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28 February 2014

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Reference: RPR0002

Email: aemc@aemc.gov.au

Dear AEMC

AEMC, 2014 Retail Competition Review, Approach Paper, 17 January 2014, Sydney

Ergon Energy Queensland ("EEQ") welcomes the opportunity to provide comment to the Australian Energy Market Commission's (AEMC) *2014 Retail Competition Review, Approach Paper* ("Paper").

As the AEMC will be aware, the Queensland Government is in the process of reforming the electricity sector and as part of that process the Minister for Energy and Water Supply has directed the Queensland Competition Authority ("QCA") to investigate and report on matters relating to the Uniform Tariff Policy ("UTP") and retail price regulation in regional Queensland. In particular the QCA has been directed to consider the efficiency and effectiveness of the UTP and the extent to which options for determining notified prices will support a competitive retail electricity market in regional Queensland.

As the largest retailer to customers in regional Queensland, and the recipient of Community Service Obligation payments to give effect to the UTP, EEQ is uniquely placed to contribute to the investigations by both the QCA and the AEMC.

EEQ agrees that due to the unique nature of the regional Queensland electricity market, and its stage of evolution, it is appropriate to treat it as a separate geographic market to South East Queensland.

Ergon Energy's submission to the QCA consultation is relevant to a number of the key questions for stakeholder submissions raised by the AEMC which are particularly relevant to the regional Queensland market. Please find that submission attached for your consideration as part of the Retail Competition Review.

I note that the AEMC plans to meet with stakeholders to discuss the review and seek input. EEQ would welcome the opportunity for discussion with the AEMC. Should you like additional information or wish to discuss these matters further, please do not hesitate to contact me on (07) 4432 8690.

Yours sincerely

Roslyn Baker
Executive General Manager - Retail

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Ref: NB/TF/JD

Friday 28 February 2014

Mr Malcolm Roberts
Chief Executive Officer
Queensland Competition Authority
GPO Box 2257
Brisbane QLD 4001

Dear Mr Roberts

RE: Submission on the Retail Electricity Price Regulation in Regional Queensland Issues Paper

Ergon Energy Corporation Limited (EECL), in its capacity as a Distribution Network Service Provider in Queensland, and Ergon Energy Queensland Pty Ltd (EEQ), in its capacity as a non-competing area retail entity in Queensland, hereinafter referred to as Ergon Energy, welcome the opportunity to provide comment to the Queensland Competition Authority on its *Retail Electricity Price Regulation in Regional Queensland* Issues Paper (the Issues Paper).

Should you require additional information or wish to discuss any aspect of this submission, please do not hesitate to contact either myself on (07) 3851 6416, or Trudy Fraser on (07) 3851 6787.

Yours sincerely

Jenny Doyle
Group Manager Regulatory Affairs

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Enc: Ergon Energy's submission

Submission on the Queensland Competition Authority *Retail Electricity Price Regulation in Regional Queensland* Issues Paper

28 February 2014

Submission on the *Retail Electricity Price Regulation in Regional Queensland*

Issues Paper

Queensland Competition Authority

28 February 2014

This submission, which is available for publication, is made by:

Ergon Energy Corporation Limited and Ergon Energy Queensland Pty Ltd

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1. Introduction

Ergon Energy Corporation Limited (EECL) and Ergon Energy Queensland Pty Ltd (EEQ), welcome the opportunity to provide comment to the Queensland Competition Authority (QCA) on its *Retail Electricity Price Regulation in Regional Queensland* Issues Paper (the Issues Paper).

This submission is provided by:

- EECL, in its capacity as a Distribution Network Service Provider (DNSP) in Queensland; and
- EEQ, in its capacity as a non-competing area retail entity in Queensland.

In this submission, EECL and EEQ are collectively referred to as 'Ergon Energy'.

Ergon Energy is available to discuss this submission or provide further detail regarding the issues raised, should the QCA require.

1.1 Background to the electricity industry reforms

Ergon Energy recognises that the electricity sector and the systems that support it are in a period of significant change. The Queensland Government's decision to proceed with reform measures is timely, and indeed welcomed by Ergon Energy.

