From: k[redacted]
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To: General Electricity Address
Subject: Submission in response to 'Draft Determination of Regulated Retail Prices for 2014-15'

12 Feb 2014
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Queensland Competition Authority
'Draft Determination of Regulated Retail Prices for 2014-15'
GPO Box 2257, Brisbane Qld 4001

Dear Sirs/Madams,

I have read through your Draft Determination as well as considered the effects of your previous year's Determination and respectfully submit the following feedback for your review:

I have the following concerns about the Authority's analysis of the data for the 2014-2015 price setting. Many of these concerns were made obvious from the outcomes of the Authority's 2013-2014 price setting.

In regards to the wholesale energy costs which the Authority was delegated to investigate, there appears to be very little investigation, only a look at the going NEM rates. Given that much capacity is still Government owned it would be prudent to look at how the Government might have influence on this pricing. That is the very basis of the argument of private vs. public owned generators. Surely a lot of this information can not be deemed 'commercial in confidence' and it is not a forgone conclusion that the remaining generators will become private. The Authority has also been delegated to look at the effect of Government policies and charges and so surely this would include the wholesale charges that the Government owned generators are charging? When the water distribution and retail model was changed there was a great deal of pressure to detail the Government wholesale costs of water on the customer's bills and there seemed to be no impediment to doing just that. Why would or should Government generated electricity be any different?

With respect to Government charges the Authority has asked the consultants to look at charges such as 'The Carbon Tax' but I can not see why charges being investigated would in any way be limited to this single Federal Government levy. This 'Carbon Tax' or at least the main effect of it on electricity pricing is via a cost levied on the generators. It is not a direct tax on electricity nor a consumption tax on the customer. It is simply another cost way back in the production chain of the electricity. It is strange that the consultants can determine this cost of the generators business but not any of the other costs of that same private or Government owned generator. The State Government policy which sets the royalty rate on coal has every bit as much influence on the operating costs of these Government owned generators and is every bit as easy to estimate as was the Carbon Tax component and yet this item has just been neglected. While the Authority ventures into estimating the cost effects of the Carbon Tax based on possible Federal Government outcomes and Legislation changes in the future it does this for only the Carbon Tax and not for any other tax burdens that the generators may or are indeed likely to encounter. For example, the generating companies may be faced with an additional 1.5% tax levy based on the company's size when the Carbon Tax is repealed and this will equally

flow onto to electricity cost of customers. The Federal Government selectively applies the GST to many goods and services. This tax is currently applied to the provision of electricity at the Government's discretion and is more significant than the Carbon tax and yet this simple to estimate cost to the consumer is not even highlighted in the Government costs. The whole representation of Government cost components seems very partisan to only highlight the charges that the current Governments are opposed to. I can not see where the Delegation's Terms of Reference limited the Authority to only investigate these costs and not a broader range of Government taxes and charges which affect the price of electricity.

The Feed In Tariff paid to solar customers just appears as another Government cost and the way that this draft report presents that as a percentage of the customers bill I think is misleading. What is the purpose of quoting the estimated $3bn 'cost' of the feed-in tariffs by 2028 without giving an indication of how much energy supply is associated with those same feed in costs? While it may be true that the distributors are paying for this excess solar energy at the various feed in tariff rates and that this cost is 'passed through' to the consumer it is also true that there is a certain amount of electricity supplied with that associated cost. The only essential difference between this electricity and the generator supplied electricity, is the way costs find their way up to the consumer. The comparative 'costs' which are paid to other specific forms of electricity generation such as gas fired do not get highlighted separately simply because they are passed through and somewhat obfuscated or dare I say laundered, through the NEM gravy chain. Thus the customer does not get any appreciation of the relative costs of say solar generation versus gas generation. There is no presentation of the percentage of the customers bill versus the percentage of the total electricity supply that a particular generator produces.

The Delegation gives the Authority the responsibility to look into the effect of policy and price setting on competition in the wholesale market and yet the effect of the Government sponsored policy to mandate a certain percentage of solar power has not been investigated or at least not been reported in this Draft. The industry data clearly shows that with the current solar generators that the traditional afternoon peak demand on NEM electricity has fallen significantly and has driven down the 'lucrative' peak market price. Why has this been ignored by the report? Surely that reduction has a significant influence on the price of electricity? This fall in the NEM value of electricity is the very basis for attributing a measure of value for the solar fed energy rather than just treating it as purely a Government imposed cost. The report needs to address the effect of solar on wholesale prices and competition. It is being treated as not a competitor but an inconvenient cost or burden on the consumer. The QCA and this reports needs to better frame it in the context of competition and look at the true equivalent value the solar electricity is providing by looking at the effect it is having on the NEM prices and the specific premium daytime market it supplies by definition. Unlike other sources, it does not compete in or supply the lower cost off-peak market which other sources can use to cross subsidise day and night markets.

While the FIT cost of the solar fed energy is well highlighted in your report I am wondering just how the additional energy associated with these feeds has properly been accounted? For example, while the 'costs' are passed up to the customer via the network charges the retailers essentially receive this energy at no wholesale cost and are free to essentially sell this at their normal retail costs. So if solar is providing say 10% of the total energy being sold by retailers does this essentially adds to that 5% 'headroom' that the Authority allows them? Are their profit margins distorted by not having any wholesale electricity cost associated with what amounts to a significant percentage of their retailed electricity?

