

Integral Energy

**Interim Consultation Notice:
Benchmark Retail Cost Index for
Electricity 2009-10**

**Submission to the Queensland
Competition Authority**

21 July 2008

Integral Energy (Integral) welcomes the opportunity to provide comment in response to the Queensland Competition Authority's (QCA's) Interim Consultation Notice on calculation of the Benchmark Retail Cost Index (BRCI) for 2009/10.

Integral is the holder of a non-area Retail Authority in Queensland and, whilst a new entrant to the Queensland market, Integral has provided energy services to Australian families and businesses for more than 50 years, including over 790,000 market and non-market customers in New South Wales Queensland, Victoria and ACT.

Integral has actively participated in the residential and small business segments since the commencement of full retail competition (FRC) in Queensland, demonstrating a commitment to the Queensland market and establishing a significant market share over the past 12 months. Establishing a Queensland presence has necessitated the establishment of systems and process for what is essentially a local operation, as well as considerable expenditure by Integral on customer acquisition and retention in an environment where it is competing directly against incumbent retailers who have purchased both their customer base and established Queensland service capability.

As a second-tier retailer in Queensland that is required to offer the terms and price of the Standard Retail Contract to its small customers, Integral is directly exposed to the ongoing level and stability of headroom of the Notified Prices. Integral considers that maintaining an appropriate level of headroom will be crucial to the continued development of effective retail competition in Queensland.

In response to the specific issues that the QCA is seeking stakeholder comments, Integral believes that in general many of the factors placing upward pressure on the cost components provided as part of the 2007/08 BRCI consultation process continue to be relevant for 2008/09 BRCI, including:

- The upward pressure placed on the LRMC by rising capital and fuel costs, changes in the mix of generation and regulatory uncertainty. To ensure this is accurately quantified Integral would encourage the QCA's consultants to use the most current input costs and assumptions data available for the period under review, in particular for determining conventional coal and gas technologies;
- The role of volatility in influencing contract prices and a retailer's energy purchasing costs;
- Inclusion of large directly connected transmission loads will naturally dampen the load profile, thereby masking the inherent peakiness of the small customer load profile in Queensland and diluting the energy purchasing decisions that are required by retailers in response;
- The impact on total retail acquisition costs and the variations in the cost of providing customer retail services to different customer segments;

Due to the short time table given to the QCA to complete the calculations of the 2009/10 BRCI and publish revised prices, Integral Energy notes the QCA's inclination to rule out any consideration of method changes. However Integral would like to point out to the QCA an issue with determining the network component of the BRCI that if not addressed may deliver undesirable price outcomes in the future for consumers.

Given that Network Use of System (NUOS) charges are treated as a pass-through, it is crucial to ensure that the magnitude of this upward pressure continues to be fully captured in the BRCI for as long as network costs remain within the required methodology. Any failure to reflect the impact of annual increases in network costs in the Notified Prices will create a revenue 'shortfall' for retailers, directly impacting the sustainability of market offers and thereby the ongoing development of competition in Queensland.

Unfortunately the current methodology does not support an even distribution of increases across all of the different network tariff classes. For example, the final decision of the 2008/09 BRCI allowed for a 2.02% increase in the Distribution Network costs, however, the actual increase for the residential sector of the Energex network costs increased by approximately 13%.

Given the QCA regulates prices and standards of service for these network services to ensure that they are fair and reasonable, Integral urges the QCA and its consultants to consider regulatory outcomes that more effectively pass through the retail tariff determination process to limit cross subsidisation and undesirable price outcomes in the future for consumers.

The effect of this is a removal of significant headroom from the largest section of the contestable electricity market in Queensland and greatly reduces Retailers ability to be competitive.

Integral Energy appreciates the opportunity to participate in the proposed consultation process and would be happy to clarify any aspect of this submission with the QCA or its consultants if required.