

Energex Legacy tariff review

Report on the outcomes of
the review

Energex Limited
26 February 2021



Part of Energy Queensland

Version Control

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1.0	26/02/2021	Initial report submitted to the AER
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1 Introduction

1.1 Purpose

This document is Energy Queensland's (EQL's) report outlining:

- the key outcomes of the legacy tariff review; and
- its proposed plan to reassign legacy tariff customers to an approved network tariff from 1 July 2021.

This report addresses the various elements of the AER's decisions relating to the legacy tariff arrangements set out in its Final Decision on the Energex and Ergon Energy 2020-25 Tariff Structure Statements (Final Decision).¹

1.2 Background

Shortly before submitting its Revised 2020-25 Regulatory Proposal to the Australian Energy Regulator (AER) on 10 December 2019, Energex identified the potential existence of network tariff structures in its billing systems which had been omitted from its 2020-25 Tariff Structure Statement (TSS). These network tariff structures which pre-date the TSS requirements, were used to invoice network charges to a small number of low voltage (LV) customers in specific industries. These network tariff structures which have not been subjected to the AER's review process are known as 'legacy tariffs'.

Having raised this issue with the AER, the regulator decided in its Final Decision that the most appropriate course of action to take was for EQL to complete a review of its network pricing and billing arrangements on a reasonable endeavours basis.²

1.3 AER's requirements relating to the legacy tariff review

The AER requires EQL to undertake a legacy tariff review which includes the following key elements:

- Identify any legacy network tariffs and the number of customers on these tariffs.
- Assess the extent that customers on legacy network tariffs have been under/overcharged for standard control network services.
- Work with relevant stakeholders to develop a plan to reassign these customers to the applicable default network tariff and address any unacceptable bill impacts to the extent it is reasonable to do so.

¹ AER, Final Decision Ergon Energy and Energex Distribution Determination 2020 to 2025, Attachment 18 – Tariff Structure Statement, pp 29-30.

² Ibid.

The AER required that this review be completed by 31 December 2020. However, following officer level discussions with the AER in September 2020, an extension to 26 February 2021 was granted on the basis that the delay would enable EQL to:

- Engage with impacted retailers
- Complete internal approval process
- Quality assure the review
- Better align the timeframes for the legacy tariff review with the 2021-22 pricing proposal process.

1.4 Compliance with the AER's requirements

Table 1 below demonstrates where in this report and how EQL has addressed the AER's requirements.

Table 1: Compliance with AER's requirements

AER's response	EQL's response	Reference in this report
EQL to review its network pricing and billing arrangements	EQL has undertaken a review of the Energex and Ergon Energy billing systems and found the issue is limited to Energex	Section 2.1
EQL to identify any legacy network tariffs	EQL has identified four legacy TOU energy tariffs	Section 2.2
EQL to identify the number of customers on these legacy tariffs	EQL has identified 2,361 customers on the legacy tariffs	Section 2.3
EQL to assess the extent that customers on legacy network tariffs have been under/over charged for standard control network services	EQL's analysis shows that it has not overcharged customers over the past 6 years	Section 2.4.2
EQL to work with relevant stakeholders to develop a plan to reassign these customers to the applicable default network tariff and address any unacceptable bill impacts to the extent it is reasonable to do so	EQL has undertaken customer impact analysis to determine the extent to which customers' network charges will change as a result of being reassigned to an approved default tariff	Section 2.4.3
	EQL has developed a transition plan to reassign customers out of the legacy tariffs while recognising customer impact	Section 3

AER's response	EQL's response	Reference in this report
	<p>EQL has notified all affected retailers of the review and customer impact.</p> <p>EQL has also engaged with retailers on its proposed tariff reassignment approach.</p>	Section 4
EQL to demonstrate the review has been quality assured	EQL is proposing to include the review of its pricing and billing systems as part of its annual risk mitigation process	Section 3.6

1.5 Legal advice

In preparing the legacy tariff review, EQL has sought external legal advice. The key points of the legal advice provided are as follows:

- Using a flat tariff structure as an alternative to a legacy tariff is reasonable considering the data limitations associated with basic meters.
- The assessment of any historical under/overcharging should span a 6-year period as this would meet the purposes of a “reasonable endeavour basis” and would align with the statute of limitations for breach of contract claims from retailers.
- As it is retailers who are charged and pay network charges under the Statement of Charges issued by Energex, retailers (rather than their customers) should receive any refund.
- Customer change at premises would not affect any historical under/overcharging as the obligations for any refund or recovery is between Energex and retailers, not retailers’ customers.

