



Part of the Energy Queensland Group

14 February 2019

Mr Warwick Anderson
General Manager Networks (Finance and Reporting)
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

Dear Warwick,

Energex and Ergon Energy Tariff Structure Statements

As you are aware during 2018, Energex and Ergon Energy engaged constructively with many stakeholders on a suite of Package Tariffs (comprising the Lifestyle Package, Small Business Package, Business Medium Package, Business Large Package and Commercial Package). EQL considers that these tariffs are compliant with the relevant pricing principles and are supported with indicative rates and customer impacts. As such, Energex and Ergon Energy included these Package Tariffs in their respective Tariff Structure Statement (TSS) submissions on 31 January 2019.

However, feedback on the Package Tariffs received in late 2018 indicated some stakeholder disquiet over customer choice, customer accessibility, and alignment with the longer term strategic direction of network tariff reform. Accordingly, Energex and Ergon Energy consider that further consultation is required with customers, retailers and other stakeholders to address these matters proactively, either by way of changes to the Package Tariffs or through exploring alternative tariffs.

Energex and Ergon Energy had already started considering alternative "intermediate" tariff options in advance of this consultation, with the intermediate options (or combinations thereof) intended to address customer concerns with the Package Tariff to enable better customer outcomes as a whole. These tariff options are positioned at this stage as being "intermediate" because they are intended to be considered as alternative tariff pathways for the 2020-25 regulatory control period as we progress towards future capacity based network tariff structures. In other words these are designed to enable us to work collaboratively with our customers towards optimum tariff outcomes.

The intermediate tariff options were still in development (and yet to be consulted with stakeholders) at the time of the TSS submission and as such were set out in the Explanatory Notes that accompany Energex and Ergon Energy's TSSs. Similarly, the dynamic response tariff options, which evolved from consultation with irrigation and agricultural customers during 2018, were also still in development at the time of the TSS submission and were included in the Explanatory Notes.

Energex and Ergon Energy understand that the AER has concerns that the TSSs as submitted on 31 January do not provide sufficient information for the AER and customers to fully assess the proposed network tariff structures. In particular the AER was not clear on the preferred tariff pathway to which Energex and Ergon Energy were intending to commit for the 2020-25 regulatory control period.

On Thursday 8 February 2019 and Friday 8 February 2019 Energex and Ergon Energy executives and officer level representatives held constructive discussions with the AER during which we committed to fully support the AER's engagement process through the following:

- We confirm the **Package Tariffs** are included in the TSSs because they represent the current state of the engagement with stakeholders and customers. The inclusion of these tariffs enables the AER and customers to continue a genuine and meaningful engagement process to assess the tariff structures, indicative rates and customer impact analysis that have been provided in the TSSs and Explanatory Notes and which have already been submitted to the AER. We note that the assignment rules associated with the Package Tariffs are already set out in the TSS;
- We confirm the **Intermediate Tariff Options**, as set out in the Explanatory Notes, represent alternative pathways which customers and the AER may consider in assessing the TSS. We are seeking the opportunity to work with the AER to develop an appropriate consultation framework to explore these options (and their associated tariff assignment arrangements) with customers, so that this consultation fits in with the AER's TSS issues paper consultation process. Indicative rates and customer impact analysis will be provided for the intermediate tariff options on 18 February 2019. In relation to tariff assignment rules, we anticipate that if customers expressed a preference for a particular intermediate tariff option during the TSS issues paper consultation, that the preferred intermediate tariff option would become the default network tariff offered on an opt-out basis. We will seek to consult further with customers on the intermediate tariff assignment arrangements as part of the TSS Issues Paper consultation process;
- We confirm the **Dynamic Response Tariff Options**, as set out in the Explanatory Notes, are currently not "locked in" but are intended to be included in the TSS for introduction during the 2020-25 regulatory control period. Indicative rates will be provided for these tariffs by close of business 18 February 2019. Consultation on these tariff structures had commenced prior to the TSS submission and once the indicative rates are submitted, we will consult with customers on these Dynamic Response Tariff options (and their associated tariff assignment arrangements) during the AER's TSS issues paper consultation process;
- We confirm the **Summer Peak Window (SPW) and LRMC approach** set out in the TSS and Explanatory Notes have been consulted upon and modelled prior to the TSS submission, and as such consultation on these will commence immediately. As we will do within period when we update the inputs to the annual Long Run Marginal Cost (LRMC) calculation, we are currently refining the inputs for the LRMC approach to best reflect the future network. As the LRMC values are refined, we will also ensure the underpinning assumptions for the SPW remain aligned. We welcome the opportunity to present our thinking on the SPW to the AER and customers during the AER's TSS issues paper consultation process;
- We confirm that other than these items listed above, everything else set out in the TSS is "locked in" for the AER and customers' immediate consideration, and
- We will provide the AER with updates on our ongoing analysis and customer consultation feedback on the TSS (and specifically the intermediate tariff options, dynamic response tariff options and their associated tariff assignment arrangements) as part of Energex and Ergon Energy's responses to the AER's TSS Issues Paper in May 2019.

We therefore commit to:

- Providing to the AER by no later than 18 February 2019:
 - The indicative rates (and associated customer impact analysis) for all of the Intermediate Tariff options, currently set out in the Explanatory Notes for Energex and Ergon Energy's East pricing zone; and
 - The indicative rates for the dynamic response tariffs, currently set out in the Explanatory Notes for Energex and Ergon Energy's East pricing zone.
- Providing clarification to customers about the engagement process, timeframes and proposed approach at all customer engagement sessions held from February 2019 onwards, and
- Work closely with the AER to inform their Issues Paper initially and throughout the AER TSS consultation process.

Energex and Ergon Energy remain committed to providing the AER and customers with sufficient clarity and information by which to assess the network tariffs proposed in the TSS and welcomes further discussion on this matter with the AER. We appreciate the excellent engagement from the AER staff we have been having in this matter.

Please feel free to contact me directly at any time to discuss or clarify our approach. I will be in touch shortly to arrange the next steps and meetings in our ongoing dialog with you.

Yours Sincerely,

Peter Scott
Chief Financial Officer
EQL