Energex, otherwise we have used Ergon Energy data, for consistency with our draft determination. These assumptions are detailed in Appendix H and are used only for the purpose of illustrating expected customer impacts.

[14] This is the estimated impact in 2014–15 on a typical tariff 11 customer paying cost-reflective notified prices in the Ergon Distribution east pricing zone (transmission region one) and west pricing zone (transmission region one).

We have continued to estimate the costs of supply for each retail tariff in accordance with an N+R cost build-up approach, which is consistent with our approach to setting notified prices for residential and small business customers, as discussed above. We also discuss our approach to the inclusion of an allowance for headroom in Chapter 6.

3 NETWORK COSTS

Network costs are the costs associated with transporting electricity through the transmission and distribution networks and account for around 50% of the final cost of electricity for small customers.

As regulated monopoly businesses, Powerlink, Energex and Ergon Distribution all earn regulated revenues that are determined by the Australian Energy Regulator (AER). In addition to recovering their own distribution network costs, Energex and Ergon Distribution pass on Powerlink's costs to customers in network charges that are also approved by the AER.

This chapter sets out our decisions on the network charges to be used as the basis of notified prices for 2015–16. In summary, we have decided to:

- *base the flat and controlled load tariffs for residential and small business customers on Energex network tariffs and prices (consistent with our draft determination and previous determinations)*
- *base the existing time-of-use tariffs for residential and small business customers in south east Queensland (tariffs 12 and 22) on Energex network tariffs and prices (consistent with previous determinations)*
- *base the time-of-use tariffs for residential and small business customers in regional Queensland (tariffs 12A and 22A) on the network tariff structures of Ergon Distribution, but reduced to Energex price levels (consistent with the draft determination)*
- *base all tariffs for large business customers in regional Queensland on Ergon Distribution network tariffs and prices (consistent with the draft determination and previous determinations).*

We have also introduced voluntary seasonal time-of-use demand tariffs for customers in regional Queensland (tariffs 14, 24 and 50), based on the network tariff structures of Ergon Distribution.

3.1 Key network issues for 2015–16

The beginning of a new regulatory period for the distribution businesses on 1 July 2015 and the reclassification of metering services are the key issues affecting network tariffs and charges for 2015–16.

3.1.1 Beginning of a new regulatory period

A new five-year regulatory period for Energex and Ergon Distribution begins on 1 July 2015. The Australian Energy Regulator (AER) published its preliminary determination on the distributors' revenue allowances on 30 April 2015, which form the basis for network revenues and charges for 2015–16.

The AER approved the distributors' proposed network prices for 2015–16 on 12 June 2015 and these are the network prices we have used for our final determination.

The AER is required to make a final determination by 31 October 2015,[15] which will apply from the date it is published. We understand that any revenue differences between the preliminary and final determination are expected to be accounted for in the remaining years of the regulatory period, meaning that the final determination will not affect 2015–16 network charges.[16] However, in its 2015–16 network pricing proposal, Ergon Distribution suggested that mid-year changes may be possible in certain circumstances.[17] If prices were to change during the year we would not be able to change notified prices unless we received new delegation.

3.1.2 Reclassification of metering services

The AER's April 2015 preliminary determinations for Energex and Ergon Distribution have reclassified type 6 metering services from standard control to alternative control from 1 July 2015.[18] The reclassification means that metering costs will be removed from standard network charges and distributors will be allowed to charge separately for metering services. The reclassification also means that metering charges can no longer be included in notified prices.[19]

These are not new charges, because costs associated with metering services were previously recovered through standard network charges that were included in notified prices. To maintain the uniform tariff policy, we understand that the Government has directed Ergon Retail to charge regional customers the lower of the Energex and Ergon Distribution metering charges. Compared to what they were paying previously, some customers may pay more and others less, depending on their network tariff. For example, a metering charge will apply to tariffs 31 and 33 for the first time.

While no longer part of notified prices, we have taken account of metering charges in our analysis of the impact on customers of changes in annual bills between 2014–15 and 2015–16. This ensures a like-for-like comparison is made with the annual bills faced by typical customers in 2014–15, when metering charges were included in notified prices.

It is important to note that metering charges will vary from customer to customer, depending on the tariffs they are supplied under. Retailers will be responsible for incorporating metering charges into customer bills for both market and non-market customers.

3.2 Network tariffs for residential, small business and unmetered supply customers

For the 2014–15 determination, we used Energex's network charges and tariff structures as the basis for setting retail tariffs for residential customers, small business customers and unmetered supplies (excluding street-lighting).

The delegation requires that we 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).

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[15] National Electricity Rules, clause 11.60.4(c).

[16] AEMC, *Rule Determination: National Electricity Amendment (Economic Regulation of Network Service Providers) Rule 2012*, 29 November 2012, pp. 260–261.

[17] Ergon Energy, *2015–16 Pricing Proposal: Distribution services for 1 July 2015 to 30 June 2016*, p. 67.

[18] The AER has also reclassified type 5 metering services, although we understand that type 5 meters are not permitted under metrology procedures applying in Queensland.

[19] We consider that the reclassification of metering charges means that they now meet the definition of 'distribution non-network charges' in the Electricity Act. Distribution non-network charges cannot be included in notified prices (s. 90(3)(d) of the Electricity Act).

Adopting this proposal means that customers would 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 (i.e., tariffs 11, 20, 31, 33, 41 and 91[20]), we are required to consider basing retail tariffs on Energex network tariffs and prices. Adopting this proposal would mean that flat and controlled load tariffs are uniform across the state.

In this section, we explain our decision to set uniform retail tariffs for the flat tariffs using Energex network structures and prices, and separate retail tariffs in south east Queensland and regional Queensland for the time-of-use tariffs, based on the Energex and Ergon Distribution network tariff structures, respectively. We also explain our decisions to introduce new seasonal time-of-use demand (STOUD) tariffs in regional Queensland for the purposes of tariff trials, remove retail tariff 13 and retain retail tariff 41.

3.2.1 Energex or Ergon Distribution tariff structures

There are three key differences between the flat rate tariff structures of Energex and Ergon Distribution:

- Ergon Distribution tariffs are more heavily weighted toward the recovery of costs through fixed charges than Energex tariffs
- Energex has flat consumption charges, while Ergon Distribution has three-part inclining block tariffs (IBTs)
- Energex does not have a fixed charge for its controlled load tariffs, but Ergon Distribution does.

The Ergon Distribution residential time-of-use tariff structure is the same as the Energex structure (i.e. a fixed charge and peak, shoulder and off-peak consumption charges), but different time periods apply to each consumption charge. The main difference is that the Ergon Distribution peak and shoulder periods are limited to the summer months, which means the off-peak period accounts for a much greater proportion of the year.

Unlike the residential time-of-use tariff, there is a mismatch between the structure of the Energex and Ergon Distribution small business time-of-use tariffs. Energex has peak and off-peak consumption charges, while Ergon Distribution has peak, shoulder and off-peak consumption charges. Like the residential tariff, the peak and shoulder periods are limited to the summer months. Further information on differences between the tariff structures is provided in Appendix D.

We have considered whether to continue to use Energex tariff structures as the basis for all residential and small business customer retail tariffs or whether Ergon Distribution tariff structures could be used as the basis for some or all tariffs for regional customers.

Flat rate and controlled load tariffs

The terms of reference in the delegation require that we consider continuing with the same approach we adopted in the draft determination for residential and small business customer flat rate and controlled load tariffs, which is to use Energex network tariffs and prices across Queensland.

[20] Tariff 91 applies to unmetered supplies (except street lighting).

Queensland Consumers' Association and COTA Queensland supported this approach on the basis that it is the best way to meet the objective of the uniform tariff policy. Mr Tranter also supported this approach.

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. We made this decision on the basis that this change may be too significant to make in 2015–16 (because nearly all regional customers would be affected by the change in tariff structure) and 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) in regional Queensland. 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 a uniform adjustment, a typical customer on tariff 11 would see an increase in this portion of their bill of 0.3% with the Ergon Distribution tariff structure, compared to 0.5% decrease with the Energex tariff structure. 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 final decision is to continue to use Energex network tariffs and charges for the flat rate and controlled load tariffs.

Time-of-use tariffs

The terms of reference require that we consider splitting each of the existing time-of-use tariffs (tariffs 12 and 22) into two tariffs - one based on Energex tariffs 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 customers.

Ergon Distribution, ESAA and Origin Energy supported using Ergon Distribution tariff structures for regional customers on the basis that it would be a further step towards improving cost-reflectivity, and encourage efficient consumption and investment decisions. Ergon Distribution also argued that this would result in better price outcomes in the long term.

Using Ergon Distribution structures for the time-of-use tariffs in the regional Queensland would improve cost-reflectivity and encourage customers to reduce consumption during peak periods on Ergon Distribution's network. As this approach more accurately reflects the costs of supplying customers in each distribution area, it is more aligned with our obligations to consider the actual costs of supply in the Electricity Act 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.

Changing from an Energex-based tariff structure to an Ergon Distribution-based tariff structure may negatively affect some regional customers. However, it will only affect the relatively small proportion of customers in regional Queensland that are on time-of-use tariffs. Ergon Retail supplies about 7,000 customers (7% of its small business customers) on tariff 22[21] and around 100 residential customers on tariff 12.[22]

For the reasons above, our final decision is to use Energex tariff structures for time-of-use tariffs in south east Queensland and Ergon Distribution tariff structures for time-of-use tariffs in regional Queensland.

3.2.2 Applying Ergon Distribution tariff structures to time-of-use tariffs for regional customers

As discussed, we have decided to use Ergon Distribution tariff structures as the basis for setting time-of-use tariffs for residential and small business customers in regional Queensland, while reducing the overall level of prices to Energex levels. Please see Appendix D for more information on the adjustment methods we have applied.

Options to adjust Ergon Distribution network tariffs

We have considered two options to adjust the prices in Ergon Distribution's network tariffs to Energex levels. Both options involve reducing Ergon Distribution east zone network charges so that customers will, on average, pay the same for network services as customers in south east Queensland on the equivalent Energex network tariff.[23] The effect on customers that consume more or less than average, and the incentives for customers to move between the flat rate and time-of-use tariffs, will vary according to the option selected.

Option one: Uniformly decrease Ergon Distribution fixed and consumption charges

Under this option, all Ergon Distribution tariff components (fixed and consumption) are reduced uniformly. While this option maintains the relativities between the Ergon Distribution tariff components, it results in a higher fixed charge than the flat rate tariffs (tariffs 11 and 20), which may reduce the incentives for customers to move to a time-of-use tariff.

[21] Based on 2013–14 data.
[22] As at 1 July 2014.
[23] A third option was also considered for tariff 12, which was to apply the Energex prices in place of the Ergon Distribution fixed charge, and peak, shoulder and off-peak variable charges. However, we decided against this approach because it would result in customers paying less for network services than customers in south east Queensland. This is due to the far higher proportion of off-peak time under the Ergon Distribution structure. This option would not be possible for tariff 22 due to the mismatch in Energex and Ergon Distribution network structures, as discussed in section 3.2.1.

Option two: Maintain Energex fixed charge and reduce Ergon Distribution consumption charges

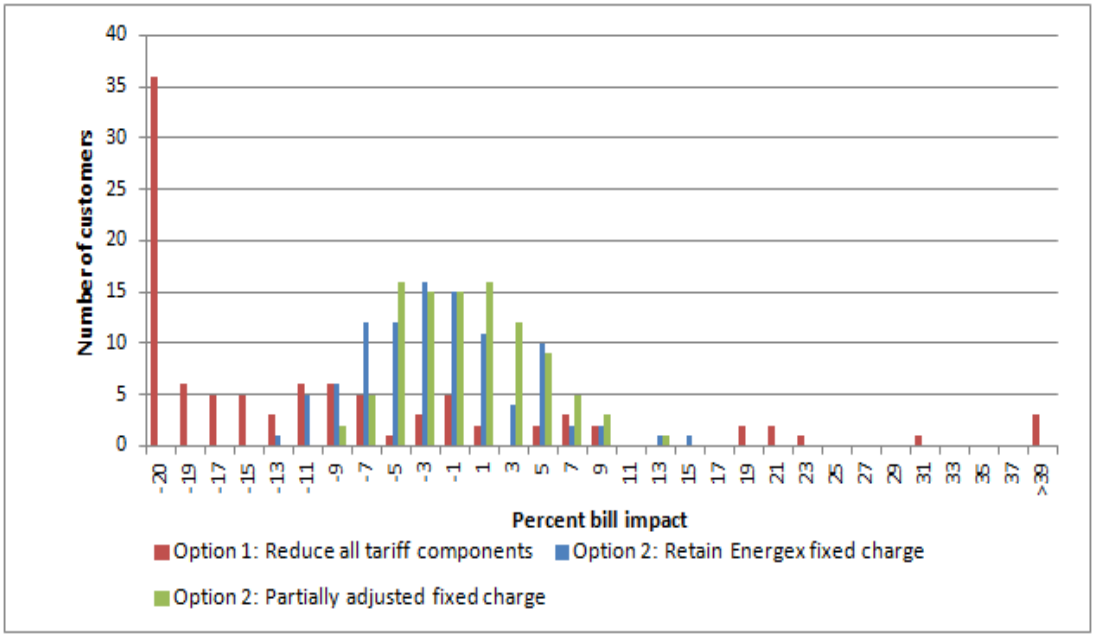
This option involves maintaining the Energex fixed charge and decreasing the Ergon Distribution consumption charges to a level where customers will, on average, pay the same as in south east Queensland. Keeping the Energex fixed charge results in a lower fixed charge than option one and means that it would align with the fixed charges in tariffs 11 and 20. Canegrowers Isis suggested that this option would be appropriate for the small business time-of-use tariff.

While this option preserves the relativities between the variable components of Ergon Distribution's tariffs, it does not preserve the relativities between the fixed and variable components. This leads to low consumption customers paying less than they would and high consumption customers paying more than they would under option one. However, it would provide an incentive for a larger number of customers to move to time-of-use tariffs than option one (based on information provided by Ergon Energy about customers' actual and assumed patterns of consumption). This is consistent with the suggestion in the delegation of encouraging customers to switch to time-of-use tariffs. The alignment of fixed charges in the flat rate and time-of-use tariffs may also improve incentives to switch tariffs for those customers that are discouraged by high fixed charges.

In the case of the adjustment to the Ergon Distribution residential network tariff, reducing the fixed charge to the Energex level would require the variable charges to be increased to equate the average customer bill with the bill they would pay if they were supplied on tariff 12. We do not consider this is appropriate as this would require setting calculated network prices at levels above those approved by the AER. Therefore, we have reduced the Ergon Distribution fixed charge to the point where the variable charges do not need to increase. This issue does not affect the adjustment to the Ergon Distribution small business network tariff.

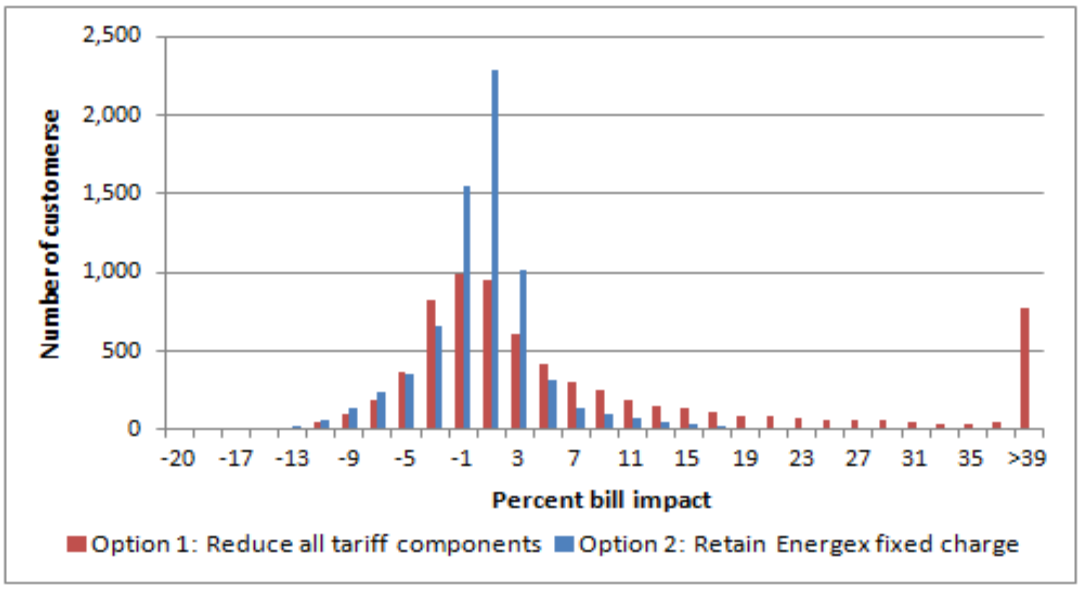
Figures 4 and 5 illustrate the estimated customer impacts of each of the adjustment options.

Figure 4 Potential bill impacts for tariff 12 customers



Note: Based on actual 2013–14 consumption, and applies the Ergon Distribution assumption that customers would consume 5% peak, 4% shoulder and 91% off-peak under the Ergon Distribution structure.

Figure 5 Potential bill impacts for tariff 22 customers



Note: Based on actual 2013–14 consumption, and applies the Ergon Distribution assumption that customers would consume 6% peak, 4% shoulder and 90% off-peak under the Ergon Distribution structure.

QCA position

Consistent with our draft decision, our final decision is to apply option two to determine adjusted network charges for the time-of-use tariffs. We consider that this option provides a greater incentive for customers to move to time-of-use tariffs,[24] with the least customer impacts. We have established a new retail tariff for residential customers (tariff 12A) and small business customers (tariff 22A).

Transitional issues for regional customers on tariffs 12 and 22

Ergon Distribution and Ergon Retail noted that meters would need to be re-programmed or replaced to enable Ergon Distribution structures to be used for time-of-use tariffs. They advised that it would be possible to achieve this by 1 July 2015 for the small number of customers on tariff 12, but that it would not be possible for all customers on tariff 22.

On the basis of our assessment of customer impacts above, we consider that regional customers on tariff 12 can be moved to tariff 12A without any transitional arrangements. However, the impacts on some regional customers on tariff 22 are more significant. We plan to retain the existing tariff 22 (based on the Energex tariff structure) for two years and allow customers to voluntarily move to the new tariff (or another tariff that suits their needs) during that period. Tariff 22 will be closed to new regional customers, meaning that only customers already on this tariff will be allowed to continue accessing it.[25]

CCIQ noted that the impacts on small business customers could be more extensive than residential customers, and supported keeping tariff 22 available for two years. Canegrowers Isis argued that customers who had transferred from tariff 22 for reasons of drought relief should be able to return to this tariff at the end of the drought declaration and the transitional period

[24] Based on information provided by Ergon Energy about customers' actual and assumed patterns of consumption.

[25] This is consistent with our decision to close access to transitional tariffs that are only available for a short period of time (i.e. tariffs 41 (large) and 43 (large)).

should be extended to 2020, in line with other transitional tariffs. However, we do not consider this necessary due to the relatively limited negative customer impacts.

Ergon Distribution suggested that there was reasonable justification for a shorter transition period in order to support the ongoing network tariff reform agenda. Ergon Distribution also suggested that customers should be transferred to tariff 22A in line with its program of replacing and reprogramming meters, rather than on a voluntary basis. We disagree with Ergon Distribution's proposals because they would be inconsistent with our decision to maintain access for customer impact reasons. We expect that our decision will provide sufficient time for Ergon Distribution to make the required metering changes to enable all customers to transition to the new tariff by 1 July 2017.

Changing between flat and time-of-use tariffs

We note that residential customers can move between flat-rate and time-of-use tariffs twice a year without penalty, while small business customers are charged a relatively modest fee after the first tariff change in a year. If these conditions are not changed, customers may take advantage of the off-peak rate in the Ergon Distribution based time-of-use tariff for the non-summer months and avoid the higher peak rate over the summer months by reverting to the flat rate tariff (tariff 11). Over a year, this could result in customers paying less for network services than customers in south east Queensland, which may be inconsistent with the uniform tariff policy. It may also result in the time-of-use signals being ineffective at encouraging more efficient use of the network.

Ergon Retail and QCOSS supported allowing retail tariff changes once per year without penalty. Ergon Distribution did not support residential customers being allowed to change between tariff 11 and tariff 12 more than once per year noting that it creates an incentive for residential customers to avoid the peak price signal the network is trying to send to customers. Ergon Distribution also highlighted that the network tariff can only be changed once in a 12 month period[26] and, along with Ergon Retail submitted that conditions associated with network tariffs should be reflected at the retail tariff level.

We consider that allowing customers to change tariffs more than once every 12 months may result in the time-of-use tariffs being ineffective. We also agree with Ergon Distribution that the terms and conditions of access to network tariffs should be reflected at the retail tariff level. Therefore, our final decision is to limit tariff changes to once every 12 months.

3.2.3 New seasonal time of use demand tariffs in regional Queensland

In its submission to the draft determination, Ergon Distribution advised that it plans to 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 2. 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; however we understand these will not feature a seasonal component.

[26] Network tariffs can be changed more frequently where there is a change in usage, such as a change in classification from a small customer to a large customer, or where there is a change in activity that results in a significant change in usage.

Table 2 Ergon Distribution's small customer seasonal time-of-use demand tariff structures

Item	*Unit*	*Minimum chargeable demand (kW)*		*Time period*	
		Residential	Small business	Residential	Small business
Fixed charge [a]	$/day	n/a	n/a	n/a	n/a
Demand - Peak	$/kW/month	0	0	3:00pm to 9:30pm any day of the week in summer months	10:00am to 8:00pm weekdays - summer months
Demand - Off-peak[b]	$/kW/month	3	3	All times - non-summer months	All times - non-summer months
Consumption flat	c/kWh	n/a	n/a	Anytime flat	Anytime flat

a. Although the distribution tariffs do not include a fixed charge, a fixed charge consisting of transmission network charges, jurisdictional scheme amounts (Solar Bonus Scheme costs) and retail costs would apply.

b. 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 do not refer to the introduction of these new network tariffs. However, we consider that introducing new retail tariffs for regional customers based on these network tariffs would be consistent with our decision to base other time-of-use tariffs on Ergon Distribution tariff structures. Ergon Distribution considers that STOUD retail 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 costs in the longer term. Ergon Retail submitted that these tariffs would provide customers with more alternatives for managing their usage to reduce electricity costs. Retailers also supported the introduction of STOUD retail tariffs, on the basis that they will improve cost reflectivity and present customers with incentives for more efficient electricity usage.

However, some stakeholders, including the Queensland Consumer's Association, Far North Queensland Electricity Users Network (FNQEUN) and QCOSS opposed the full introduction of STOUD tariffs in 2015–16 on the basis that there has been insufficient consultation and analysis of customer impacts.

Notwithstanding the potential benefits of these new tariffs, we understand that it may not be possible for customers to be supplied on these retail tariffs immediately because advanced meters must be installed and billing systems may need to be upgraded. We also consider there are other complications with a full roll-out of these retail tariffs in 2015–16, as noted in our further consultation paper, specifically:

- there are no comparable Energex network tariffs, which makes it more difficult to establish a suitable baseline to apply the uniform tariff policy
- while not a component of notified prices, retailers are prevented from recovering the costs of the new meters from customers[27]

[27] 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.

- there has been limited time to consult on their introduction
- they are more complex than other tariffs and would likely require more extensive customer education.

We consider that STOUD tariffs are a positive step in the tariff reform process, however many of these matters should be addressed before we can confidently establish widely-available notified prices based on these network tariffs. For 2015–16, we consider a limited introduction of these tariffs on a trial basis, would be appropriate. In order for Ergon Distribution and Ergon Retail to conduct a trial, we must still establish retail tariffs and set notified prices[28] because Ergon Retail is only permitted to charge notified prices to customers under section 55G the Electricity Act. As a result, any tariff charged to customers, even for the purpose of a trial, must be a notified price.

Our final decision is to create two new retail tariffs based on Ergon Distribution's underlying STOUD network tariffs (tariff 14 for residential and tariff 24 for small business). These tariffs will be voluntary and require approval from the customer, Ergon Distribution and the retailer (usually Ergon Retail). We consider these conditions provide sufficient flexibility to trial the tariffs, while addressing concerns raised by consumer groups. Ergon Retail and Ergon Distribution will also have the necessary flexibility to only offer these tariffs when necessary modifications have been made to billing systems and a decision is made to accept the costs of installing new meters.

We have also considered how to appropriately apply the uniform tariff policy when developing tariffs 14 and 24. Consistent with our approach to adjusting Ergon Distribution's time-of-use tariffs for tariffs 12A and 22A, we have considered the following options:[29]

- Option one: Adjust all network tariff components by the same proportion so that the estimated average annual customer network bill under these tariffs equals that of a similar customer in the Energex area. As there are no equivalent tariffs available in the Energex area, we have used data and cost levels for tariff 11 (to adjust tariff 14) and tariff 20 (to adjust tariff 24).[30]
- Option two: Maintain the fixed charge at an equivalent Energex level (tariff 11 or tariff 20) and adjust all other tariff components as per option one.

Option two, while consistent with our approach to adjusting Ergon Distribution's other time-of use-tariffs, is not practical as adjusting the fixed charges to equal the Energex tariff 11 or tariff 20 equivalents would result in fixed charges that are higher than the Ergon Distribution fixed charge. We do not consider this is appropriate as it would require establishing calculated network prices at levels above those approved by the AER.

For these reasons, our final decision is to apply option one and adjust all components of the Ergon Distribution STOUD tariffs by the same amount. This preserves the relativities within the tariff structure, while ensuring (to the extent possible) that customers on these trial tariffs would pay no more, on average, than if they were supplied on tariff 11 or tariff 20 rates in the Energex distribution area. This adjustment would be more accurate if actual rather than

[28] QCOSS and the Queensland Consumer's Association submitted that a trial could be conducted without creating notified prices, however we consider this is not possible without amendments to section 55G of the Electricity Act or the Regulation.
[29] See Appendix D for more information on the adjustment methods we have applied.
[30] Estimated consumption data for calculating the average annual bill was provided by Ergon Retail.

estimated consumption and demand data was used. However, in the absence of this, we consider our approach is reasonable for the purposes of establishing trial tariffs.

3.2.4 Other issues

Removal of tariff 13

Tariff 13 is a residential time-of-use tariff available to customers that have a PeakSmart Air Conditioning Unit.[31] It is based on an Energex network tariff and Ergon Distribution does not have an equivalent network tariff. Energex has advised 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. For this reason, we have decided to remove tariff 13.

Retention of tariff 41

In our draft decision, we considered removing tariff 41 on the basis that Ergon Distribution does not have a network tariff available for small business customers with this structure.

Queensland Consumers' Association suggested tariff 41 should be retained to ensure the uniform tariff policy operates fairly across the state. Ergon Retail also supported retaining tariff 41.

Given that our approach is to use Energex tariff structures for flat-rate tariffs and that the Energex network tariff is available to small customers in south east Queensland, our final decision confirms our draft decision to retain tariff 41.

In 2015–16, Energex will commence charging the underlying network component for tariff 41 on a kilovolt-ampere (kVA) basis, rather than a kilowatt (kW) basis. However, we understand that some retailers, including Ergon Retail, are currently unable to bill their customers on a kVA basis. To overcome this problem, we have also published this tariff on a kW equivalent basis suitable for use by those retailers that cannot currently offer kVA billing.

3.2.5 Final decision

Our final decision is to base regulated retail tariffs for 2015–16 on:

- Energex network tariffs and charges for tariffs 11, 20, 31, 33, 41 and 91
- Energex network tariffs and charges for tariff 12 and tariff 22, which will be available to customers in south east Queensland. Tariff 22 will become an obsolete tariff in regional Queensland that we plan to make available for two years.
- Calculated network tariffs and charges for tariffs 12A and 22A, which are based on Ergon Distribution's seasonal time-of-use tariffs. To maintain the uniform tariff policy, the level of charges has been reduced to a level where regional customers will, on average, pay the same as customers on tariffs 12 and 22 in south east Queensland.
- Calculated network tariffs and charges for the new tariffs 14 and 24, which are based on Ergon Distribution's STOUD network tariffs. As with tariffs 12A and 22A, the level of charges has been reduced to a level where regional customers will, on average, pay the same as customers on the main flat rate tariffs (tariffs 11 and 20) in south east Queensland.

We have also decided to remove tariff 13 from the tariff schedule and to retain tariff 41.

[31] A PeakSmart Air-Conditioning Unit is an air-conditioning unit that can be remotely adjusted by the distributor to use less electricity during periods of high demand.

Our final decision on the network charges to be used as the basis for notified prices for 2015–16 for residential, small business and unmetered supply customers are presented in the following tables.

Table 3 Energex network charges for 2015–16 for regulated retail tariffs 11, 12, 20, 22, 31, 33, 41 and 91 (GST exclusive)

Retail tariff	*Energex network tariff code*	*Fixed charge*	*Variable rate (flat/off-peak)*	*Variable rate (shoulder)*	*Variable rate (peak)*	*Demand charge*
		c/day	*c/kWh*	*c/kWh*	*c/kWh*	*$/kW/mth*
Tariff 11 - Residential (flat rate)	8400	49.400	12.130			
Tariff 12 - Residential (time-of-use)	8900	49.400	6.763	11.130	18.962	
Tariff 20 - Business (flat rate)	8500	70.800	12.348			
Tariff 22 - Business (time-of-use)[a]	8800	70.800	9.406		14.176	
Tariff 31 - Night rate (super economy)	9000		6.280			
Tariff 33 - Controlled supply (economy)	9100		10.528			
Tariff 41 - Low voltage (demand)[b]	8300	509.600	1.892			25.394
Tariff 91 - Unmetered	9600		10.528			

a. Obsolete tariff in regional Queensland. Customers in south east Queensland can still access tariff 22.

b. The kVA equivalent demand charge for tariff 41 is $22.194/kVA/month. A conversion factor of 0.873988 has been used, as advised by Energex.

Table 4 Calculated network charges for 2015–16 for regulated retail tariffs 12A and 22A (GST exclusive)

Retail tariff	*Fixed charge*	*Variable rate (peak)*	*Variable rate (shoulder)*	*Variable rate (off-peak)*
	c/day	*c/kWh*	*c/kWh*	*c/kWh*
Tariff 12A - Residential (time-of-use) - new	59.026	34.476	34.476	7.726
Tariff 22A - Business (time-of-use) - new	70.800	26.311	26.311	10.061

Table 5 Calculated network charges for 2015–16 for regulated retail tariffs 14 and 24 (GST exclusive)

Retail tariff	*Fixed charge*	*Variable rate*	*Peak demand charge*	*Off-peak demand charge*
	c/day	**c/kWh**	**$/kW/month**	**$/kW/month**
Tariff 14 - Residential (time-of-use demand) - new	22.281	4.025	44.994	8.329
Tariff 24 - Business (time-of-use demand) - new	27.747	4.757	69.629	10.373

3.3 Network tariffs for large business and street lighting customers

In the 2014–15 determination, we based retail tariffs for large business customers and street lighting customers on the network tariffs and charges applying to Ergon Distribution's east pricing zone, transmission region one. Consistent with our draft decision, we have continued with this approach for 2015–16 because it is consistent with our decision to set notified prices for large business customers based on the lowest costs of supply in regional Queensland (see Chapter 2).