Providing customers with the ability, knowledge and incentive to be empowered with regard to their electricity needs represents a meaningful contribution to the Queensland economy and is recognised as the foundation for Ergon Energy's future. Reform of the electricity industry in Queensland will provide the impetus for change from the historical supply side focus of Ergon Energy, to positioning the Distribution arm of the business as a facilitator for customers to access the lowest cost technical solution that meets their needs, in conjunction with access to fair and reasonable retail products through our Retail arm.

As an essential service, the electricity system underpins Queensland's economy and its continued provision as a safe, secure, reliable, efficient and affordable service is of fundamental importance. The increasing cost of supplying energy is a concern for Ergon Energy. Equally, customers are becoming increasingly concerned about rising energy costs, which is exacerbated by decreasing consumption rates and the increasing attractiveness of new technologies and supply options.

The ability of all Queensland electricity customers to access these new options is not equal. To the extent that some customers can access more efficient technologies on better financial terms, it is appropriate for the Government to monitor and understand the changing landscape of access issues and assist those in need.

Recognising the significant market reform opportunities ahead, in particular, the Interdepartmental Committee on Electricity Sector Reform (IDC) and Independent Review Panel (IRP) recommendations, the examination of the Commission of Audit Taskforce's recommendations and the implementation of the Government's 30 Year Electricity Strategy, Ergon Energy supports the development of a long term, broad-ranging electricity plan for Queensland.

It is understood that the QCA is to investigate and report on matters relating to the Uniform Tariff Policy (UTP) and retail price regulation. As this review is primarily investigative, Ergon Energy has focused on identifying relevant issues regarding the UTP and its correlation with subsidised electricity, retail price regulation and various other reform issues.

Ergon Energy supports the Government's approach of considering all the different facets of the reform agenda and expects that matters being investigated by the QCA will be considered as part of the holistic reform package. Ergon Energy appreciates the opportunity to contribute to this key piece of electricity reform.

1.2 Efficiency of EEQ

Ergon Energy is concerned about the statement in the Issues Paper that "[T]he incentives for Ergon Retail to reduce its costs and improve its efficiency are limited because it receives a subsidy to compensate for the difference between its actual costs and revenues"[1].

We understand that the QCA has based this view on the Commission of Audit's Final Report.[2]

While EEQ operates as a commercial entity, it is also a Government-owned corporation, which operates under a Community Service Obligation (CSO) arrangement that requires it to conduct its business in a manner that is often not in its commercial interests.

EEQ's CSO arrangement is linked to s 55G of the *Electricity Act 1994* (Qld), which states that EEQ can only provide customer retail services to non-market customers in regional Queensland. As non-market customers can only be charged the regulated retail tariffs, EEQ is obliged to sell electricity at a price that is below the cost of supply. Such an arrangement enables the Government's UTP to be operationalised.

Since the formation of EEQ in 2006, its CSO payment has been based on benchmarks for controllable costs that are negotiated between the Government and EEQ. EEQ's performance against the benchmarks is reflected in its Profit and Loss Statement. The arrangements are structured to ensure that EEQ's efficiency is aligned with other retailers, and does not provide advantages to EEQ in relation to operational costs.

To ensure that any future decisions regarding policy are made on the basis of a total and accurate representation of EEQ's performance rather than a perception or over-simplified explanation, EEQ believes it is critical to emphasise that any subsidy EEQ may receive is not to correct its operation as an inherently inefficient business (which EEQ is not), but is provided as a means by which Government can assist its constituents.

2. Assessment of the Current UTP Arrangements

2.1 Background

In broad terms, the UTP has historically been designed to equalise (from a customer's perspective) the total cost of electricity supply, irrespective of a customer's location in the State.[3]

Ergon Energy understands the UTP was achieved in 1986 after decades of price adjustments. That is, uniform tariffs applicable to the same customer class, but independent of geographical location or load shape within that customer class.

At the time there was no effective means of targeting the different elements of the costs of supply – the network (transportation) costs, the cost of energy, and the retailer costs, in the original policy development. Therefore, the UTP was understandably focussed on achieving retail tariff price consistency.

Since 1998, the Queensland Government, similar to other State and Territory Governments, has as part of the National Energy Reform Agenda, gradually introduced competition to the jurisdictional electricity market, with the introduction of full retail competition for domestic and small business customers in Queensland from 1 July 2007.

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[1] QCA, Issues Paper Retail Electricity Price Regulation in Regional Queensland, December 2013, p. 9.

