

QUEENSLAND COMPETITION AUTHORITY ACT 1997
Section 10 (e)

MINISTERS' DIRECTION NOTICE

In my capacity as both Minister for Finance and The Arts, and Acting Treasurer and Minister for State Development and Trade, pursuant to section 10(e) of the *Queensland Competition Authority Act 1997*, I hereby direct the Queensland Competition Authority (the QCA) to investigate, and report on, a possible alternative retail electricity pricing methodology and schedule of retail electricity tariffs for the period commencing 1 July 2012 to 30 June 2013, in accordance with this Direction Notice.

1. Matters to be considered

Queensland electricity consumers should, wherever possible, have the opportunity to benefit from competition and efficiency in the market place. In order to meet Queensland's responsibilities under the National Competition Policy reforms, the Queensland Government introduced full retail competition on 1 July 2007. For the retail electricity market to be successful, electricity prices must reflect the costs of supply.

In 2009, the Queensland Government directed the QCA to review the Benchmark Retail Cost Index (BRCI) methodology as set out in the *Electricity Act 1994*, and existing retail tariff structures, and consider whether adjustments may be necessary to ensure regulated retail electricity (notified) prices reflect the costs of supplying electricity to customers in Queensland.

The QCA recommended implementing a Network (N) + Retail (R) cost build-up approach to setting notified prices for each retail tariff, where the retail cost component (R) is regulated and the network cost component (N) is passed through to customers.

Consistent with this recommendation, the QCA is directed to investigate and report on:

- an alternative retail electricity pricing methodology for the determination of the cost components under an N+R approach; and
- an alternative set of retail electricity tariffs, based on an N+R approach, which could be applied from 1 July 2012.

In investigating and reporting on an alternative pricing methodology, the QCA should have regard to the following:

1.1 The N component

Network costs should be treated as a pass through to customers. The N cost component of each tariff should be equal to the approved ENERGEX network price for the relevant tariff year.

1.2 The R component

The R cost component of each tariff should include appropriate allowances for energy and retail costs.

In investigating and reporting on a possible alternative retail electricity pricing methodology and schedule of retail electricity tariffs, the QCA should have regard to the following:

- all tariffs (excluding those specified below) are to be cost-reflective;
- for farming and irrigation tariffs, targeted consultation should be undertaken with relevant stakeholders and industry groups and consideration given as to whether any transitional arrangements may be required for customers moving from one tariff to another;
- an appropriate tariff for customers who are supplied under the Rural Subsidy Scheme or are located in a drought declared area should be considered;
- consideration should be given to a voluntary cost-reflective time-of-use tariff for domestic customers;
- consideration should be given to an appropriate tariff for electricity supplied to continuously operating traffic signals installed on a road; and
- consideration should be given to transitional arrangements for customers who are on obsolete and declining block tariffs.

In reporting on a possible alternative schedule of retail electricity tariffs, the QCA should note the following:

- as at 1 July 2012, access to regulated tariffs will be removed for large non-residential customers in ENERGEN's network area who consume over 100 megawatt hours per annum;
- as at 1 July 2012, all obsolete and declining block tariffs will be removed from the tariff schedule and any customers on these tariffs will be required to transition to an alternative tariff;
- in relation to a voluntary time-of-use tariff for domestic customers, any customer who chooses to transfer to this tariff, providing they have the appropriate metering, will be permitted to transfer back to the standard regulated tariff for domestic customers at any time if they choose to; and
- seasonal tariffs are not to be considered.

2. Consultation

The QCA should undertake an open consultation process with all relevant parties and consider any submissions received.

3. Reporting

The QCA must provide:

- a) a draft Report in March 2012; and
- b) a final Report by 31 May 2012.

The QCA should publish issues papers, reports and submissions as it considers appropriate, including on its website.

4. Other matters

In investigating and reporting on a possible alternative retail electricity pricing methodology and schedule of tariffs, the QCA should not be constrained by the requirements of Division 3 of the *Electricity Act 1994*.

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



RACHEL NOLAN

27 APR 2011

The Hon. Rachel Nolan MP, Minister for Finance and The Arts and
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