2 Outcomes of the review

In its Final Decision, the AER requires Energex and Ergon Energy to assess the extent that customers on legacy network tariffs have been under/over charged for standard control network services. It also requires that customer impact be considered when reassigning customers to an approved default network tariff.

To comply with the AER's requirements. EQL's analysis is threefold:

1. It includes the outcomes of the review of the billing and pricing systems to ensure that all legacy tariffs and customers assigned to these tariffs have been identified.
2. It estimates any potential under/overcharging by comparing actual historical charges invoiced to legacy tariff customers with hypothetical charges based on the approved default tariff.
3. It estimates customer impact for legacy tariff customers, should they be reassigned to an approved default tariff.

2.1 Review of the Ergon Energy and Energex billing systems

Having conducted a review of the pricing and billing systems for both Energex and Ergon Energy, we can confirm that the use of legacy tariff structures is limited to Energex. As a result, this report will focus solely on Energex.

2.2 Tariffs considered to be legacy network tariffs

Clause 6.18.1A of the NER provides that a TSS must include, among other things, the network tariffs, associated charging parameters (including charging windows) and tariff assignment procedures which will apply during a regulatory control period. Any deviation from the TSS is considered a breach of the NER obligations.

The network tariff structures which have been identified as non-compliant with the Energex 2020-25 TSS are four time-of-use (TOU) energy tariffs requiring a TOU programmed basic meter.

The legacy tariffs are based on the same structure and rates as the AER-approved Business Time-of-Use tariff for SAC Small³ business customers (NTC8800), namely:

- a daily fixed charge \$/day;
- an off-peak rate (\$/kWh); and
- a peak rate (\$/kWh).

As shown in Table 2 below, the only difference between the legacy tariffs and tariff NTC8800 relates to the charging timeframes for the peak and off-peak periods.

³ SAC Small customers are customers connected to the low voltage network, consuming less than 100MWh per year.

Table 2: List of Energex’s legacy TOU tariffs and their charging windows

Legacy tariffs’ distribution billing code	Legacy Network Tariffs		AER approved TOU tariff and charging window
	Equivalent retail tariff	Charging windows	
TOU4	Tariff 65 – Irrigation TOU	Peak: 7am-7pm, every day Off peak: all other times	NTC8800 – Business Time-of-Use Peak : 7am-9pm weekdays* Off-peak: all other times.
TOU5		Peak: 7.30am-7.30pm, every day Off peak: all other times	
TOU6		Peak: 8.00am-8.00pm, every day Off peak: all other times	
TOU3	Tariff 37 – Non- domestic Heating	Peak: 10.30pm-4.30pm (off peak rate applied), every day Off peak: all other times (peak rate applied)	

Note:

* Energex’s 2020-25 TSS defines weekdays as being inclusive of gazetted and bank holidays ie State, regional and local public holidays.

2.3 Number of customers on legacy tariffs

As of 30 June 2020, it has been identified that about 2,361 customers are invoiced network charges based on a legacy tariff. The breakdown of customers by legacy tariff and customer classification is presented in Table 3 below.

Table 3: Number of Energex customers on a legacy tariff

Legacy tariffs’ distribution billing code	SAC customers	SAC customers	Total
	<100MWh/year	>100MWh/year	
TOU3	595	38	633
TOU4	1,688	29	1,717
TOU5	5		5
TOU6	6		6

Legacy tariffs' distribution billing code	SAC customers	SAC customers	Total
	<100MWh/year	>100MWh/year	
Total	2,294	67	2,361

It should be noted that, out of these 2,361 customers on a tariff legacy, 278 have smart meters. Smart meter customers will be reassigned to the default Transitional Demand Tariff (NTC3800) at the end of the 12-month grace period, in line with the 2020-25 TSS.

As shown in Table 4 below, the number of legacy tariff customers have steadily decreased by 473 customers since 1 July 2014.