[2] Queensland Commission of Audit, Final Report, February 2013, Vol 2, p. 2-68.

[3] Ergon Energy understands the uniform tariff policy emanates from a 1936 Royal Commission on Electricity which recommended a long-term policy objective to achieve tariff equalisation across the State to satisfy both social equity and regional development policy objectives, with the ultimate aim for eventual uniform electricity tariffs throughout the State. Achieving this objective was closely tied to a long-term rural electrification program and coordinated development of the electricity supply industry in Queensland. Ultimately, the policy was directed towards centralised stabilisation and reduction of the level of tariffs and volatility of electricity prices throughout the State. Increased focus on centralisation of the industry was considered essential in order to realise the substantial economies from urban base loads that could be used to progressively make rural extensions of the electricity supply network feasible.

While successive Queensland Governments have maintained the UTP, the commencement of the competitive retail market triggered the first deviation from what Ergon Energy understands to be the original intent of the UTP, as from that point customers could pay different prices for electricity.

Ergon Energy agrees with the QCA's assertion that Government should reconsider what UTP means, both in the current environment and having regard to the 30-Year Electricity Strategy.

This is especially relevant now that the industry has been restructured since 1995 into distinct transmission, distribution, generation and retail components, which has allowed for an increased understanding and transparency of the underlying cost drivers in the industry.

Other significant changes to the original intent of the UTP include:

- Eligibility for specific Notified Prices;
- Large customers in South East Queensland becoming ineligible for Notified Prices from 1 July 2012; and
- QCA and Government supporting the use of Ergon Energy's network cost component (Ergon N) as the basis for calculating Notified Prices for Large customers.

2.2 Effectiveness of UTP

As noted in the Issues Paper, effective policy can be regarded as successful when it achieves its intended purpose[4]. In the absence of a clear definition and specified objective, Ergon Energy agrees with the QCA's observation that it is therefore difficult to evaluate the UTP's effectiveness.

Ergon Energy further supports the QCA's view that it is "the Government's role to establish a policy objective"[5] and considers it essential that the UTP is clearly defined, having regard to the Government decision regarding retail competition in Queensland.

Given the unique geographical challenges involved in supplying electricity to sparsely populated areas in Queensland, there will likely always be a requirement to subsidise some regional customers. This has been a fundamental driver of the UTP since its inception and Ergon Energy expects that this issue will remain.

It is clear that the UTP provides, where possible, that non-market customers of the same class should be able to access uniform retail tariffs and regardless of their location, pay the same Notified Price for their electricity supply. However, it is not clear, what the basis for calculating these Notified Prices is. That is, is it either the lowest costs of supplying customers in Queensland (specifically, south-east Queensland) or the lowest costs of supplying customers that have access to Notified Prices. Ergon Energy notes that in the absence of a clear definition, the QCA has adopted an approach using the latter.

Ergon Energy suggests that as part of defining any future UTP arrangement, it is critical that the following key issues and potential impacts be considered:

- Key Issues
  - The arrangement should support retail competition;
  - The overall cost of subsidies provided under the arrangement;
  - Customer eligibility;
  - Promotion of regional development, including employment opportunities;
  - Support for and consistency with the draft Queensland Plan, including the preliminary target of half of Queensland's population living outside the south east in 30 years' time[6];
  - The arrangement should enable efficient electricity supply and demand management;
  - Social policy considerations such as affordability and hardship; and
  - Implementation and administration costs.

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4 QCA, Issues Paper Retail Electricity Price Regulation in Regional Queensland, December 2013, p. 7.

5 Ibid. p8.

6 The Queensland Plan: 30-year vision for Queensland – our working draft, p. 12

- Potential Impacts
    - Reduced business customer viability with flow on impacts for regional development and employment;
        - Customers may be encouraged to move off-grid thereby increasing the risk of stranded assets, increasing revenue volatility for EECL and increasing network prices for the remaining customers as EECL's revenue cap must be recovered from a smaller pool of customers; and
        - Customers may leave regional Queensland, placing at risk the State's preliminary target of half Queensland's population living outside the south east in 30 years' time[7].

A number of these key issues and potential impacts are addressed in further detail later in this submission.

