



2 March 2015

Queensland Competition Authority
GPO Box 2257
Brisbane Q 4001

Lodged (online): www.qca.org.au/submissions

Regulated Retail Electricity Prices (2015-16) – Draft Determination

The Energy Supply Association of Australia (esaa) welcomes the opportunity to make a submission to the Queensland Competition Authority's (the Authority) Regulated Retail Electricity Prices (2015-16) Draft Determination.

The esaa is the peak industry body for the stationary energy sector in Australia and represents the policy positions of the Chief Executives of 37 electricity and downstream natural gas businesses. These businesses own and operate some \$120 billion in assets, employ more than 59,000 people and contribute \$24.1 billion directly to the nation's Gross Domestic Product.

The esaa raised a number of issues in its response to the Interim Consultation Paper with a view to ensuring notified prices are set at cost-reflective levels. The Authority's proposal to maintain the headroom allowance and rebalance the fixed and variable components of Tariff 11 (the main residential tariff) is therefore a welcome outcome. But an issue that will continue to impede efficient price signals within regional Queensland is the continued reliance on Energex's network tariffs.

Deregulating retail prices and implementing targeted concessions frameworks is the best way to deliver competitive and efficient electricity supply in regional Queensland while also achieving social policy objectives. To the extent this cannot be achieved, it is essential that subsidy arrangements and tariff settings do not impede the delivery of efficient price signals or the development of retail competition.

The state's uniform tariff policy (UTP) has delivered notified prices that are lower than the costs of supply for most regional customers. As a result, price signals are impeded and the ability of consumers to make rational decisions relating to energy consumption is diminished. Coupled with tariff structures that have historically been heavily biased toward high variable charges, this has implications for system utilisation and efficient investment in electricity supply infrastructure.

To address this issue, the Association considers the approach to price setting should be based on the costs of supplying electricity to regional Queensland rather than south east Queensland (SEQ). This could be achieved by setting all retail tariffs at least in line with the lowest costs of NEM-connected regional Queensland (i.e. Ergon Energy's east pricing zone), consistent with the Authority's interpretation of the UTP and current price setting arrangements for large customers.

The key benefits to this approach are more efficient pricing outcomes and a sustained reduction in the Queensland Government's exposure to high and variable subsidy costs. It will also remove the potential barrier to retail market competition created by the mismatch between the network tariffs charged by Ergon Energy Distribution to retailers and the Energex network tariffs included in regulated prices.

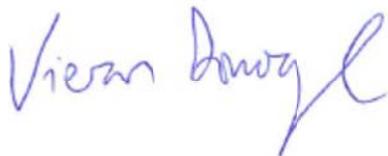
To the extent this approach cannot be achieved for residential and small business customer tariffs, at a minimum, all tariff structures should be based on those in the Ergon Energy distribution area. The proposal to base the time-of-use tariffs (Tariff 12 and Tariff 22) on Ergon Energy's pricing structure is a positive step in this regard. But the limited uptake of time-of-use tariffs to date may mean this is not a meaningful change. This will be particularly evident if the change further exacerbates any apparent pricing disparity relative to Tariff 11.

The Association understands the Authority's ability to address these issues is likely limited by the states UTP and Ministerial Delegation as they are currently applied. In this respect, the Queensland Government has a critical role to play in continuing to progress key energy sector reforms in regional Queensland. This includes providing greater clarity around the objective of the UTP and ensuring it is applied in a way that delivers more cost-reflective price signals for consumers and enables competition to flourish.

Reforming the UTP such that Community Service Obligation (CSO) payments are applied at the distribution level rather than the retail level is critical to any approach considered. It would remove a key barrier to competition in regional Queensland and enable retail businesses to compete for customers based on the competitiveness of their charges.

Any questions about our submission should be addressed to Shaun Cole, by email to shaun.cole@esaa.com.au or by telephone on (03) 9205 3106.

Yours sincerely



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