simply energy

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Mr Gary Henry
Queensland Competition Authority
GPO Box 2257
Brisbane QLD 4001

Dear Mr Henry

Regulated Retail Electricity Prices 2013-14: Cost Components and Other Issues

Thank you for the opportunity to comment on transitional issues that the Queensland Competition Authority (QCA) is considering under its review of regulated retail electricity prices.

Simply Energy is one of the largest second-tier retailers in Victoria and South Australia. In 2012, Simply Energy expanded its market presence by entering the NSW and Queensland electricity markets. We are a member of the Energy Retailers' Association of Australia (ERAA) and support the submissions that the ERAA will be making in response to the QCA's review.

In its Preliminary Draft Report for the QCA, ACIL Tasman comments that it has been requested to provide the QCA with their best estimate of wholesale energy costs that will be incurred by a retailer to supply customers on notified prices for 2013-14. ACIL notes that it has not been required to provide expert advice on the effect of the QCA's determination on the regulated price on competition but rather is is to provide its best estimate of the wholesale energy costs to be incurred by retailers which by definition does not include a margin to facilitate competition.[1]

Simply Energy notes the direction that has been given to ACIL Tasman and argues that the QCA should use the advice provided by ACIL as only a starting point for determining the energy cost component of the regulated price.

In determining the energy cost component, we argue that QCA should aim to set a ceiling sufficiently high that allows plenty of headroom for competition. In setting this headroom, Simply Energy believes that the QCA should consider two key factors. First, there is greater risk to consumers from setting the wholesale allowance (and thus the regulated retail price) too low than there is from setting the wholesale allowance too high. The only likely outcome from setting the wholesale cost allowance too high is that it encourages those on regulated tariffs to enter the competitive market. The higher the regulated price relative to the market price, the greater is the incentive to move to a market offer. Preserving this incentive should be a priority for QCA. In contrast, setting the wholesale cost allowance too low has the potential to severely damage competition and cause retailers to exit the market. This reduces customer choice and provides the incumbent retailers with an effective monopoly over their customer base. This is not in the long term interests of these customers.

The second factor the QCA should consider is that providing headroom is about providing enough ceiling space in the regulated price to allow for new entry. In other words, the regulated price should not focus on the costs that the incumbent retailer incurs but rather anticipate the costs that a new entrant retailer would incur to enter the Queensland market. New entrant retailers typically sell much smaller loads than established retailers and will have a higher wholesale cost of energy than established retailers. The final energy cost

[1] ACIL Tasman 2012 Estimated Energy Costs for Use in 2013-14 Electricity Retail Tariffs December, p. 3

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allowance that makes up the regulated price must provide sufficient headroom for the higher operating costs experienced by new entrant retailers.

Taking account of both of these factors, Simply Energy is of the view that the QCA should be adding a significant premium to the energy cost estimated by ACIL Tasman to provide sufficient support for competition in the Queensland electricity market.

Please contact me on (03) 8807 1132 if you would like to discuss this with me further.

Yours sincerely

Dianne Shields
Senior Regulatory Manager