Ergon Distribution and Ergon Retail supported this approach, while Toowoomba Regional Council suggested that Energex network tariffs should be used as the basis for large customer tariffs, until Ergon Distribution network tariffs have time-of-use signals.

As noted in our draft decision, Ergon Distribution will introduce a new seasonal time-of-use demand tariff in 2015–16 (in addition to the demand tariffs that form the basis of tariffs 44 to 46). This new voluntary tariff will provide an alternative to the existing flat rate tariffs and we understand that it has been designed to encourage more efficient use of Ergon Distribution's network. The structure of this network tariff is set out in Table 6.

Table 6 Ergon Distribution large customer seasonal time-of-use demand tariff

Item	*Unit*	*Threshold demand*[a]	*Time period*
Fixed charge	$/day	n/a	Year round
Demand - Peak	$/kW/month	20	10am to 8pm summer weekdays
Demand - Off-peak	$/kW/month	40	All-times during non-summer months
Consumption - Peak	c/kWh	n/a	All times during summer months
Consumption - Off-peak	c/kWh	n/a	All times during non-summer months

a. Threshold demand is the level above which the demand charge applies.

Our final decision confirms our draft decision to create a new voluntary retail tariff (tariff 50) based on this new Ergon Distribution network tariff. Customer access to the tariff will be subject to adequate metering capability.

Ergon Distribution has not made any changes to the network tariffs that underpin retail tariffs for large business and street lighting customers since we released our draft decision.

3.3.1 Final decision

Our final decision confirms our draft decision to:

- continue to base retail tariffs for large business customers and street lighting customers on the network tariffs and charges applying to Ergon Distribution's east pricing zone, transmission region one
- introduce a new retail tariff based on the new time-of-use demand tariff that Ergon Distribution plans to introduce in 2015–16 (tariff 50).

Our final decision on the network charges to be used as the basis for regulated retail tariffs for large business and street lighting customers in 2015–16 are presented in Table 7.

Table 7 Ergon Distribution network charges for 2015–16 large customer regulated retail tariffs and street lighting (GST exclusive)

Retail tariff	*Ergon Distribution network tariff*	*Fixed charge*	*Variable rate (flat/off-peak)*	*Variable rate (peak)*	*Demand charge (peak/ shoulder)*	*Demand charge (flat/off-peak)*
		c/day	*c/kWh*	*c/kWh*	*$/kW/mth*	*$/kW/mth*
Tariff 44 - Over 100 MWh small (demand)	EDSTT1	4,347.600	2.087			33.885
Tariff 45 - Over 100 MWh medium (demand)	EDMTT1	14,481.300	2.044			28.396
Tariff 46 - Over 100 MWh large (demand)	EDLTT1	39,064.800	2.171			24.513
Tariff 47 - High voltage (demand)	EDHTT1	34,833.500	1.816			21.826
Tariff 48 - Over 4 GWh high voltage (demand)	EDHTT1	34,833.500	1.816			21.826
Tariff 50 - Over 100MWh seasonal time-of-use (demand) - New	ESTOUDCT1	3,772.000	5.035	1.671	49.074	14.181
Tariff 71 - Street Lighting[a]	EVUT1	0.600	18.104			

a. The fixed charge for street lighting applies to each lamp.

4 ENERGY COSTS

Retailers incur energy costs, either directly or indirectly, when purchasing electricity to meet the demand of its customers. Energy costs can be split into three general categories:

(1) *wholesale energy costs, which have been estimated using a hedging-based approach, consistent with previous determinations*

(2) *other energy costs, which have also been determined using the same approaches as previous determinations, with the exception of prudential costs, which are included in the 2015–16 retail operating cost allowance*

(3) *energy losses, which are accounted for by applying loss factors published by the Australian Energy Market Operator (AEMO).*

As with previous determinations, we have determined energy costs based on advice from our consultant, ACIL Allen. A discussion of how each energy cost component was calculated is provided below. A more detailed explanation is provided in ACIL Allen's final report,[32] which is available on our website.[33]

4.1 Wholesale energy costs

Wholesale energy costs are incurred by a retailer when purchasing electricity from the National Electricity Market (NEM) to meet the demand of its customers. The NEM is a wholesale market for electricity across the five interconnected regions. The electricity market matches power supply and demand in real time. As the NEM is a volatile market, retailers routinely use hedging strategies to reduce their risk, such as purchasing financial derivatives (for example, futures, swaps and options), entering long-term power purchase agreements (PPAs) with generators, and investing in generation assets.

The two main approaches for determining wholesale energy costs are the hedging-based approach, which estimates the costs of purchasing financial derivatives, and the long-run marginal cost (LRMC) approach, which estimates the costs of directly investing in generation assets. COTA Queensland, Ergon Retail and the Queensland Consumers' Association support a hedging-based approach. Consistent with their submissions to previous determinations, EnergyAustralia, Origin Energy and the ERAA support an LRMC approach.

We have adopted a hedging-based approach in past determinations and maintain our view that it is a transparent approach that best reflects the actual costs that retailers incur when purchasing electricity from the NEM. Further, the Australian Energy Market Commission (AEMC) endorsed the hedging-based approach as a best-practice method for estimating wholesale energy costs for regulated retail prices.[34]

Consistent with previous determinations, and advice from ACIL Allen, we have decided to continue with the hedging-based approach.

[32] ACIL Allen, *Estimated Energy Costs 2015–16 Retail Tariffs*, 2 June 2015.
[33] http://www.qca.org.au/Electricity.
[34] AEMC, *Advice on Best Practice Retail Price Regulation Methodology - Final Report,* September 2013.

Retailers raised issues with aspects of market data, and forecasts produced by ACIL Allen to estimate energy costs. ACIL Allen has addressed these issues in its report.[35] We accept ACIL Allen's wholesale energy cost estimates, which are presented in Table 8.

Changes in energy costs for 2015–16 are moderate compared to 2014–15, although they vary between retail tariffs for the reasons set out below.

Overall, peak contract prices[36] have increased because the increase in contract prices during the highest demand periods (which generally occur in the early evening) outweighs the reduction in contract prices during the day-time. Contract prices during the highest demand periods have increased because of very hot weather last summer increasing demand and rooftop solar generation increasing the peakiness of the Net System Load Profiles (NSLPs). The reduction in contract prices during the day-time is due to lower demand caused by increased rooftop solar generation.[37] Base load contract[38] prices have decreased due to a variety of factors.

The net effect of these factors for each load profile is that:

- Energy costs for the Energex NSLP are estimated to increase by 2.4% and energy costs for the Ergon Energy NSLP are estimated to decrease by 0.1%. The outcomes are different because the load profile of the Ergon Energy NSLP is less peaky than the Energex NSLP, which means that it benefits more from the decrease in base load contract prices. In addition, as there are a greater number of solar installations in the Energex area, day-time demand under the Energex NSLP is comparatively lower, and correspondingly benefits less from the reduction in day-time contract prices than the Ergon Energy NSLP.
- Energy costs for the controlled loads (tariffs 31 and 33) are both lower than 2014–15, due to lower base load contract prices. Energy costs for tariff 31, which were forecast to increase in the draft determination, are now forecast to decrease slightly as a result of ACIL Allen revising the load profile.[39]

Table 8 Estimated wholesale energy costs at the regional reference node for 2015–16

Settlement class	*Retail tariff*	*$/MWh*	*% change from 2014–15*
Energex NSLP and unmetered supply	11, 12, 12A, 14, 20, 22, 22A, 24, 41, 91	$63.73	2.4%
Energex Controlled Load 9000	31	$36.10	-1.4%
Energex Controlled Load 9100	33	$50.39	-0.6%
Ergon Energy NSLP and streetlights	44, 45, 46, 47, 48, 50, 71	$55.70	-0.1%

Source: ACIL Allen, Estimated Energy Costs for 2015–16, 2 June 2015.

[35] ACIL Allen, *Estimated Energy Costs 2015-–16 Retail Tariffs*, 2 June 2015, Chapter 3.
[36] AEMO defines peak contracts as those for electricity supply between 7am and 10pm, Monday to Friday, excluding public holidays.
[37] Peak demand typically occurs between 6:30pm and 8:30pm, Monday to Friday.
[38] Base load contracts are for electricity supply from midnight Monday to midnight the following Sunday.
[39] ACIL Allen changed the load profile data used to estimate tariff 31 costs, because it considered that there were some unexplainable step changes in the 2013–14 data used in its draft report. For its final report, ACIL Allen used 2012–13 data, which is the same load data as used for the 2014–15 determination, as it does not have these data issues. Please see ACIL Allen's report for further details.

4.2 Other energy costs

In addition to wholesale energy costs, we must also consider other costs that retailers incur when purchasing electricity from the NEM. These are:

- the Renewable Energy Target (RET)
- NEM participation fees and ancillary services charges
- prudential capital costs.

Renewable Energy Target costs

The RET is an Australian Government scheme designed to reduce emissions of greenhouse gases and encourage the generation of electricity from sustainable and renewable sources. The scheme has two components—a Large-scale Renewable Energy Target (LRET) and a Small-scale Renewable Energy Scheme (SRES).

LRET costs

The LRET sets annual targets for the amount of electricity that must be sourced from large-scale renewable energy projects like wind farms. Retailers must purchase a set number of large-scale generation certificates (LGCs) according to the amount of electricity they have sold to customers in the calendar year. The LRET scheme has been under review, and a bipartisan agreement to reduce the 2020 LRET target from the existing legislated goal of sourcing 41,000 GWh of electricity from large-scale renewable generation[40] to 33,000 GWh was recently announced. At present, the 2015 and 2016 annual LRET targets remain unchanged.

For the 2014–15 final determination, ACIL Allen estimated LRET costs using the 2014 renewable power percentage (RPP) for the first half of the pricing period and the latest published 2015 LRET target for the second half of the pricing period. LGC prices were based on forward certificate price information published by the Australian Financial Markets Association (AFMA).

COTA Queensland, Ergon Retail, the Queensland Consumers' Association and QCOSS supported a continuation of the market-based approach. Consistent with its submissions to previous determinations, Origin Energy suggested that an approach based on the LRMC of renewable generation would be a more reliable and cost-reflective approach. Retailers highlighted that policy uncertainty prior to the latest announcement had impacted liquidity in the market, and there had been an increase in trading volumes since then, both of which may affect LGC trading data.

ACIL Allen considers that AFMA's 2015 and 2016 data is of equal quality to that used in previous years and that its market-based approach continues to provide a superior basis for estimating LRET costs than a modelled LRMC methodology. ACIL Allen used the most up to date data available[41] to capture any changes resulting from the announced changes in the LRET target. ACIL Allen has provided a detailed explanation of its calculation of LRET costs, and its response to issues raised in submissions, in its report.

We accept ACIL Allen's advice on this matter and agree that the market-based approach, using the most up to date targets and price information published by AFMA, is likely to produce the most transparent and reliable estimate of costs in 2015–16.

[40] *Renewable Energy (Electricity) Act 2000.*
[41] Data to 15 May 2015.

ACIL Allen's LRET cost estimates are outlined in Table 9.

SRES costs

The SRES covers small-scale technologies such as solar panels and solar hot water systems installed by households and small businesses. Retailers have an obligation to purchase small-scale technology certificates (STCs) based on expected rates of STC creation.

As with the 2014–15 determination, ACIL Allen estimated SRES costs using the final small-scale technology percentage (STP) target for the first half of the pricing period and the latest available non-binding STP target for the second half of the pricing period. STC prices were based on the clearing house price of $40 per certificate. QCOSS supported this approach.

We are satisfied with ACIL Allen's approach and accept its SRES cost estimates, which are outlined in Table 9.

NEM participation fees and ancillary services charges

NEM participation fees are levied on retailers by the Australian Energy Market Operator (AEMO) to cover the costs of operating the NEM. Ancillary services charges cover the costs of the services used by AEMO to manage power system safety, security and reliability.

As with the 2014–15 determination, ACIL Allen used AEMO budget and fee projections to estimate NEM participation fees for 2015–16. Ancillary services charges were based on the average historical costs observed over the preceding 52 weeks.

We are satisfied with ACIL Allen's approach and accept its cost estimates, which are outlined in Table 9.

Prudential capital costs

Prudential capital costs relate to the financial guarantees a retailer must provide to AEMO and initial margins lodged with the hedge providers for futures contracts. These costs must be accounted for as we rely on futures contracts to derive our wholesale energy cost estimates.

QCOSS argued that a separate prudential capital allowance was not justified because these costs are already accounted for in the retail operating cost (ROC) allowance.

Consistent with previous decisions, we have used a benchmarking approach to set ROC (see Chapter 5), which largely relies on the ROC allowance determined by IPART. Officers at IPART have confirmed that, while prudential capital costs are not specifically accounted for, they consider these costs are incorporated in the ROC allowance of their latest pricing decision. On this basis, we consider that a separate prudential capital allowance within energy costs is not justified.

Ergon Retail suggested that we account for potential differences between prudential capital costs in the NSW and Queensland markets, and to consider the credit support requirements of distributors. As the ROC allowance is determined by benchmarking, we do not consider that it would be appropriate to adjust the benchmark to attempt to account for some cost differences, but not others. However, we have made adjustments where we consider that certain costs are not included in the benchmark, for instance, regulatory fees.

Summary of other energy costs for 2015–16

Table 9 sets out the final estimates of other energy costs for 2015–16, which will be added to the wholesale energy cost components for all tariffs.

Table 9 Other energy costs —all tariffs— excluding losses

Cost Component	*2014–15 final determination*	*2015–16 final determination*	*Change*
	$/MWh	**$/MWh**	**%**
LRET	4.010	4.380	9.2%
SRES	4.120	4.340	5.3%
NEM Fees	0.470	0.470	0.0%
Ancillary Services	0.480	0.360	-25.0%
Prudential Capital	0.710	N/A	N/A
Total	9.790	9.550	-2.5%

Source: ACIL Allen, Estimated Energy Costs for 2015–16, 2 June 2015.

4.3 Energy losses

A retailer must purchase sufficient energy to supply its customers' load and allow for the transmission and distribution losses that will be incurred. As with previous determinations, ACIL Allen applied transmission and distribution loss factors published by AEMO in a manner that aligns with AEMO's settlement process.

We are satisfied with ACIL Allen's approach and accept its loss factor calculations, which are outlined in Table 10.

4.4 Total energy cost allowances for 2015–16

Table 10 summarises the total energy cost allowances for each retail tariff for 2015–16.

Table 10 Final decision – total energy allowances for 2015–16

Settlement class	*Retail Tariff*	*Wholesale energy*	*Other energy*	*Energy losses*	*Total energy allowance*		*Change from 2014–15*
		$/MWh	**$/MWh**	**%**	**$/MWh**	**c/kWh**	**%**
Energex NSLP and unmetered supply	11, 12, 12A, 14, 20, 22, 22A, 24, 41, 91	63.73	9.55	6.5%	78.03	7.803	1.2%
Energex Controlled Load 9000	31	36.10	9.55	6.5%	48.60	4.860	-2.1%
Energex Controlled Load 9100	33	50.39	9.55	6.5%	63.82	6.382	-1.5%
Ergon Energy NSLP – small, medium and large demand and streetlights	44, 45, 46, 50, 71	55.70	9.55	12.3%	73.27	7.327	-3.0%
Ergon Energy NSLP-high voltage demand and customers over 4 GWh	47, 48	55.70	9.55	6.6%	69.55	6.955	-2.6%

Source: ACIL Allen, Estimated Energy Costs for 2015–16, 2 June 2015.

5 RETAIL COSTS

The R component includes an allowance for retail operating costs (ROC) and the retail margin. ROC are the costs associated with services provided by a retailer to its customers. The retail margin compensates retailers for their exposure to systematic risk associated with providing customer retail services.

Consistent with previous decisions, we have adopted a benchmarking approach to set retail costs. In summary, we have:

- *maintained the 2014–15 ROC allowances in real terms and continued to recover ROC through the fixed component of retail tariffs*
- *maintained the retail margin at 5.7% of total costs and continued to apply it to each component (fixed, variable and demand) of each retail tariff.*

5.1 Retail operating costs

ROC are the costs associated with services provided by a retailer to its customers and typically include the costs associated with customer administration, call centres, corporate overheads, billing and revenue collection, IT systems, regulatory compliance, and customer acquisition and retention costs (CARC).

In a competitive market, retailers incur CARC to attract new customers and retain existing customers. Many consumer groups have argued that a CARC allowance for regional Queensland is not justified because competition is extremely limited as a result of the way the uniform tariff policy is delivered, particularly in the residential and small business customer market. In accordance with the uniform tariff policy, we are estimating the costs of an efficient retailer supplying residential and small business customers in the competitive south east Queensland market. Therefore, consistent with our previous decisions, we will continue to include an allowance for CARC.

5.1.1 Approach to estimating ROC

In previous determinations, we adopted a benchmarking approach to estimate the ROC allowances because we considered that a bottom-up approach may not necessarily have produced results that were any more robust or defensible. In our 2014–15 determination, we indicated that we would reconsider using a benchmarking approach in future determinations depending on the regulatory framework established to set notified prices in future.

Given that there is still some uncertainty about the regulatory framework that will apply beyond 2015–16, we decided to continue with a benchmarking approach for this determination, rather than a potentially data-intensive and costly bottom-up approach. Ergon Retail, QCOSS and COTA Queensland supported the continuation of a benchmarking approach and there was no objection from other stakeholders.

If we receive a delegation to set notified prices in 2016–17, we will consider whether to undertake a more extensive assessment of ROC and the retail margin as part of that review.

QCA position

We have decided to continue to use a benchmarking approach to determine the ROC allowances for 2015–16.

5.1.2 Implementing the benchmarking approach

In previous determinations, we set separate ROC allowances for small, large and very large customers, and have done the same for this determination. We have estimated each allowance using a benchmarking approach and added an additional allowance for the regulatory fees that the QCA charges retailers to recover the cost of regulation.

Establishing a benchmark ROC allowance for residential and small business customers

In the draft determination and the 2014–15 determination, we maintained the 2013–14 ROC allowance of $161 per customer (including CARC, but excluding regulatory fees) in real terms because we did not consider that there was any new information to update the analysis. The 2013–14 allowance was largely based on IPART's 2013 decision.[42]

For the final determination, we considered whether there is any new information to update our analysis. While we are not aware of any new information in regulatory decisions, we considered retail cost information publicly reported by the two largest retailers operating in south east Queensland—AGL and Origin Energy. However, we note that differences in accounting methodologies and the allocation of costs mean that they are only likely to provide an indication of the reasonableness of costs.

Origin Energy's reported costs were $169 per customer in 2013–14[43] and AGL's reported costs were $102 per customer.[44] AGL's reported costs are much lower than those reported by Origin Energy and our 2013–14 allowance. However, AGL's reported costs may not be a valid comparison because it appears that certain costs may be excluded, such as corporate costs and costs associated with managing its wholesale energy portfolio.[45] Origin Energy's reported costs are slightly higher than our 2013–14 allowance, but indicate that our allowance is set at a reasonable level.

QCA position

We have decided to maintain our 2014–15 benchmark ROC allowance in real terms by escalating it by the Reserve Bank of Australia's forecast of the change in the consumer price index (CPI) to 30 June 2015.[46]

Establishing benchmark ROC allowances for large and very large business customers

We have previously found limited information to determine appropriate ROC allowances for large customers because regulators in most other jurisdictions only determine retail electricity prices for small customers. However, for our 2012–13 determination, we drew on analysis conducted by Frontier Economics (Frontier) for the Western Australian Office of Energy in 2009[47] and Economic Regulation Authority (ERA) in 2012.[48] Frontier's analysis suggested that

[42] For further information, see QCA, *Final Determination - Regulated Retail Electricity Prices 2013–14*, May 2013, Chapter 4; and IPART, *Review of regulated retail prices and charges for electricity from 1 July 2013 to 30 June 2016*, June 2013.
[43] Origin Energy, *Annual Report 2014*, September 2014, p. 21.
[44] AGL, *Annual Report 2014*, 17 September 2014, p. 39.
[45] IPART, *Review of regulated retail prices and charges for electricity from 1 July 2013 to 30 June 2016*, June 2013, p. 104.
[46] We adopted CPI of 2.5%, which is consistent with the mid-range of the RBA forecast of 2–3% for the 12 months to 30 June 2016. Reserve Bank of Australia, *Statement on Monetary Policy*, May 2015, p. 65.
[47] Frontier Economics, *Electricity Retail Market Review - Electricity Tariffs: Final Recommendations prepared for the Western Australian Office of Energy*, January 2009, pp. 68–69.

the cost of servicing larger customers was significantly higher than the cost of servicing smaller customers.[49]

While acknowledging that there was limited evidence, we decided to set higher ROC allowances for large and very large business customers based on Frontier's analysis. No additional allowance was provided for CARC because it was implicitly included in Frontier's estimates. We maintained these allowances in real terms for our 2013–14 and 2014–15 determinations.

QCA position

As we are not aware of any new information to update our estimates for 2015–16, we have decided to escalate the 2014–15 per customer allowances for large and very large business customers of $737 and $2,106 by the forecast change in the CPI.

Adjusting the benchmark ROC allowances to include regulatory fees

Consistent with previous determinations, we will continue to include an allowance for the fees that we charge retailers to recover the cost of regulation. QCOSS suggested that including a separate allowance was double counting because these costs are likely to be included in our benchmark ROC allowances. As noted above, our ROC allowance for small customers is based on the allowance established by IPART in its 2013 decision. We have confirmed with the regulators of the NSW retailers (IPART and the Australian Energy Regulator) that they do not recover the cost of regulation from retailers. Therefore, we consider that providing an additional allowance for regulatory fees is justified.

Consistent with our decision on the cost base for small and large customers established in Chapter 2, we have determined the 2015–16 allowances for regulatory fees as follows:

- for residential and small business customers, an allowance of $0.22 per customer, which was calculated by dividing the total fees estimated to be paid by retailers operating in south east Queensland by the total number of customers they supply[50]
- for large and very large business customers, an allowance of $2.77 per customer, which was calculated by dividing the fees estimated to be paid by Ergon Retail by the number of customers that Ergon Retail supplies.[51]

QCA position

We have included an allowance for regulatory fees of $0.22 per customer for residential and small business customers and $2.77 per customer for large and very large business customers.

Conclusion on retail operating costs

In summary, we have:

- set three different ROC allowances to reflect the costs of supplying small, large and very large customers

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[48] Frontier Economics, *Retail Operating Costs - A Report Prepared for the Economic Regulation Authority of Western Australia*, February 2012.

[49] This reflected more substantial marketing and account management costs and the higher cost of pricing large customer loads.

[50] The total fee estimate for south east Queensland retailers is $303,000 and the number of customers in south east Queensland is 1,400,255 (as at 31 December 2014).

[51] The total fee estimate for Ergon Retail is $2,011,662 and the number of customers supplied by Ergon Retail is 726,240 (as at 31 December 2014).

- escalated the 2014–15 ROC allowances by the forecast change in the CPI
- added a separate allowance for QCA regulatory fees.

These allowances are presented in Table 11.

Table 11 Final Determination — 2015–16 ROC ($ per customer)

	2014–15 Final Determination	*2015–16 Final Determination*
Residential and small business customers consuming up to 100 MWh/yr:		
Benchmark ROC (incl CARC)	165.32	169.45
+ Regulatory fees	1.33	0.22
Total ROC	*166.65*	*169.67*
Large business customers (consuming between 100 MWh and 4 GWh/yr):		
Benchmark ROC (incl CARC)	737.23	755.66
+ Regulatory fees	1.33	2.77
Total ROC	*738.56*	*758.43*
Very large business customers (consuming more than 4 GWh/yr):		
Benchmark ROC (incl CARC)	2,106.38	2,159.03
+ Regulatory fees	1.33	2.77
Total ROC	*2,107.71*	*2,161.80*

5.1.3 Applying ROC to retail tariffs

In previous determinations, we decided to allocate the ROC allowances to the fixed component of retail tariffs because we were not aware of any evidence to suggest that these costs vary with electricity consumption. Furthermore, no ROC allowances were applied to the controlled load retail tariffs and unmetered retail tariffs because we assumed that customers accessing those tariffs would also access another general supply tariff and pay their fixed charges in that context.

We have continued with the approach adopted in the 2014–15 determination, which is to apply the ROC allowance to the fixed component of each retail tariff, except:

- controlled load tariffs (tariffs 31 and 33), because customers accessing these retail tariffs will also be supplied under one of the general supply residential or small business tariffs (for example, tariff 11 or 20)
- unmetered tariffs (tariffs 71 and 91), because customers accessing these tariffs are also likely to be supplied under another general supply business tariff.

Conclusion on retail operating costs

We have applied the relevant ROC allowance (for small, large and very large customers) to the fixed component of each retail tariff, as follows:

- the small customer ROC of $169.67 per customer will apply to retail tariffs for residential and small business customers (tariffs 11, 12, 12A, 14, 20, 22, 22A, 24 and 41)

- the large customer ROC of $758.43 per customer will apply to retail tariffs for large business customers that generally consume between 100 MWh and 4 GWh per year (tariffs 44, 45, 46, 47 and 50)
- the very large customer ROC of $2,161.80 per customer will apply to the retail tariff for very large business customers that generally consume more than 4 GWh per year (tariff 48)
- no ROC will apply to controlled load retail tariffs (tariffs 31 and 33) or unmetered retail tariffs (tariffs 71 and 91).

Table 12 presents these allowances as daily charges.

Table 12 Final Determination — ROC allowances for 2015–16 — Fixed Charge

Retail Tariff	*2014–15 Final Determination (c/day)*	*2015–16 Final Determination (c/day)*
11, 12, 12A, 14, 20, 22, 22A, 24, 41	45.626	46.452
44, 45, 46, 47, 50	202.208	207.647
48	577.059	591.870

5.2 Retail margin

The retail margin compensates retailers for their exposure to systematic risk associated with providing customer retail services.

5.2.1 Approach to estimating the retail margin

In previous determinations, we set the retail margin on an earnings-before-interest, tax, depreciation and amortisation (EBITDA) basis. This meant that an allowance for depreciation and amortisation was implicitly included. The retail margin was also calculated as a percentage of total costs.

In previous determinations, we adopted a benchmarking approach to set the retail margin. We adopted this approach because we were not convinced that a more extensive and detailed analysis, such as a bottom-up and/or expected-returns approach, would deliver significant benefits over a benchmarking approach.

In our 2014–15 determination, we indicated that we would reconsider using a benchmarking approach in future determinations depending on the regulatory framework established to set notified prices in future. Consistent with our approach to estimating ROC, we have continued with a benchmarking approach, but will reconsider our approach for 2016–17, if we receive a delegation. Stakeholders did not object to the continuation of a benchmarking approach.

QCA position

We have continued to apply the benchmarking approach to estimate the retail margin and to calculate the retail margin as a percentage of total costs.

5.2.2 Implementing the benchmarking approach

In our draft determination and 2014–15 determination, we set the retail margin at 5.7% of total costs (including the margin). This was the retail margin we adopted in our 2013–14 determination, which was consistent with the retail margin IPART adopted in its 2013

decision.[52] IPART engaged a consultant to provide advice on a feasible range for the retail margin using three approaches—expected returns, benchmarking and bottom-up—and applied equal weighting to the margins estimated under each approach. We decided that it was appropriate to adopt the same retail margin as IPART because:

- it was the most recently-estimated benchmark available
- it was based on extensive analysis
- we considered that retailers face similar levels of risk in Queensland and NSW.

While Ergon Retail considers that a retail margin of 5.7% is still reasonable, EnergyAustralia considered the level of regulatory risk had increased in the Queensland market and the QCA should consider increasing the level of retail margin. QCOSS, the Queensland Consumers' Association and COTA Queensland consider that it is too high. QCOSS considered that the QCA should take into account that that increased competition in south east Queensland had led to lower retail margins on market contracts.

Consistent with our approach to other cost components, our aim is to set the retail margin at a level that reflects the requirements of an efficient retailer. We continue to consider that a retail margin of 5.7% is appropriate, as it is based on the most up-to-date and relevant analysis available. As noted above, if we receive a delegation to set notified prices in 2016–17, we will consider whether to undertake a more extensive assessment of the retail margin as part of that review.

QCA position

We have continued to set the retail margin at 5.7% of total costs, inclusive of the margin.

5.2.3 Applying the retail margin to retail tariffs

In previous determinations, we applied the retail margin equally (on a percentage basis) to each component (fixed, variable and demand) of each retail tariff. This meant that all customers would pay the same margin as a percentage of their total bill but, in dollar terms, high-use customers would pay more than low-use customers. We still consider that this approach is appropriate because the retail margin is calculated as a percentage of total costs.

Conclusion on retail margin

We have set the retail margin at 5.7% of total costs[53] and have applied it to each component of each retail tariff.

[52] IPART, *Review of regulated retail prices and charges for electricity from 1 July 2013 to 30 June 2016*, June 2013, Chapter 7.

[53] This is equivalent to applying a retail margin of 6% on top of total allowed costs, excluding the margin.

6 COMPETITION AND COST PASS THROUGH

In this chapter, we explain our final decision on the inclusion of an allowance for headroom and the cost pass-through mechanism. Our final decision is to:

- *provide an allowance for headroom of 5 per cent of the estimated efficient costs of supply for all retail tariffs, consistent with our 2014–15 determination*
- *allow the positive pass-through of under-recovered SRES costs incurred during 2014–15.*

6.1 Competition and headroom

Competition generally provides the best means of delivering the goods and services that customers demand at prices that reflect efficient costs. Regulation will almost always be an imperfect substitute for competition because:

- it can distort incentives for businesses to compete and innovate
- regulators have imperfect information upon which to determine efficient costs and prices.

Under section 90(5)(a) of the Electricity Act, we are required to have regard to the effect of our price determination on competition in the Queensland retail electricity market. Consistent with the 2014–15 determination, we consider that a key objective of notified prices is to facilitate competition in the Queensland retail electricity market, particularly in south east Queensland.

6.1.1 Residential and small business customers

The draft decision determined notified prices for residential and small business customers based on reasonable expectations of de-regulated standing offer prices in south east Queensland. The objective was to develop a reasonable estimate of standing offer prices that could be used to set notified prices in regional Queensland. This was accomplished by estimating the efficient cost of supply in south east Queensland and adding a standing offer margin of 5% of total costs.