2.3 EECL network considerations

In its capacity as a DNSP, Ergon Energy has long been regarded as a monopoly. This view is being consistently and progressively challenged as customers are embracing the alternative options available to them. An excellent example is the rapid uptake of solar photo-voltaic (PV) systems by our customers.

Over time Ergon Energy expects fully stand-alone alternatives to become available that can effectively substitute for a connection to the grid. The current electricity supply chain needs to evolve to ensure it remains competitive, ensuring customers see value in remaining connected to the electricity grid. Inevitably, investment bias will continue to shift from base load supply and regulated network assets to unregulated customer solutions.

Ergon Energy must balance the interests of meeting the changing needs of the market, with the needs of those who can't rapidly change their load profile or other circumstances to take advantage of new opportunities or otherwise control their electricity costs. This balance can be better achieved with the development of a re-defined UTP.

It is now important to improve the way the electricity distribution network is utilised, and ultimately help limit the pressure on electricity price rises. The decision by the Government to move to a N+R price setting methodology is a significant step in allowing network pricing signals to flow through to customers through the regulated retail tariffs. For regional Queensland, the next reform step should be to allow EECL network tariff structures to form the basis of the Notified Prices. This is discussed later in the submission.

Balancing the competing interests of cost-reflectivity, economic/social policy objectives for regional Queensland and support for disadvantaged or isolated customers is the challenge for any energy policy that is to be implemented during the next regulatory cycle. This represents an enormous challenge, but also a rare opportunity for Government to optimise the benefits for electricity customers for the next 30 years.

2.4 EECL's Network Tariff Strategy

As stated above, there has been a major shift in the way EECL's customers use the electricity network. In recent years, while peak demand has remained high, the economic slowdown, the growing use of solar energy and the focus on energy efficiency (as electricity prices have risen) has led to a drop in electricity use overall. This has meant our network is being used less, on average, by customers, while the costs to supply customers have increased.

In addition to strategies aimed at reducing our costs, EECL is also restructuring our network tariffs. It is critical that we better align how we charge for the use of the network with the costs associated with meeting peak demand, both now and into the future. This will enable us to continue to provide a reliable, affordable electricity supply into the longer term.

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[7] The Queensland Plan: 30-year vision for Queensland – our working draft, p. 12

Changes to our network tariffs will occur over a number of years, with the first changes happening in 2014–15. EECL is currently working to incorporate this first suite of changes in our 2014–15 Pricing Proposal, which is due to the Australian Energy Regulator on 30 April 2014.

Unfortunately, current jurisdictional regulatory arrangements relating to the UTP mean that most customers in regional Queensland do not have full visibility of our network costs or tariff structures. While we accept the Queensland Government's position to ensure customers have access to the same regulated retail price no matter where they live, this creates issues for EECL's tariff reform process.

For example, EECL is proposing an optional time-of-use (TOU) structure for Standard Asset Customer – Small (<100 MWh per annum) customers, reflecting the long run marginal cost and peak, shoulder and off-peak times that are appropriate for EECL's network. However, the TOU regulated retail tariff available to residential customers (Tariff 12) is based on the peak, shoulder and off-peak times and prices that are relevant for south-east Queensland.

In the medium term, we hope that more flexibility can be provided to allow customers in regional Queensland to receive the right price signals that reflect the impact of their usage on EECL's network. We believe this can occur alongside government subsidies for customers in our network area.

To the extent that changes to allow this flexibility are not realised in time for the 2015–16 Notified Prices, the QCA should consider alternative options for early adoption of more cost-reflective tariffs for regional Queensland. There may be sufficient flexibility in the Minister's current Delegation to the QCA on determining Notified Prices, to allow Notified Prices to be based on prices that would otherwise be charged in south-east Queensland, but based on peak/shoulder/off-peak times and long run marginal costs signals that are relevant for Ergon Energy's network. The QCA should consider whether this is a viable alternative option in the absence of more fundamental changes in 2015–16.

2.5 Social policy considerations

Ergon Energy suggests that in redefining the UTP, consideration needs to be given to the social impacts on communities, households and businesses from an increase in electricity prices.

Some of the most disadvantaged communities in Australia are in regional Queensland, with six of the top 10 most disadvantaged local government areas in Australia being remote or regional Queensland communities.[8] Low socio-economic households are less likely to have the resources to pay increased electricity bills, with flow-on impacts to household financial stress and hardship.

