15 October 2020

Ben Wu
Manager Pricing and Billing
Powerlink Queensland
PO Box 1193
Virginia QLD 4014

Dear Mr Wu

Submission on Powerlink Draft Position paper on potential reforms to transmission charges in 2022-2027 regulatory control period

Energy Queensland Limited (Energy Queensland) welcomes the opportunity to provide feedback to Powerlink's consultation paper that outlines the proposed changes to the structure of Powerlink's transmission charges in the next regulatory control period, from 1 July 2022 to 30 June 2027.[1]

We support in principle Powerlink's proposal to universally adopt a peak demand basis for the locational charging component given that transmission network augmentation costs are more likely to be driven by peak demand, rather than average demand. We also note that this proposal will result in Powerlink being more consistent with the approach taken by other jurisdictional TNSPs, which may deliver better economic outcomes to the extent that current inconsistencies have distorted investment and usage decisions of large customers, particularly where they are directly connected to the electricity transmission network.

On the basis of the information set out in the consultation paper, we are concerned that Powerlink's proposal to increase the allocation of costs to the locational charge component from the current 50/50 split to the proposed 60/40 split does not satisfy Clause 6A.23.3 a(2) of the National Electricity Rules. Our concern relates to whether Powerlink has provided adequate evidence that the proposed 60/40 split is consistent with the objective of providing more efficient locational signals to market participants, intending participants and end users. It is likely that the AER will also share our concerns given that the economic weaknesses of cost allocation processes are well documented in the economic literature.[2] To address this issue, we encourage Powerlink to base this proposal on a robust estimate of Long Run Marginal Cost (LRMC) at the individual transmission connection point level. Not only will this approach strengthen Powerlink's case that this proposal is consistent with the economic principles in the Rules, it will also provide customers with greater certainty over the future direction of the locational charge applicable to their transmission connection point. For example, customers being supplied transmission services in

[1] www.powerlink.com.au/transmission-pricing-consultation-process
[2] AEMC 2005, Review of Electricity Transmission Revenue and Pricing Rules – Consultation program, Issues paper, p.26/27, November.

locations where the LRMC is low (such as where peak demand is declining) should be able to make investment and usage decisions with a reasonable degree of confidence over the future direction of the locational component of their transmission charges over the medium to longer term.

Notwithstanding our concerns above, we have undertaken some preliminary analysis of the impact of the proposed changes to the locational charges on the annual TUOS bill outcomes for our existing customers on an Individually Calculated Customer (ICC) network tariff.[3] Under our ICC price-setting methodology, with the exception of Entry/Exit connections, our the annual transmission costs are treated as a direct passthrough to ICC customers with rates applied to those forecast quantities of each ICC customer. In its pure form, the following overall annual impact is expected to be observed under each of Powerlink's transmission pricing reform option is summarised at the total TUOS cost level, locational peak demand charge component level and the ICC tariff class level.

Table 1: Indicative annual change in transmission costs – total TUOS cost, locational charge component and ICC tariff class

Distributor	Category	Option 1: Peak demand basis of locational charge	Option 2: Increase in peak demand cost allocation to 60/40 split	Option 3: Adopt a MVA basis for peak demand charge	Option 4: Remove side constraint applying to change in peak demand charge
Ergon	Total TUOS Cost	-0.9%	2.1%	1.6%	-2.4%
	Locational demand component	-3.2%	21.5%	-1.5%	-13.6%
	ICC tariff class	7.8%	-6.2%	-2.0%	-2.8%
Energex	Total TUOS Cost	1.3%	-1.4%	-0.4%	-0.3%
	Locational demand component	2.5%	21.9%	-2.0%	-13.1%
	ICC tariff class	10.3%	-5.7%	0.4%	4.3%

Note : The above indicative outcomes relate to each option in isolation. It could be possible that more than one option is implemented by Powerlink.

[3] Note: The proposed changes to the locational component will only have a direct impact on ICC customers given that our methodology for setting these tariffs aim to preserve the Powerlink transmission price signal.