Submissions

Many submissions to our draft decision addressed the standing offer approach to setting prices for regional Queensland and the use of headroom allowances when setting prices in a non-competitive market. We have considered those submissions that are relevant in the context of the requirement to continue to set notified prices in south east Queensland.

Customers and consumer groups opposed an allowance for headroom on the basis that there is a lack of competition in regional Queensland (Queensland Consumers' Association, Canegrowers, Australian Sugar Milling Council, Australians in Retirement and FNQEUN) and affordability concerns (QCOSS). Canegrowers Isis submitted that the headroom allowance should be progressively reduced over the current price path to drive efficiencies in the competitive market.

AGL, EnergyAustralia and the ESAA supported the continued application of the headroom allowance. The ESAA considered that retaining headroom was important in the south east Queensland market over the next 12 months, given the deferral of price deregulation.

How much headroom is appropriate?

To inform our decision about whether to include headroom in residential and small business customer tariffs, and the level of headroom, we have examined the state of competition in south east Queensland. We have not assessed competition in regional Queensland as, under the uniform tariff policy arrangements, any reasonable level of headroom would be insufficient to encourage retailers to offer market contracts to the majority of residential and small business customers outside of south east Queensland.

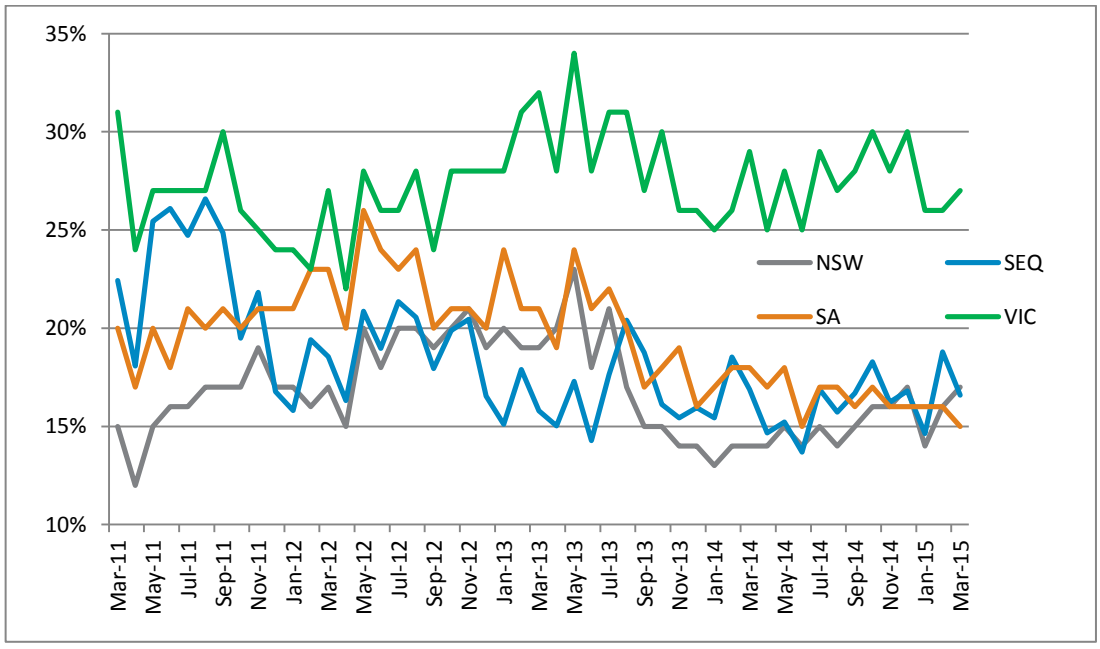
The degree of market competition is not revealed by any single measure. We rely on a range of indicators including customer switching rates, market concentration, the depth of price discounting and market offers, and the extent of customer participation in the market.

Switching rates

Customer switching rates are one indicator of competition, but are by no means the best measure. We prefer to consider switching rate data in conjunction with the other measures to form a view on the level of market competition.

The Australian Energy Market Operator (AEMO) publishes customer switching rates for Queensland, New South Wales, South Australia and Victoria. As the Queensland data are influenced by the inclusion of customers in the Ergon Distribution area, we have excluded these customers from our analysis to reveal switching activity in south east Queensland only. Figure 6 illustrates customer switching rates in south east Queensland compared to other states, since March 2011.

Figure 6 Monthly switching rates in south east Queensland and other states



Source: AEMO monthly retail transfer statistics; retailer data on customer numbers; QCA analysis.

As Figure 6 illustrates, customer switching in Australian retail electricity markets is quite volatile from month to month. Switching is driven by a range of factors including retail price increases, discounting promotions and retailer marketing activity generally, as well as factors not directly related to the competitiveness of the market.

In March 2015, customer switching in south east Queensland was around 16%, which is similar to the rate observed in March 2014 and similar to that observed in the South Australian and

New South Wales markets. Based on observed switching rates alone, the south east Queensland market can be considered very active by international standards.[54]

Switching is an imperfect measure of effective competition in isolation and needs to be considered in the context of the market. For example, low switching rates can be indicative of a well-functioning market and could be the result of retailers offering customer retention incentives, less use of door-to-door marketing tactics, moderating prices, customer satisfaction with existing retailers and market maturity generally.[55] In contrast, high rates of switching can indicate customer dissatisfaction that would not be expected in a well-functioning market.

Active retailers and market concentration

The number and relative size of electricity retailers also provide an indication of the competitiveness of the market. The greater the number of retailers and the smaller the market share of any individual retailer, the less likely it is that retailers can use market power to raise prices. Furthermore, if retailers are entering the market and/or smaller retailers are expanding their market share, this suggests that the market is attractive to new entrants and that barriers to entry or expansion are relatively low.

As at 31 March 2015, there were 16 active retailers supplying residential and small business customers.[56] This is up slightly since March 2014, when the small customer market was served by 14 retailers.[57] Table 13 illustrates the change in market shares for first and second tier retailers in south east Queensland in recent years.

Table 13 Market shares at 31 December (south east Queensland small customers)

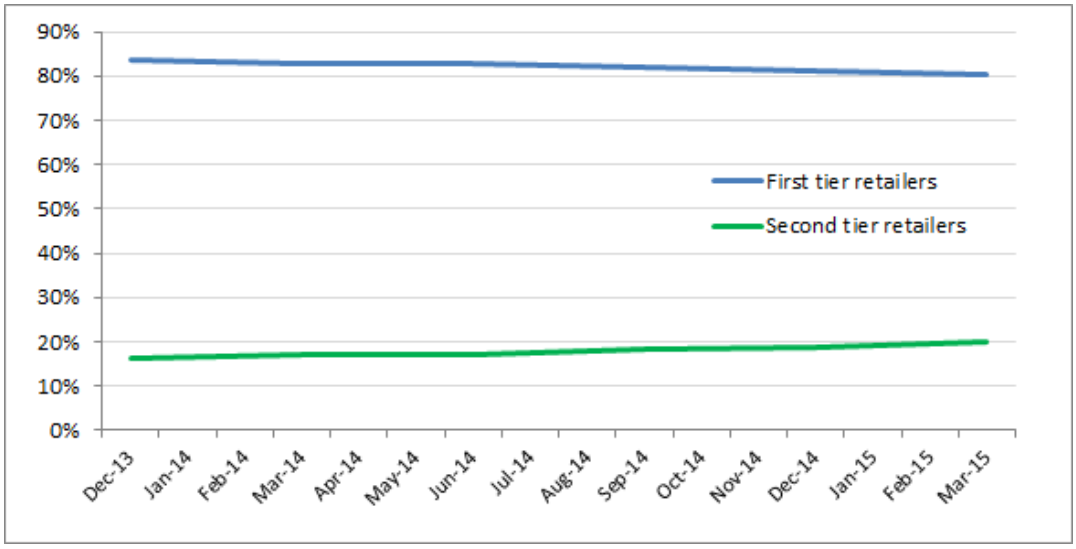
	2011	***2012***	***2013***	***2014***
First tier retailers (2 retailers)	84.3%	84.3%	83.6%	81.0%
Second tier retailers (14 retailers)	15.7%	15.7%	16.4%	19.0%

Source: Retailer data and QCA analysis. Does not include large customers.

As Table 13 shows, second tier retailers have made gains in the south east Queensland small customer market during 2014–15. Figure 7 below illustrates the change in market shares of first and second tier retailers over the 12 months to 31 March 2015.

[54] VaasaETT (2013). *The most active energy markets in 2013 revealed.* Retrieved 30 April 2015 from: http://www.utilitycustomerswitching.eu/424/.
[55] AEMC, *Final report–2014 retail competition review*, August 2014, p. 45.
[56] Some retailers have more than one retail licence.
[57] GoEnergy and Simply Energy commenced making offers in 2014–15.

Figure 7 First and second tier retailer market shares since December 2013 (small customers, SEQ)



Source: Retailer data and QCA analysis.

Market offers and discounting

During 2014–15, we have observed an increase in the number and sophistication of pricing plans, the degree of product differentiation, and the frequency at which offers are updated.

As electricity retailers engage largely in price competition, the degree of discounting by retailers can provide another indication of the state of competition. While we do not have access to information on the market offers available to small business customers, there are 61 supply offers[58] available to residential customers, consisting of both 'standard' electricity supply, and 'green' electricity supply, 39 of which would deliver savings to customers compared to notified prices.[59] These market offers provide customers with a range of contractual terms and conditions, often combined with other incentives.

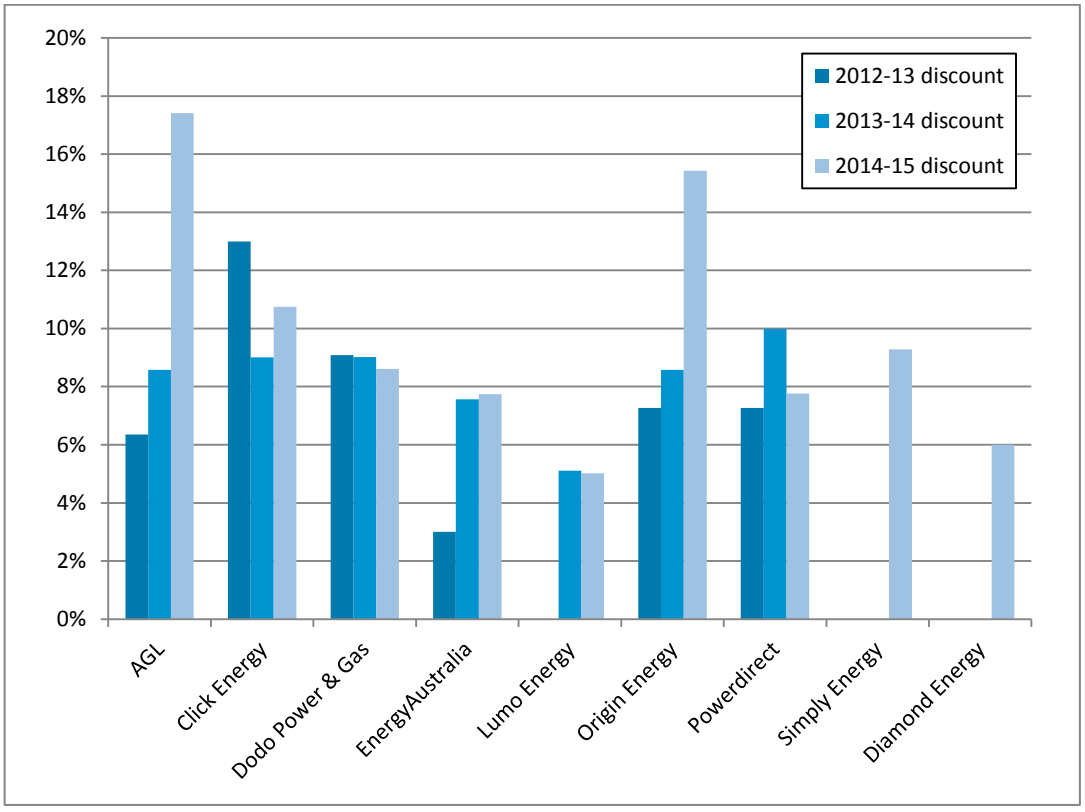
Historically, retailers have created their offers using the regulated price as the base price, before applying various discounts (for example, discounts for paying on time, using direct debit and online billing). However, during 2014–15 the QCA has observed an increase in the practice of retailers developing offers based on their own base prices that are higher than the regulated rate. This practice is commonplace in other Australian retail electricity markets, however, it can make comparisons of retail offers more complex for customers.[60]

Retailer discounts in 2014–15 (as observed in May 2015) have, in most cases, increased since May 2014, with the largest generally-available effective discount being 17.4% and the smallest, 5.02%.[61] The median discount in May 2015 was 8.6%, which is consistent with May 2014, but higher than April 2013 (7.3%). The effective discounts from the two first tier retailers are among the largest observed in south east Queensland in recent years. The median discount offered by second tier retailers has also increased.

[58] As at 30 April 2015. Reflects tariff 11 only and does not include offers available only to solar customers.
[59] Those that do not offer savings are typically higher percentage 'green power' plans, which attract a premium.
[60] The QCA's price comparator translates these headline discounts into annualised savings compared to notified prices, allowing easier comparison.
[61] This significant discounting may have been partly driven by retailers' expectations of retail price deregulation in south east Queensland from 1 July 2015.

It is important to note that these discounts reflect a point in time only and retailers do routinely change their offers throughout the year. Moreover, discounts may be based on non-price elements that may make comparisons among retailers difficult. Figure 8 presents the range of available discounts offered by retailers to residential customers in 2012–13 through to 2014–15.

Figure 8 Effective discounts offered to residential customers (percentage off total bill)



Source: QCA price comparator, retrieved; April 2013, May 2014 and May 2015. Discounts are relative to an annual customer bill based on annual consumption of 4,100 kWh per year at notified tariff 11 prices. Excludes offers available only to solar PV customers. Origin Energy and AGL effective discounts based on inclusion of 'first month free' offer. AGL effective discount includes $50 signup credit.

Note: Simply Energy commenced making offers in SEQ in 2014–15, however discounts are available to members of RACQ only. Diamond Energy did not offer discounts prior to 2014–15. In 2012–13, Lumo Energy offered 'Frequent Flyer' points instead of discounts.

Customer participation and engagement

One measure of the effectiveness of competition is the degree of customer engagement in the market. More customers seeking out, and signing up for, market offers rather than notified prices can be an indicator of effective competition.

In its August 2014 report into the state of competition in retail energy markets across the National Electricity Market, the Australian Energy Market Commission (AEMC) noted that many south east Queensland customers are actively investigating their options and switching plans or retailers. However, the AEMC also found that, while there was high awareness that customers could choose their retailer, awareness of the extent of choice in the market was low.[62] The number of small customers on market contracts in south east Queensland has been reasonably steady at around 70% in recent years.

[62] AEMC, *Final report–2014 retail competition review*, August 2014, p. v.

QCA position

We consider that retail competition in south east Queensland is reasonably effective. Second tier retailers are growing their market share, and price discounting is still strong with greater product differentiation emerging.

We also note that the AEMC has acknowledged the effectiveness of competition in the market. The AEMC found that competition in south east Queensland has been less intense in recent years but still remains effective.[63] In explaining this finding, the AEMC noted:[64]

> *Retailers attribute this to lower profitability and perceived risks associated with the regulated price freeze and the methodology used to determine prices. Rivalry is expected to increase once price regulation is removed. This will further improve conditions for current retailers to compete to expand their customer base and for new retailers to enter the market.*

It is reasonable to conclude that the historical approach to setting notified prices, which includes the 5% headroom amount, has succeeded in facilitating the development and maintenance of competition. Therefore, we consider the 5% allowance for headroom proposed in the draft determination (and included in previous decisions) remains appropriate for residential and small business customer notified prices in order to maintain competition. Departing from this approach risks placing an artificial constraint on competitive pricing in south east Queensland. Moreover, given that the Queensland Productivity Commission will be conducting a thorough review of all aspects of energy pricing and competition, it would be unwise to make unnecessary changes to the regulatory paradigm at this stage.

6.1.2 Large business customer tariffs

In the draft determination we applied a headroom allowance of 5% to large business customer notified prices. We considered this appropriate to ensure that notified prices are not an impediment to the further development of competition in the large customer market in regional Queensland.

We have not changed our approach to setting 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 are also unchanged. Therefore, our basis for including headroom is also unchanged.

QCA position

While we have been unable to undertake a thorough review of competition in the large customer segment for this price determination, it appears that competition is still limited for large business customers in regional Queensland. There has only been a small increase in the proportion of large regional customers on market contracts since more cost-reflective notified prices were introduced in 2012–13. As at 31 December 2014, 27.5% of large regional customers were supplied under a market contract, compared to around 24.8% in June 2012.

There are a range of factors that are likely preventing the development of competition in regional Queensland, including:

- the inability of large business customers on market contracts to revert to notified prices

[63] AEMC, *Final report–2014 retail competition review*, August 2014, p. 47.
[64] AEMC, *Final report–2014 retail competition review*, August 2014, p. v.

- the existing uniform tariff policy arrangements, which mean that retailers other than Ergon Retail cannot access the subsidy to supply customers in higher cost regional areas
- the availability of transitional and obsolete tariffs, which will remain below cost-reflective levels for a number of years.

We consider these factors will continue to impede competition in the large regional customer segment in the short- to medium-term, even with an appropriate level of headroom. On this basis, we consider a headroom allowance is appropriate to ensure that notified prices are not a barrier to entry in the event competitive opportunities improve.

On balance, we do not consider that a different level of headroom for large customers to that included in previous determinations is justified. Therefore, we will maintain the headroom allowance at 5% of the estimated efficient costs of supply for all large business customer tariffs.

6.2 Cost pass-through

In the draft determination, we proposed to consider passing through differences in Small-scale Renewable Energy Scheme costs (SRES costs), where the costs provided in the 2014–15 determination are materially under- or over-stated as a result of differences between the non-binding and binding small-scale technology percentage (STP) for 2015. The approach to calculating SRES costs is set out in detail in Chapter 4 and in ACIL Allen's report.

6.2.1 Submissions

Origin Energy and Ergon Retail supported the inclusion of a cost pass-through mechanism. QCOSS noted that it was not opposed to the specific mechanism proposed in the draft decision because it is limited to events that are outside retailers' control. However, QCOSS argued that a materiality threshold should apply to potential pass-through amounts to improve transparency and remove perceptions of arbitrary decision-making.

6.2.2 SRES costs in 2014–15

As discussed in Chapter 3, a retailer's SRES liabilities are determined by the STP, which is the prescribed value that retailers use to determine the number of STCs they must surrender to discharge their SRES liabilities. The STP is set by the Clean Energy Regulator (CER) and changes from year to year.

Retailers incur SRES liabilities for each calendar year, but notified prices are determined for each financial year. While the final STP for the first and second quarters of the prospective financial year is known when setting notified prices, the final STP for the third and fourth quarters is not. To overcome this, ACIL Allen estimates SRES costs using the average of the final STP (for the first two quarters of the financial year) and the preliminary or 'non-binding' STP (for the last two quarters of the financial year). Where the final STP for the last two quarters turns out to be different from the non-binding STP, the SRES allowance may under- or over-compensate retailers for their actual SRES liabilities during a financial year.

Retailers with customers on non-market contracts are unlikely to fully recover the costs of complying with the SRES in 2014–15 because the non-binding STP target of 10.10% for the second half of 2014–15 was lower than the final STP target of 11.71%.[65]

[65] The binding STP was published in February 2015. See: http://www.cleanenergyregulator.gov.au/RET/About-the-Renewable-Energy-Target/The-certificate-market/The-small-scale-technology-percentage

We estimate that allowing retailers to recoup these under-recovered SRES costs would add approximately 0.043c/kWh (including the application of the retail margin and headroom) or around $1.70 to the annual bill of a typical tariff 11 customer in 2015–16. The calculation of the SRES pass-through amount is set out in more detail in Appendix J. Table 14 presents our assessment of the 2014–15 under-recovered amounts.

Table 14 SRES under-recovery in 2014–15 ($2015–16)

Settlement Class	*Retail Tariff*	*SRES under-recovery (c/kWh)*[a]
Energex NSLP and unmetered supply	11,12,12A,14,20,22,22A,24,41,91	0.043
Energex Controlled Load 9900	31	0.043
Energex Controlled Load 9100	33	0.043
Ergon Energy - NSLP - SAC HV, CAC and ICC	47,48	0.043
Ergon Energy - NSLP - SAC demand and street lighting	44,45,46,50,71	0.047

a. Includes margin and headroom.

Materiality

In deciding whether to allow this cost pass-through, we have also considered the impact of the under-recovery on the returns of the retail businesses, the impact on customers, and the administrative costs of passing through the amounts in notified prices.

Rather than establishing a defined materiality threshold, as requested by some stakeholders, we have continued to determine materiality on a case by case basis. We consider the materiality threshold will typically be very low, simply because the QCA's administrative costs of assessing potential pass-throughs (which are a key determinant of materiality) are low. Pass-through amounts are only assessed within our annual price determination process (as opposed to stand-alone, intra-year reviews outside of the annual pricing process), therefore the incremental costs of calculating and including pass-through amounts in our determination are negligible.

Furthermore, these administrative costs must necessarily be incurred (i.e., the under-recovery must be calculated) in order to even determine whether the pass-through is material. We do not accept that this approach assigns an arbitrary value to materiality, as suggested by QCOSS. If our pass-through provisions, and the Electricity Act, permitted intra-year adjustments to notified prices (which they do not) then the incremental administrative cost clearly would be more significant and therefore a more critical consideration.

Are the pass-through amounts material?

EEQ has the largest number of non-market customers, so it is likely to face the greatest impact on its returns. The SRES under-recovery translates into a potential shortfall for EEQ in 2014–15 of approximately $3 million, or 16% of its 2013–14 reported loss (all other things constant).[66] The financial impact on other retailers is expected to be lower, amounting to a shortfall of

[66] Ergon Energy Corporation Limited, *Subsidiary Financial Statements for the year ended 30 June 2014*, August 2014.

around $1.3 million in total.[67] We consider that this potential pass-through amount is material because the impact on the returns of retailers is sufficiently large, while the administration costs of adjusting notified prices are negligible and the impact on customers is relatively minor. We also consider these costs to be material as they are:

- similar in magnitude to the SRES costs passed through in 2014–15 notified prices
- of similar materiality to the components of NEM and ancillary services fees ($0.47/MWh and $0.36/MWh respectively), which are also calculated for the purposes of establishing wholesale energy costs.

6.2.3 QCA position

Our final determination is to allow the pass-through of these unrecovered 2014–15 SRES costs in 2015–16 notified prices, as set out in Table 14 above. We consider this is appropriate to ensure that notified prices allow retailers to recover their efficient costs, and that notified prices are not a barrier to market entry and an impediment to competition.

Depending on the regulatory framework that will apply after 2015–16, the pass-through provisions discussed here may or may not remain appropriate for setting notified prices in 2016–17. Therefore, a pass-through mechanism may or may not be relevant if the QCA continues to set notified prices beyond 2015–16.

[67] Based on 2012–13 consumption data and assuming that 30% of consumption by small customers is by non-market customers.

7 TRANSITIONAL ARRANGEMENTS

The delegation requires that we consider completing the rebalancing of the fixed and variable components of tariff 11 and maintaining transitional arrangements for tariffs classed as transitional or obsolete, which include farming and irrigation tariffs.

Our final decision is to:

- *complete the re-balancing of the fixed and variable components of tariff 11 using the approach established in the 2013–14 determination*
- *maintain the transitional arrangements for most tariffs classed as transitional or obsolete because there would be significant price impacts for customers moving to the standard business tariffs*
- *continue to allow all customers access to transitional tariffs.*

7.1 Re-balancing the fixed and variable charges in tariff 11

The 2013–14 determination implemented a three-year transitional path to re-balance the fixed and variable components of tariff 11 so that they would be cost-reflective for south east Queensland customers by 1 July 2015. This approach involved gradually increasing the fixed charge, while making off-setting adjustments to the variable charge. We considered that tariff 11 should be transitioned, rather than directly moved to cost-reflectivity, to strike an appropriate balance between:

- limiting increases in the fixed charge, to ease the financial pressure on customers with low levels of consumption
- moving the variable charge closer to cost, to reduce the cross-subsidy paid by customers with high levels of consumption.

The delegation requires that we consider completing the rebalancing using the approach established in the 2013–14 determination.

Table 15 presents the 2015–16 cost reflective[68] fixed and variable tariff 11 charges. As discussed in Chapter 3, the 2015–16 charges exclude the costs of metering, which retailers may recover in addition to notified prices.

[68] For south east Queensland customers.

Table 15 2014–15 (transitional) and 2015–16 (cost-reflective) charges (GST exclusive)

Tariff Component	*Transitional 2014–15*	*Cost-reflective 2015–16*[b]
Tariff components:		
Fixed charge (cents/day)	83.414	106.728
Variable charge (cents/kWh)	25.378	22.238
Other charges:		
Metering charge (cents/day)	n/a[b]	9.670[c]

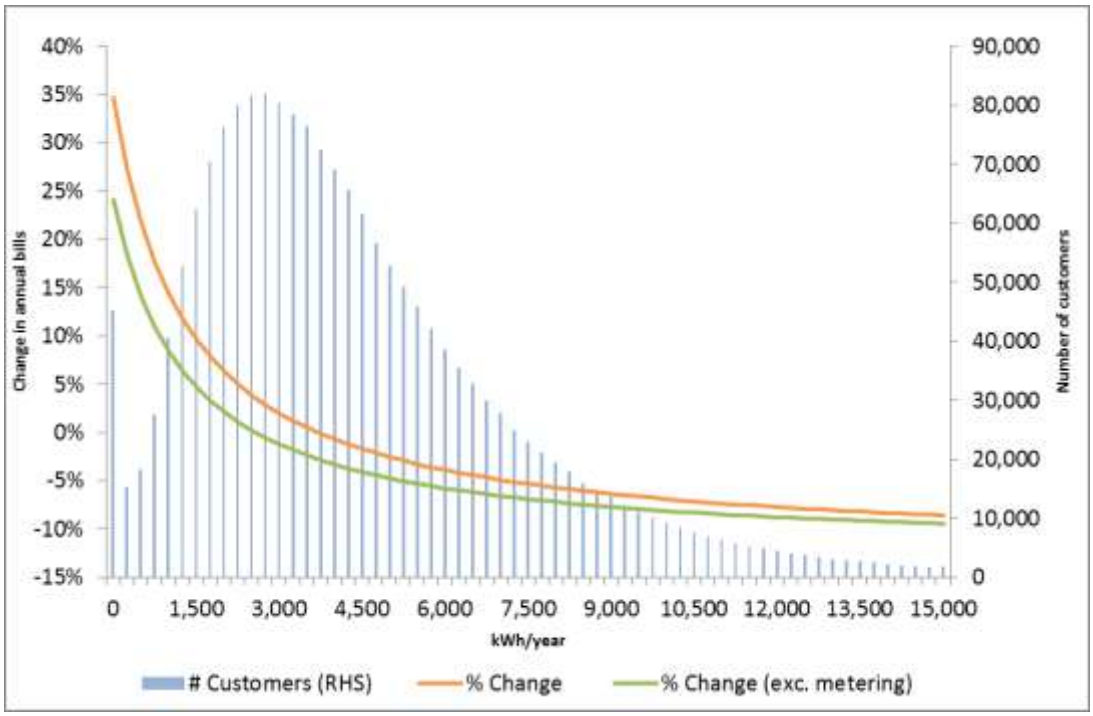
a. Cost-reflective for south east Queensland customers.

b. Metering charges cannot be separately itemised in 2014–15 because metering costs were included in regulated distribution network charges.

c. This is the Energex metering charge that applies to customers in south east Queensland. A slightly lower metering charge applies in regional Queensland.

Figure 9 shows the percentage change in the tariff 11 component of customers' annual bills by moving from the 2014–15 transitional charges to 2015–16 cost-reflective charges for a range of consumption levels. To ensure a valid comparison is made between the two years, we have included Energex's metering charges in 2015–16 bills.[69]

Figure 9 Bill impacts resulting from moving to 2015–16 charges



Note: Based on 2013–14 consumption data provided by Energex and Ergon Energy.

As shown in Figure 9, the lower a customer's level of consumption, the larger the percentage increase because the increase in the fixed charge more than offsets the decrease in the variable

[69] These are the charges that will apply to customers in south east Queensland. The Queensland Government has decided to cap metering charges for regional customers at south east Queensland levels in 2015–16. This means that customers in regional Queensland will pay the lowest of the Energex and Ergon Distribution metering charges.

charge. However, customers that consume more than around 3,800 kWh per year[70] (including metering charges) will experience decreases because the decrease in the variable charge more than offsets the increase in the fixed charge. Further analysis of the impacts on customers with different levels of consumption is presented in Chapter 8.

Ergon Retail, the ESAA and Origin Energy supported completing the rebalance in 2015–16. Australians in Retirement, COTA Queensland, FNQEUN and QCOSS were concerned about the impact of higher fixed charges on financially vulnerable customers with low levels of consumption.

We have transitioned the fixed charge over three years to mitigate the impact on customers with low consumption. However, as highlighted by Australians in Retirement, some pensioners are reliant on air conditioning 24 hours a day, including for medical reasons. In its 2010 household survey, IPART[71] found that some low income households have characteristics associated with high usage, such as more occupants and frequent appliance usage, while some high-income households do not.[72] The reduction to the variable charge will benefit financially vulnerable customers with high consumption.

The electricity consumption of financially vulnerable customers will depend on their individual circumstances. We consider that the needs of these customers are best met through targeted welfare assistance measures. A summary of current assistance arrangements for electricity customers is provided in Appendix I. It is a matter for the Government to decide whether additional assistance measures are appropriate.

QCA Position

Our final decision is to complete the rebalancing of the fixed and variable components of tariff 11, so that they reflect the costs of supply in south east Queensland in 2015–16.

7.2 Transitional arrangements for obsolete and transitional tariffs

Some business customers are supplied under transitional or obsolete tariffs. These include tariffs used for farming and irrigation purposes. Customers on these tariffs are often paying less than the cost of supplying customers in the lowest cost area of the state (i.e. south east Queensland).

Background

In the 2013–14 determination, we decided that most of these tariffs should be transitioned over a period of several years because many customers would face significant financial impacts if they were moved to a standard business tariff.

We decided to make tariffs 20 (large), 21, 22 (small and large), 37, 62, 65 and 66 available to customers until 30 June 2020 to allow time for businesses to recoup some of the value of investments made to suit the level and structure of these tariffs and allow them to prepare for

[70] .This level of consumption is lower than the median consumption level (4,053 kWh per year) assumed for the 'typical' tariff 11 customer bill impact analysis presented throughout this report.

[71] IPART, *Residential energy and water use in Sydney, the Blue Mountains and Illawarra*, December 2010.