Communities also benefit from local industry providing valuable employment opportunities. Some towns depend on the one main employer in the region to provide jobs for their communities. Other businesses provide social or community benefits, such as health care, education and charitable services.

Businesses are becoming increasingly impacted by higher electricity prices, as evidenced by the growing engagement of businesses and industry organisations in the electricity pricing debate. For example, Ergon Energy notes that only one industry association made comment on the Draft Determination 2009-10, whereas 14 industry organisations and 10 businesses made comment on the Draft Determination 2013-14.

While Ergon Energy recognises that it is ultimately a Government decision, Ergon Energy urges the Government, and the QCA in providing its advice, to consider how social policy considerations will be taken into account when redefining the UTP.

[8] ABS, Cat 2033.0.55.001 - Census of Population and Housing: Socio-Economic Indexes for Areas (SEIFA), Australia, 2011

2.6 Customer eligibility

Determining eligibility for subsidised electricity is not straightforward, requiring careful consideration of the overall change in costs. Additionally, there must be an understanding of the impact not only on the customer, but also what impact any changes may have on the achievement of broader State or market objectives.

Ergon Energy notes that a key challenge with determining eligibility is how to group customers so eligibility decisions can be easily understood, communicated and implemented. In the electricity industry, customers are often segmented by network classification or category. However, these groups are not homogeneous and therefore the amount of subsidisation within a group will be at different levels.

Removing the subsidy therefore has varying impacts. For example, businesses that operate within a highly competitive environment, are trade exposed or compete against interstate or south east Queensland businesses, may find that they cannot pass on the increase in electricity prices to their customers. Some businesses will be able to absorb the price increase, others will not.

In addition, there is often a misconception regarding size of a business and electricity use. Specifically, Ergon Energy notes that many of EEQ's Large customers (i.e. consume over 100 MWh per annum of electricity) would not be considered large businesses from the perspective of staff numbers or financial turnover. Other large customers provide social benefits to the community, such as schools and hospitals and consequently may warrant different consideration than other 'Large' customers.

The sophistication of the eligibility rules will also be impacted by the preferred delivery mechanism. For example, where a policy is intended to target a particular group of customers for assistance, for instance 'Pensioners', unless there is a corresponding network tariff that also identifies this group, the policy objective may be difficult to achieve under a network CSO. To the extent that the policy objectives of Government are very specific, there needs to be a corresponding identification of this intent in the underlying network tariff or through a different delivery channel e.g. through a retailer or direct to customer.

3. Options for CSO Delivery and Retail Price Regulation

3.1 CSO delivery mechanism

Ergon Energy agrees with the view expressed in the Issues Paper that there are three main delivery mechanisms for the CSO: network, retail and customer level and suggests that in evaluating which is the preferred mechanism, the following issues should be considered:

- Overall objectives for subsidised electricity – the overall objective of Government regarding the CSO will influence the preferred delivery mechanism. For example, if Government decided to only subsidise a small segment of regional Queensland then a customer level CSO may be more practical, whereas if all customers in regional Queensland were to receive the subsidy, a network CSO could easily flow through to every regional customer;
- Administrative costs and complexity – the provision of a CSO to multiple retailers or at a customer level is likely to be more administratively complex than a network CSO paid to one distributor. It would also likely involve additional compliance costs, such as an increased number of audits, greater resourcing requirements and potential administrative fees paid to private retailers (to deliver the CSO on Government's behalf);
- The requirement for the CSO to work effectively in an environment with or without retail price regulation; and
- Ergon Energy understands that delivery of the CSO to any retailer would require consideration of the taxation implications, particularly with regard to GST.

Should the Government decide to pursue market reform to promote effective regional competition, it is Ergon Energy's preliminary preference that a network level or a "network CSO" be introduced for all eligible regional Queenslanders except for customers connected to isolated networks which may require alternative arrangements. However, Ergon Energy recognises that a proper assessment of the appropriate CSO delivery mechanism will require a full assessment of the costs, benefits and risks of each option.

Such an approach would:

- Be administratively simple, given most regional customers are benefiting from the UTP and therefore obtaining a subsidy;
- Be an appropriate means of transitioning from the existing retail level subsidy;
- Promote effective competition in regional Queensland for customers; and
- Allow the Government to transition customers to a redefined UTP environment.

