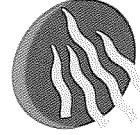


25 JUN 2009

DATE RECEIVED



**Hon Stephen Robertson MP**  
Member for Stretton



**Queensland  
Government**

24 June 2009

**Minister for Natural Resources,  
Mines and Energy and  
Minister for Trade**

Mr B Parmenter  
Chairman  
Queensland Competition Authority  
GPO Box 2257  
BRISBANE QLD 4001

Dear Mr Parmenter

The *Electricity Act 1994* requires that regulated retail electricity tariffs be adjusted annually according to movements in the Benchmark Retail Cost Index (BRCI). On 16 March 2007, the former Minister for Mines and Energy delegated responsibility for adjusting tariffs annually, using the BRCI methodology, to the Queensland Competition Authority (the Authority).

The BRCI methodology has now been in place for three pricing periods, so it is timely to consider whether the current methodology is continuing to meet the Government's policy objectives of supporting a competitive retail electricity market.

Strong Queensland population growth over recent years has also seen peak electricity demand increases, requiring very significant investment in transmission and distribution networks. This indicates a need for customers to see the impact of consumption decisions. The existing electricity tariff structures have been in place with minimal change for almost 20 years and it is also appropriate to consider whether more contemporary tariffs which provide incentives for more efficient use of electricity should be implemented.

It is the Australian Government's intention to introduce a Carbon Pollution Reduction Scheme (CPRS) on 1 July 2011. The CPRS will be Australia's primary policy tool to deliver low emissions outcomes and put a price on carbon in a systematic way throughout the economy. Central to the effective implementation of the CPRS, and the promotion of energy efficiency initiatives, is an electricity pricing regime that leads to changes in consumer behaviour that support a carbon constrained economy.

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Noting the intent of the CPRS is to internalise costs of carbon emissions in consumption decisions, the Council of Australian Governments agreed on 30 April 2009 to amend the Australian Energy Market Agreement to specify that, where retail prices were regulated, energy cost increases associated with the CPRS shall be passed through to end-use consumers.

In its *First Interim Report on its Review of Energy Market Frameworks in Light of Climate Change Policies*, the Australian Energy Market Commission noted that there are significant risks associated with current regulatory regimes across Australia and that under current arrangements retailers will not be able to cope with potentially large and rapid changes in retailer costs due to a number of factors, including the introduction of CPRS.

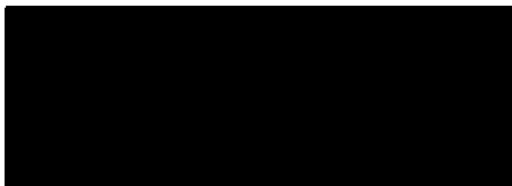
These issues indicate the need for a detailed review of the level and structure of regulated retail electricity tariffs and the methodology for setting them from time to time.

Attached is a Direction from the Premier and the Treasurer and Minister for Employment and Economic Development under Section 10(e) of the *Queensland Competition Authority Act 1997* requiring the Authority to:

- a) examine the current BRCI methodology and alternative pricing methodologies for reflecting the costs of supplying electricity, including network costs and accounting for all State and Commonwealth Government environmental obligations; and
- b) examine Queensland's existing retail electricity tariffs and alternative tariff structures which may assist in the long-term management of peak electricity demand and provide an incentive for customers to use electricity more efficiently.

The outcomes of this review will inform the Government's consideration of any amendments which may be required to the retail electricity price setting methodology and tariff structures to be applied for the 2010-11 notified electricity prices.

Yours sincerely



**STEPHEN ROBERTSON MP**  
Minister for Natural Resources,  
Mines and Energy and  
Minister for Trade

# QUEENSLAND COMPETITION AUTHORITY ACT 1997

## Section 10 (e)

### MINISTERS' DIRECTION NOTICE

As the Premier and Treasurer of Queensland, pursuant to section 10(e) of the *Queensland Competition Authority Act 1997*, we hereby direct the Queensland Competition Authority (the Authority) to:

- a) examine the current Benchmark Retail Cost Index (BRCI) methodology and alternative pricing-setting methodologies for reflecting the costs of supplying electricity including network costs and accounting for all State and Commonwealth Government environmental obligations; and
- b) examine Queensland's existing retail electricity tariffs and alternative tariff structures which may assist in the long-term management of peak electricity demand and provide an incentive for customers to use electricity more efficiently.

#### 1. Matters to be considered

It is important that Queensland electricity consumers, wherever possible, have the opportunity to benefit from competition and efficiency in the market place. For the retail electricity market to be successful, electricity prices must cover the costs incurred by efficient industry participants.

The BRCI has been in operation for three pricing periods. It is now timely to consider whether adjustments to Queensland's existing regulatory framework may be necessary to enable retailers to manage the potentially large and volatile changes in costs, and ensure any additional costs, expected to be incurred under the Commonwealth Government's expanded Renewable Energy Target (RET) and the proposed Carbon Pollution Reduction Scheme (CPRS) are reflected in prices.