[72] These characteristics included living in households with more occupants, living in a free standing house, more frequent usage of appliances such as air conditioners and having a swimming pool. St Vincent de Paul also highlighted in a recent article in the Courier Mail that households in lower socio-economic areas tend to have a larger number of people and less energy efficient buildings, which contribute to higher electricity consumption. (Jessica Marszalek, *High energy use a volt from the blue*, Courier Mail, 13 April 2015).

the standard business tariffs. Tariffs 41 (large) and 43 (large) were made available until 30 June 2015, on the basis that a significant number of customers would be better off on a standard business tariff.

We also decided to adopt a general approach of:

(a) escalating the charges in each transitional and obsolete tariff based on the percentage increase in the charges in the standard business tariff that customers would otherwise pay

(b) applying additional escalation factors to these increases, to limit charges for transitional and obsolete tariffs falling further below cost in dollar terms.

However, this approach does very little to reduce how far customers' bills are below cost in dollar terms when underlying cost increases are low. For this reason, we applied a floor to price increases of 10% to all transitional and obsolete tariffs to set carbon-exclusive notified prices in our 2014–15 determination.

The delegation requires that we consider maintaining the transitional arrangements and continuing to allow all customers access to transitional tariffs. We have decided to maintain transitional arrangements in 2015–16 where there would be significant price impacts if customers moved to a standard business tariff.

Escalation rate

In 2015–16, typical customers on standard business tariffs will face lower electricity bills, as shown in Table 16 below.

Table 16 Bill changes for typical customers on standard business tariffs in 2015–16[a]

Retail tariff	*Bill changes*
Tariffs for small business customers	
Tariff 20	-3.5%
Tariff 22/22A[b]	-1.7%
Tariffs for large business customers[c]	
Tariff 44	-0.7%
Tariff 45	-2.5%
Tariff 46	-4.0%

a. Based on consumption and demand data provided by Ergon Energy for 2013–14, as presented in Appendix H.

b. Not available to customers in south east Queensland. Regional customers will move to the new tariff 22A (which is based on Ergon Distribution tariff structures), rather than the old tariff 22 (which will become an obsolete tariff in the Ergon Distribution area that is not available to new customers). Assumes 90% of consumption is off-peak, 6% is peak and 4% is shoulder, as advised by Ergon Energy.

c. Tariffs 47 and 48 are omitted because there are only a very small number of customers on these tariffs.

Table 17 maps transitional and obsolete tariffs to the standard business tariffs customers are most likely to eventually move to. It also shows the change in costs for the standard business tariffs. As with previous determinations, we have averaged the increases for tariffs 20 and 22/22A because the alignment of obsolete and transitional tariffs to tariffs 20, 22 and 22A is not always clear cut, and the price impacts of moving to tariff 22 or 22A are sensitive to the assumed split of peak, off-peak and shoulder consumption.

Table 17 Alignment of tariffs and change in costs of standard business tariffs

Standard business tariff	*Transitional or obsolete tariff*	*2015–16 decrease in costs*
Tariff 20	Tariffs 21, 37, 66	-2.6%
Tariff 22/22A	Tariffs 62, 65	-2.6%
Tariffs 44-48[a]	Tariffs 20 (large), 22 (small and large)[b]	-2.4%

a. The most appropriate tariff depends on the customer's kW demand and voltage requirements.

b. Small customers on tariff 22 (small and large) will most likely move to tariff 22 or 22A (depending on their location), however as most customers on this tariff are large, it is aligned with the large customer tariffs for this purpose.

Given that standard business tariffs have decreased we think a sensible approach is to apply a floor to price changes in the transitional and obsolete tariffs.[73] This is consistent with the approach we adopted when setting carbon-exclusive notified prices in 2014–15, when we applied a 10% price increase to all transitional and obsolete tariffs.

For the draft decision we considered that a 10% increase was not unreasonable. However, we considered that an increase of 5% was more appropriate, given the price increases customers had faced in recent years[74] and that customers on the standard business tariffs were expected to face small increases. This increase was supported by Ergon Retail but opposed by FNQEUN and the QFF. We undertook to reassess our position in the final decision if the anticipated price increases for the standard business tariffs did not eventuate.

For the final decision, we consider that maintaining transitional tariffs at their 2014–15 price levels (i.e., applying a floor to price changes of 0%) is appropriate. We do not consider an increase in transitional prices is necessary because the reduction in standard business tariffs[75] will act to somewhat reduce the difference between transitional and standard business tariffs.

Transition period

As explained above, in the 2013–14 determination, we decided to make tariffs 20 (large), 21, 22 (small and large), 37, 62, 65 and 66 available until 30 June 2020 and tariffs 41 (large) and 43 (large) available until 30 June 2015. We do not wish to create uncertainty for customers by changing these transition periods unless an analysis of customer impacts indicates that a tariff can be removed earlier without significant customer detriment.

We analysed the potential impacts of customers moving to standard business tariffs. Our analysis of customers on tariff 20 (large) showed that over 90% would see bill reductions if they switched to a standard business tariff. However, we also found that 3% would see increases of between 10% and 50%, and a further 3% would see increases of over 50%. While the vast majority of customers are expected to be better off, we have decided to retain this tariff for 2015–16 as some customers are expected to be significantly worse off. We will monitor bill

[73] The ESAA and Origin Energy suggested that we consider transitioning the structure of transitional and obsolete tariffs as well as the price level. However, as discussed above, transitional and obsolete tariffs were retained to allow time for businesses to recoup some of the value of investments made to suit the structure of these tariffs, as well as the level.

[74] As noted in submissions from Australian Sugar Industry Alliance and Canegrowers.

[75] An additional metering charge may be added to customers' bills if they have a type 6 meter.

impacts over the remainder of the transition period to determine whether this tariff can be removed in future.

We do not plan to remove any other transitional tariffs earlier than scheduled, as many customers would experience significant price impacts if they moved to a standard business tariff immediately. Further information on our customer impact analysis is set out in Appendix E.

Canegrowers Isis and Pioneer Canegrowers called for a longer transition period for tariffs 62, 65 and 66 because its members have invested heavily in irrigation systems and cannot justify further investment if the transitional tariffs will not be available after 2020. We do not plan to extend the transition period for two reasons. Firstly, as explained in previous determinations, we decided on the transition period by taking the Australian Taxation Office's defined depreciable life of an irrigation pump of 12 years as a starting point and then reduced it because we considered that most investments of this type would have been partly, if not fully, depreciated. Secondly, continuing to subsidise prices will encourage further uneconomic investment.

Access to transitional tariffs

The delegation requires that we consider continuing to allow all customers access to transitional tariffs. At present business customers can access transitional tariffs[76] throughout the transition period, while obsolete tariffs[77] are closed to new customers. In the 2014–15 determination, we noted that we would consider closing access to transitional tariffs to new customers if there was a significant increase in the number of customers accessing transitional tariffs, and thereby an increase in the subsidy paid by taxpayers.

Origin suggested that access to transitional tariffs should only be available to those customers that made investments on the expectation that these tariffs would remain. However, we consider that this could put new businesses at a disadvantage compared to existing businesses that retain access and may discourage customers from moving to a standard business tariff. Ergon Retail supported allowing all customers to access transitional tariffs.[78]

Data from Ergon Energy shows that there has still not been a significant increase in the number of customers accessing transitional tariffs. Therefore our final decision is to continue to allow all business customers to have access to transitional tariffs.

Final decision on transitional arrangements

Our final decision is set out in Table 18. Obsolete tariffs 41 (large) and 43 (large) will be removed and all other transitional and obsolete tariffs will be maintained at their 2014–15 price levels.

[76] Tariffs 20 (large), 21, 22 (small and large), 62, 65, and 66. Access to transitional tariffs is subject to individual tariff terms and conditions.
[77] Tariffs 37, 41(large) and 43(large).
[78] The QFF supported allowing business customers to continue accessing transitional tariffs.

Table 18 Final decision - transitional arrangements for 2015–16

Obsolete/transitional tariff [a]	*Period to be retained*	*2015–16 price increase*
Tariff 20 (large) – transitional	5 years	0%
Tariff 21 – transitional	5 years	0%
Tariff 37 – obsolete	5 years	0%
Tariff 62 – transitional	5 years	0%
Tariff 65 – transitional	5 years	0%
Tariff 66 – transitional	5 years	0%
Tariff 22 (small and large) – transitional	5 years	0%
Tariff 41 (large) obsolete	Remove	N/A
Tariff 43 (large) obsolete	Remove	N/A

Note: A metering charge may also apply to customers' bills if they have a type 6 meter.

a. Access to transitional tariffs is open to new customers, subject to individual tariff terms and conditions, but access to obsolete tariffs is closed to new customers.

8 FINAL DETERMINATION

This chapter sets out our final determination of regulated retail electricity prices (notified prices) to apply from 1 July 2015 to 30 June 2016 and expected customer impacts.

Under the network plus retail (N+R) approach, retail tariffs are aligned with the distributors' network tariffs. We have used the distributors' network tariffs and prices, as approved by the AER on 12 June 2015. The network tariffs and prices used to develop retail tariffs are discussed in Chapter 3.

Chapters 4 and 5 set out our final decisions on energy and retail costs, which comprise the R component of the tariff calculation. A headroom allowance, discussed in Chapter 6, is applied to the total N+R cost build-up to arrive at the final notified prices for each retail tariff.

The final determination also includes notified prices for a number of retail tariffs that have been declared transitional or obsolete. The arrangements for these tariffs are discussed in Chapter 7.

The regulated retail tariffs and notified prices are published in a tariff schedule which includes other information, including the eligibility criteria and terms and conditions for each tariff. The tariff schedule for 2015–16 is provided in Appendix G.

The following tables set out our final determination of regulated retail tariffs and prices for 2015–16.

Table 19 2015–16 Regulated retail tariffs and prices for residential customers (excl GST)

Retail tariff	*Fixed charge*	*Demand charge (off-peak)*	*Demand charge (peak)*	*Variable rate (flat/off-peak)*	*Variable rate (shoulder)*	*Variable rate (peak)*
	c/day	*$/kW/mth*	*$/kW/mth*	*c/kWh*	*c/kWh*	*c/kWh*
Tariff 11 - Residential (flat rate)	106.728			22.238		
Tariff 12 - Residential (time-of-use)[a]	106.728			16.262	21.125	29.845
Tariff 12A - Residential (time-of-use) - new[b]	117.447			17.334	47.120	47.120
Tariff 14 - Residential (time-of-use demand) - new[c]	76.532	9.274	50.100	13.213		
Tariff 31 - Night rate (super economy)				12.448		
Tariff 33 - Controlled supply (economy)				18.872		

a. Only available to customers in Energex's network area.

b. Only available to customers in Ergon Distribution's network area. Based on the structure of Ergon Distribution's small residential customer seasonal time-of-use network tariff.

c. Only available to customers in Ergon Distribution's network area. Based on the structure of Ergon Distribution's residential seasonal time-of-use demand network tariff.

Table 20 2015–16 Regulated retail tariffs and prices for small business and unmetered supply customers (excl GST)

Retail tariff	*Fixed charge*	*Demand charge (flat/off-peak)*	*Demand charge (peak)*	*Variable rate (flat/off-peak)*	*Variable rate (shoulder)*	*Variable rate (peak)*
	c/day	*$/kW/mth*	*$/kW/mth*	*c/kWh*	*c/kWh*	*c/kWh*
Tariff 20 - Business (flat rate)	130.556			22.481		
Tariff 22 - Business (time-of-use)[a]	130.556			19.206		24.516
Tariff 22A - Business (time-of-use)[b]	130.556			19.934	38.028	38.028
Tariff 24 - Business (time-of-use demand) - new[c]	82.618	11.550	77.530	14.029		
Tariff 41 - Low voltage (demand)[d]	619.146	28.275		10.838		
Tariff 91 - Unmetered				20.454		

a. Available to customers in south east Queensland. Obsolete tariff in regional Queensland that is available for two years to existing customers only.

b. Only available to customers in Ergon Distribution's network area. Based on the structure of Ergon Distribution's small business seasonal time of use network tariff.

c. Only available to customers in Ergon Distribution's network area. Based on the structure of Ergon Distribution's small business seasonal time-of-use demand network tariff.

d. The kVA equivalent demand charge for tariff 41 is $24.713/kVA/month.

Table 21 2015–16 Regulated retail tariffs and prices for large business and street lighting customers (excl GST)

Retail tariff	*Fixed charge*	*Demand charge (flat/off-peak)*	*Demand charge (peak/ shoulder)*	*Variable rate (flat/off-peak)*	*Variable rate (peak)*
	c/day	*$/kW/mth*	*$/kW/mth*	*c/kWh*	*c/kWh*
Tariff 44 - Over 100 MWh small (demand)	5,072.121	37.730		10.529	
Tariff 45 - Over 100 MWh medium (demand)	16,355.667	31.618		10.481	
Tariff 46 - Over 100 MWh large (demand)	43,728.599	27.295		10.623	
Tariff 47 - High voltage (demand)	39,017.184	24.302		9.810	
Tariff 48 - Over 4 GWh high voltage (demand)	39,445.004	24.302		9.810	
Tariff 50 - Over 100 MWh seasonal time-of-use (demand) - new	4,431.208	15.790	54.642	13.812	10.065
Tariff 71 - Street lighting[a]	0.668			28.364	

a. The fixed charge for street lighting applies to each lamp.

Table 22 2015–16 Transitional and obsolete regulated retail tariffs and prices (excl GST)

Retail tariff	*Fixed charge*	*Min Charge*	*Variable rate 1[b]*	*Variable rate 2[c]*	*Variable rate 3[d]*	*Variable rate (flat)*	*Capacity (Up to 7.5kw)*	*Capacity (Over 7.5kw)*
	c/day	*c/day*	*c/kWh*	*c/kWh*	*c/kWh*	*c/kWh*	*$/kW/yr*	*$/kW/yr*
Tariff 37[a]		25.141	17.904		44.780			
Tariff 20 (lge)	63.100					30.866		
Tariff 21		61.538	41.818	39.291	29.911			
Tariff 22	151.652		40.902		14.403			
Tariff 62	66.468		39.411	33.328	13.936			
Tariff 65	66.468		31.438		17.316			
Tariff 66	146.493					16.478	31.957	96.085

a. New customers are not eligible for this retail tariff.

b.Tariff 21 – first 100 kWh, tariff 22 – 7am-9pm M-F, tariff 37 – 10:30pm-4:30pm, tariff 62 – 7am-9pm M-F first 10,000kWh, tariff 65 – 12hr peak.

c. Tariff 21 – 101-10,000 kWh, tariff 62 – 7am-9pm M-F over 10,000kWh.

d. Tariff 21 – over 10,000 kWh, tariff 22 – all other times, tariff 37 – 4:30pm-10:30pm, tariffs 62, & 65 – all other times.

8.1 Cost drivers

Since the draft determination, we have updated cost inputs using the latest information. In 2015–16, cost inputs are generally decreasing or increasing by a relatively moderate amount.

Network costs

Customers can expect relief from the large price increases that they have faced in recent years, with many network prices decreasing as a result of the AER's preliminary decision on the distributors' allowable revenue for next regulatory period, beginning on 1 July 2015.

The AER's preliminary decision was to reduce the distributors' proposed revenues by 23% for Energex and 27% for Ergon Distribution over five years.[79] In 2015–16, allowable revenues are 5% lower for Energex and 11% lower for Ergon Distribution compared to 2014–15. The distributors recover their allowed revenue through network prices in a way that is consistent with pricing principles established under the National Electricity Rules and pass through charges for the use of Powerlink's transmission network. As a result, individual network prices will not necessarily change in a way that aligns with the overall reduction in allowable revenue. The AER approved the distributors' proposed network prices for 2015–16 on 12 June 2015 and these are the prices we have used in this determination. While network prices are generally lower in 2015–16 than 2014–15, some prices are higher.

Overall, the network component of notified prices (including metering) has decreased in 2015–16 by 2.9% for a typical customer on the main residential tariff (tariff 11) and 5.9% for customers a typical customer on the main small business tariff (tariff 20). The Solar Bonus Scheme continues to be a major component of network costs. The Solar Bonus Scheme component of network costs has increased by 19.2% (tariff 11) and 18.3% (tariff 20). Excluding the costs of the Solar Bonus Scheme, the network component has decreased by around 6.1% (tariff 11) and 9.4% (tariff 20).

Energy costs

Energy costs are either increasing moderately or decreasing, depending on the retail tariff. The overall energy cost allowance has increased by 1.2% in south east Queensland and decreased by 2.6% to 3.0% (depending on the tariff) in regional Queensland. Energy costs for tariffs 31 and 33 (controlled loads) have also decreased (by 2.1% and 1.5% respectively).

Retail costs

Retail operating costs have increased marginally from 2014–15, in line with the rate of inflation. The retail margin is unchanged at 5.7% of costs.

8.2 Customer impacts

Figures 10 to 12 show the impact of our decisions on typical customers' bills, which take into account the introduction of metering charges, which is discussed further in Chapter 3.

Changes shown in the figures are for levels and patterns of consumption that are typical of customers on each regulated tariff. Customers that have consumption profiles and levels of consumption that differ from those assumed in this analysis will experience different impacts.

[79] AER, *Preliminary Decision: Energex determination 2015–16 to 2019–20*, April 2015, Attachment 1 - Annual Revenue Requirement; and AER, *Preliminary Decision: Ergon Energy determination 2015–16 to 2019–20*, April 2015, Attachment 1 - Annual Revenue Requirement.

Residential customers

The main retail tariff for residential customers is tariff 11. Customers on tariff 11 will also often use one of the 'off-peak' or 'controlled load' tariffs (tariffs 31 and 33) for uses such as water heating and pool pumps.

In 2015–16, a typical customer on tariff 11 (consuming 4,053 kWh) will face a decrease in this portion of their annual bill of 0.5% or $7 (compared to a 2.7% increase in the draft determination).

In Chapter 7, we explained that we will complete the rebalancing of the tariff 11 fixed and variable charges in 2015–16, so that tariff 11 is cost-reflective for south east Queensland customers. This means that the fixed charge will increase, while the variable charge will decrease. The impact on individual customers will vary according to their consumption.

As shown in Table 23, customers that consume less than around 3,800 kWh per year will pay more, because the increase in the fixed charge more than offsets the decrease in the variable charge. Customers that consume more than around 3,800 kWh per year will pay less because the decrease in the variable charge more than offsets the increase in the fixed charge.

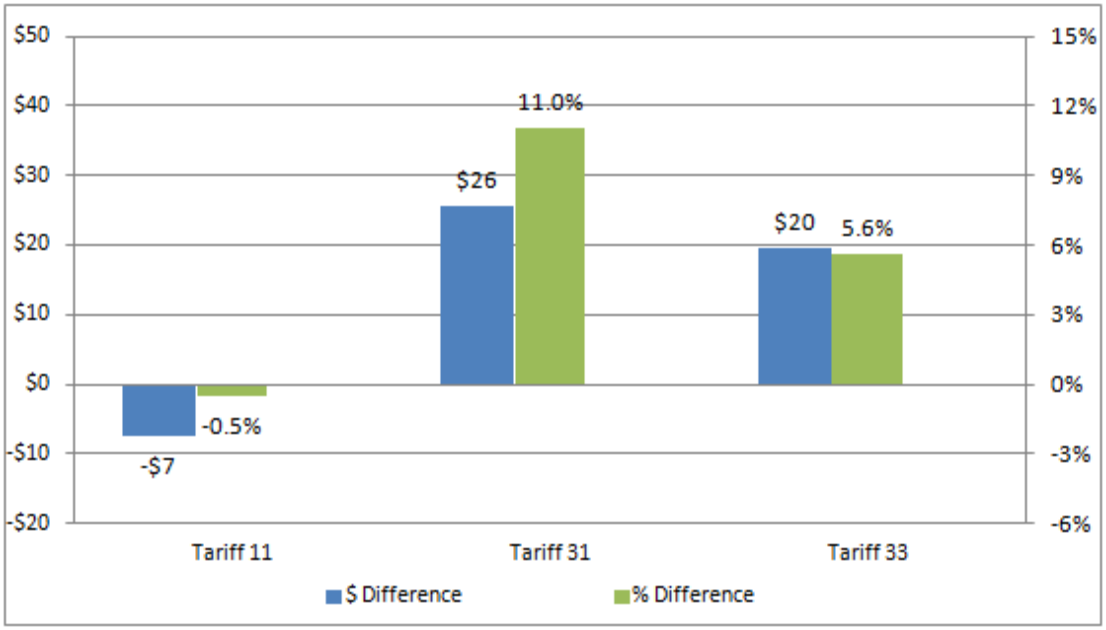
Table 23 Change in tariff 11 component of electricity bills in 2015–16

Annual consumption (kWh)	*Quarterly consumption (kWh)*	*2014–15 Annual Bill*	*2015–16 Annual Bill* [a]	*Change* [d] *($)*	*Change (%)*
1,000	250	$614	$712	$98	16.0%
2,000	500	$893	$957	$63	7.1%
3,000	750	$1,173	$1,202	$29	2.5%
3,855[b]	964	$1411.36	$1410.72	-$0.64	-0.05%
4,053[c]	1,013	$1,467	$1,459	-$7	-0.5%
5,000	1,250	$1,731	$1,691	-$40	-2.3%
6,000	1,500	$2,010	$1,935	-$75	-3.7%
7,000	1,750	$2,289	$2,180	-$109	-4.8%
8,000	2,000	$2,568	$2,425	-$144	-5.6%
9,000	2,250	$2,848	$2,669	-$178	-6.3%
10,000	2,500	$3,127	$2,914	-$213	-6.8%

a. Includes impact of Energex metering charge. A slightly lower metering charge applies in regional Queensland.
b. Typical consumption for a south east Queensland customer based on 2013–14 data from Energex.
c. Typical consumption for a regional customer based on 2013–14 data from Ergon Energy. This is the level of consumption we have used to define a typical tariff 11 customer throughout this report.
d. Totals may not add due to rounding.

Typical customers on the 'off-peak' or 'controlled load' tariffs (tariffs 31 and 33) will face increases in the controlled load portion of their bills of 11% ($26) and 5.6% ($20), compared to increases of 7.9% and 3.8% forecast in the draft determination. These increases are due to higher network charges and the introduction of metering charges. Typical residential customers on tariff 11 and the most widely used controlled load tariff (tariff 33) will face an increase in their annual bill of 3.2% ($46).

Figure 10 Changes in relevant component of annual residential bills for typical customers in 2015–16



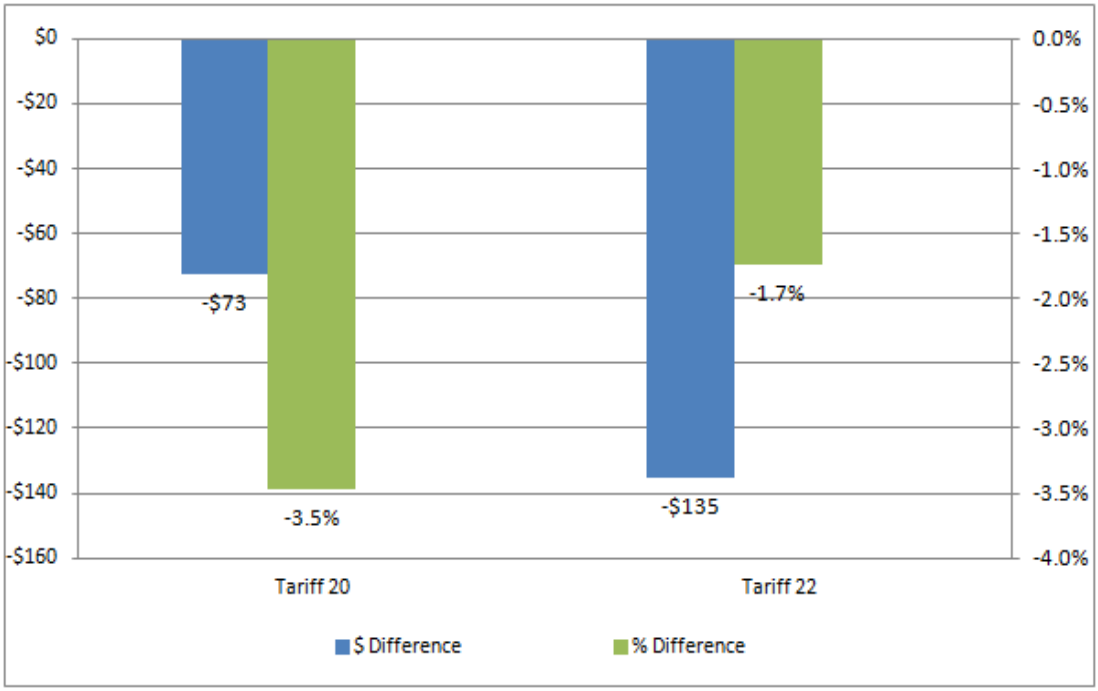
Note: Based on typical levels of consumption using 2013–14 data from Ergon Energy for consistency with the draft determination. Includes impact of Energex metering charges, although a slightly lower metering charge will apply in regional Queensland for tariff 11.

A small number of residential customers are on a time-of-use tariff (tariff 12). As discussed in Chapter 3, we have split this tariff into two tariffs for 2015–16 — one for south east Queensland customers based on the relevant Energex network tariff (tariff 12) and one for regional customers based on the relevant Ergon Distribution network tariff, lowered to Energex price levels (tariff 12A). Bill impacts will vary depending on both the level and pattern of individual customer's consumption, although typical customers can expect the tariff 12 or 12A component of their bills to decrease moderately.

Non-residential and business customers

Typical small business customers on tariffs 20 and 22 can expect reductions in their annual bill of 3.5% and 1.7%, compared to increases of 1.3% and 2% forecast in the draft determination. Tariff 22 will continue to be available to customers in south east Queensland, but will become an obsolete tariff for customers in regional Queensland. Customers on this tariff will move to new tariff 22A (based on the Ergon Distribution tariff structure) by 30 June 2017.

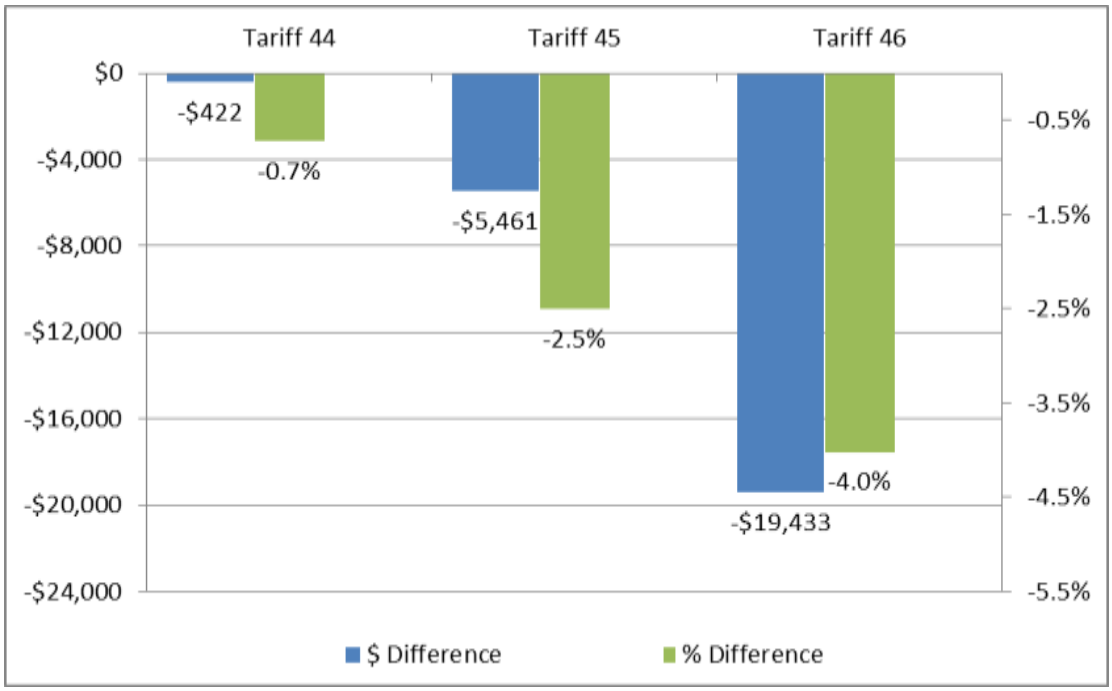
Figure 11 Changes in annual bills for typical small business customers in 2015–16



Note: Based on typical levels and patterns of consumption using 2013–14 data from Ergon Energy for consistency with the draft determination. Includes impact of Energex metering charges, although a slightly lower metering charge will apply in regional Queensland.

Typical large business customers on tariffs 44, 45 and 46 can expect annual bill reductions of between 0.7% and 4%, compared to reductions of between 3% and 4.3% in the draft determination.

Figure 12 Changes in annual bills for typical large business customers in 2015–16



Note: Based on typical levels and patterns of consumption using 2013–14 data from Ergon Energy.

Business customers on transitional and obsolete tariffs

In 2013–14, we established transitional arrangements for customers on most of the existing obsolete tariffs, as many customers would have faced significant price impacts if they were immediately moved to a standard business tariff. We have maintained these transitional arrangements for 2015–16.

As discussed in Chapter 7, we have decided to maintain obsolete and transitional tariffs at their 2014–15 price levels and to continue to allow new business customers to access the transitional tariffs. As foreshadowed in the 2014–15 determination, tariffs 41 (large) and 43 (large) will be removed from 1 July 2015 and customers on these tariffs will move to another tariff.

Table 24 Final decision - transitional arrangements for 2015–16

Obsolete/transitional tariff [a]	***Period to be retained***	***2015–16 bill change***
Tariff 20 (large) – transitional	5 years	0%
Tariff 21 – transitional	5 years	0%
Tariff 37 – obsolete	5 years	0%
Tariff 62 – transitional	5 years	0%
Tariff 65 – transitional	5 years	0%
Tariff 66 – transitional	5 years	0%
Tariff 22 (small and large) – transitional	5 years	0%
Tariff 41 (large) obsolete	Remove	N/A
Tariff 43 (large) obsolete	Remove	N/A

Note: A metering charge may also apply to customers' bills if they have a type 6 meter.

a. Access to transitional tariffs is open to new customers, subject to individual tariff terms and conditions, but access to obsolete tariffs is closed to new customers.