Table 4 – Legacy tariff customer numbers since 1 July 2014

Legacy tariffs	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
TOU3	925	926	788	742	726	633
TOU4, TOU5, TOU6	1,909	1,947	1,850	1,827	1,807	1,717
Total	2,834	2,873	2,638	2,569	2,528	2,361

As at 30 June 2020, 21 electricity retailers in South East Queensland have customers on a legacy tariff. 11 retailers have less than 10 customers on a legacy tariff, 6 have less than 50 customers on a legacy tariff, 3 have less than 500 customers and 1 retailer has more than 1,000 customers. It is expected that the number of retailers with legacy tariff customers will decrease on 1 July 2021 when smart meter customers are reassigned to the default transitional demand tariff as part of the smart meter bulk reassignment in accordance with the 2020-25 TSS requirements.

2.4 Legacy tariff analysis

The legacy tariff analysis is based on a comparison between customers' actual charges based on a legacy tariff (the factual) relative to hypothetical charges based on an approved default basic meter flat tariff (the counterfactual). This quantitative analysis is split into two distinct elements:

- Historical analysis to determine any potential under/overcharging, and
- Customer impact analysis to determine the impact of transitioning customers out of a legacy tariff to an approved tariff.

2.4.1 Assumptions used for the analysis

In conducting the quantitative analysis, Energex applied the following assumptions:

- The historical under/overcharging analysis presented in Section 2.4.2 was based on 6 years worth of invoices spanning 1 July 2014 to 30 June 2020. The actual charges were compared to hypothetical charges derived using the Small Business Tariff (NTC8500).

- The customer impact analysis relating to customers being transitioned from a legacy tariff to an approved tariff (see Section 2.4.3) was based on actual chargeable quantities for the period from 1 July 2019 to 30 June 2020 applied to 2020-21 rates for the Small Business Tariff (NTC8500) or the Wide Inclining Fixed tariff (NTC6000).
- Metering services charges and taxes were excluded from the analysis as they are not considered relevant.
- The analysis is done at a network charge level but does not include retail margins and wholesale energy costs.
- The analysis only relates to network tariffs and does not reflect the retail tariffs retailers offer their customers.
- Invoices which do not include a legacy tariff were excluded from the dataset.
- With the exception of the legacy tariff, customers with multiple tariffs retained their tariff combinations.
- If multiple tariffs exist at a customer's premises and NTC8500 is already one of them, the existing NTC8500 and substituted tariff are consolidated and single fixed charge applies.
- A change of customers at a premises was ignored as any refund would be made to retailers, not to the customers.
- Bill shock is assumed to be an increase in a customer's annual charges of at least 10 per cent.
- Smart meter customers are excluded from the customer impact analysis as these customers are captured in the smart meter bulk reassignment in line with the 2020-25 TSS.

2.4.2 Historical under/over charging

Using the assumptions set out in Section 2.4.1, the review of all the invoices since 1 July 2014 shows that, compared to the Small Business Flat tariff (NTC8500), Energex undercharged retailers by an average of 3.7 percent or \$356,328 per year.

Table 5 – Historical under/over-charging between 1 July 2014 and 30 June 2020

Pricing year	Total legacy tariff charges	Total alternative charges based on NTC8500	Over (+)/Under (-) charging
2014-15	\$10,822,706	\$11,770,539	-\$947,833
2015-16	\$10,285,634	\$10,625,979	-\$340,344
2016-17	\$9,157,737	\$9,480,580	-\$322,843
2017-18	\$7,722,860	\$7,902,412	-\$179,552
2018-19	\$7,464,197	\$7,635,892	-\$171,695
2019-20	\$6,750,212	\$6,925,916	-\$175,704

Considering the outcome of the review, EQL is not proposing to make any refund to retailers, nor will it seek money back from them.⁴

2.4.3 Customer impact analysis

The main purpose of the customer impact analysis is to determine the bill impact customers may experience when transitioning out of a legacy tariff to an approved default network tariff. The approach adopted for this analysis was based on the assumptions listed in Section 2.4.1 above.

Table 6 below summarises the network bill impact of a tariff change to the default network tariff for basic meter customers.

Table 6 – Basic meter customer impact results

Customer impact range	SAC Small	SAC Large	Total	%
>30%	49	3	52	2%
10-29.99%	545	32	577	28%
0%-9.99%	840	20	860	41%
<0%	586	8	594	29%
Total	2020	63	2083	100%

The results presented in Table 6 above show that:

- 29 per cent of legacy tariff customers with basic metering would be better off on the default basic meter tariff
- 41 per cent of legacy tariff customers with basic metering would experience a bill increase of less than 10 per cent should they be reassigned to the default basic meter tariff
- 30 per cent of legacy tariff customers with basic metering would be expected to experience a bill increase of 10 per cent or more.