While Ergon Energy agrees that application of a network CSO is the most sensible approach to addressing the concerns raised in the Issues Paper, there are nevertheless, numerous complex issues that require consideration. In shifting to a network CSO any benefits to the State need to be weighed carefully against the impact on customer needs and interests. Furthermore, in considering eligibility issues for the network CSO, reductions in CSO liability for the Government must not be viewed in isolation, as they may represent a reduction in asset utilisation, a risk of asset stranding, and adverse consequences for regional Queensland e.g. reduced economic development or negative social impacts.

In addition to the potential impacts on how the network is utilised, changes to the CSO may also have unintended consequences for the competitiveness of one region or town in relation to others. For instance, some large customers may be schools or they may be a major employer in a small town. To make broad changes could have negative impacts beyond financial detriment.

Ergon Energy expects that the issues and needs of particular communities may be imperative though not immediately apparent. Therefore this balance would need to be included in the decision for changes and the design of new policy.

In order to ensure that efficiency is a fundamental component of any future CSO, Ergon Energy believes its network tariff structures (Ergon Energy N) rather than those of Energex, should form the basis for any network CSO calculation for regional Queensland. To assist with aligning numerous changes within Ergon Energy's businesses and with regulatory cycles more generally, Ergon Energy recommends that, should a move to its N structures as the basis for setting prices be accepted, this should commence from the date of introduction of price monitoring in south east Queensland.

Under a network CSO mechanism, it would be Ergon Energy's preference that it be permitted to adjust its network charges to a specified level, and for the Government to compensate it for the difference between the adjusted network charges and the AER approved network charges. By using such a method, the quantum of the CSO is directly influenced by the specified level to which network charges are to be adjusted. The benefits of this approach would be:

- Ergon Energy's network tariff structures would flow through to retail price regulation in regional Queensland;
- A reduction in the complexity of the CSO delivery mechanism for retailers and customers; and
- The transparency of the subsidy.

As noted by the QCA, any reduction in network charges would also need to account for differences in energy losses.[9] This could be achieved by estimating the total CSO for energy losses for the financial year and dividing by the expected EECL load for the financial year to determine a per unit rate (e.g. c/kWh). The variable rate (c/kWh) of all network tariffs could then be lowered by the per unit rate to account for the energy losses CSO. However, it is recommended that further detailed consideration be given to options to address this issue as the CSO mechanism is developed.

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[9] QCA, Issues Paper Retail Electricity Price Regulation in Regional Queensland, December 2013, p. 14

Ergon Energy notes the QCA suggests that the Notified Prices be set based on the lowest of Ergon Energy's cost reflective network charges. Further the QCA states that this would be the east pricing zone, transmission region 1. Ergon Energy suggests that rather than specifying the pricing zone that should be used as the benchmark, the CSO be framed in terms of objectives and principles. That is because potentially the lowest cost reflective pricing zone may be different both across customer classes and across years. Therefore precise specification may unintentionally constrain appropriate outcomes.

In its Issues Paper, the QCA also recommends that, where the CSO is applied at network level, isolated customers should be exempt[10]. As intimated earlier in this submission, Ergon Energy agrees that there is limited benefit in providing a network subsidy to isolated customers[11] although it is recognised that some arrangement will be necessary for these customers. The application of subsidies to isolated customers will ultimately be affected by any future changes to the electricity market in Queensland more generally, and the landscape of retail competition as determined by Government in coming months. Until such a time as decisions are made with regard to these issues, Ergon Energy is limited in its ability to make specific comments about treatment of isolated customers.

Ergon Energy would welcome the opportunity to discuss objectives and implementation issues with the QCA and Government, including the most appropriate mechanism for the CSO to transition from retail to a network level subsidy. Moreover, in order to design the best measures for Queensland electricity consumers and to ensure the administration and cost to taxpayers of any future mechanism is viable, reasonable and well understood, Ergon Energy will gladly assist the QCA and Government with any requests.

Finally, although a move to a network CSO is Ergon Energy's preferred position for the next stage of the reform, we suggest that it may be appropriate for the Government to revisit this issue in the future, and in particular give consideration to a customer level CSO mechanism. Ergon Energy considers that this may be beneficial to:

- Allow Ergon Energy as a network business to send its full network price signal to customers to encourage appropriate investment decisions (for customers, retailers, market providers, network); and
- Allow for direct targeting of any subsidy.

