



Hon Stephen Robertson MP
Member for Stretton



**Minister for Energy and
Water Utilities**

MBN4614

11 MAY 2011

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

Dear Mr Parmenter

I refer to the Queensland Competition Authority's (the QCA) findings of its *2009 Review of Electricity Pricing and Tariff Structures*. In particular, I refer to the QCA's recommendation that an alternative price-setting methodology be implemented based on a Network (N) + Retail (R) (N+R) cost build-up (building block) approach to setting notified prices, and that the regulated retail tariffs be structured to reflect the major causes or drivers of the costs of supplying electricity to customers.

The Government has considered the QCA's recommendations and has decided to implement a new electricity pricing methodology based on a cost-reflective N+R approach and establish a new set of regulated retail tariffs that are aligned with the network tariffs.

Attached is a Direction under section 10(e) of the *Queensland Competition Authority Act 1997* requiring the QCA to investigate and provide a 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 undertaking this Direction, the QCA should note the following:

- All retail tariffs should be aligned with the relevant network tariff;
- To ease the pressure on low consumption customers, the Government has endorsed the establishment of an inclining block network tariff for domestic customers to apply from 1 July 2012;
- It is the Government's intention that any obsolete and declining block tariffs be removed from the tariff schedule from 1 July 2012;
- Before making any changes to farming and irrigation tariffs, the QCA is required to undertake consultation with relevant stakeholders and industry groups and consider the impacts;

Level 17
61 Mary Street Brisbane Qld 4000
PO Box 15216 City East
Queensland 4002 Australia
Telephone +61 7 3225 1861
Facsimile +61 7 3225 1828
Email energy@ministerial.qld.gov.au

- It is the Government's intention that from 1 July 2012, all large non-residential customers in ENERGEX'S network area who consume over 100 megawatt hours per annum will be unable to access regulated tariffs and must move to a market contract; and
- As the retail electricity market for street lighting in south east Queensland has already been deregulated, the regulated tariff for electricity supplied to street lights will apply to customers in Ergon's network area only. Following the Australian Energy Regulator's reclassification of street lighting services for the 2010-2015 distribution regulatory period, the Government will consider whether any further changes to this tariff may be appropriate.

Consistent with the Direction, the QCA is required to undertake an open consultation process with all relevant parties and consider all submissions received.


The QCA must provide a Draft Report to Government in March 2012, with a Final Report required by 31 May 2012.

Amendments to the *Electricity Act 1994* (the Act) and the *Electricity Regulation 2006* will be required to ensure the process and intent reflected in the Direction will be deemed sufficient for the purposes of the tariff setting process prescribed under the Act. It is the Government's intention to progress the necessary legislative amendments at the earliest possible opportunity.

The Queensland Government is concerned about the pressure that rising electricity costs are placing on household budgets. In this context, government would like to ensure the QCA is aware of this issue for Queensland consumers.

If you have any questions about my advice to you, Ms Kathie Standen, A/General Manager, Energy Industry Policy of the Department of Employment, Economic Development and Innovation will be pleased to assist you and can be contacted on telephone 322 58256.

Yours sincerely



STEPHEN ROBERTSON MP

Att