In accordance with the process set out in Section 3, 1426 SAC Small customers out of 2020 customers who are experiencing either a decrease in their network charges or an increase of less than 10 per cent will be reassigned to the relevant default basic meter tariff on 1 July 2021. These customers will be reassigned to either the Small Business flat tariff (NTC8500) or the WIFT (NTC6000) depending on whether their annual energy consumption is above or below 20MWh. Customer reassignment will occur on the customers' next meter read after 1 July 2021.

Basic meter customers consuming more 100MWh per year (SAC Large customers) will be reassigned to the newly introduced basic meter SAC Large Business Energy tariff (NTC6600) on 1 July 2022 following the expiry of the 12-month grace period. Customer reassignment will occur on the customers' next meter read after 1 July 2022.

⁴ To preserve confidentiality, the results from the analysis broken down at retailer level have not been included in this report but can be provided separately upon request.
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The remaining 594 SAC Small customers who are experiencing a bill increase of at least 10 per cent will be granted a grace period of 12 months to allow retailers to engage with their customers.

Details of the legacy tariff reassignment framework are set out in Section 3.

3 Approach to transition customers to an AER-approved tariff

The proposed approach recognises the following criteria:

- Customer's metering type
- Customer's annual consumption to determine whether they are Small or Large
- Customer's impact.

The below approach reflects the AER's preliminary guidance received on 29 September 2020. Of particular significance are the following considerations:

- The AER would consider a transition over multiple years subject to a transition plan being set out
- The AER is unlikely to support discounts with the revenue shortfall recovered from other customers.

3.1 SAC Large customers

Customers consuming more than 100MWh per year will be reassigned to an eligible SAC Large tariff in accordance with the following process:

- If the NMI has a smart meter, it will be reassigned to the default SAC Large demand tariff on 1 July 2021.
- If the NMI has a basic meter, it will be reassigned to the newly introduced SAC Large basic meter tariff, Large Business Energy (NTC6700), on their next meter read after 1 July 2022.⁵

This reassignment is done in compliance with the TSS requirement that customers above 100MWh per year (subject to the 15 percent tolerance limit being applied) will be on a SAC Large tariff.

3.2 SAC Small customers

The reassignment of SAC Small customers on a legacy tariff will be based on the customer's existing metering type, customer impact and allowing sufficient time for retailers to discuss tariff options with their customers.

The proposed reassignment approach is as follows:

- Customers on a legacy tariff with a smart meter will automatically be reassigned to the transitional demand tariff (NTC3800) on 1 July 2021. Customers experiencing bill increases

⁵ This aligns with the proposal set out in the Energex 2021-22 Pricing Proposal to grant from 1 July 2021, a 12-month grace period to SAC Large customers with basic metering before being reassigned to the Large Business Energy tariff (NTC6600).
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have the option to access the new optional demand tariff (NTC3600) or time-of-use energy tariff (NTC6800). This aligns with the bulk reassignment of smart meter customers after the expiration of the 12-month grace period in line with the 2020-25 TSS.

- **Customers on a legacy tariff with a basic** meter will automatically be reassigned to the Small Business Flat Tariff or the WIFT (depending on their annual consumption):
 - Upon their next meter read after 1 July 2021 **IF they are better off or experience a bill impact of less than 10 percent on the approved default tariff**
 - Upon their next meter read after 1 July 2022 **IF they experience unacceptable bill shock on the approved default tariff (bill impact >10 percent)**. This should give retailers sufficient time to explore options with their customers, including:
 - Consideration of upgrading their metering to a smart meter so the impacted customers can access more favourable tariff options (eg the time-of-use energy tariff or the transitional demand tariff)
 - Considering primary or secondary load control tariff options.
- Customers with multiple tariffs at a single NMI (eg legacy tariff + flat tariff) may consider consolidating their tariffs to a single approved tariff. Customers experiencing bill shock will be given until 30 June 2022 to ensure they have sufficient time to discuss their circumstances with their retailer.

3.3 Setting rates of the legacy tariffs

It is proposed that Energex continues setting the rates for the legacy tariffs in line with the AER-approved NTC8800 until 30 June 2022. This aligns with current practices.