3.2 Effect of recommended changes on retail competition

Ergon Energy agrees that some barriers to competition may remain should the current UTP arrangements be removed or amended. With that being said, in advance of future UTP arrangements being defined, it is difficult to speculate what barriers will remain.

In general, Ergon Energy regards competition in South East Queensland as reasonable, in spite of historical retail price regulation. Further, Ergon Energy does not necessarily regard the requirement to offer Notified Prices as an impediment to competition. Rather, if done appropriately it represents a failsafe for customers who may otherwise be disadvantaged, whilst still allowing customers the opportunity to choose market prices.

Depending on the recommendations made by the QCA and the approach taken by Government in relation to retail pricing in regional Queensland, Ergon Energy expects that the non-reversion policy may require review or amendment, particularly as it relates to large customers, as this may discourage these customers from accepting market offers.

Additionally, Ergon Energy agrees that limited and out-dated metering functionality contributes to existing problems in retail competition and also slows the market's ability to respond to customer's

[10] Ibid p. 14.

[11] Isolated customers refers to all non-NEM customers within the EECL distribution area, specifically customers in the Mt Isa zone and the 34 remote communities.

choices. Specifically, Ergon Energy supports the Government's endorsement of a customer-driven rollout of advanced metering[12] and expects that product innovation would be accelerated if metering was reclassified as an Alternative Control Service (ACS) by the Australian Energy Regulator (AER) for the next regulatory control period.

However, in the absence of any certainty about the approach intended to be taken with regard to retail price regulation in regional Queensland, and indeed the purpose and structure of EEQ, Ergon Energy is unable to make specific comments on the effects of significant changes to policy or tariff structures.

3.3 Setting of Notified Prices

Given the recent interpretation of the UTP has been to use the lowest cost network tariff applicable to customers eligible for Notified Prices, the introduction of price monitoring in south east Queensland (targeted for July 2015) would necessitate a re-consideration of the basis for Notified Prices for regional Queensland.

Ergon Energy's preference is for EECL's network tariff structures to be the basis for notified prices from the date of price monitoring in south east Queensland. The benefit of this approach would be that customers are exposed to EECL's pricing signals which are more appropriate for regional Queensland. From a practical perspective, this would allow for easier programming of customers' meters and increased optionality for improving network and retail price signals.

More specifically, Ergon Energy would strongly advise against the use of Energex network tariffs. As previously stated in section 2.3, Ergon Energy would support the use of EECL network tariff structures as the basis for determining Notified Prices for regional Queensland.

Significant financial and customer analysis would need to be undertaken to determine how to reset Notified Prices using EECL's network tariff structures, and Ergon Energy looks forward to contributing to any future consultation on this process.

4. Targeting subsidies

Ergon Energy notes that any decision on whether and how subsidies should be targeted is a matter of Government policy. However, Ergon Energy generally agrees that assistance for customers in need could be appropriately managed independently of tariffs, though the transition to such a scenario would need to be gradual and closely monitored. Additionally, any such transition should not occur prior to careful consideration of eligibility by Government, to ensure unintended consequences do not arise as a result of lack of specificity.

The Issues Paper suggests one option for targeting subsidies may be to limit access to the UTP.[13] Such changes to eligibility cannot be made in isolation and without acknowledgement of the variation within customer groups. On this basis, limiting access to the UTP by specific customer groups warrants further detailed investigation.

Another suggested approach put forward in the Issues Paper is to target subsidies via direct transfer payments.[14] As previously stated in section 3.1, ultimately Ergon Energy considers that there are benefits from all customers seeing cost-reflective prices with Government assistance transparently identified and provided directly to customers. However, Ergon Energy acknowledges that moving to such an arrangement will take time and require meaningful customer engagement. On this basis we suggest that it be approached on a transitional basis after thorough analysis of customer segmentation and customer consultation.

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[12] DEWS, *The 30-year electricity strategy, Discussion paper*, September 2013, p 12.
[13] QCA, Issues Paper Retail Electricity Price Regulation in Regional Queensland, December 2013, p. 18
[14] QCA, Issues Paper Retail Electricity Price Regulation in Regional Queensland, December 2013, p. 18