GLOSSARY

A	
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
AFMA	Australian Financial Markets Association
C	
CARC	Customer acquisition and retention costs
CER	Clean Energy Regulator
COTA Queensland	Council on the Aging Queensland
CPI	Consumer Price Index
c/day	cents per day
E	
EBITDA	Earnings-before-interest, tax, depreciation and amortisation
Ergon Distribution	Ergon Energy Corporation Limited (electricity distribution arm)
Ergon Retail	Ergon Energy Queensland (electricity retail arm)
Electricity Act	*Electricity Act 1994* (Qld)
ERA	Economic Regulation Authority
ERAA	Electricity Retailers Association of Australia
ESAA	*Energy Suppliers Association of Australia*
F	
Frontier	Frontier Economics
FNQEUN	Far North Queensland Electricity Users Network
G	
GST	Goods and services tax
GWh	Gigawatt hour
Government	Queensland Government
I	
IBT	Inclining block tariff
IPART	Independent Pricing and Regulatory Tribunal
K	
kWh	kilowatt hour
kVA	kilovolt-ampere
L	
LGC	Large-scale generation certificate
LNG	Liquefied natural gas
LRET	Large-scale Renewable Energy Target
LRMC	Long-run marginal cost

M	
Minister	Minister for Energy and Water Supply
MWh	Megawatt hour
N	
N	Network cost
NEM	National Electricity Market
Notified prices	Regulated retail electricity prices
NSLP	Net System Load Profile
N + R	Network + Retail cost build-up methodology
NSW	New South Wales
O	
Origin	Origin Energy
P	
PPA	Power purchase agreement
PV	Photovoltaic
Q	
QCA	Queensland Competition Authority
QCOSS	Queensland Council of Social Services
R	
R	Energy and retail cost
RET	Renewable Energy Target
ROC	Retail operating costs
RPP	Renewable power percentage
S	
SBS	Solar Bonus Scheme
SRES	Small-scale Renewable Energy Scheme
STC	Small-scale technology certificate
STP	Small-scale technology percentage

APPENDIX A: MINISTERIAL DELEGATION AND COVER LETTER

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

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85 George Street Brisbane 4000
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Queensland 4001 Australia
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Email mainroads@ministerial.qld.gov.au
Website www.tmr.qld.gov.au

Our Reference: DEWS-CLLO-CIC-15004

22 APR 2015

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

Malcolm,

Dear Dr Roberts

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.

Page 1 of 2

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

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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;

(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.

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)

APPENDIX B: SUBMISSIONS

Interim consultation paper

- Australian Sugar Industry Alliance
- Canegrowers Isis
- Council on the Ageing Queensland
- Energy Retailers Association of Australia
- Energy Supply Association of Australia
- Ergon Energy Corporation Ltd
- Ergon Energy Queensland
- Mark Tranter (individual)
- Origin Energy
- Queensland Consumers' Association
- Queensland Council of Social Services
- Toowoomba Regional Council
- One confidential submission

Draft determination

- Australians in Retirement (Cairns and District Branch)
- Canegrowers Isis
- Canegrowers
- Chamber of Commerce and Industry Queensland
- Council on the Ageing Queensland (late submission)
- Cummings Economics (for Far North Queensland Electricity Users Network)
- Energy Retailers Association of Australia
- Energy Supply Association of Australia
- Ergon Energy Corporation Ltd
- Ergon Energy Queensland
- Local Government Association of Queensland
- Origin Energy
- Pioneer Canegrowers Organisation
- Queensland Consumers' Association
- Queensland Council of Social Service
- Queensland Farmers' Federation

- Toowoomba Regional Council
- One confidential submission

Further consultation paper

- AGL
- Australians in Retirement (Cairns and District Branch)
- Australian Sugar Milling Council (late submission)
- Canegrowers Isis
- Energy Retailers Association of Australia
- Energy Supply Association of Australia
- EnergyAustralia
- Ergon Energy Corporation Limited
- Ergon Energy Queensland
- Far North Queensland Electricity Users Network
- Lumo Energy
- Origin Energy
- Queensland Consumers Association
- Queensland Council of Social Service
- Queensland Farmers' Federation
- Red Energy

APPENDIX C: RESPONSES TO ADDITIONAL ISSUES RAISED IN SUBMISSIONS

We have provided responses to a number of additional issues raised in submissions.

Issue raised by stakeholder	*Submitted by*	*QCA position*
Network costs		
Ergon Distribution network prices are too high.	Australian Sugar Industry Alliance	The AER is responsible for determining what the distributors can charge for network services. The AER has released its preliminary decision on the distributors' revenue proposals for the 2015–20 regulatory period and we understand that the AER is accepting submissions until 3 July 2015. We also note that notified prices for residential and small business customers are based on the network charges of Energex, rather than Ergon Distribution. This is consistent with the Government's uniform tariff policy.
The peak times for business TOU tariffs are unacceptable.	FNQEUN	The peak and off-peak times form part of the distributors' network tariffs. The AER is responsible for approving network tariffs.
Energy Costs		
Retailers would benefit from having access to additional data, in particular details of the 'under cap' price curve.	Origin Energy	ACIL Allen has included additional data in its final report.
As the liability reporting point is at the node, only the distribution loss factor should be applied to LRET, SRES and NEM fees.	QCOSS	The RPP and STP used in the estimate of the cost of LRET and SRES, respectively, are based on wholesale acquisitions from AEMO (i.e. at the regional reference node). A transmission loss factor must be applied to these costs in order to take into account transmission losses between the regional reference node and distribution networks.
What actions will the QCA take if the proposed merger of the Queensland Government's electricity generation businesses, and/or retail businesses, goes ahead?	ERAA	ACIL Allen has considered the potential merger in section 2.3.1 of its final report on estimated energy costs.

Issue raised by stakeholder	*Submitted by*	*QCA position*
The QCA needs to take "Solar Purchase Agreements" into account.	Australians in Retirement	The QCA is aware of these types of arrangements, which are simply a new form of finance for solar installations. The potential effect of solar installations on electricity prices is reflected in the prices of forward contracts, which are used to forecast wholesale energy costs.
The QCA needs to take into account the impact of the Government's policy target of 1 million solar PV installations, and the impact of the NECF, on the energy and network components of the 2015–16 retail prices.	FNQEUN	All energy policies are taken into account by retailers when negotiating prices for forward contracts. This contract data is used by ACIL Allen when forecasting energy costs for the tariff year. Distributors take these policies into account when making their pricing proposals to the AER. These network prices form part of notified prices.
Retail costs		
The CARC allowance should be lower to reflect that retailers are using lower-cost marketing channels due to the intensification of competition in south east Queensland.	QCOSS	We do not consider that there is sufficient justification to change the CARC allowance. We have previously assessed the allowance for reasonableness against the range of estimates IPART included in its 2013 decision. While an assessment of publicly reported costs by AGL and Origin Energy found that they report lower CARC than our allowance[80], this assessment found that our total ROC allowance (including CARC) is reasonable (see Chapter 5).
The retail operating cost allowance does not adequately reflect current levels of CARC which have increased in the lead up to deregulation.	EnergyAustralia	
Tariff 11 re-balance		
Further increases in the fixed charge component of tariff 11 provide no incentive to reduce energy usage or peak demand.	COTA	Despite the service charge being higher in 2015–16, customers can still control the impact of the variable charge on their bill if they reduce their energy usage. The variable charge is expected to account for around 70% of a typical residential customer's annual tariff 11 bill in 2015–16.

[80] Origin Energy, *Annual Report 2014*, September 2014, p. 21; AGL, *Annual Report 2014*, 17 September 2014, p. 39.

Issue raised by stakeholder	*Submitted by*	*QCA position*
The tariff 11 rebalancing should be extended due to uncertainty over future tariff approaches by network businesses.	COTA Queensland and QCOSS	The QCA is basing its approach for the tariff 11 rebalancing on 2015–16 network tariffs which is the most up to date network tariff data available. As 2016–17 network tariffs are not available there is no indication whether the fixed component of network tariffs will decrease or increase in future.
An extended transitional period is necessary if tariff 11 charges for regional customers are based on Ergon Distribution's network tariffs and prices	QCOSS	As we have determined tariff 11 notified prices based on Energex's network structure and prices, we do not consider an extended transitional period is necessary.
The presentation of increases in fixed charges in Table 1 of the draft determination is misleading as the percentage increase does not incorporate metering charges.	FNQEUN	The metering charge is listed separately because metering costs cannot be included in notified prices, as discussed in Chapter 3. Metering costs, where applicable, have been included in comparisons between 2014–15 and 2015–16 annual bills to ensure like-for-like comparisons.
The QCA should update the average tariff 66 increase required to achieve cost reflectivity.	Pioneer Canegrowers	Appendix E contains a full outline of the range of potential impacts of transitional customers moving to standard business tariffs, or cost reflective tariffs.
Transitional and obsolete tariffs		
Customers should be able to change time-of-use tariffs at least twice a year free of charge.	Canegrowers Isis	We understand that business customers can change tariffs once a year free of charge. We also understand that farming customers on the farming and irrigation tariffs with Ergon Retail are currently able to change tariffs multiple times each year without penalty.
Irrigators should be able to access tariff 33.	Canegrowers Isis	The terms and conditions of access to tariff 33 are set by the distributors, not the QCA.
Retailers should provide transitional customers with bills for transitional tariffs and standard business tariffs to allow for comparison.	QFF	Customers should contact their retailer regarding the most suitable tariff for their usage patterns.
Other issues		

Issue raised by stakeholder	*Submitted by*	*QCA position*
The use of a 4,053 kWh per year consumption level as a typical tariff 11 customer is inappropriate as the averages shown on the AER's Energy Made Easy website for residential customers in regional Queensland are significantly higher.	FNQEUN	The 4,053 kWh typical consumption figure is calculated by Ergon Energy using consumption data on every household using tariff 11 in the Ergon Energy distribution area. The information contained in the Energy made Easy website is based on a survey of less than 5,000 households across Australia, and reflects total household electricity usage including controlled load tariffs. On this basis we consider Ergon Energy's figure to be a more accurate reflection of the median tariff 11 customer. We provide the price impacts for a range of different consumption levels in Chapter 8.
The QCA should include metering charges in notified prices so that retailers can bundle these charges on electricity bills.	AGL	As discussed in Chapter 3, we cannot include metering charges in notified prices. We consider that metering charges meet the definition of 'distribution non-network charges', which means that we cannot take them into account in our determination of notified prices under section 90 of the Electricity Act. The presentation of these charges on customer bills is regulated under the NECF arrangements.
The QCA should provide formal analysis and advice to the Queensland Government drawing attention to the impact of anticipated price rises and recommend a review of the adequacy of current concessional arrangements for electricity in Queensland.	COTA Queensland	Providing advice on concessional arrangements is outside of the scope of our delegation and terms of reference and a matter for the Queensland Government. We provide in-depth analysis of price impacts for a range of customers in our pricing determinations. Determinations are provided to the relevant Government departments and are available on our website. A summary of current energy concessions is provided in Appendix I.

APPENDIX D: ADJUSTING ERGON DISTRIBUTION'S NETWORK TARIFF STRUCTURES

Comparison of Energex and Ergon Distribution's tariff structures

A comparison of Energy and Ergon Distribution's network tariff structures is provided in Tables 25 to 27 below.

Table 25 Comparison of Energex and Ergon Distribution non time-of-use tariffs

Type	*Distributor*	*Fixed*	*Variable*		
Residential (tariff 11)	Energex	c/day	Flat rate c/kWh		
	Ergon Distribution	c/day	c/kWh 1st 1,000 kWh/year	c/kWh next 5,000 kWh/year	c/kWh >6,000 kWh/year
Small business (tariff 20)	Energex	c/day	Flat rate c/kWh		
	Ergon Distribution	c/day	c/kWh 1st 1,000 kWh/year	c/kWh next 19,000 kWh/year	c/kWh >20,000 kWh/year
Small business demand (tariff 41)	Energex	c/day	Flat rate c/kWh	$/kVA /month	
	Ergon Distribution	No network tariff			
Night controlled load (tariff 31)	Energex	n/a	Flat rate c/kWh		
	Ergon Distribution	c/day	Flat rate c/kWh		
Controlled load (tariff 33)	Energex	n/a	Flat rate c/kWh		
	Ergon Distribution	c/day	Flat rate c/kWh		
Unmetered (tariff 91)	Energex	n/a	Flat rate c/kWh		
	Ergon Distribution	c/day	Flat rate c/kWh		

Table 26 Comparison of Energex and Ergon Distribution time-of-use tariffs

Type	*Distributor*	*Fixed*	*Variable*		
			Peak	**Shoulder**	**Off-peak**
Residential (tariff 12/ tariff 12A)	Energex	c/day	4pm–8pm Mon-Fri 1,040 hours per year	7am–4pm, 8pm–10pm Mon-Fri 7am–10pm Weekends 4,420 hours per year	10pm–7am Every day 3,276 hours per year
	Ergon Distribution	c/day	4:30pm–9pm Mon-Fri Summer only 292.5 hours per year	3pm–4:30pm Mon-Fri 9pm–9:30pm Mon-Fri 3pm–9:30pm weekends Summer only 299 hours per year	All other times 8,144.5 hours per year
Small business (tariff 22 / tariff 22A)	Energex	c/day	7:00am to 9:00pm, weekdays 3,640 hours per year	n/a	All other times 5,096 hours per year
	Ergon Distribution	c/day	11:30am to 5:30pm on summer weekdays 390 hours per year	10:00am to 11:30am and 5:30pm to 8:00pm on summer weekdays 260 hours per year	All other times 8,086 hours per year

Table 27 Ergon Distribution seasonal time-of-use demand (STOUD) tariffs

Type	*Distributor*	*Fixed*	*Variable*	*Demand*	
				Peak	*Off-peak*
Seasonal time-of-use demand - Residential (tariff 14)	Energex	No comparable network tariff			
	Ergon Distribution	n/a	Anytime flat	3:00pm to 9:30pm any day of the week in summer months	All times non-summer months (i.e. March to November)
Seasonal time-of-use demand - Small business (tariff 24)	Energex	No comparable network tariff			
	Ergon Distribution	n/a	Anytime flat	10:00am to 8:00pm weekdays in summer months	All times non-summer months (i.e. March to November)

Ergon Energy tariff structure adjustment options

This section outlines the methodology we used to determine network charges for the residential and small business customer seasonal time-of-use (STOU) and seasonal time-of-use demand (STOUD) tariffs using Ergon Distribution network tariff structures, as discussed in sections 3.2.2 and 3.2.3 in Chapter 3. It also provides further information on customer impacts of using Ergon Distribution tariff structures, rather than Energex tariff structures for the STOU tariffs.

To determine these network charges, we used customer information provided by Ergon Retail and Ergon Distribution for the 2013–14 financial year, as well as estimates provided by Ergon Distribution where actual data was not available.

Establishing network prices for the seasonal time-of-use tariffs (tariffs 12A and 22A)

Options one and two involve adjusting Ergon Distribution's network charges as follows:

- For option one: uniformly decrease the Ergon Distribution east, transmission zone one fixed and variable charges by an amount that equalises the average customer's network bill with the bill they would face if they were a south east Queensland customer paying Energex's network charges underlying tariffs 12 and 22.
- For option two: set the fixed charge at the same level as the fixed charge in the equivalent Energex tariff and decrease the Ergon Distribution variable charges by an amount that equalises the average customer's network bill with the network bill they would face if they were paying Energex's network charges underlying tariffs 12 and 22.

As shown in Table 28, Ergon Retail provided a break-down of consumption into TOU components for an average tariff 12 customer in 2013–14 and Ergon Distribution provided a breakdown of how it expects an average customer would consume on an Ergon Distribution-based tariff.

Table 28 Time-of-use breakdowns and 2013–14 average annual consumption

Tariff		*Peak*	*Shoulder*	*Off-peak*	*Average consumption kWh/year*
Residential time-of-use	Ergon-based	5%	4%	91%	4,886[a]
	Energex-based[c]	15%	52%	33%	4,886
Small business time-of-use	Ergon-based	6%	4%	90%	38,369[b]
	Energex-based	49%	n/a	51%	38,369

a. Based on average tariff 11 consumption in the Ergon Distribution area. In the draft determination, we used average tariff 12 consumption. However, we have decided that this is not likely to be representative of customers that will use this tariff in future. In 2013–14, there was only a small number of customers on tariff 12 and their consumption was high (10,888 kWh/yr on average). We expect that this is because the fixed charge in tariff 12 has been much higher than the fixed charge in tariff 11, meaning that it has not been attractive to lower usage customers. This disparity in fixed charges will largely be removed in 2015–16, which will improve the incentives for lower-usage customers to move to a time-of-use tariff.

b. Average tariff 22 consumption as advised by Ergon Retail.

Tables 29 and 30 show the network price results for options one and two, including the partially adjusted fixed charge approach for tariff 12A.

Table 29 Network price options for tariff 12A

	Fixed c/day	*Peak c/kWh*	*Shoulder c/kWh*	*Off-peak c/kWh*
Energex 8900	49.400	18.962	11.130	6.763
Ergon ERTOUT1	157.100	34.476	34.476	7.726
Ergon - adjusted option 1	104.507	22.934	22.934	5.140
Ergon - adjusted option 2	49.400	36.919	36.919	8.273
Ergon - adjusted option 2 (partially adjusted fixed charge)	59.026	34.476	34.476	7.726

Table 30 Network price options for tariff 22A

	Fixed c/day	*Peak c/kWh*	*Shoulder c/kWh*	*Off-peak c/kWh*
Energex 8800	70.800	14.176	n/a	9.406
Ergon EBTOUT1	157.100	31.613	31.613	12.088
Ergon - adjusted option 1	124.998	25.153	25.153	9.618
Ergon - adjusted option 2	70.800	26.311	26.311	10.061

Customer impacts

Table 31 summarises the results underpinning Figures 4 and 5 in section 3.2.2, which shows customer impacts of moving from time-of-use tariffs based on Energex tariff structures (tariffs 12 and 22) to time-of-use tariffs based on Ergon Distribution structures (tariffs 12A and 22A).

Table 31 Summary of customer bill impacts for options one and two

	Tariff 12A			*Tariff 22A*	
	Option 1	*Option 2*	*Option 2 (partially adjusted fixed charge)*	*Option 1*	*Option 2*
Average impact[a]	-10%	-2%	0%	10%	0%
Minimum impact	-34%	-12%	-10%	-17%	-16%
Maximum impact	81%	15%	13%	77%	24%
Median impact	-15%	-3%	-1%	2%	0%
% of customers better off	82%	68%	54%	36%	45%
% of customers worse off	18%	32%	46%	64%	55%

a. This is a simple average of the individual customer impacts.

Establishing network prices for the seasonal time-of-use demand tariffs (tariffs 14 and 24)

Tables 33 and 34 set out our adjustments for trial tariffs 14 and 24. We have adjusted the Ergon Distribution STOUD network tariffs, according to option one, as discussed in Chapter 3. As there are no equivalent network tariffs available in the Energex area, we have based our adjustments on tariff 11 (for adjusting tariff 14) and tariff 20 (for adjusting tariff 24) data and cost levels. We have also used estimated data for customer maximum demand during peak and off-peak months provided by Ergon Distribution.

We have modelled options one and two for both tariffs. Option one involves uniformly decreasing the Ergon Distribution east, transmission zone one fixed and variable charges so that the average customer's network bill is the same as the bill they would face if they were paying Energex's network charges (that underlie tariffs 11 or 20).

As discussed in Chapter 3, applying option two to these tariffs is not appropriate as the Ergon Distribution fixed charge is already lower than the Energex network tariff fixed charge associated with tariff 11. To set the fixed charge at Energex levels we would need to increase the Ergon Distribution fixed charge (as illustrated in tables 33 and 34), which we consider is not appropriate.

Table 32 sets out the consumption assumptions we have used to derive average customer bills for tariffs 14 and 24.

Table 32 Consumption assumptions for estimating average network bills for tariffs 14 and 24

Tariff	*Off-peak demand (kW/month)*	*Peak demand (kW/month)*	*Minimum monthly demand [c] (kW/month)*	*Average consumption kWh/year*
Seasonal time-of-use demand - Residential (tariff 14)	3.9	1.5	3.0	4,886[a]
Seasonal time-of-use demand - Small business (tariff 24)	6.0	2.9	3.0	13,298[b]

a. Based on average tariff 11 consumption in the Ergon Distribution area.

b. Based on average tariff 20 consumption in the Ergon Distribution area.

c. Applies in off-peak demand period (non-summer months only).

Table 33 Network price options for trial tariff 14

	Fixed c/day	*Anytime consumption c/kWh*	*Peak demand $/kW/month*	*Off-peak demand $/kW/month*
Energex 8400	49.400	12.130	n/a	n/a
Ergon STOUD	32.100	5.799	64.821	12.000
Ergon - adjusted option 1	22.281	4.025	44.994	8.329
Ergon - adjusted option 2	49.400	3.449	38.551	7.137

Table 34 Network price options for trial tariff 24

	Fixed c/day	*Anytime consumption c/kWh*	*Peak demand $/kW/month*	*Off-peak demand $/kW/month*
Energex 8500	70.800	12.348	n/a	n/a
Ergon STOUD	32.100	5.503	80.554	12.000
Ergon - adjusted option 1	27.747	4.757	69.629	10.373
Ergon - adjusted option 2	70.800	4.341	63.544	9.466

APPENDIX E: TRANSITIONAL AND OBSOLETE TARIFFS—CUSTOMER IMPACTS

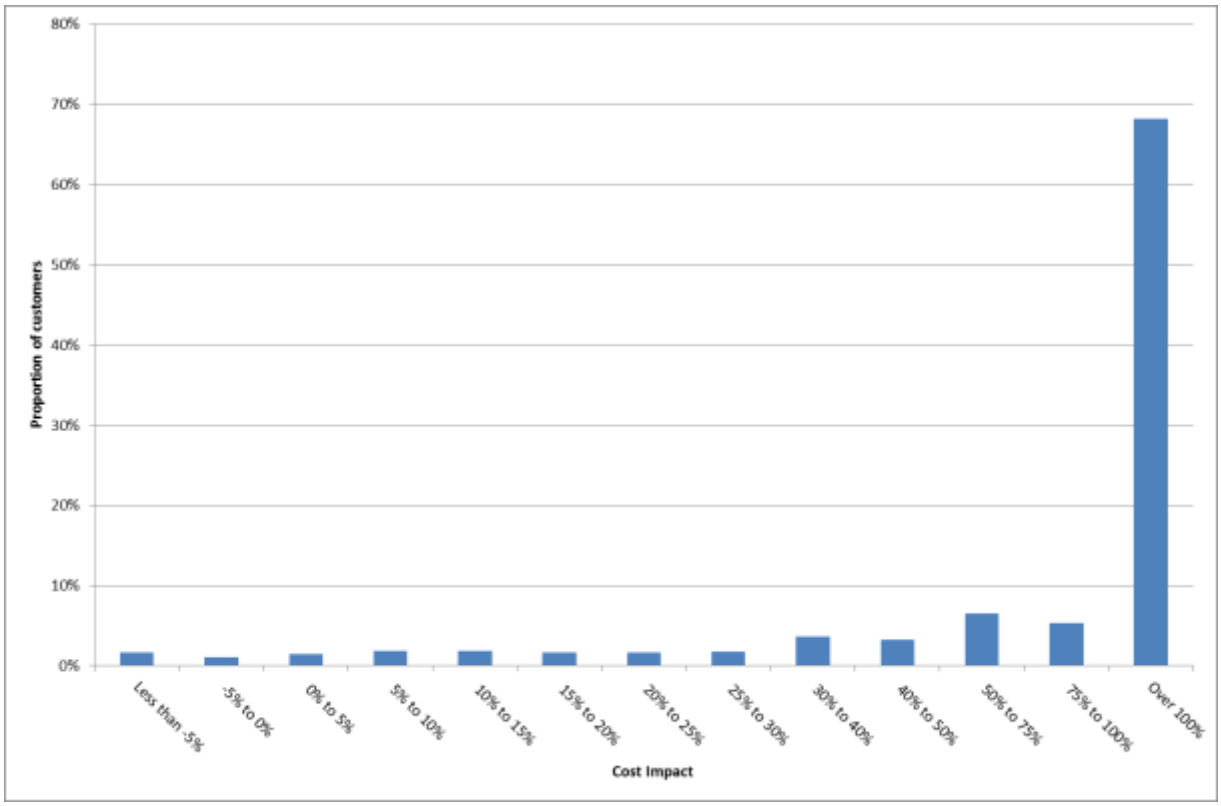
In Chapter 7 we discuss our decision on arrangements for customers on transitional and obsolete tariffs for 2015-16. This appendix presents analysis of the range of bill impacts that regional Queensland customers[81] would face if they moved from their transitional or obsolete 2014–15 tariff to an alternative 2015–16 standard business tariff.

Some customers are supplied under multiple tariffs and the impacts of price changes in these tariffs are aggregated for each customer. We have grouped customers on multiple tariffs according to the tariff on which they consume most of their electricity.

Tariffs 21, 37 and 66

Tariffs 21, 37 and 66 align with tariff 20 for small business customers and tariffs 44 to 48 for large business customers (depending on the customer's demand and voltage requirements). Figures 13 to 18 show the impacts of customers moving to these standard business tariffs.

Figure 13 Change in electricity bills for small customers on tariff 21 moving to tariff 20



[81] While there are some customers on transitional tariffs in south east Queensland, the majority of these customers are located in regional Queensland.

Table 33 Information on tariff 21

Who the tariff is for	*Number of regional customers*	*Most common increase*	*Driver for increase*	*Retain?*
Small business, general supply	Around 14,000	Over 100%	The tariff 20 fixed charge is more than twice the minimum daily charge of tariff 21. This is significant as customers on tariff 21 typically have very low usage.	Yes

Figure 14 Change in electricity bills for small customers on tariff 37 moving to tariff 20

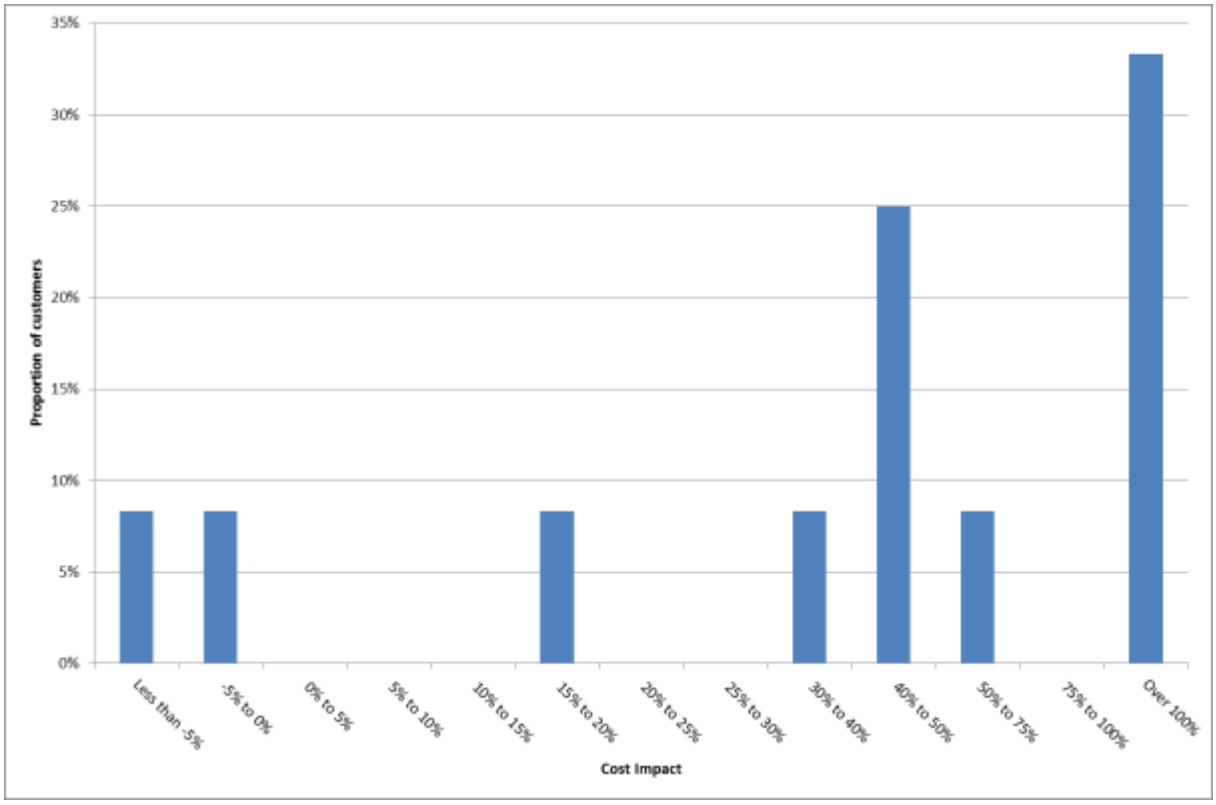


Figure 15 Change in electricity bills for large customers on tariff 37 moving to one of tariffs 44 to 48

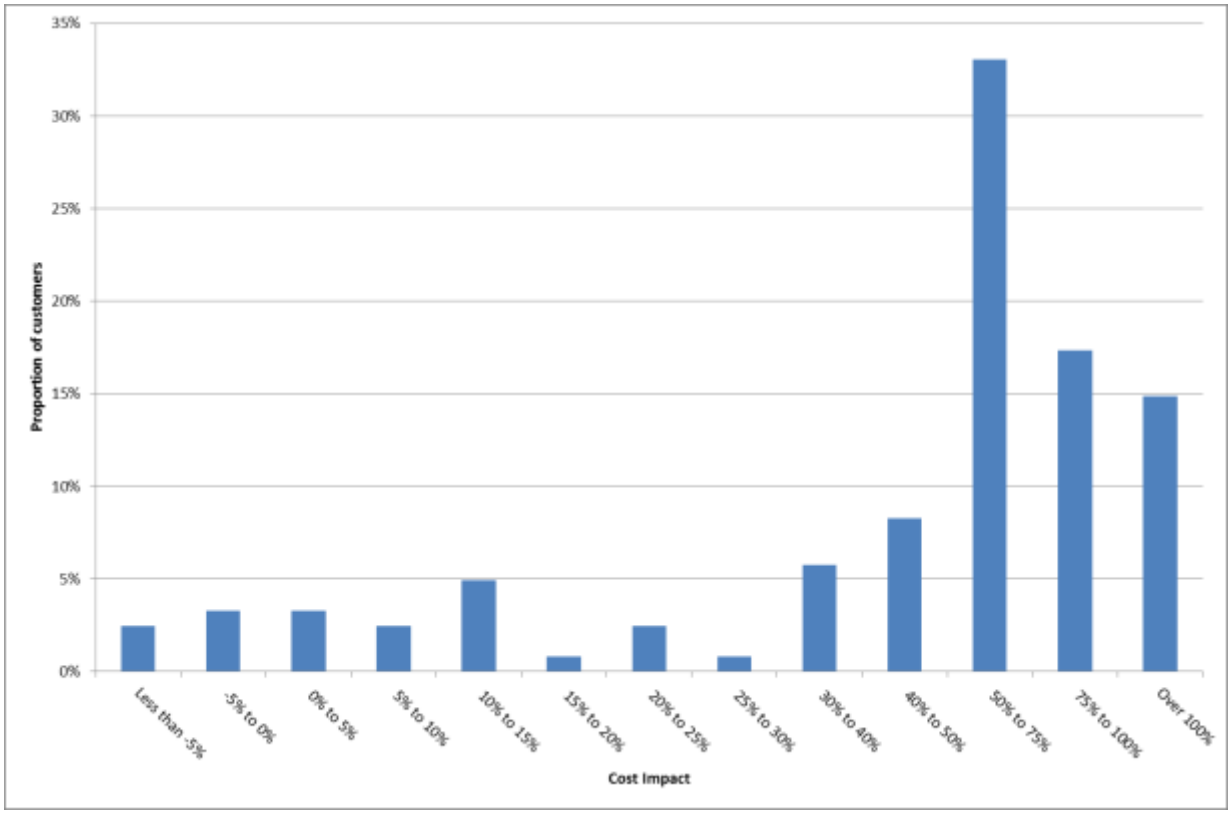


Table 34 Information on tariff 37

Who the tariff is for	*Number of regional customers*	*Most common increase*	*Driver for increase*	*Retain?*
Small and large business, for non-domestic heating	Small: around 10 Large: around 100	Small: over 100% Large: 50% – 75%	Small: losing off-peak charges for most of the standard working day and a higher fixed charge on tariff 20 compared to the tariff 37 minimum charge. Large: standard business tariffs have demand charges, while tariff 37 does not. The standard business tariffs also have significantly higher fixed charges compared to the tariff 37 minimum charge.	Yes

