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11 October 2010

Mr. Brian Parmenter  
Chairperson  
Queensland Competition Authority  
GPO Box 2257  
Brisbane QLD 4001

Email: [electricity@qca.org.au](mailto:electricity@qca.org.au)

Dear Mr. Parmenter,

**Re: Interim Consultation Notice Benchmark Retail Cost Index for Electricity 2011-12**

EnergyAustralia welcomes the opportunity to comment on the Queensland Competition Authority (QCA) Interim Consultation Notice on Benchmark Retail Cost Index (BRCI) for Electricity 2011-12.

In 2009, EnergyAustralia participated in the Review of Electricity Pricing and Tariff Structures – Stages 1 and 2. The outcome of this review highlighted the numerous shortcomings of the BRCI process and indicated a new approach would be undertaken in the review of notified prices for 2011-12. It was disappointing to have been advised that the Minister for Natural Resources, Mines and Energy (The Minister) has decided to defer the implementation of any changes to the current electricity price-setting methodology until 1 July 2012 despite the deficiencies of the BRCI process being acknowledged by all parties.

It is recognised that the QCA will remain bound by the current BRCI framework for the 2011-12 review, however, Energy Australia is of the view that even under this methodology regulated tariffs in the Queensland electricity market must be set at cost reflective levels, and to not do so effectively restricts market competition.

**Energy Cost**

In Stage 1 of the QCA's Review of Electricity Pricing and Tariff Structures, the Authority concluded that the BRCI methodology had a number of shortcomings – one of which was that it used a weighted average of long run marginal cost and energy purchase costs in calculating the cost of energy and was therefore not indicative of the actual costs paid by retailers<sup>1</sup>.

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<sup>1</sup> QCA, (2009), Final Report – Review of Electricity Pricing and Tariff Structures – Stage 1, QLD: QCA pg, i

EnergyAustralia reiterates the view that the energy component of the BRCI should move away from the hybrid LRMC and energy purchase cost approach to a market-based energy purchase cost approach for assessing wholesale energy costs with the LRMC as a floor price.

Through the inclusion of the LRMC as a floor, EnergyAustralia believes that the QCA can meet its obligations to take into account the LRMC of energy when calculating the actual cost of purchasing energy.

### **Distribution and Transmission Cost**

EnergyAustralia is of the view there should be a full pass through of network costs. This will ensure appropriate cost reflectivity of network charges to customers and prevents situations where retailers have to absorb network increases.

EnergyAustralia recognises that changing the methodology to an N + R build-up may be beyond the current scope of the QCA in regards to legislation and delegation, however, in using the average Energex and Ergon AARR, the BRCI does not accurately reflect the increase in network costs faced by retailers in Energex's network area. Therefore, in order to maintain retail margin, it is necessary that the QCA ensure that the actual costs are accounted for in the calculation of network costs.

### **Retail Margin**

The Minister's direction to the QCA stated that *"prices should also support the continued implementation of full retail competition with sufficient headroom to foster a competitive electricity market. Headroom should remain relatively stable and the Queensland Government policy of enabling small market customers to revert to notified prices should not result in a retail entity providing customer retail services to small non-market customers at a loss"*. Energy Australia submits that a 5% retail margin does not adequately reflect the risks or the cost levels faced by retailers and as such does not encourage a competitive retail electricity market within Queensland. A margin at the upper end of the range of margins accepted by Regulators in other jurisdictions is more appropriate if these Government objectives are to be met.

### **RET Scheme**

EnergyAustralia is pleased to be able to offer a view on how the cost of complying with the new enhanced Renewable Energy Target (RET) scheme should be estimated. The splitting of the RET into two: the Large-Scale Renewable Energy Target (LRET) and the Small-Scale Renewable Energy Scheme (SRES) will have a significant impact on the risk surrounding the pass through of costs associated with compliance.

### **SRES**

As SRES is an uncapped scheme, The Office of the Renewable Energy Regulator (ORER), will estimate what the number of Small-Scale Technology Certificates (STCs) created which will in turn be used to set the Renewable Power Percentage (RPP).

While there is certainty regarding the price of a STC (\$40 fixed price for STCs as set by the Clearing House), the estimates of the RPP are currently unknown. As long as market incentives for the adoption of small-scale renewable energy remain, it is likely that the 2011 forecast will be in line with 2010 volumes. Based on these estimates the overall RPP (SRES and LRET) could be expected to exceed 15% compared to the 2010 rate of 5.98% and the 2011 estimated rate of 7.09% prior to the SRES and LRET split. The ORER will issue the RPP in March 2011. Given that this will be available before the final BRCI is released, EnergyAustralia supports the use of the actual RPP in the final SRES calculations.

EnergyAustralia is of the belief that the BRCI for 2011-12 should recognise the shortfall that will apply to prices for the second half of 2010-11 as a result of the introduction of the SRES. This shortfall is of particular issue if the SRES percentage is at the higher end of the possible scale.

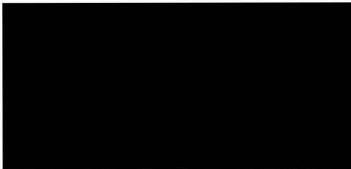
### **LRET**

At present there is little liquidity in terms of differentiation between LRECs and SRECs. Therefore, EnergyAustralia is of the view that it is necessary to look at the new entrant project costs of large scale renewable generation (approximately \$110-120 / MWh) as the basis of the cost of complying with the LRET scheme. It is generally accepted that Wind is the most advanced renewable energy technology, enjoying significant cost savings relative to other renewable technologies; it is also the only comparable technology that provides sufficient scale to produce significant REC quantities.

It has been widely acknowledged in the Queensland Electricity Market that the BRCI process of recent years is inadequate; indeed the Authority advised in 2009 that a price setting consultation process would begin as soon as possible<sup>2</sup>. To see a consultation process that in effect is a repeat of a faulty methodology is a disappointment. EnergyAustralia is of the belief that the QCA should aim to redress those issues that fall within the boundary of their current authorities given the Queensland Governments deferment of a new price-setting methodology to 1<sup>st</sup> July 2012.

I trust this submission will assist the QCA in preparing its Draft Decision on the BRCI for 2011-12. Please contact EnergyAustralia's Executive Manager – Energy Pricing, Catherine Marshall on (02) 9269 7256 should you have any questions.

Yours sincerely,



Mike Bailey  
Executive General Manager Retail

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<sup>2</sup> QCA, (2009), Final Report – Review of Electricity Pricing and Tariff Structures – Stage 1, QLD: QCA pg. i.