



QLD COMPETITION AUTHORITY

12 MAR 2008

DATE RECEIVED



Queensland
Government

Your Ref:
Our Ref: MBN-292

Office of the
Minister for Mines and Energy

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

Dear Mr Parmenter

The Department of Mines and Energy (DME) welcomes the opportunity to provide comment on the Queensland Competition Authority's (QCA) *Draft Decision on the Benchmark Retail Cost Index (BRCI) for Electricity: 2008-09* (the Draft Decision).

The Queensland Government's objective is to foster competition in the energy market so that the economy and customers derive the benefits of a competitive energy sector. Efficient and sustainable energy pricing is essential to meeting these objectives, particularly in the face of the significant growth currently occurring in south-east Queensland.

In line with achieving efficient and sustainable energy pricing, the Government wishes to ensure that only genuine cost increases are passed onto consumers through the application of the BRCI.

As Minister responsible for the energy portfolio, I continue to be concerned about rising energy costs and the pressure this places on increasingly stretched family budgets. Based on a quarterly electricity bill of \$275, Queensland's current electricity prices represent around 3.5 per cent of weekly disposable income (based on a mean weekly gross income of \$1275 and a mean weekly disposable income of \$632). If notified electricity prices are increased by 7.01 per cent, around 3.8 per cent of weekly disposable income will then be allocated to electricity. For low income households where the quarterly electricity bill is above \$275 (e.g. larger families), the proportion of income allocated to cover electricity costs may be higher.

Accordingly, it is necessary that in making its Final Decision, the QCA review the cost components of the Draft Decision to ensure that, where appropriate, assumptions and estimates are updated to reflect actual market conditions (especially in light of the recent easing of the drought and water restrictions for power stations in south-east Queensland). Areas which the Government would like the QCA to re-examine are detailed in its formal response to the Draft Decision (Attachment 2).

Level 17
61 Mary Street Brisbane 4000
PO Box 15216 City East
Queensland 4002 Australia
Telephone +61 7 3225 1861
Facsimile +61 7 3225 1828
Email MinesandEnergy@ministerial.qld.gov.au
ABN 65 959 415 158

In addition to my Department's response to the Draft Decision, Attachment 1 provides a new Certificate of Delegation including delegation of the responsibility to calculate and publish in the Gazette the new tariffs to apply in each tariff year and including directions to:

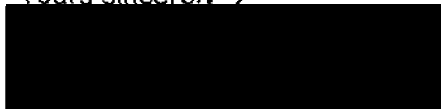
- Remove the current requirement to smooth Ergon Energy's Aggregate Annual Revenue Requirement for the 2008-09 and subsequent Benchmark Retail Cost Index calculations;
- Calculate the BRCI for 2009-10, and publish the tariff schedule to apply to the 2009-10 tariff year, no later than 1 December 2008; and
- Make a public announcement of the change to notified prices, on the same day as it gazettes the tariff schedule for the relevant tariff year.

This new Certificate of Delegation revokes any previous delegation I have made in relation to these matters.

I would also like to foreshadow an additional review that I will be writing to you about shortly. In addition to rising electricity prices, you would be aware of the significant price increases experienced by domestic reticulated natural gas consumers. As Minister for Mines and Energy I intend to direct the QCA to examine the degree of cost-reflectivity in the Queensland natural gas market including consideration of the costs and prices of the alternative forms of gas (reticulated and bottled LPG). Officers from my Department will be contacting your office in the near future to discuss suitable timeframes and Terms of Reference for the review.

I thank you for your consideration of these matters. Should you have any enquiries in the first instance, they should be directed to Mr Denis Warburton, Senior Director, Energy Markets, telephone 3239 6908.

Yours sincerely /



GEOFF WILSON MP
Minister for Mines and Energy

Dated: 11th March 2008

CERTIFICATE OF DELEGATION

Under section 90(3) of the *Electricity Act 1994* (Qld)

Delegation

In accordance with section 90(3) of the *Electricity Act 1994* (the Act), from the date of this delegation, I, the Honourable Geoff Wilson MP, Minister for Mines and Energy, delegate to the Queensland Competition Authority (QCA) the following functions and powers:

1. Calculation of the Benchmark Retail Cost Index (BRCI) under Chapter 4, Part 2, Division 3 of the Act;
2. Application of the change in the BRCI to the tariffs for the previous tariff year as required by section 90(5) of the Act; and
3. Publication of the amended tariff schedule for the relevant tariff year in accordance with sections 90(2), 90(7) and 96 of the Act.

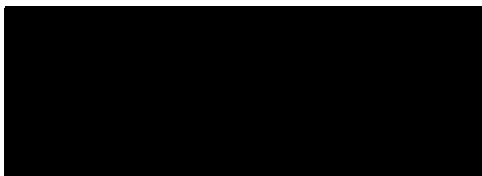
This delegation does not include the power to fix principles under section 95 of the Act.

Conditions of delegation

1. The QCA must apply the change in the BRCI to the tariffs for the previous tariff year, taking into account any other changes to notified prices made by the Minister under the provisions of section 90 which are not the subject of this delegation, which will be advised prior to the required date for publication of the tariffs in accordance with the Act and this delegation.
2. The QCA must consider the following policy objective of the Queensland Government when exercising the delegated powers and functions:
 - a. the annual indexation of electricity tariffs by the index should ensure that existing retail headroom in the tariffs at the date of this delegation (as modified by condition 2 below) remains relatively stable (although not necessarily the same from year to year); and
 - b. the policy of enabling small market customers to revert to notified prices should not result in a retail entity providing customer retail services to non-market customers at a loss;
3. In calculating the network cost component of the 2008-09 BRCI, and future tariff years, the QCA must apply the AARR determined for each year of Ergon Energy's current access arrangement (covering the period 2005-06 to 2009-10), and any changes to the AARR for any approved cost pass through subsequent to the finalisation of the current access arrangement, without undertaking any re-smoothing of these AARR amounts;
4. For the purposes of setting 2008-09 notified prices, the QCA must recalculate the network cost component of the index for 2007-08 without undertaking re-smoothing of Ergon Energy's AARR (i.e. consistent with Condition 3) to ensure the change in the index to be used to determine 2008-09 notified prices is based on two index values determined under the same methodology;
5. The QCA must calculate the BRCI for 2009-10, and publish the tariff schedule to apply to the 2009-10 tariff year, no later than 1 December 2008;
6. On the same day that the QCA gazettes the tariff schedule for a tariff year, the QCA must make a public announcement of the change to the notified prices; and

7. Any other conditions formally notified by the Minister from time to time.

This delegation revokes any previous delegation made in relation to this matter and may be revoked or amended by the Queensland Minister for Mines and Energy at any time.



GEOFF WILSON MP
Minister for Mines and Energy