Figure 16 Change in electricity bills for small customers on tariff 66 moving to tariff 20

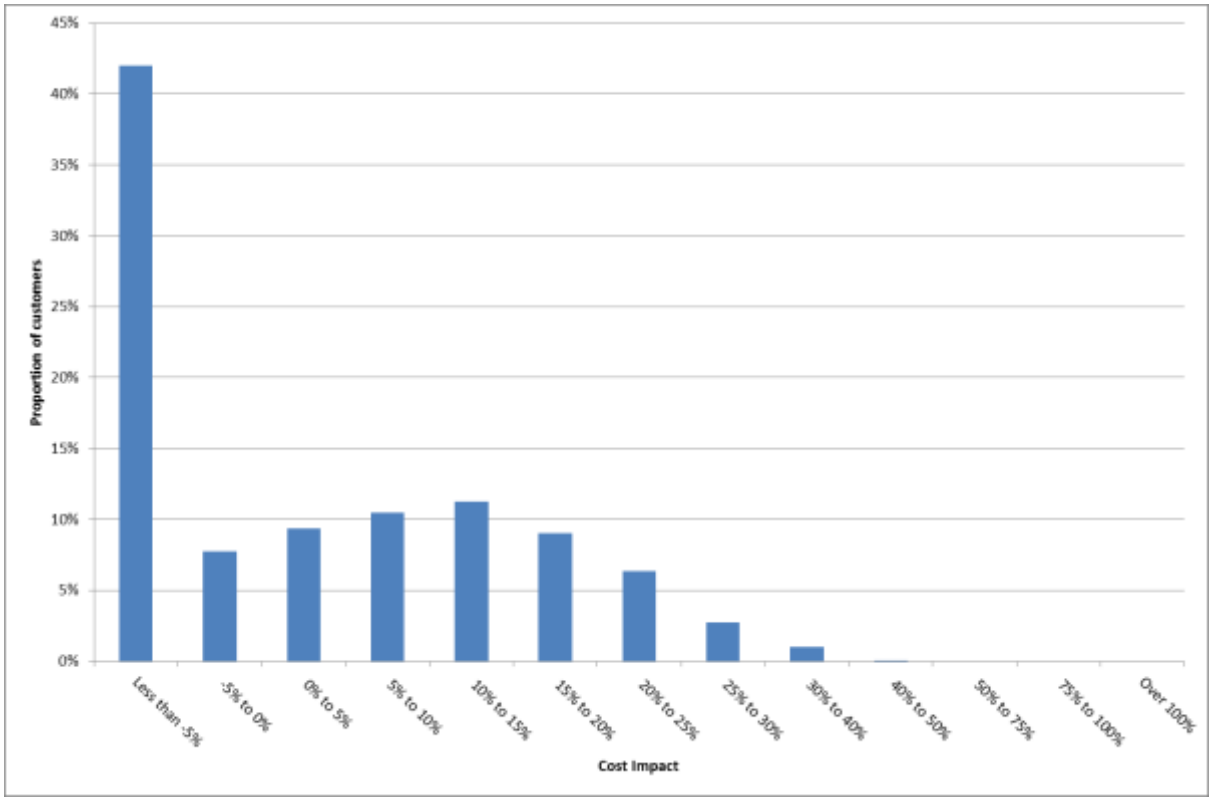


Figure 17 Change in electricity bills for large customers on tariff 66 moving to tariff 44 or tariff 45

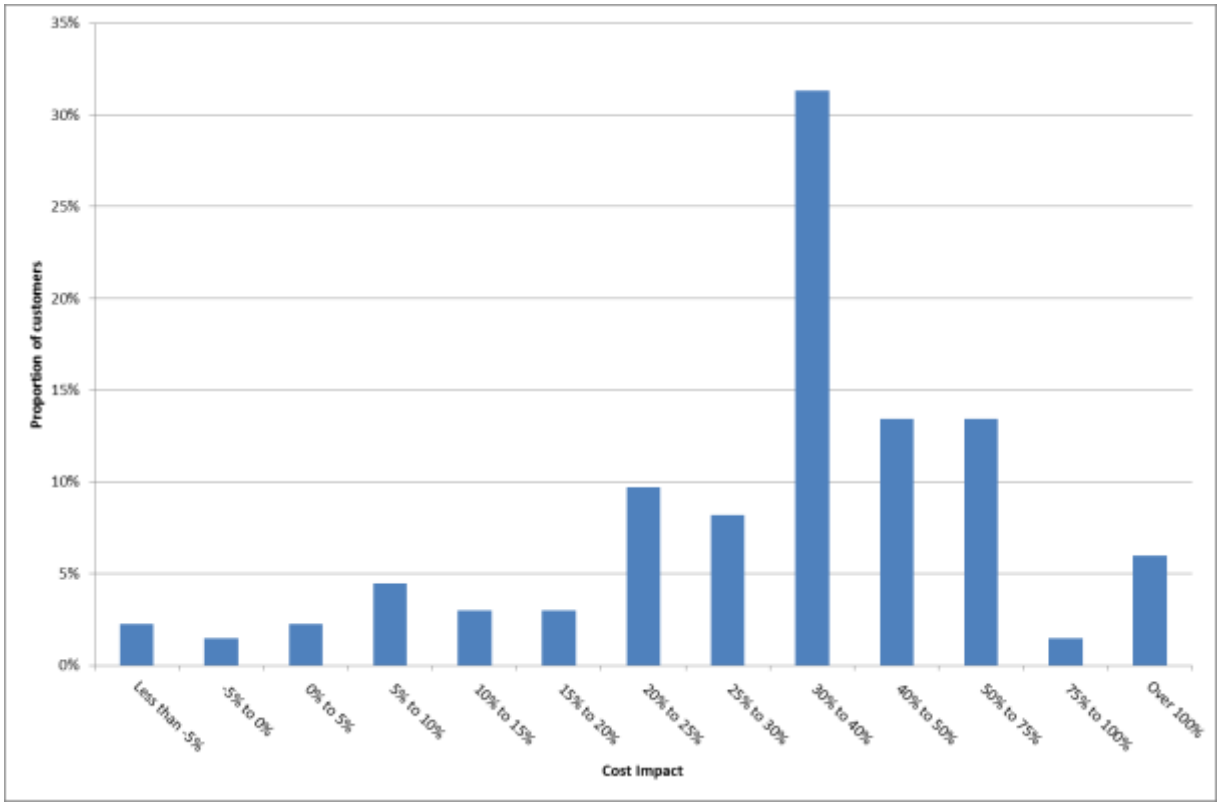


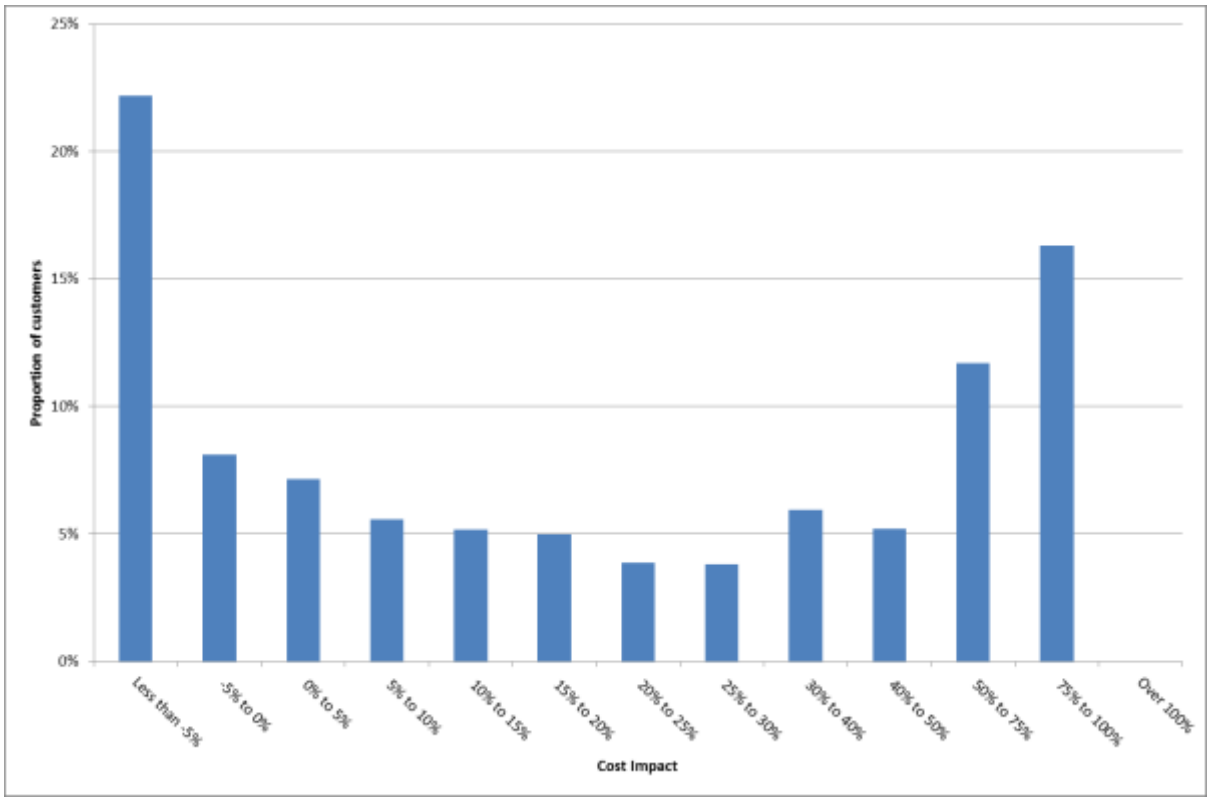
Table 35 Information on tariff 66

Who the tariff is for	*Number of regional customers*	*Most common increase*	*Driver for increase*	*Retain?*
Small and large irrigators	Small: around 2,500 Large: around 100	Small: less than -5% Large: 30% – 40%	Small: tariff 20 has a higher variable charge than tariff 66. Large: standard business tariffs have demand charges, while tariff 66 does not. The standard business tariffs also have significantly higher fixed charges.	Yes

Tariffs 62 and 65

Most small customers on tariffs 62 and 65 will move to tariff 22A[82], and large customers will move to large business tariffs 44 to 48 (depending on demand and voltage requirements). Figures 18 to 21 show the impacts of customers moving to these tariffs.

Figure 18 Change in electricity bills for small customers on tariff 62 moving to tariff 22A



[82] This will be a new tariff for regional customers in 2015–16 (see Chapter 3). Customers on transitional tariffs in south east Queensland would be likely to move to tariff 22.

Figure 19 Change in electricity bills for large customers on tariff 62 moving to tariff 44 or 45

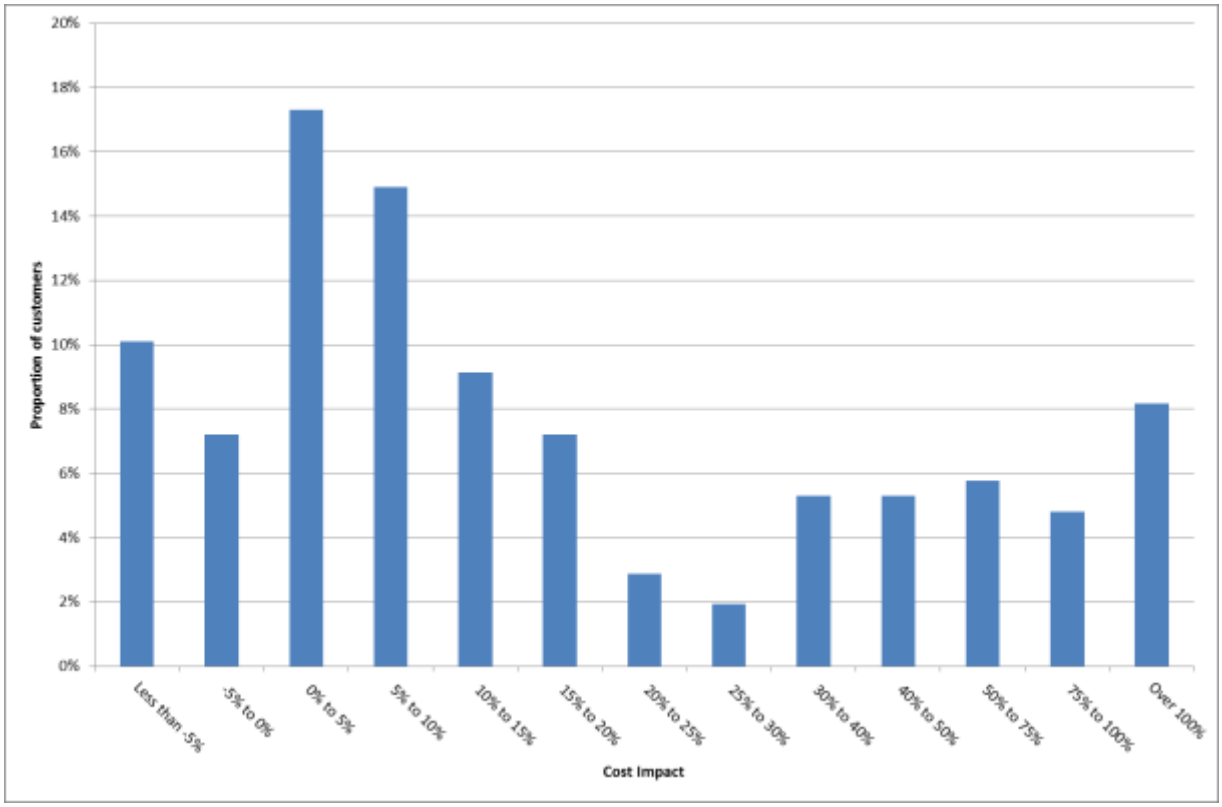


Table 36 Information on tariff 62

Who the tariff is for	*Number of regional customers*	*Most common increase*	*Driver for increase*	*Retain?*
Small and large irrigators	Small: around 9,000 Large: around 200	Small: less than -5% Large: 0 – 5%	Small: tariff 22A has a higher fixed charge and off-peak rate compared to tariff 62. Large: standard business tariffs have demand charges, while tariff 62 does not. The standard business tariffs also have significantly higher fixed charges.	Yes

Figure 20 Change in electricity bills for small customers on tariff 65 moving to tariff 22A

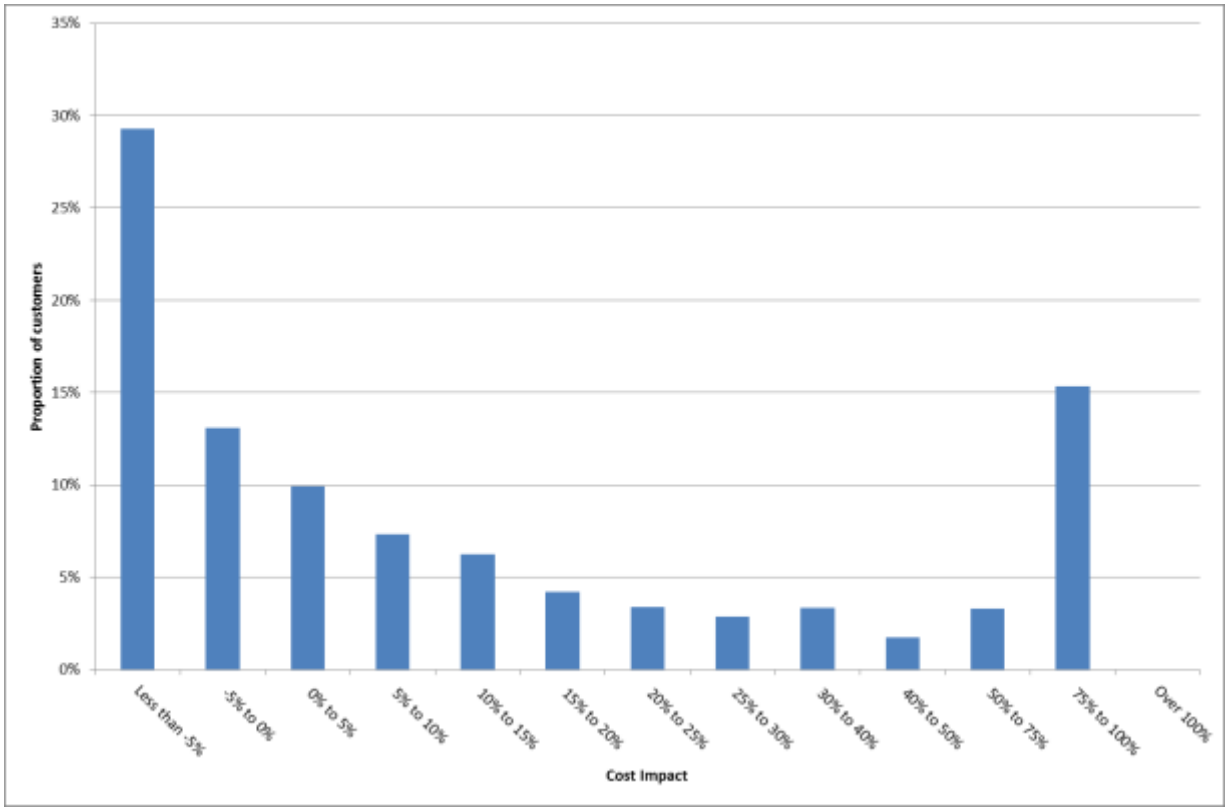


Figure 21 Change in electricity bills for large customers on tariff 65 moving to tariff 44 or 45

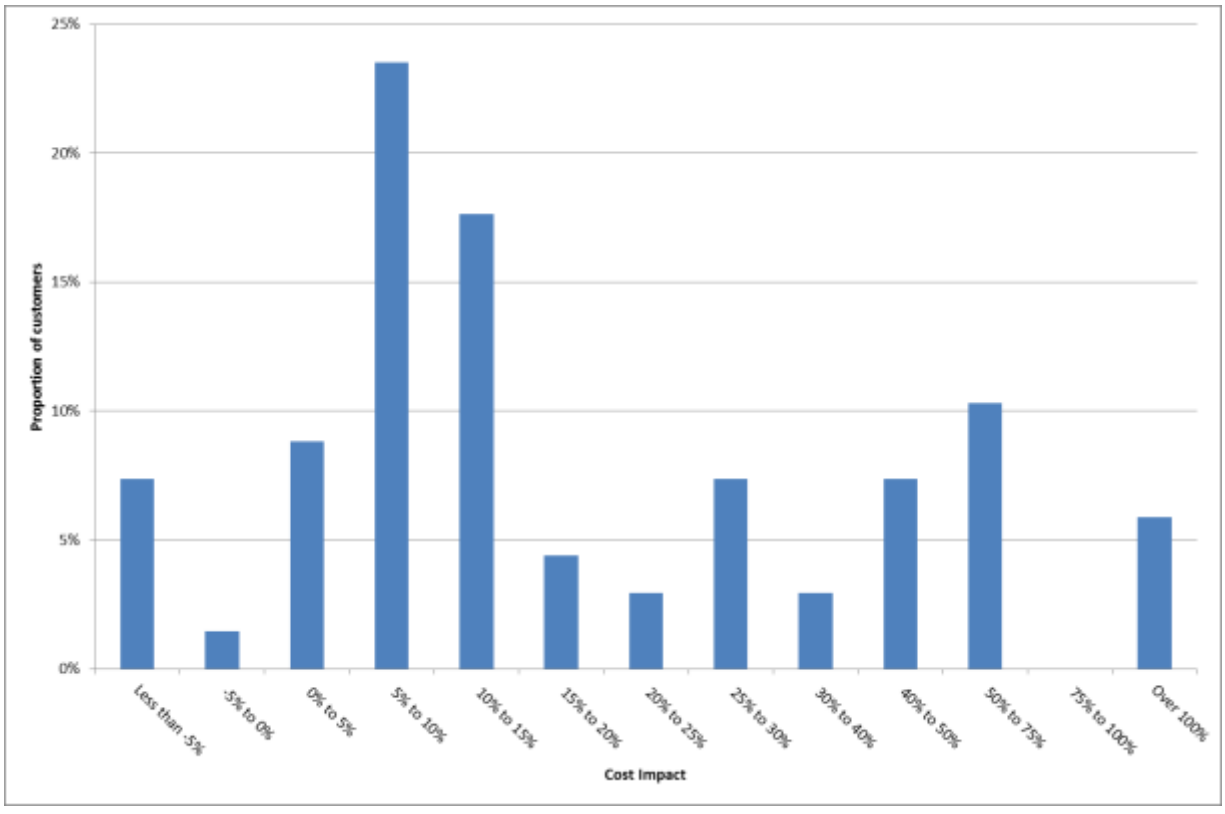


Table 37 Information on tariff 65

Who the tariff is for	*Number of regional customers*	*Most common increase*	*Driver for increase*	*Retain?*
Small and large irrigators	Small: around 5,500 Large: under 100	Small: Less than -5% Large: 5% – 10%	Small: tariff 22A has a higher daily fixed charge and off-peak rate compared to tariff 65. Large: standard business tariffs have demand charges, while tariff 65 does not. The standard business tariffs also have significantly higher fixed charges.	Yes

Large customer tariffs

Transitional large tariffs 20 and 22 align with tariffs 44 to 48, which are based on Ergon Energy network tariffs. Figures 22 to 23 show the likely impacts for large customers moving from these transitional tariffs to the most appropriate of the standard business tariffs.

Figure 22 Change in electricity bills for customers on tariff 20 (large) moving to one of tariffs 44 to 48

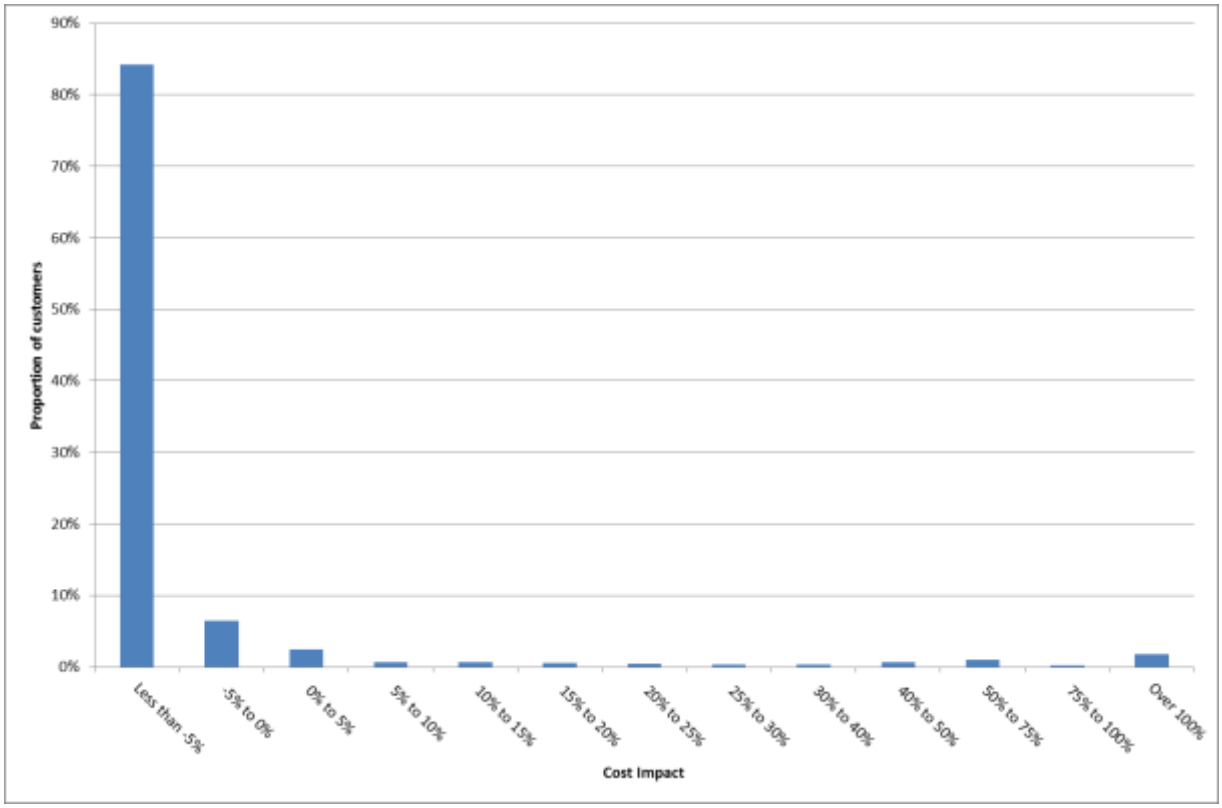


Figure 23 Change in electricity bills for customers on tariff 22 (small and large) moving to one of tariffs 44 to 48

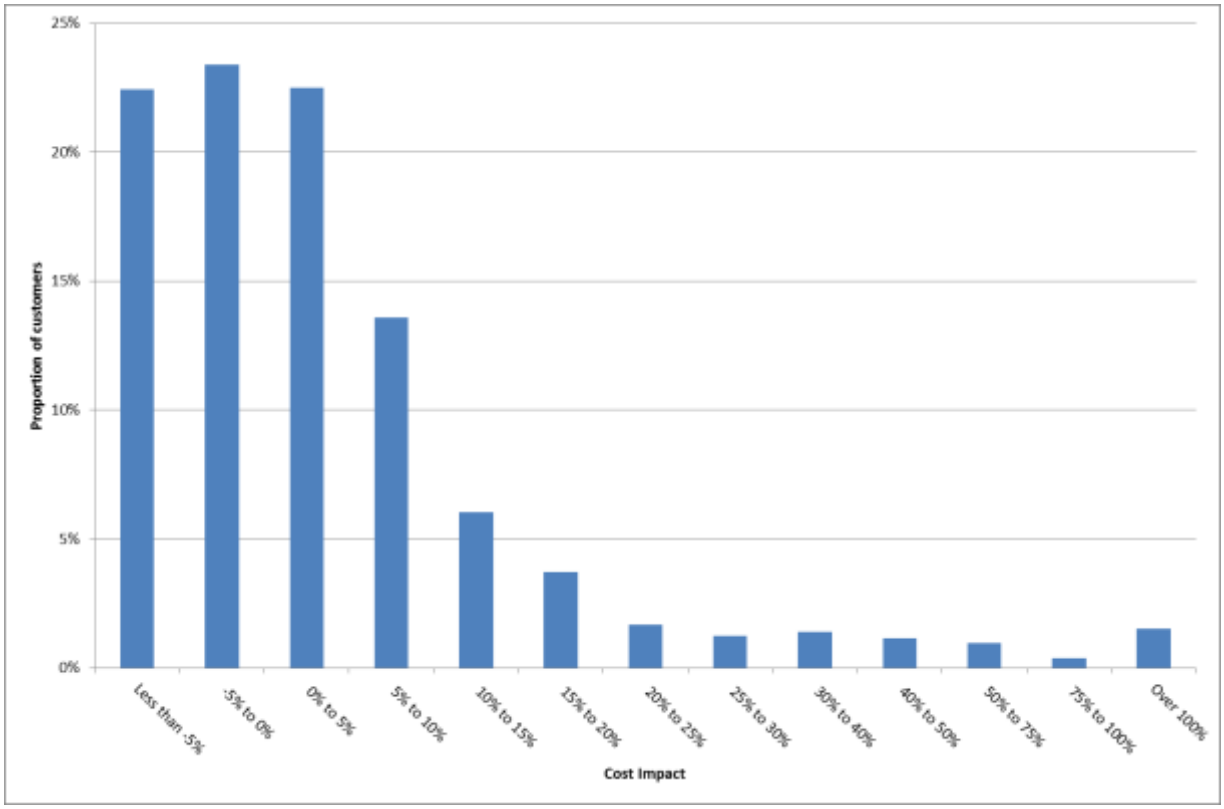


Table 38 Information on tariff 20 (large) and tariff 22 (small and large)

Who the tariff is for	*Number of regional customers*	*Most common increase*	*Driver for increase*	*Retain?*
Large business[83]	Tariff 20 (large): around 2,000 Tariff 22 (small and large): around 2,000	Tariff 20 (large): less than -5% Tariff 22 (small and large): -5% to 0%	Standard business tariffs have demand charges, while these tariffs do not. The standard business tariffs also have significantly higher fixed charges.	Tariff 20 (large): yes Tariff 22 (small and large): yes

[83] Tariff 22 (small and large) is also available to small business customers.