The Government intends that any new retail electricity price setting arrangements and tariff structures arising from the Review of Electricity Pricing and Tariff Structures (the review) should be implemented in deciding the 2010-11 notified electricity prices.

In undertaking the review, the Authority should address the following:

- 1.1 Assess the BRCI and alternative methodologies for determining regulated electricity prices and recommend a preferred option. In undertaking this assessment, the Authority must consider (at a minimum), the following:

##### *1.1.1 Prices to reflect the costs of electricity supply*

The review should consider the treatment of network costs within any proposed price setting methodology. Consideration should be given to the merits/issues associated with removing the network cost component from the retail prices altogether and treating (regulated) network costs separately as a direct pass-through to customers.

Any methodology proposed by the Authority must also be capable of passing through to consumers the costs associated with the expanded RET, the CPRS or any other environmental obligations introduced by the Commonwealth Government or State Governments.

The review should consider the merits of continuing to use a single escalation factor for all tariff groups from year to year, or allowing different rates of increase for individual tariff groups, to reflect different underlying cost drivers (ie. a weighted average escalation factor).

Prices should also support the continued implementation of full retail competition with sufficient headroom to foster a competitive electricity market. Headroom should remain relatively stable and the Queensland Government policy of enabling small market customers to revert to notified prices should not result in a retail entity providing customer retail services to small non-market customers at a loss.

#### *1.1.2 Uniform Tariff Policy*

The review should be conducted within the context of the Queensland Government's Uniform Tariff Policy. Regardless of any proposed changes to current tariff structures, there is a requirement to set a notified price (or uniform tariff) for customers throughout the State.

The Authority should consider how this policy can be practically implemented given the vastly different network tariff costs across Queensland. At the least, the notified prices should be set to cover the efficient costs of retailing in south east Queensland.

#### *1.1.3 Providing pricing certainty*

The Queensland Government has endorsed in-principle moving to a longer-term, three-year electricity price setting mechanism, to commence from 2010-11.

The Authority is required to advise the effectiveness and implications of setting prices on a three-year basis as distinct from annually, and on any appropriate price-smoothing approaches.

The Authority should separately consider how the costs of a future CPRS would be treated in a longer term price setting mechanism, taking account of the intention of the scheme that carbon costs will be passed through to end users. Consideration should also be given to issues associated with forecasting carbon prices given the CPRS is set to commence in July 2011 which would be within the first price setting period (2010-11 to 2012-13) if a three-year approach is adopted. In addition, any methodology should also include criteria for reopening of pricing decisions under defined criteria.

#### *1.1.4 Transitional/implementation issues*

The Authority should consider any operational and system issues that may require transitional arrangements to support the implementation of any new approach.

- 1.2 An assessment of Queensland's existing retail electricity tariffs and alternative tariff structures which may assist in the long-term management of peak electricity demand and provide incentives for customers to use electricity more efficiently, including recommendations for a preferred approach. In undertaking this assessment, the Authority should at least consider the following issues:

*1.2.1 Existing electricity tariff structures*

The review should make an assessment of whether:

- (i) current tariff levels (notified prices) fully recover the costs associated with supplying electricity to consumers in south east Queensland;
- (ii) current tariff structures enable consumers to understand and manage their energy consumption ie. tariff structures provide price signals reflective of costs, including at times of peak demand;
- (iii) current tariff structures facilitate effective retail competition; and
- (iv) any tariffs are obsolete and could be retired.

*1.2.2 Options for new electricity tariff structures*

The review should examine alternative tariff structure options to:

- (i) support cost reflective tariffs. This should include consideration of the level of tariffs necessary to promote competition for each customer class. In making this assessment the Authority should consider and identify the impact of changing tariff structures on different classes of customers; and
- (ii) enable consumers to manage electricity consumption more efficiently, including through demand side management incentives. Within this context, the Authority should consider at least the merits/issues associated with the introduction of:
  - inclining block tariffs;
  - peak demand or time of use pricing; and
  - additional interruptible tariffs suitable for demand-side management initiatives.

*1.2.3 Transitional/implementation issues*

The Authority should consider timing issues associated with the implementation of any proposed changes to tariff structures, and make recommendations about any transitional arrangements where necessary.

## **2. Consultation**

The Authority should undertake an open and robust consultation process with all parties considered relevant to the review, and consider submissions within the timetable for the review and the report.

## **3. Timing**

The Authority must provide a final report and recommended option to Government on:

- a) its review of electricity pricing and assessment of existing tariff structures by no later than 31 August 2009; and
- b) its review of alternative tariff structures by no later than 30 November 2009.

It is anticipated that following Government consideration of the findings and recommendations of both reports, any amendments to the pricing methodology and tariff structures will be implemented in the pricing period commencing 1 July 2010.

**4. Other issues**

The review should not be constrained in its consideration of an escalation methodology by the requirements of Division 3 of the *Electricity Act 1994*.

The Authority may exercise all the powers under Part 6 of the *Queensland Competition Authority Act 1997*.



**ANNA BLIGH**

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