3.4 Pricing proposal

It is not proposed that Energex includes the legacy tariff options and associated tariff structures and rates explicitly in the pricing proposals, tariff tables and the Tariff Approval Model⁶. The reasons for this proposed approach are as follows:

- Under the NER, the pricing proposals need to align with the TSS. Given that the legacy tariffs are not in the TSS, it is not a requirement to have these tariffs in the pricing proposals. Further, we are concerned that a misalignment between the TSS and the pricing proposals could result in a non-compliance outcome.
- The charges to retailers appearing in the Statement of Charges do not show the legacy tariff options but only the AER approved parent network tariff NTC8800 which is included in the TSS and pricing proposals.
- The rates used to charge customers on legacy tariff options are the same as NTC8800. These rates have been approved by the AER as part of the pricing proposal process.

⁶ In the Tariff Approval Model, reconciliation with the sum of $p \cdot q$ with maximum revenue will be based on the assumptions that customer numbers and volumes associated with the legacy tariffs are allocated to network tariff NTC8800.

Instead, it is recommended to include a high level description in the pricing proposal setting out the approach used to transition customers out of the legacy tariffs and explaining how the rates for the legacy tariffs are set.

3.5 Other pricing consideration

No discount will be used to mitigate customer impact.

3.6 Quality assurance

As part of the on-going quality assurance process, we propose to include in the EQL Corporate Risk Register, an annual review of our network billing and network pricing systems. This will considerably reduce the chances of a similar issue occurring again.

4 Engagement with retailers

This section of the report provides a summary of the engagement plan we have commenced with retailers.

EQL can confirm that it has notified all affected retailers of the review and customer impact.

The engagement plan presented to retailers was as follows:

- Individual notifications were sent on 29 January 2021 to the retailers with the largest number of customers on legacy tariffs (See de-identified copy in Attachment A)
- The legacy tariff review was raised at the Retailer Forum held on 18 February 2021
- Individual meetings with key retailers were held throughout in the first half of February 2021.

At these meetings we discussed the issues relating to the legacy tariffs, informed retailers of the AER's expectations and requirements, shared our proposed tariff reassignment framework and offered to share the outcomes of our analysis.

Key responses from the meetings with retailers are summarised below:

- Retailers did not raise any significant concerns.
- Some retailers welcomed the fact that customer impact is central to this activity.
- Some retailers welcomed the decision to retire the legacy tariffs and suggested that they may reassign customers ahead of the timeframes proposed in the tariff reassignment approach set out in section 3.
- All retailers welcomed the offer to share the results of the review as this will assist them in undertaking their own analysis.
- A number of retailers queried as to when the AER would be expected to make a decision on EQL's proposed tariff reassignment framework contained in this report.

Discussions with affected retailers remain on-going and EQL will continue to provide assistance in any way it can.

Appendix A – Retailer notification

Notification sent on 29 January 2021:

Good Afternoon,

In preparation for this year's tariff reassignment activities, the Australian Energy Regulator (AER) has instructed Energex to consult with retailers regarding the following Network Tariffs:

- **8800 Option 3**
- **8800 Option 4**
- **8800 Option 5**
- **8800 Option 6**

Note: these tariffs are commonly known and referred to as “Bakers” and “Irrigation” tariffs.

From our records, we estimate that the number of network tariff changes impacting your customer's to be 1340 basic meter NMI's and 165 smart NMI's (approximately).

Given this, we propose the following transition activities as a way to manage any potential network billing impacts:

Reassignment Date	Customer group
Thursday 1 July 2021	All customers with a smart meter, as part of the smart meter bulk reassignment activities
	Customer with a basic meter experiencing an increase of less than 10 percent (based on network charges)
Friday 1 July 2022	Customers with basic meters experiencing an increase of at least 10 percent (based on network charges)

Please note: This proposed customer impact mitigation approach is subject to the AER's approval.

To support this we intend to hold individual meetings in mid- February to assist you through these activities, share further detail about these changes from an operational and system perspective and provide you an opportunity to ask any further questions.

In order to do this, please provide names and contact details of relevant participants to represent your organisation via return email to CQE@energyq.com.au by COB on Thursday 4 February 2021.

Retail Compan y	Contac t Name	Positio n	Email Addres s	Phone Numbe r

Thanks in advance.