APPENDIX F: BUILD-UP OF PRICES

Table 39 2015–16 Regulated retail tariffs for residential customers (GST exclusive)

Retail tariff	*Tariff component*	*Fixed charge*	*Demand charge (flat/off-peak)*	*Demand charge (peak)*	*Variable charge (flat/off-peak)*	*Variable charge (shoulder)*	*Variable charge (peak)*
		c/day	*$/kW/mth*	*$/kW/mth*	*c/kWh*	*c/kWh*	*c/kWh*
Tariff 11 - Residential (flat rate)	Network	49.400			12.130		
	Energy				7.803		
	SRES Cost Pass Through				0.039		
	Retail	46.452					
	Margin	5.794			1.207		
	Headroom	5.082			1.059		
	Total[a]	106.728			22.238		
Tariff 12 - Residential (time of use)	Network	49.400			6.763	11.130	18.962
	Energy				7.803	7.803	7.803
	SRES Cost Pass Through				0.039	0.039	0.039
	Retail	46.452					
	Margin	5.794			0.883	1.147	1.620
	Headroom	5.082			0.774	1.006	1.421
	Total[a]	106.728			16.262	21.125	29.845
Tariff 12A - Regional Queensland residential (time of use)	Network	59.026			7.726	34.476	34.476
	Energy				7.803	7.803	7.803
	SRES Cost Pass Through				0.039	0.039	0.039
	Retail	46.452					
	Margin	6.376			0.941	2.558	2.558
	Headroom	5.593			0.825	2.244	2.244
	Total[a]	117.447			17.334	47.120	47.120
Tariff 14 - Regional Queensland residential (seasonal time-of-use demand)	Network	22.281	8.329	44.994	4.025		
	Energy				7.803		
	SRES Cost Pass Through				0.039		
	Retail	46.452					
	Margin	4.155	0.503	2.720	0.717		
	Headroom	3.644	0.442	2.386	0.629		
	Total[a]	76.532	9.274	50.100	13.213		

Retail tariff	*Tariff component*	*Fixed charge*	*Demand charge (flat/off-peak)*	*Demand charge (peak)*	*Variable charge (flat/off-peak)*	*Variable charge (shoulder)*	*Variable charge (peak)*
		c/day	*$/kW/mth*	*$/kW/mth*	*c/kWh*	*c/kWh*	*c/kWh*
Tariff 31 - Night rate (super economy)	Network				6.280		
	Energy				4.860		
	SRES Cost Pass Through				0.039		
	Retail						
	Margin				0.676		
	Headroom				0.593		
	Total[a]				12.448		
Tariff 33 - Controlled supply (economy)	Network				10.528		
	Energy				6.382		
	SRES Cost Pass Through				0.039		
	Retail						
	Margin				1.024		
	Headroom				0.899		
	Total[a]				18.872		

a. Totals may not add due to rounding.

Table 40 2015–16 Regulated retail tariffs for small business and unmetered supply customers (GST exclusive)

Retail tariff	*Tariff component*	*Fixed charge*	*Demand charge (flat/off-peak)*	*Demand charge (peak)*	*Variable charge (flat/off-peak)*	*Variable charge (shoulder)*	*Variable charge (peak)*
		c/day	*$/kW/mth*	*$/kW/mth*	*c/kWh*	*c/kWh*	*c/kWh*
Tariff 20 - Business (flat rate)	Network	70.800			12.348		
	Energy				7.803		
	SRES Cost Pass Through				0.039		
	Retail	46.452					
	Margin	7.087			1.220		
	Headroom	6.217			1.071		
	Total[b]	130.556			22.481		
Tariff 22 - Business (time of-use)	Network	70.800			9.406		14.176
	Energy				7.803		7.803
	SRES Cost Pass Through				0.039		0.039
	Retail	46.452					
	Margin	7.087			1.043		1.331
	Headroom	6.217			0.915		1.167
	Total[b]	130.556			19.206		24.516

Retail tariff	*Tariff component*	*Fixed charge*	*Demand charge (flat/off-peak)*	*Demand charge (peak)*	*Variable charge (flat/off-peak)*	*Variable charge (shoulder)*	*Variable charge (peak)*
		c/day	*$/kW/mth*	*$/kW/mth*	*c/kWh*	*c/kWh*	*c/kWh*
Tariff 22A - Regional Queensland business (time of-use)	Network	70.800			10.061	26.311	26.311
	Energy				7.803	7.803	7.803
	SRES Cost Pass Through				0.039	0.039	0.039
	Retail	46.452					
	Margin	7.087			1.082	2.064	2.064
	Headroom	6.217			0.949	1.811	1.811
	Total[b]	130.556			19.934	38.028	38.028
Tariff 24 - Regional Queensland business (seasonal time-of-use demand)	Network	27.747	10.373	69.629	4.757		
	Energy				7.803		
	SRES Cost Pass Through				0.039		
	Retail	46.452					
	Margin	4.485	0.627	4.209	0.762		
	Headroom	3.934	0.550	3.692	0.668		
	Total[b]	82.618	11.550	77.530	14.029		
Tariff 41 - Low voltage (demand)[a]	Network	509.600	25.394		1.892		
	Energy				7.803		
	SRES Cost Pass Through				0.039		
	Retail	46.452					
	Margin	33.611	1.535		0.588		
	Headroom	29.483	1.346		0.516		
	Total[b]	619.146	28.275		10.838		
Tariff 91 - Unmetered	Network				10.528		
	Energy				7.803		
	SRES Cost Pass Through				0.039		
	Retail						
	Margin				1.110		
	Headroom				0.974		
	Total[b]				20.454		

a. The kVA equivalent demand charge for tariff 41 is $24.713/kVA/month.

b. Totals may not add due to rounding.

Table 41 2015–16 Regulated Retail Tariffs for large business and street lighting customers (GST exclusive)

Retail tariff	*Tariff component*	*Fixed charge*	*Demand charge (flat/off-peak)*	*Demand charge (peak)*	*Variable charge (flat/off-peak)*	*Variable charge (peak)*
		c/day	*$/kW/mth*	*$/kW/mth*	*c/kWh*	*c/kWh*
Tariff 44 - Over 100 MWh small (demand)	Network	4,347.600	33.885		2.087	
	Energy				7.327	
	SRES Cost Pass Through				0.042	
	Retail	207.647				
	Margin	275.344	2.048		0.572	
	Headroom	241.530	1.797		0.501	
	Total[b]	5,072.121	37.730		10.529	
Tariff 45 - Over 100 MWh medium (demand)	Network	14,481.300	28.396		2.044	
	Energy				7.327	
	SRES Cost Pass Through				0.042	
	Retail	207.647				
	Margin	887.879	1.716		0.569	
	Headroom	778.841	1.506		0.499	
	Total[b]	16,355.667	31.618		10.481	
Tariff 46 - Over 100 MWh large (demand)	Network	39,064.800	24.513		2.171	
	Energy				7.327	
	SRES Cost Pass Through				0.042	
	Retail	207.647				
	Margin	2,373.838	1.482		0.577	
	Headroom	2,082.314	1.300		0.506	
	Total[b]	43,728.599	27.295		10.623	
Tariff 47 - High voltage (demand)	Network	34,833.500	21.826		1.816	
	Energy				6.955	
	SRES Cost Pass Through				0.039	
	Retail	207.647				
	Margin	2,118.076	1.319		0.533	
	Headroom	1,857.961	1.157		0.467	
	Total[b]	39,017.184	24.302		9.810	

Retail tariff	*Tariff component*	*Fixed charge*	*Demand charge (flat/off-peak)*	*Demand charge (peak)*	*Variable charge (flat/off-peak)*	*Variable charge (peak)*
		c/day	*$/kW/mth*	*$/kW/mth*	*c/kWh*	*c/kWh*
Tariff 48 – Over 4 GWh High voltage (demand)	Network	34,833.500	21.826		1.816	
	Energy				6.955	
	SRES Cost Pass Through				0.039	
	Retail	591.870				
	Margin	2,141.300	1.319		0.533	
	Headroom	1,878.334	1.157		0.467	
	Total[b]	39,445.004	24.302		9.810	
Tariff 50 - Over 100 MWh (time-of-use + demand)	Network	3,772.000	14.181	49.074	5.035	1.671
	Energy				7.327	7.327
	SRES Cost Pass Through				0.042	0.042
	Retail	207.647				
	Margin	240.551	0.857	2.966	0.750	0.546
	Headroom	211.010	0.752	2.602	0.658	0.479
	Total[b]	4,431.208	15.790	54.642	13.812	10.065
Tariff 71 - Street lighting[a]	Network	0.600			18.104	
	Energy				7.327	
	SRES Cost Pass Through				0.042	
	Retail					
	Margin	0.036			1.540	
	Headroom	0.032			1.351	
	Total[b]	0.668			28.364	

a. The fixed charge for street lighting applies to each lamp.

b. Totals may not add due to rounding.

APPENDIX G: GAZETTE NOTICE WITH TARIFF SCHEDULE

Queensland Government Gazette

RETAIL ELECTRICITY PRICES FOR STANDARD CONTRACT CUSTOMERS

Electricity Act 1994

The notified prices are the prices decided under section 90(1) of the *Electricity Act 1994* (the Electricity Act).

A retailer must charge its Standard Contract Customers, as defined in the Electricity Act, the notified prices subject to the provisions of sections 91, 91A and 91AA of the Electricity Act, sections 22(2) and 23(2) of the *National Energy Retail Law (Queensland) Act 2014*, and sections 22A(2), 64D(2) and 64J(2) of the *National Energy Retail Law*.

Pursuant to the Certificate of Delegation from the Minister for Energy and Water Supply (dated 22 April 2015) and sections 90(2), 90(3)(a) and 90AB of the Electricity Act, I hereby state that the Queensland Competition Authority decided that, on and from 1 July 2015, the notified prices are the applicable prices set out in the attached Tariff Schedule.

The Tariff Schedule does not apply to any customers in Energex Limited's distribution area who consume 100 megawatt hours (MWh) per annum or more, unless the customer is classified as residential. For a residential customer, including a residential body corporate, there is no maximum consumption threshold. Business (non-residential) customers in the Energex distribution area who consume 100 MWh per annum or more do not have access to notified prices.

Eligible customers may access the transitional tariffs in Part 2 of the Tariff Schedule. These tariffs will be available for a set period of time as a transitional measure to assist customers in moving to the standard business tariffs in the future. Customers on the transitional tariffs may opt to transfer to the standard business tariffs in Part 1 of the Tariff Schedule at any time, subject to eligibility requirements.

This Tariff Schedule does not apply to Standard Contract Customers supplied by Origin Energy Electricity Limited connected to Essential Energy's New South Wales network (which extends into southern Queensland). These customers will generally pay no more for electricity than other Queensland Standard Contract Customers of similar usage categories or classes.

As required by section 90AB(4) of the Electricity Act, the notified prices are exclusive of the goods and services tax ('GST') payable under the *A New Tax System (Goods and Services Tax) Act 1999* (Cth) (the GST Act).

In addition to the applicable tariff, a retailer may charge a Standard Contract Customer an additional amount in accordance with a program or scheme for the purchase of electricity from renewable or environmentally-friendly sources (whether or not that additional amount is calculated on the basis of the customer's electricity consumption), but only if –

(a) the customer voluntarily participates in such program or scheme;

(b) the additional amount is payable under the program or scheme; and

(c) the retailer gives the customer prior written notice of any change to the additional amount payable under the program or scheme.

Dated this 18th day of June 2015.

Roy Green, Chairman
Queensland Competition Authority

TARIFF SCHEDULE

Note 1: For the purposes of sections 90, 91, 91A and 91AA of the Electricity Act, the tariffs and other retail fees and charges in this Tariff Schedule are exclusive of GST payable under the GST Act.

Note 2: This Tariff Schedule replaces the Tariff Schedule published in the Queensland Government Gazette on 18 July 2014.

Note 3: This Tariff Schedule is structured in several Parts:

- Parts 1 to 5 (inclusive) apply to eligible Standard Contract Customers in Ergon Energy Corporation Limited's and Energex Limited's distribution area, and large customers on a Standard Contract of Ergon Energy Queensland Pty Ltd; and
- Part 6 applies to eligible Standard Contract Customers of Ergon Energy Queensland Pty Ltd. Eligible customers of other retailers may apply directly to the Department of Energy and Water Supply for relief from electricity charges if a drought declaration is in force – see Part 6 for more detail.

Note 4: To ensure the correct application of the tariffs set out in this Tariff Schedule, the retailer and the customer must have regard to Part 4 (Application of Tariffs for Customers on Notified Prices – General).

Note 5: Any reference in this Tariff Schedule to a time is a reference to Eastern Standard Time.

Note 6: "NMI" means the National Metering Identifier and is applicable to the point at which a premises is connected to a distribution entity's network.

Note 7: A primary tariff is the tariff that reflects the primary use of the premises or the majority of the load, and is capable of existing by itself against a NMI. A secondary tariff is any other tariff.

Note 8: Only days that supply is connected are to be counted for billing of charges.

Note 9: A service fee is a fixed amount charged daily to cover the costs of maintaining electricity supply to a premises, including the costs associated with the provision of equipment and general administration. Retailers may use different terms for this charge, including Service Charge, Daily Supply Charge and Service to Property Charge.

Note 10: From 1 July 2015, metering charges will no longer be included in notified prices. Metering charges will now be applied in addition to the notified prices contained in this gazette.

Note 11: Unless otherwise defined, the terminology used in this Tariff Schedule is intended to be consistent with the energy laws.

Part 1

TARIFFS FOR RESIDENTIAL, COMMERCIAL AND RURAL APPLICATIONS

***Tariff 11* – Residential (Lighting, Power and Continuous Water Heating) –**

This tariff is applicable to a customer who is classified as residential by the relevant retailer and can be accessed by a business customer consuming less than 100MWh per annum providing it is in conjunction with a primary business tariff (Tariff 20, 21, 22, 22A, 24, 41, 62, 65 or 66) at the same NMI.

This tariff is also applicable to electricity used in separately metered common sections of residential premises consisting of more than one flat or home unit.

This tariff cannot be used in conjunction with Tariff 12 (Residential) (Time-of-Use), Tariff 12A (Residential) (Time-of-Use) or Tariff 14 (Residential) (Seasonal Time-of-Use Demand) at the same NMI.

Where a NMI has multiple meters, the consumption for all meters that record consumption for Tariff 11 will be aggregated for billing purposes.

No large customers are eligible for this tariff.

All Consumption	**22.238 c/kWh**
plus a Service Fee per metering point per day of	**106.728 c**

Further applications of this tariff are described in Part 4 (Application of Tariffs for Customers on Notified Prices – General) and Part 5 (Concessional Applications of Tariffs 11, 12, 12A and 14 (Residential)).

***Tariff 12* – Residential (Lighting, Power and Continuous Water Heating) (Time-of-Use) –**

This tariff is applicable to a customer in Energex Limited's distribution area who is classified as residential by the relevant retail entity and can be accessed by a business customer consuming less than 100MWh per annum providing it is in conjunction with a primary business tariff (Tariff 20, 21, 22, 41, 62, 65 or 66) at the same NMI.

This tariff is also applicable to electricity used in separately metered common sections of residential premises consisting of more than one flat or home unit.

This tariff cannot be used in conjunction with Tariff 11 (Residential) at the same NMI.

Where a NMI has multiple meters, the consumption for all meters that record consumption for Tariff 12 will be aggregated for billing purposes.

No large customers are eligible for this tariff.

Customers must have the appropriate metering installed in order to access this tariff.

All consumption

Weekdays:	
Off-Peak (10pm-7am)	**16.262 c/kWh**
Shoulder (7am-4pm), (8pm-10pm)	**21.125 c/kWh**
Peak (4pm-8pm)	**29.845 c/kWh**
Weekends:	
Off-Peak (10pm-7am)	**16.262 c/kWh**
Shoulder (7am-10pm)	**21.125 c/kWh**

plus a Service Fee per metering point per day of **106.728 c**

Further applications of this tariff are described in Part 4 (Application of Tariffs for Customers on Notified Prices – General) and Part 5 (Concessional Applications of Tariffs 11, 12, 12A and 14 (Residential)).

Tariff 12A **– Residential (Lighting, Power and Continuous Water Heating) (Time-of-Use) –**

This tariff is applicable to a customer in Ergon Energy Corporation Limited's distribution area who is classified as residential by the relevant retailer and can be accessed by a business customer consuming less than 100MWh per annum providing it is in conjunction with a primary business tariff (Tariff 20, 21, 22, 22A, 24 41, 62, 65 or 66) at the same NMI.

This tariff is also applicable to electricity used in separately metered common sections of residential premises consisting of more than one flat or home unit.

This tariff cannot be used in conjunction with Tariff 11 or 14 (Residential) at the same NMI.

Where a NMI has multiple meters, the consumption for all meters that record consumption for Tariff 12A will be aggregated for billing purposes.

No large customers are eligible for this tariff.

Customers must have the appropriate metering installed in order to access this tariff.

Consumption during Summer (December, January and February):	
Peak	
Weekdays 4:30pm to 9pm	**47.120 c/kWh**
Shoulder	
Weekdays 3:00pm to 4:30pm	
Weekdays 9:00pm to 9:30pm	
Weekends 3:00pm to 9:30pm	**47.120 c/kWh**
Off-peak	
All other times	**17.334 c/kWh**
Non-summer consumption (March - November)	
All Consumption	**17.334 c/kWh**

plus a Service Fee per metering point per day of **117.447 c**

Further applications of this tariff are described in Part 4 (Application of Tariffs for Customers on Notified Prices – General) and Part 5 (Concessional Applications of Tariffs 11, 12, 12A and 14 (Residential)).

Tariff 14 **– Residential (Seasonal Time-of-Use Demand) –**

This tariff is applicable to a customer in Ergon Energy Corporation Limited's distribution area who is classified as residential by the relevant retailer.

Customers must have the appropriate metering installed in order to access this tariff. Where a NMI has multiple meters, the consumption for all meters that record consumption for Tariff 14 will be aggregated for billing purposes.

This tariff is available at the absolute discretion of the retailer and the distribution entity.

Demand Charges

'Demand' refers to the import demand in kilowatts (No adjustment to import demand is made for export to the distribution network).

Peak Demand - demand between 3:00pm and 9:30pm, any day of the week, in summer months (December, January and February).

Off Peak Demand - demand at all times in non-summer months (March to November inclusive).

Peak Demand Calculation

The Peak Demand Calculation uses the customer's top 4 peak demand days (based on daily individual maximum half hour kW demand) in the peak window (3:00pm to 9:30pm). This is a separate calculation in each summer month (December, January and February). The demand charge will be applied to the average kW demand calculated for the total 52 half hour period each month (ie.13 half hour intervals in each peak window x 4 peak demand days).

$50.100 per kilowatt per month of chargeable peak demand.

Off Peak Demand Calculation

The Off Peak Demand Calculation uses the highest maximum kW demand in any single half hour at any time during each non-summer month (March to November inclusive). The off peak demand quantity is subject to a minimum chargeable demand of 3kW. The off peak demand charge does not apply in summer months.

$9.274 per kilowatt per month of chargeable off-peak demand.

All Consumption	**13.213 c/kWh**

plus a Service Fee per metering point per day of **76.532 c**

Further applications of this tariff are described in Part 4 (Application of Tariffs for Customers on Notified Prices – General) and Part 5 (Concessional Applications of Tariffs 11, 12, 12A and 14 (Residential)).

***Tariff 20* – Business General Supply –**

This tariff cannot be accessed by large customers. Refer Part 2 for transitional tariffs for existing large customers.

Residential customers can access this tariff providing:

- the electricity is used in separately metered common sections of residential premises consisting of more than one flat or home unit; or
- it is in conjunction with a primary residential tariff at the same NMI.

All Consumption	**22.481 c/kWh**
plus a Service Fee per metering point per day of	**130.556 c**

***Tariff 22* – Business General Supply – Time-of-Use –**

This tariff is accessible by a business customer consuming less than 100MWh per annum in Energex Limited's distribution area.

In Ergon Energy Corporation Limited's distribution area this tariff will be phased out no later than 30 June 2017 and no new customers will be supplied under this tariff. It is available only to customers taking supply under Tariff 22 at 30 June 2015.

This tariff cannot be accessed by large customers. Refer Part 2 for transitional tariffs for existing large customers.

Residential customers can access this tariff providing:

- the electricity is used in separately metered common sections of residential premises consisting of more than one flat or home unit; or
- it is in conjunction with a primary residential tariff at the same NMI.

Customers must have the appropriate metering installed in order to access this tariff.

For electricity consumed between the hours of 7.00 am and 9.00 pm, Monday to Friday inclusive -

All Consumption	**24.516 c/kWh**

For electricity consumed at other times -

All Consumption	**19.206 c/kWh**
plus a Service Fee per metering point per day of	**130.556 c**

Tariff 22A – Business General Supply – Time of Use

This tariff is applicable to business customers consuming less than 100MWh per annum in Ergon Energy Corporation Limited's distribution area. This tariff cannot be accessed by large customers. Refer Part 2 for transitional tariffs for existing large customers.

Customers must have the appropriate metering installed in order to access this tariff.

Consumption during Summer (December, January and February):

Peak Weekdays 11:30am to 5:30pm	**38.028 c/kWh**
Shoulder Weekdays 10:00am to 11:30am Weekdays 5:30pm to 8:00pm	**38.028 c/kWh**
Off-peak All other times	**19.934 c/kWh**

Non-summer consumption (March - November)

All Consumption	**19.934 c/kWh**
plus a Service Fee per metering point per day of	**130.556 c**

***Tariff 24* – Business (Seasonal Time-of-Use Demand)**

This tariff is applicable to a customer in Ergon Energy Corporation Limited's distribution area who is classified as business by the relevant retailer. The tariff cannot be accessed by large customers.

Tariff 31 can be used in conjunction with this Tariff at the same NMI.

Customers must have the appropriate metering installed in order to access this tariff. Where a NMI has multiple meters, the consumption for all meters that record consumption for Tariff 24 will be aggregated for billing purposes.

This tariff is available at the absolute discretion of the retailer and the distribution entity.

Demand Charges –

'Demand' refers to the import demand in kilowatts (No adjustment to import demand is made for export to the distribution network).

Peak Demand – demand between 10:00am and 8:00pm weekdays (Monday to Friday) in summer months (December, January and February)

Off Peak Demand - demand at all times in non-summer months (March to November inclusive).

Peak Demand Calculation

The Peak Demand is calculated using the customer's top 4 peak demand days (based on daily individual maximum half hour kW demand) in the peak window (10.00am to 8.00pm). This is a separate calculation in each summer month (December, January and February). The demand charge will be applied to the average kW demand calculated for the total 80 half hour period each month (ie.20 half hour intervals in each peak window x 4 peak demand days).

$77.530 per kilowatt per month of chargeable peak demand.

Off Peak Demand Calculation

The Off Peak Demand Calculation uses the highest maximum kW demand in any single half hour at any time during each non-summer month (March to November inclusive). The off peak demand quantity is subject to a minimum chargeable demand of 3kW. The off peak demand charge does not apply in summer months.

Demand for all times non-summer months (March-November inclusive).

$11.550 per kilowatt per month of chargeable off-peak demand.

Energy Charge

All Consumption **14.029 c/kWh**

plus a Service Fee per metering point per day of **82.618 c**

Further applications of this tariff are described in Part 4 (Application of Tariffs for Customers on Notified Prices – General).

Tariff 31 **– Night Rate (Super Economy) –**

Eligible customers can access this tariff providing it is in conjunction with a residential or business tariff at the same NMI at the discretion of the distribution entity.

This tariff is not available to large customers in Ergon Energy Corporation Limited's distribution area.

This tariff is applicable when electricity supply is:

- permanently connected to apparatus; or
- connected to apparatus by means of a socket-outlet as approved by the distribution entity; or
- permanently connected to specified parts of apparatus;

as set out below (but not applicable, except as described in (c) below, if provision has been made to supply such apparatus or the specified part thereof under a different tariff during the restricted period) -

(a) Electric storage water heaters with thermostatically controlled or continuously operating heating units and which comply with the construction and performance requirements of Australian Standard 1361 or 1056 or previous Standards superseded by these two Standards or similar electric water heaters which are approved for connection by the distribution entity.

Where the heating unit rating exceeds 1,800 watts, it shall not exceed 13.5 watts per litre of heat storage volume for heat exchange type water heaters or 15.5 watts per litre of rated hot water delivery for other storage type water heaters.

The following conditions shall apply to any booster heating unit fitted -

(i) its rating shall not exceed that of the main heating unit;

(ii) it shall be connected so as to prevent it being energised simultaneously with the main heating unit;

(iii) electricity consumed by the booster heating unit shall be metered under and charged at the tariff applicable to general power usage at the premises concerned;

(iv) it shall be located in accordance with the provisions of the above Standards.

(b) Solar-heated water heaters. Where the electric heating unit rating exceeds 1,800 watts, it shall not exceed 13.5 watts per litre of storage tank capacity. If a circulating water pump is fitted to the system, continuous supply will be available to the pump, and electricity consumed shall be metered under and charged at the tariff applicable to general power usage at the premises concerned.

(c) One-shot boost for solar-heated water heaters with electric heating units as described in (b) above. A current held changeover relay may be fitted to the water heater to deliver, at the customer's convenience, a 'one-shot boost' supply to the electric heating element at times when supply is not available under this Tariff 31 (generally between the hours of 7.00 am and 10.00 pm). Such supply is subject to thermostatically controlled switchoff. Electricity consumed during operation of the one-shot boost shall be metered under and charged at the tariff applicable to general power usage at the premises concerned. Supply and installation of a current held changeover relay, including the cost of same, is the responsibility of the customer.

(Reference in this Tariff Schedule to a 'booster heating unit' does not mean a current held changeover relay which is capable of delivering a 'one-shot boost'.)

(d) Heat pump water heaters. Where the rated electrical input, as shown on the nameplate, exceeds 1,800 watts, it shall not exceed 13.5 watts per litre of storage tank capacity.

(e) Heatbanks. Booster heating units are permitted in heatbanks in which the main element rating is at least 2 kilowatts. The following conditions shall apply to any booster heating unit fitted –

(i) its rating shall not exceed 70 percent of the rating of the main heating unit;

(ii) it shall be connected so as to prevent it being energised simultaneously with the main heating unit;

(iii) electricity consumed by the booster heating unit shall be metered under and charged at the tariff applicable to general power usage at the premises concerned.

(f) Electric Vehicles, at the discretion of the distributor.

(g) Loads other than water heaters and heatbanks, but is not applicable -

(i) to arc or resistance welding plant;

(ii) where the apparatus is duplicated in order that supply may be obtained on a different tariff for the same purpose during the restricted period.

The distribution entity will provide and install load control equipment. Charges may apply for distribution services associated with the load control equipment, where the costs of the requested service are not included in the distribution entity's network charges.

Supply will be available for a minimum of 8 hours per day, but the times when supply is available is subject to variation at the absolute discretion of the distribution entity. In general, this supply will be between the hours of 10.00 pm and 7.00 am.

All Consumption **12.448 c/kWh**

Tariff 33 **– Controlled Supply (Economy) –**

Eligible customers can access this tariff providing it is in conjunction with a residential or business tariff at the same NMI at the discretion of the distribution entity.

This tariff is not available to large customers or in conjunction with Tariff 24 in Ergon Energy Corporation Limited's distribution area.

This tariff is applicable when electricity supply is:

(a) connected to apparatus (e.g. pool filtration system) by means of a socket-outlet as approved by the distribution entity; or

(b) permanently connected to apparatus as set out below (but not applicable if provision has been made to supply such apparatus under a different tariff in the periods during which supply is not available under this tariff) –

(i) Electric storage water heaters with thermostatically controlled or continuously operating heating units and which comply with the construction and performance requirements of Australian Standard 1361 or 1056 or previous Standards superseded by these two Standards or similar electric water heaters which are approved for connection by the distribution entity.

Where the heating unit rating exceeds 1,800 watts, it shall not exceed 13.5 watts per litre of heat storage volume for heat exchange type water heaters or 15.5 watts per litre of rated hot water delivery for other storage type water heaters.

(ii) Solar-heated water heaters. Where the electric heating unit rating exceeds 1,800 watts, it shall not exceed 13.5 watts per litre of storage tank capacity.

(iii) Heat pump water heaters. Where the rated electrical input, as shown on the nameplate, exceeds 1,800 watts, it shall not exceed 13.5 watts per litre of storage tank capacity.

(iv) Electric Vehicles, at the discretion of the distributor.

(v) As a sole supply tariff at the absolute discretion of the distribution entity.

(vi) Other individual loads in domestic installations, but is not applicable –

- to arc or resistance welding plant;
- where the apparatus is duplicated in order that supply may be obtained on a different tariff for the same purpose during the restricted period.

The distribution entity will provide and install load control equipment. Charges may apply for distribution services associated with the load control equipment, where the costs of the requested service are not included in the distribution entity's network charges.

Supply will be available for a minimum of 18 hours per day, but the times when supply is available is subject to variation at the absolute discretion of the distribution entity.

All Consumption **18.872 c/kWh**

Tariff 41 **– Business Low Voltage General Supply (Demand) –**

This tariff cannot be accessed by large customers. Refer Part 2 for transitional tariffs for large customers.

Demand Charge –

$28.275 per kilowatt or
$24.713 per kilovolt-ampere

per month of chargeable demand.

Energy Charge –

All Consumption **10.838 c/kWh**

plus a Service Fee per metering point per day of **619.146 c**

The chargeable demand in any month shall be the maximum demand recorded in that month.

'Demand' shall mean the average demand over a period of 30 minutes, as measured on the distribution entity's meters. All customers in Ergon Energy Corporation Limited's distribution area will be charged for demand on a kilowatt basis.

Customers must have the appropriate metering installed in order to access this tariff.

Tariff 44 **– Business Over 100MWh per annum (Demand Small)**

This tariff can be accessed by customers classified as SAC >100MWh per annum by the distribution entity. The tariff is based on the Ergon Energy Corporation Limited network tariff of Demand Small.

A Standard Asset Customer - Large (SAC - Large) is a customer in Ergon Energy Corporation Limited's distribution area whose annual energy consumption generally exceeds 100MWh.

This tariff cannot be used in conjunction with any other tariff at that NMI.

Demand Charge –

$37.730 per kilowatt per month of chargeable demand.

Energy Charge –

All Consumption	**10.529 c/kWh**
plus a Service Fee per metering point per day of	**5,072.121 c**

The chargeable demand charge in any month will be the kW amount by which a customer's metered monthly maximum demand is greater than the demand threshold applicable to this tariff which is 30 kW.

Where the monthly metered maximum demand is less than the demand threshold, the chargeable demand is set to zero and no demand charge is payable for that month.

'Demand' shall mean the average demand in kilowatts over a period of 30 minutes, as measured on the meters at that NMI.

Customers must have the appropriate metering installed in order to access this tariff.

Tariff 45 **– Business Over 100MWh per annum (Demand Medium)**

This tariff can be accessed by customers classified as SAC >100MWh per annum by the distribution entity. The tariff is based on the Ergon Energy Corporation Limited network tariff of Demand Medium.

A Standard Asset Customer - Large (SAC - Large) is a customer in Ergon Energy Corporation Limited's distribution area whose annual energy consumption generally exceeds 100MWh.

This tariff cannot be used in conjunction with any other tariff at that NMI

Demand Charge –

$31.618 per kilowatt per month of chargeable demand.

Energy Charge –

All Consumption	**10.481 c/kWh**
plus a Service Fee per metering point per day of	**16,355.667 c**

The chargeable demand charge in any month will be the kW amount by which a customer's metered monthly maximum demand is greater than the demand threshold applicable to this tariff which is 120kW.

Where the monthly metered maximum demand is less than the demand threshold, the chargeable demand is set to zero and no demand charge is payable for that month.

'Demand' shall mean the average demand in kilowatts over a period of 30 minutes, as measured on the meters at that NMI.