Energy Queensland Limited ABN 96 612 535 583
Head Office Level 6, 420 Flinders Street, Townsville QLD 4810 PO Box 1090, Townsville QLD 4810 www.energyq.com.au

The key point from this analysis is that in terms of EQL's overall TUOS cost, the transmission pricing reform options being considered by Powerlink are expected to have only a modest impact, ranging from -0.9% to 2.15% for Ergon and -1.4% to 1.3% for Energex. This implies that the impact of the Powerlink reform options will be modest for residential and small to medium sized business customers where the TUOS component is based on a highly average approach i.e not a direct passthrough of the Powerlink transmission charges. As expected, the option of increasing the cost allocation to a 60/40 split will have a material increase in the locational peak demand charge of around 21.5% for Ergon and 21.9% for Energex. While this is a significant increase it should be noted that this increase will be offset to a large extent by reductions in the other charging parameters within Powerlink's transmission pricing structure. For the ICC tariff class, the adoption of a peak demand only basis of the locational demand charge component is expected to have a significant impact of 7.8% for Ergon and 10.3% for Energex. It should be noted that these significant increases in the locational peak demand charge will not be immediately passed through to ICC customers given that EQL is required to adopt transitional TUOS pricing arrangements to comply with the customer impact principle in the National Electricity Rules. In this regard, EQL believes that Powerlink should support these transitional pricing arrangements by delaying the introduction of these reforms until the commencement of our next regulatory control period - 1 July 2025. This will ensure that EQL will be able to engage with our ICC customers on these changes as part of our next Tariff Structure Statement process.

We have also developed preliminary TUOS impact analysis for our ICC customers, as part of Powerlink's consultation process. A confidential high level summary has been provided as an attachment.

We also note from the consultation paper that Powerlink is considering proposed changes to its transmission pricing arrangements that require an amendment to the Rules. While we offer our general support for Powerlink's proposal to move from a kW to kVA basis for transmission charges in Queensland, we do not support Powerlink seeking a rule change to relax the side constraint under the Rules.[4] We have a number of concerns over this aspect of the consultation paper. Firstly, unlike the distribution pricing principles in Chapter 6 of the Rules, Powerlink and the other jurisdictional TNSPs are not subject to a customer impact principle. It is difficult to support this proposal in the absence of this regulatory safeguard given there is a risk that relaxing the side constraint will result in some transmission customers being adversely impacted in circumstances where they are unable to fully mitigate these impacts due to the sunk nature of their plant and equipment.

We believe that it is important for Powerlink to develop a clear transition path under its proposed transmission charges in compliance with the existing side constraint set out in the Rules. This transitional approach will ensure that directly connected transmission customers will have sufficient time to prepare for the change to their transmission pricing arrangements. We encourage Powerlink to pursue this approach and to provide a clear transitional pathway for its customers.

[4] Chapter 6A of the Rules limit the extent that locational charges applying to a transmission connection point can increase in a given year to no more than CPI-X+2%, calculated on a weighted average volume basis.

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If you have any questions or require clarification on any of the matters raised in this submission please contact Bob Telford, Manager Network Pricing and Tariffs, on 0418 929 173 or Bob.Telford@energyq.com.au

Kind regards

Karen Stafford
General Manager Legal Regulation and Pricing

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Attachment 1: Summary of ICC TUOS impact under Powerlink pricing reform options

EQL has undertaken indicative modelling of the TUOS bill impact under each reform option for each existing individual ICC customer in both Ergon and Energex's network area. A high level summary of this indicative analysis is provided in the table below:

Table A1: Summary of Indicative annual % change in transmission cost for individual ICC customers under Powerlink reform options

Distributor	TUOS bill impact	Option 1: Peak demand basis of locational charge	Option 2: Increase in peak demand cost allocation to 60/40 split	Option 3: Adopt a MVA basis for peak demand charge	Option 4: Remove side constraint applying to change in peak demand charge
Ergon	Maximum	32%	15%	150%	32%
	Average	10%	-4%	3%	-3%
	Minimum	-51%	-59%	-62%	-81%
Energex	Maximum	36%	16%	104%	16%
	Average	13%	-3%	4%	3%
	Minimum	1%	-14%	-10%	-10%

Note : The above indicative outcomes relate to each option in isolation. It could be possible that more than one option is implemented by Powerlink.

The key points from this indicated analysis, as summarised in the table are:

- The average impact on the TUOS bills of individual ICC customers is highest under Option 1, which is estimated to be 10% for Ergon and 13% for Energex.
- There is a considerable divergence of annual TOU bill impacts across individual ICC customers under each reform option. The highest spread is expected to be associated with Option 3 (adoption of MVA basis) with:
    - The maximum impact estimated at 150% for Ergon and 104% for Energex.
    - The minimum impact is estimated to be an annual TOU bill saving of 62% for Ergon and 10% for Energex.

We have undertaken indicative bill impacts for each individual ICC site and we will provide this information to Powerlink only upon the individual ICC customers request.

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