Energy Retailers Association of Australia

energy supply association of australia

19 December 2012

Queensland Competition Authority
GPO Box 2257
Brisbane QLD 4001

By email: electricity@qca.org.au

Dear Sir/Madam

RE: Regulated Retail Electricity Prices 2013-14 Transitional Issues Consultation Paper

The Energy Retailers Association of Australia (ERAA) and the Energy Supply Association of Australia (esaa) (the Associations) welcome the opportunity to make a joint submission on the *Regulated Retail Electricity Prices 2013-14 Transitional Issues Consultation Paper* (the Consultation Paper).

In October 2012 the Associations provided a joint submission to the Queensland Competition Authority (QCA) on the Regulated Retail Electricity Prices 2013-14 Interim Consultation Paper (attached). The submission outlined:

- the benefits from removing retail price regulation;
- the need for efficient and cost-reflective pricing (should prices be regulated), including the retention of an LRMC price floor;
- the importance of transitioning to cost-reflective pricing levels as soon as possible;
- the need for the QCA to promote competition, rather than simply have regard to it; and
- the importance of separating energy regulation from social policy outcomes.

The submission to the Consultation Paper builds on these points already raised, providing more detailed responses to specific issues.

Options for transitioning to cost reflective charges for Tariff 11

Open, competitive energy markets free from distortions such as retail price regulation naturally encourage prices to be efficient through the development of competitive market offers. Setting inaccurate tariffs could be detrimental to both energy retailers and consumers. If regulated prices are set too high, retail competition will drive market offers to cost-reflective levels, mitigating any perceived negative impacts. If prices are set too low, barriers to entry are created and existing retailers may exit the market due to an inability to recover costs, thus decreasing competitive forces. For these reasons, the Associations strongly support the QCA's assertion that cost-reflective tariffs should be introduced by 1 July 2013:

"Given the cross-subsidies inherent in the current Tariff 11 charges and the potential this has to distort the retail market for electricity in Queensland, while denying the benefits to some customers of moving to more cost-reflective prices, ***a move to cost-reflective tariffs in one step in 2013-14 would seem the most appropriate approach****, with any perceived adjustment or social welfare implications best dealt with separately."*[1]

Price regulation is not an effective mechanism to protect people facing hardship. If the regulator sets the price of energy below what the market would set, a subsidy is effectively granted to all members of the community rather than only those customers finding it difficult to pay their bills. As a result, competition in the energy market suffers and this has associated repercussions. Artificially restricting energy tariffs simply masks one of the symptoms of financial hardship rather than addressing financial hardship directly. Competition offers the best form of price protection for consumers, allowing retailers to compete to offer their customers the best energy products at market efficient prices. The only sustainable long-term approach to support people facing hardship is to have comprehensive welfare policies directly assisting those in need.

Should the move to cost-reflective charges for Tariff 11 require new or amended social policy measures, the Associations recommend that these are funded separately and transparently. Not only will this improve outcomes for customers, it will also remove the economically inefficient bias towards fixed-price tariff charges rather than flexible time-of-use pricing that currently exists.

In the Consultation Paper, the QCA has stated they understand that the Government freeze on Tariff 11 would only apply for 2012-13, an interpretation the Associations acknowledge. However, should the transition to cost-reflective prices be staggered over more than one year, it is essential that the retail sector is not forced to absorb the costs of this policy choice. Equally, distribution network businesses should not be required to bear the costs of the Scheme and should be compensated for any reduction in fixed network charges. In the event that network charges are constrained by regulation over and above that imposed through the Australian Energy Regulator there is a risk that they will find themselves unable to fully recover costs.

Options for transitioning to cost reflective charges for obsolete tariffs

The Associations support the view contained in the recent Retail Competition Working Group Discussion Paper that the Uniform Tariff Policy has reduced the ability of other retailers to compete in regional Queensland.[2] For similar reasons to those outlined above in relation to Tariff 11, the Associations believe that a transition to cost reflective charges should occur in one step from 1 July 2013. Competition will provide regional customers with choice and drive the development of innovative products that meet consumer needs.

Should the Government determine that social policy measures are required as a result of this transition, the Associations support the provision of direct assistance to those in hardship. Where assistance (unrelated to welfare needs) is considered appropriate for regional and rural customers, one option the Government could consider is to administer concessions through Ergon Energy's distribution business. Decoupling Community Service

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[1] QCA (2012), *Regulated Retail Electricity Prices 2013-14 Transitional Issues Consultation Paper*, p.6.

[2] Department of Energy and Water Supply (2012), *Discussion Paper to Members of the Minister's Consumer and Industry Reference Group*, p.5.

Obligation (CSO) payments from the incumbent retailer would allow customers to enjoy the benefits of competition, while also maintaining the objectives of the regional subsidy.

Recently, there has been concerns raised that deregulation would lead to significant price rises for those in rural Queensland. Despite the Queensland electricity retail sector being fully contestable, the Associations agree that the current application of CSO payments to Ergon Energy (retail) inhibits the development of competition in that region. This need not impede retail price deregulation. Price deregulation coupled with the application of the existing CSO payment at the distribution level will facilitate competitive electricity prices and that customers in regional Queensland continue to receive assistance.

The Associations consider that the QCA has a role to play in conveying the interrelationship of these factors to the Queensland Government, in particular, the fact that the suggested policy reforms are not mutually exclusive. The 2013-14 price setting process provides an excellent platform upon which to communicate these issues and more broadly, to facilitate competitive markets and create a pathway towards deregulation of the retail energy market.

Any questions about our submission should be addressed to either David Lee, email dlee@eraa.com.au telephone (02) 8241 1835, or Kieran Donoghue, email kieran.donoghue@esaa.com.au telephone (03) 9205 3116.

Yours sincerely

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