Customers must have the appropriate metering installed in order to access this tariff.

Tariff 46 **– Business Over 100MWh per annum (Demand Large)**

This tariff can be accessed by customers classified as SAC >100MWh per annum by the distribution entity. The tariff is based on the Ergon Energy Corporation Limited network tariff of Demand Large.

A Standard Asset Customer - Large (SAC - Large) is a customer in Ergon Energy Corporation Limited's distribution area whose annual energy consumption generally exceeds 100MWh.

This tariff cannot be used in conjunction with any other tariff at that NMI

Demand Charge –

$27.295 per kilowatt per month of chargeable demand.

Energy Charge –

All Consumption	**10.623 c/kWh**
plus a Service Fee per metering point per day of	**43,728.599 c**

The chargeable demand charge in any month will be applied to the kW amount by which a customer's metered monthly maximum demand is greater than the demand threshold applicable to this tariff which is 400 kW.

Where the monthly metered maximum demand is less than the demand threshold, the chargeable demand is set to zero and no demand charge is payable for that month.

'Demand' shall mean the average demand in kilowatts over a period of 30 minutes, as measured on the meters at that NMI.

Customers must have the appropriate metering installed in order to access this tariff.

Tariff 47 – Business - High Voltage General Supply (Demand)

This tariff can be accessed by customers classified as SAC >100MWh per annum by the distribution entity. The tariff is based on the Ergon Energy Corporation Limited network tariff of Demand High Voltage.

A Standard Asset Customer - Large (SAC - Large) is a customer in Ergon Energy Corporation Limited's distribution area whose annual energy consumption generally exceeds 100MWh.

This tariff cannot be used in conjunction with any other tariff at that NMI.

This tariff cannot be accessed by large customers who are classified as Connection Asset Customers or Individually Calculated Customers by the distribution entity.

Demand Charge –

$24.302 per kilowatt per month of chargeable demand.

Energy Charge –

All Consumption	**9.810 c/kWh**
plus a Service Fee per metering point per day of	**39,017.184 c**

The chargeable demand charge in any month will be applied to the kW amount by which a customer's metered monthly maximum demand is greater than the demand threshold applicable to this tariff which is 400 kW.

Where the monthly metered maximum demand is less than the demand threshold, the chargeable demand is set to zero and no demand charge is payable for that month.

'Demand' shall mean the average demand in kilowatts over a period of 30 minutes, as measured on the meters at that NMI.
Supply under this tariff will be at a standard high voltage, the level of which shall be prescribed by the distribution entity. Credits for high voltage supply are not applicable to this tariff.

Customers must have the appropriate metering installed in order to access this tariff.

***Tariff 48* – Business - General Supply (>4 Gigawatt Hours (GWh)) (Demand)**

This tariff can only be accessed by large customers who are classified as Connection Asset Customers or Individually Calculated Customers by the distribution entity. The tariff is based on the Ergon Energy Corporation Limited network tariff of Demand High Voltage.

A Connection Asset Customer is a large business customer in Ergon Energy Corporation Limited's distribution area whose annual energy consumption generally exceeds 4GWh.

An Individually Calculated Customer is a large business customer in Ergon Energy Corporation Limited's distribution area whose annual energy consumption generally exceeds 40GWh.

This tariff cannot be used in conjunction with any other tariff at that NMI.

Demand Charge –

$24.302 per kilowatt per month of chargeable demand.

Energy Charge –

All Consumption	**9.810 c/kWh**
plus a Service Fee per metering point per day of	**39,445.004 c**

The chargeable demand charge in any month will be applied to the kW amount by which a customer's metered monthly maximum demand is greater than the demand threshold applicable to this tariff which is 400 kW.

Where the monthly metered maximum demand is less than the demand threshold, the chargeable demand is set to zero and no demand charge is payable for that month.

'Demand' shall mean the average demand in kilowatts over a period of 30 minutes, as measured on the meters at that NMI. Credits for high voltage supply are not applicable to this tariff.

Customers must have the appropriate metering installed in order to access this tariff.

Tariff 50 – Business - Seasonal Time of Use Demand (over 100MWh per annum)

This tariff can be accessed by customers classified as SAC >100MWh per annum by the distribution entity. The tariff is based on the Ergon Energy Corporation Limited network tariff of Seasonal Time of Use Demand for SAC Large.

A SAC - Large customer is a customer in Ergon Energy Corporation Limited's distribution area whose annual energy consumption generally exceeds 100MWh.

This tariff cannot be used in conjunction with any other tariff at that NMI.

Customers must have the appropriate metering installed in order to access this tariff.

The chargeable demand charge for peak and shoulder periods in any summer month (December, January or February) will be applied to the kW amount by which a customer's metered monthly maximum demand is greater than the demand threshold of 20 kW.

The chargeable demand charge for all other months (ie from March through to November) will be applied to the kW amount by which a customer's metered monthly maximum demand is greater than the demand threshold of 40 kW.

Where the monthly metered maximum demand is less than the demand threshold, the chargeable demand is set to zero and no demand charge is payable for that time period of that month.

'Demand' shall mean the average demand in kilowatts over a period of 30 minutes, as measured on the meters at that NMI.

Demand Charges –

Summer Demand (December, January and February)
Weekdays 10:00am to 8:00pm

$54.642 per kilowatt per month of maximum metered demand exceeding 20 kilowatts.

Non-summer demand (March to November)

$15.790 per kilowatt per month of maximum metered demand exceeding 40 kilowatts.

Energy Charge –

All consumption during summer months (December, January and February)	**10.065 c/kWh**
All consumption during non-summer months (March to November)	**13.812 c/kWh**
plus a Service Fee per metering point per day of	**4,431.208 c**

Part 2

TRANSITIONAL TARIFFS FOR NEW AND EXISTING CUSTOMERS

The following tariffs are available as a transitional measure to assist new and existing customers in moving to standard business tariffs in the future. Transitional tariffs will be phased out no later than 30 June 2020.

Tariff 20 (Large) **– Business General Supply (Transitional)**

This transitional tariff is available to large customers in Ergon Energy Corporation Limited's distribution area and will be phased out no later than 30 June 2020.

This tariff cannot be accessed by small customers.

All Consumption	**30.866 c/kWh**
plus a Service Fee per metering point per day of	**63.100 c**

Tariff 21 **– Business General Supply (Transitional)**

This transitional tariff will be phased out no later than 30 June 2020.

This tariff can only be accessed by a residential customer if it is in conjunction with a primary residential tariff at the same NMI.

This tariff shall not apply in conjunction with Tariff 20, 22, 22A, 24 or 62.

First 100 kilowatt hours per month	**41.818 c/kWh**
Next 9,900 kilowatt hours per month	**39.291 c/kWh**
Remaining kilowatt hours per month	**29.911 c/kWh**
plus a Minimum Payment per day of	**61.538 c**

Tariff 22 - (Small and Large) **– Business General Supply – Time-of-Use (Transitional)**

This transitional tariff will be phased out no later than 30 June 2020.

This tariff can only be accessed by a residential customer if it is in conjunction with a primary residential tariff at the same NMI.

Customers must have the appropriate metering installed in order to access this tariff.

For electricity consumed between the hours of 7.00 am and 9.00 pm, Monday to Friday inclusive -

All Consumption	**40.902 c/kWh**

For electricity consumed at other times -

All Consumption	**14.403 c/kWh**
plus a Service Fee per metering point per day of	**151.652 c**

Tariff 37 **– Non-Domestic Heating – Time-of-Use (Obsolescent) –**

This tariff will be phased out no later than 30 June 2020. No new customers will be supplied under this tariff. It is available only to customers taking supply under Tariff 37 at 30 June 2007.

Applicable to permanently connected –

(a) Electric storage water heaters in non-domestic installations with thermostatically controlled or continuously operating heating units and which comply with the construction and performance requirements of Australian Standard 1361 or 1056 or previous Standards superseded by these two Standards or similar electric water heaters which are approved for connection by the distribution entity.

The heating unit rating shall not exceed 40.5 watts per litre of heat storage volume for heat exchange type water heaters or 46.5 watts per litre of rated hot water delivery for other storage type water heaters.

(b) Apparatus for the production of steam.

(c) Heating loads other than (a) and (b) above. The minimum total connected load under this section of this tariff is 4 kilowatts. Supplementary load that is permanently connected as an integral part of the installation may be supplied under this section provided that the aggregated rating of such supplementary load does not exceed 10 percent of the heating load.

For electricity consumed between the hours of 4.30 pm and 10.30 pm	**44.780 c/kWh**
For electricity consumed between the hours of 10.30 pm and 4.30 pm	**17.904 c/kWh**
Minimum Payment per day of	**25.141 c**

Tariff 62 **- Farm - Time-of-Use (Transitional)**

This transitional tariff will be phased out no later than 30 June 2020.

This tariff can only be accessed by a residential customer if it is in conjunction with a primary residential tariff at the same NMI.

This tariff shall not apply in conjunction with Tariff 20, 21, 22 22A or 24 at the same NMI.

For electricity consumed between the hours of 7.00 am and 9.00 pm, Monday to Friday inclusive –

First 10,000 kilowatt hours per month	**39.411 c/kWh**
Remaining kilowatt hours	**33.328 c/kWh**
For electricity consumed at other times -	
All Consumption	**13.936 c/kWh**
plus a Service Fee per metering point per day of	**66.468 c**

Tariff 65 **- Irrigation - Time-of-Use (Transitional)**

This transitional tariff will be phased out no later than 30 June 2020.

This tariff can only be accessed by a residential customer if it is in conjunction with a primary residential tariff at the same NMI.

For electricity consumed in a fixed 12 hour daily pricing period (as agreed between the retailer and the customer from the range 7.00 am to 7.00 pm; 7.30 am to 7.30 pm; or 8.00 am to 8.00 pm) Monday to Sunday inclusive -

All Consumption	**31.438 c/kWh**
For electricity consumed at other times –	
All Consumption	**17.316 c/kWh**
plus a Service Fee per metering point per day of	**66.468 c**

No alteration to the selected daily pricing period shall be permitted until a period of twelve months has elapsed from the previous selection.

Tariff 66 **– Irrigation (Transitional)**

This transitional tariff will be phased out no later than 30 June 2020.

This tariff can only be accessed by a residential customer if it is in conjunction with a primary residential tariff at the same NMI.

Annual Fixed Charge (in respect of each point of supply) - per kilowatt of connected motor capacity used for irrigation pumping –

First 7.5 kilowatts	**$31.957 per kW**
Remaining kilowatts	**$96.085 per kW**
Energy Charge –	
All Consumption	**16.478 c/kWh**
plus a Service Fee per metering point per day of	**146.493 c**

Minimum Annual Fixed Charge - As calculated for 7.5 kW (Note – 7.5 kW is equivalent to 10.05 h.p.)

Any customer taking supply under this tariff who requests a temporary disconnection will not be reconnected unless the outstanding balance of the Annual Fixed Charge for part of the year corresponding to the period of disconnection has been paid.

Part 3

TARIFFS FOR UNMETERED SUPPLY INCLUDING STREET LIGHTS, TRAFFIC SIGNALS, WATCHMAN LIGHTING AND TEMPORARY SERVICES

Tariff 71 **– Street Lights –**

Notified prices for Tariff 71, published in accordance with section 90 of the Electricity Act, will only apply in Ergon Energy Corporation Limited's distribution area.

Street lighting customers are as defined in Queensland legislative instruments, being State or local government agencies for street lighting loads.

Street lights are deemed to illuminate roads. In Queensland, there are two main types of roads, being:

- **Local government roads** – roads for which a local government has control. These roads comprise land that is:
  - dedicated to public use as a road; or
  - developed for (or has as one of its main uses) the driving or riding of motor vehicles and is open to, or used by, the public; or
  - a footpath or bicycle path; or
  - a bridge, culvert, ford, tunnel or viaduct,

  and excludes State-controlled roads and public thoroughfare easements; and
- **State-controlled roads** – roads that are declared under the *Transport Infrastructure Act 1994* (Qld) to be a State-controlled road, for which the relevant Minister for that Act has control (i.e. of the Department of Transport and Main Roads).

All consumption will be determined in accordance with the metrology procedure issued by the Australian Energy Market Operator.

All Consumption	**28.364 c/kWh**
plus a Service Fee per lamp per day of	**0.668 c**

Tariff 91 **- Other Unmetered Supply –**

Unmetered electricity supply is available to other small loads, as approved by the distribution entity

Unmetered Supply applies where:

1. the load pattern is predictable;
2. for the purposes of settlements, the load pattern (including load and on/off time) can be reasonably calculated by a relevant method set out in the metrology procedure; and
3. it would not be cost effective to meter the connection point taking into account:
   (i) the small magnitude of the load;
   (ii) the connection arrangements; and

(iii) the geographical and physical location.

Charges are based on consumption determined by the distribution entity.

All Consumption **20.454 c/kWh**

Charges for installation, maintenance and removal of supply to an unmetered installation may apply in addition to the above charge for electricity supplied. These charges are unregulated.

Part 4

APPLICATION OF TARIFFS FOR CUSTOMERS ON NOTIFIED PRICES – GENERAL

Standard Contract Customers may choose to be charged on any of the tariffs that the retailer agrees are applicable to the customer's installation and provided that appropriate metering is in place.

Tariffs are applied to the electricity consumed at a connection point (as identified by a National Metering Identifier or NMI), as measured by the meter or meters at that connection point. The distribution entity is responsible for the establishment of connection points. Whilst customers have the ability to, at their expense if applicable, request additional meters at their connection point to enable particular tariff arrangements, the distribution entity will only create a new connection point where they have a legislative right or obligation to do so.

If there has been a material change of use at the customer's premises, such that the tariff on which the customer is being charged is no longer applicable, the retailer may require the customer to transfer to a tariff applicable to the changed use.

If a change to the customer's meter is required to support the applicability of a tariff to a customer, the customer may request the retailer to arrange for the required meter to be installed at the customer's cost.

For all tariffs customers have the option, on application in writing or another form acceptable to the retailer, of changing to any other tariff that the retailer agrees is applicable to the customer's installation. Customers shall not be entitled to a further option of changing to another tariff until a period of twelve months has elapsed from a previous exercise of option. However, a retailer at the request of a customer may permit a change to another tariff within a period of twelve months if –

(i) a tariff that was not previously in force is offered and such tariff is applicable to the customer's installation;
or

(ii) the change does not require a change to the customer's network tariff and the customer meets certain costs associated with changing to another tariff;

Customers previously supplied under tariffs which have now been discontinued or redesignated (whether by number, letter or name) in their distribution area will be supplied under other tariffs appropriate to their installations.

The date of effect of a tariff change will be:

- for customers previously supplied under tariffs which have now been discontinued or redesignated (whether by number, letter or name) - the date the tariff is discontinued or redesignated; or
- the date of the last meter read (provided it is an actual meter read, not an estimated meter read); or
- if field work is required to support the change in tariff (e.g. a new meter is required to be installed), the date the field work is completed.

Billing information for application of monthly or annually based charges

The monthly or annual charges shall be calculated pro rata having regard to the number of days in the billing cycle that supply was connected (days) and one-twelfth of 365.25 days (to allow for leap years). That is:

$$Pa = \frac{P \times 12}{365.25} \text{ x days, for monthly charges}$$

$$Pa = \frac{P1}{365.25} \text{ x days, for annual charges}$$

Where Pa is the amount to be billed
P is the monthly charge
P1 is the annual charge
days is the number of days in the billing cycle that supply was connected

Supply Voltage

(a) Low Voltage

Except where otherwise stated, the tariffs in Parts 1 and 2 will apply to supply taken at low voltage (480/240 volts or 415/240 volts, 50 Hertz A.C., as required by the distribution entity).

(b) High Voltage

(i) Customer plant requirements

By agreement between the customer and the distribution entity, supply may be given and metered at a standard high voltage, the level of which shall be prescribed by the distribution entity.

Where high voltage supply is given, a customer shall supply and maintain all equipment including transformers and high voltage automatic circuit breakers but excepting meters and control apparatus beyond the customer's terminals.

(ii) Credits where L.V. tariff is metered at H.V.

Where supply is given in accordance with (i) above and metered at high voltage then, except in cases where high voltage tariffs are determined or provided by agreement to meet special circumstances, the tariffs applied will be those pertaining to supply at low voltage ("the relevant tariff"), EXCEPT THAT, after billing the energy and demand components of the tariff, a credit will be allowed of –

- 5 percent of the calculated tariff charge where supply is given at voltages of 11kV to 33 kV; and

- 8 percent of the calculated tariff charge where supply is given at voltages of 66 kV and above,

(provided that the calculated tariff charge after application of the credit must not be less than the Minimum Payment or other minimum charge calculated by applying the provisions of the relevant tariff.)

Card-operated Meters in Remote Communities

If a customer is an excluded customer (as defined in section 23 of the Electricity Act), the distribution entity may at its absolute discretion agree with:

(a) the relevant local government authority on behalf of the customer; and
(b) the customer's retailer, that the electricity consumed by the customer is to be measured and charged by means of a card-operated meter.

If, immediately prior to 1 July 2007, electricity being consumed by a customer at premises is being measured and charged by means of a card-operated meter, the electricity consumed at the premises may continue to be measured or charged by means of a card-operated meter.

The methodology for applying the appropriate tariffs to customers subject to card-operated meters is as follows:
(a) If electricity supplied to a residential customer is measured and charged by means of a card-operated meter:
    (i) for Tariff 11 (Residential – Lighting, Power and Continuous Water Heating), all consumption shall be charged at the 'All Consumption' rate (**22.238 cents/kWh**), plus a Service Fee of **106.728 cents** per day shall apply;
    (ii) for Tariff 31 (Night Rate – Super Economy), all consumption shall be charged at the 'All Consumption' rate (**12.448 cents/kWh**); and
    (iii) for Tariff 33 (Controlled Supply – Economy), all consumption shall be charged at the 'All Consumption' rate (**18.872 cents/kWh**).
(b) If electricity supplied to a business customer is measured and charged by means of a card operated meter, all consumption shall be charged at the 'All Consumption' rate under Tariff 20 (General Supply) (**22.481 cents/kWh**), plus a Service Fee of **130.556 cents** per day shall apply.

Other Retail Fees and Charges

A retailer may charge its Standard Contract Customers the following:
(a) if, at a customer's request, the retailer provides historical billing data which is more than two years old – a maximum of **$30**;
(b) retailer's administration fee for a dishonoured payment – a maximum of **$15**; and
(c) financial institution fee for a dishonoured payment – no more than the **fee incurred** by the retailer.

Part 5

CONCESSIONAL APPLICATIONS OF TARIFFS 11, 12, 12A and 14 (RESIDENTIAL)

The following tariffs are available to customers which satisfy the criteria set out in any one of A, B or C, below:

(i) Tariff 11 and Tariff 12 in Energex Limited's distribution area.
(ii) Tariff 11, Tariff 12A and Tariff 14 in Ergon Energy Corporation Limited's distribution area.

A. Those separately metered installations where all electricity consumed is used in connection with the provision of a Meals on Wheels service or for the preparation and serving of meals to the needy and for no other purpose.

B. Charitable residential institutions which comply with all the following requirements—

(a) Domestic Residential in Nature. The total installation, or that part supplied and separately metered, must be domestic residential (i.e. it must include the electricity usage of the cooking, eating, sleeping and bathing areas which are associated with the residential usage). Medical facilities, e.g. an infirmary, which are part of the complex may be included as part of the total installation; and

(b) Charitable and Non-Profit. The organisation must be:
    (i) a deductible gift recipient under section 30-227(2) of the *Income Tax Assessment Act 1997* to which donations of $2.00 and upwards are tax deductible; and
    (ii) a non-profit organisation that:
        A. imposes no scheduled charge on the residents for the services or accommodation that is provided (i.e. organisations that provide emergency accommodation facilities for the needy); or
        B. if scheduled charges are made for the services or accommodation provided, then all residents must be pensioners or, if not pensioners, persons eligible for subsidised care under the *Aged Care Act 1997* or the *National Health Act 1953*.

C. Organisations providing support and crisis accommodation which comply with the following requirements—

The organisation must:
(a) meet the eligibility criteria of the Specialist Homelessness Services (formerly known as Supported Accommodation Assistance Program) administered by the State Department of Housing and Public Works and is therefore eligible to be considered for funding under this program. (Funding provided to organisations under the Specialist Homelessness Services is subject to Part 3, Sections 10 to 13 inclusive, of the *Family Services Act 1987*); and
(b) be a deductible gift recipient under section 30-227(2) of the *Income Tax Assessment Act 1997* to which donations of $2.00 and upwards are tax deductible.

Part 6

RELIEF FROM ELECTRICITY CHARGES WHERE DROUGHT DECLARATION IN FORCE

Customers of Ergon Energy Queensland Pty Ltd

A Standard Contract Customer of Ergon Energy Queensland Pty Ltd who is a farmer in a drought declared area or whose property is individually drought declared under Queensland Government administrative processes may be eligible for one or more of the following forms of relief from electricity charges:

(A) Waiving of Fixed Charge Components of Electricity Charges

If a customer of Ergon Energy Queensland Pty Ltd who is a farmer in a drought declared area or whose property is individually drought declared, does not have access to, or has severely restricted access to, farm or irrigation water, the fixed components of the customer's electricity charges shall be waived. These fixed charge components include annual fixed charges under Tariff 66, service fees, and minimum payments, but exclude minimum demand charges.

Provided the drought declaration remains operative, the waiver applies to all eligible fixed charges applicable to any account being used for pumping water for farm or irrigation purposes. The waiver shall continue to apply until the drought declaration is revoked.

(B) Deferral of Payment

If a customer of Ergon Energy Queensland Pty Ltd who is a farmer in a drought declared area or whose property is individually drought declared cites financial difficulties as a result of the drought, the customer is entitled to defer payment of the customer's electricity accounts relating to farm consumption.

Ergon Energy Queensland Pty Ltd may charge interest on deferred accounts. However, the rate of any interest charged must not be more than the Bank Bill reference rate for 90 days, as published on the first business day of each quarter.

Subject to the maximum rate of interest that may be charged, the terms of the deferred payment and the repayment of deferred amounts following revocation of the drought declaration will be as agreed between Ergon Energy Queensland Pty Ltd and the customer concerned.

Eligibility for Relief

A customer of Ergon Energy Queensland Pty Ltd seeking relief from electricity charges on the basis that the customer is a farmer who is in a drought declared area or whose property is individually drought declared, must apply in writing to Ergon Energy Queensland Pty Ltd.

If required by Ergon Energy Queensland Pty Ltd, the customer must provide:

(a) evidence that the customer's property is in a drought declared area or is individually drought declared, including the effective date of such drought declaration;

(b) evidence of the water pumping restrictions applicable to the customer's property; and

(c) for tariffs other than Tariffs 62, 65 and 66, a Statutory Declaration stating the specific account(s), and that the connection is being used primarily for pumping water for farm or irrigation purposes; and/or

(d) a Statutory Declaration stating that the customer is experiencing financial difficulties as a result of the drought, the specific account(s) and that the connection is being used primarily for farm purposes.

Customers of other retailers

Customers of retailers other than Ergon Energy Queensland Pty Ltd who are farmers in drought declared areas or who have a property which is individually drought declared under Queensland Government administrative processes can apply directly to the Department of Energy and Water Supply for reimbursement of the fixed charge components of the customer's electricity charges.

These fixed charge components include annual fixed charges under Tariff 66, service fees, and minimum payments, but exclude minimum demand charges.

Provided the drought declaration remains operative, the reimbursement applies to all eligible fixed charges applicable to any account being used for pumping water for farm or irrigation purposes and ceases once the drought declaration is revoked.

APPENDIX H: ASSUMPTIONS TO DETERMINE CUSTOMER IMPACTS FOR TYPICAL CUSTOMERS

Retail tariff	*Median (typical) consumption*	*Demand threshold (flat or peak)*	*Demand threshold (off-peak)*	*Demand (flat or peak)*	*Demand (off-peak)*	*Peak*	*Shoulder*	*Off-peak*
	kWh/year	*kW/mth*	*kW/mth*	*kW/mth*	*kW/mth*	*%*	*%*	*%*
Tariff 11	4,053							
Tariff 12	2,145					15%	52%	33%
Tariff 12A	9,462					5%	4%	91%
Tariff 31	1,802							
Tariff 33	1,722							
Tariff 11+33[a]	4,319							
Tariff 20	5,923							
Tariff 22	29,401					51%		49%
Tariff 22A	29,401					6%	4%	90%
Tariff 44	204,324	30		58				
Tariff 45	880,150	120		229				
Tariff 46	2,304,038	400		453				

Sources: Energex and Ergon Energy

a. Comprised of 3,004 kWh/yr on tariff 11 and 1,315 kWh/yr on tariff 33.

APPENDIX I: SUMMARY OF ENERGY CONCESSIONS

Concession	***Eligibility Criteria***	***Annual Amount***
Electricity Rebate	Customers with a Pensioner Concession Card issued by either Centrelink or Department of Veterans' Affairs, a Department of Veterans' Affairs Gold Card (and recipient of the War Widow Pension or special rate TPI Pension) or a Queensland Government Seniors Card.	$320.97
Reticulated Natural Gas Rebate	As for Electricity Rebate.	$67.61
Medical Cooling and Heating Electricity Concession Scheme	Queensland residents with a qualifying medical condition requiring cooling or heating to prevent the decline of symptoms. Other eligibility criteria apply.	$320.97
Home Energy Emergency Assistance Scheme	One-off emergency assistance for low-income households who've experienced a short-term financial crisis or unforeseen emergency that has limited their ability to pay their current electricity or gas bills. Other eligibility criteria apply.	Up to $720 per household (for a maximum of two consecutive years).
Electricity Life Support Concession Scheme	Available to people who are seriously ill and use a home based oxygen concentrator or kidney dialysis machine. Other eligibility criteria apply.	Up to $653.72 for each oxygen concentrator and $437.76 for each kidney dialysis machine.
Drought relief from electricity charges	Available to farmers of properties that have been individually drought declared or are in a drought declared area, where the availability of water for farming or irrigation purposes is severely restricted.	The fixed charge components of electricity accounts are waived or reimbursed.

Note: Current as at 14 April 2015. This information is provided as a guide only. Full details are available from: http://www.qld.gov.au/community/cost-of-living-support/energy-concessions; and https://www.dews.qld.gov.au/energy-water-home/electricity/rebates/drought-relief-from-electricity-charges-scheme.

APPENDIX J: SRES COST PASS-THROUGH CALCULATIONS

This appendix provides further information about how the SRES pass-through amounts in Chapter 6 were calculated.

Firstly, we recalculated the actual cost of SRES compliance during 2014–15, in dollars per megawatt hour ($/MWh), based on the binding STP for the 2015 calendar year, using the approach adopted by ACIL Allen. We then subtracted the SRES allowance included in 2014–15 notified prices from the actual cost. This resulted in an SRES under-recovery of $0.32 per MWh (0.032 c/kWh), as shown in Table 39.

Table 39 2014–15 SRES under-recovery for all settlement classes

	Period	STP (%)[a]		Clearing House Price ($/MWh)	SRES cost ($/MWh)	2014–15 average SRES cost ($/MWh)
		Binding	Non-binding			
2014–15 Final Determination	1 Jul - 31 Dec 2014	10.48%		$40.00	$4.19	$4.12
	1 Jan - 30 Jun 2015		10.10%	$40.00	$4.04	
2014–15 Actual cost	1 Jul - 31 Dec 2014	10.48%		$40.00	$4.19	$4.44
	1 Jan- 30 Jun 2015	11.71%		$40.00	$4.68	
Under-recovery in 2014–15 (before adjustments for losses, CPI, WACC, margin and headroom)						$0.32

a. Published by the Clean Energy Regulator

Next, we made an adjustment to the under-recovery to account for network losses. In the 2014–15 determination, we applied a loss factor to energy purchase costs for each settlement class to reflect transmission and distribution (network) losses for each settlement class to determine the SRES liabilities based on energy acquired. We applied the same network loss factors to the under-recovered SRES amounts calculated above, consistent with the 2014–15 determination.

We then made an adjustment to restore the real values of the under-recovered amounts by applying the forecast change in the CPI for the year ended June 2016 of 2.5%[84] and an adjustment to reflect the time-value of money for retailers over that 12-month period, by applying a real weighted average cost of capital (WACC) of 9.5%. The WACC used is consistent with the mid-point of the range of retailer WACC estimates used by IPART to set the retail margin that we have applied.[85] Finally, we applied the retail margin of 6%[86] and a headroom allowance of 5% to arrive at the final SRES pass-through amounts. The result is three discrete pass-through amounts, which are applied in the build-up of 2015–16 notified prices, according to the relevant underlying network tariff class.

The calculations and pass-through amounts to apply to each settlement class are set out in Table 40.

[84] This is consistent with the mid-range of the RBA forecast of 2.5% for the 12 months to 30 June 2016. Reserve Bank of Australia, *Statement on Monetary Policy*, May 2015, p. 65.

[85] As discussed in Chapter 4, we continue to use a benchmarking approach to set the retail margin. As a result, for this exercise, we have not undertaken a bottom-up assessment of the retail margin or retailers' WACC.

[86] A retail margin of 6% of total costs (excluding the margin) is equivalent to a retail margin of 5.7% of total costs (including the margin).

Table 40 SRES pass-through amounts by settlement class (after adjustments for network losses, CPI, WACC, margin and headroom)

Energex NSLP, Unmetered Supply, Controlled Load 9000 and 9100	
SRES under-recovery in 2014–15 (c/kWh)	0.032
+ Energy losses (%)	7.06%
+ CPI (%)	2.5%
+ Real WACC (%)	9.50%
Total under-recovery before application of retail margin and headroom ($2014–15 c/kWh)	0.039
+ Retail Margin (%)	6%
+ Headroom allowance (%)	5%
SRES pass-through 2015–16 (c/kWh)	0.043
Ergon Energy NSLP - SAC Demand and Street Lighting	
SRES under-recovery in 2014–15 (c/kWh)	0.032
+ Energy losses (%)	15.24%
+ CPI (%)	2.5%
+ Real WACC (%)	9.50%
Total under-recovery before application of retail margin and headroom ($2014–15 c/kWh)	0.042
+ Retail Margin (%)	6%
+ Headroom allowance (%)	5%
SRES pass-through 2015–16 (c/kWh)	0.047
Ergon Energy NSLP - SAC HV, CAC and ICC	
SRES under-recovery in 2014–15 (c/kWh)	0.032
+ Energy losses (%)	8.92%
+ CPI (%)	2.5%
+ Real WACC (%)	9.50%
Total under-recovery before application of retail margin and headroom ($2014–15 c/kWh)	0.039
+ Retail Margin (%)	6%
+ Headroom allowance (%)	5%
SRES pass-through 2015–16 (c/kWh)	0.043

Note: Totals may not add due to rounding.