The Delegation gives the Authority the responsibility to look at the cost of losses in transmission. How is the distributed form of solar generation properly accounted for in the calculated transmission and distribution losses? Are losses based purely on the output figures from the wholesale market or does the solar fed energy somehow skew these figures in any way? Has the Authority or consultant made any effort to assess the losses in the solar fed energy before it is ultimately consumed as this loss profile may be vastly different to the NEM sources of electricity?

I have some issues with the Authority's interpretation of the N+R basis for calculating the retail pricing of electricity. In the past the network costs were recovered more so in proportion to the amount of electricity consumed which would seem reasonable from a 'user pays' perspective. While this model may have proved impractical with fluctuating, most notably, falling, overall consumption of electricity I don't believe that it indicated a 'fixed' connection cost at all but rather a variable charge that still remained proportional to the amount of electricity consumed and the 'pass-through' network costs would estimate this percentage. It would seem that perhaps simply for the purpose of convenience the Authority has opted for a transition to a more cost reflective increased fixed charge but this is not not based on the number of people using the electricity, it is more conveniently based on the number of electricity meters or accounts. Clearly this approach means that single person households including pensioner widows who by no fault of their own are the sole beneficiary and user of their electricity connection, are subsidising families and share households who are now only paying a 'single share' of the network costs for several beneficiaries. How is this any fairer than the previous situation which arguably was closer to a 'user pays' model with network charges proportional to usage? When a large family travels on a plane or goes to the movies it is not charged the same fee as a single person, why would electricity be any different? Where did the Terms Of Reference state that the electricity accounts or meters were the 'consumers' or 'customers'? Even if we look at the supply of other utilities such as water, in times of drought when there were water restrictions, the Government took into account the number of persons in a household and allowed for that when they set consumption limits. Why would the Authority choose to ignore the fact that increased usage on any bill might be due to having more people using electricity via that bill? Consider a situation where there are six single people each living in separate flats in a block of flats and next door is a large house with a family of six or maybe even just a share household. Essentially the network cost to supply electricity to those two side by side properties is the same and yet the block of flats with the same number of people is paying not 6 times but likely 7 times (typically with a separate body corporate account) the fixed electricity charges of the family or share house of six people next door. Where is the fairness in your interpretation of the N+R model?

Is the Authority's estimates of the Network Cost components able to take into account the dynamics of the network as it grows considerably over the year in question and much of that growth could come at low incremental cost to the network providers. Is there a claw back mechanism to review the actual costs versus the estimated network costs in the model the following year?

To what extent are businesses being subsidised by residential consumers with this interpretation and design of the Authority's N+R model and like the Carbon Tax why are the business costs for electricity not considered as ultimate costs passed on to the consumers?

Is there any specification in the Act or the Delegation to say that the N component should not be proportional to the amount of electricity consumed? Is there anything there to suggest or mandate that it is to be spread equally among the number of accounts, premises or meters rather than 'consumers'?

In setting the new tariffs for 2014-2015 does the Authority recognise that a solar customer who is being paid a feed in tariff determined by another QCA Analysis and report may find it more beneficial to use up this excess solar energy themselves rather than feed it into the grid and have to buy back electricity at the newly determined rates to heat say their hot water at night? This interaction between the regular tariffs which this draft report seeks to determine and the Feed In Tariff determined or recommended by another QCA study could possibly change the whole position of solar as an augmentation to the current NEM supply. This could drastically affect NEM costs in the future. It is a complex interaction also. Consider the current situation where a new solar customer is paid 8 cents for their excess electricity which they contribute to the grid, that same customer has to then pay around 20 cents for grid electricity at night to run their hot water heater. By adopting a simple adaptive MPPT regulator that same customer can

effectively dump (in most cases) all of their excess solar electricity into the water heater at a power level determined purely by their solar panels and specifically ensure zero is fed into the grid or that daytime grid electricity is not used for heating the water. Any additional electricity needed to complete the heating would occur on the regular 20 cent off-peak tariff but by and large most people's solar will have sufficient excess to do the job and be saving 12 cents for each kWh. Hot water heating is a significant part of most domestic bills and this action would be an obvious money saving choice. This will have a marked effect on the grid load profile. The daytime grid will lose some 10% or so of boost from the solar during the day and the night load profile will fall markedly. This will be a big problem for the traditional coal fired generators who aim to balance the day and night loads as best possible and rely heavily on the current off-peak load of water heaters. This will result in a much greater need for Peaking load generators such as the gas fired who command prices as high as $12 at peak times. One of the main reasons for the initial higher feed in tariffs was to encourage solar users to move some of their loads to the non peak time. The current price regime reverses that impetus. Has the Authority taken this logical scenario into account in setting tariff prices? Does the modelling in anyway cater for feedback mechanisms such as this or even simple mechanisms such as the increase in tariffs themselves driving down the usage of electricity?

In section 2.5 of your Draft report there is a claim that the Authority 'currently has no role in setting prices for the purchase of electricity from customers'. That could be misleading. Maybe the keyword you rely on there is 'currently' but I think that it is most significant and should be mentioned that the Authority were also engaged most recently to make a determination in regards to what the Feed In Tariff should be for solar customers so it is clear about the Authority's role in both Usage and Feed In Tariff determinations.

I believe that the reader of the report is likely to be led to believe that the costs associated with STCs under the Enhanced Renewable Energy Target Scheme also including the STCs associated with solar hot water heaters and possibly other 'energy saving technologies', belong entirely to solar electric installations alone. Politically there seems to be a definite move to demonise the solar electric installations but not the solar hot water installations. The report does not address the fact that domestic solar hot water installations make nearly as much reduction in electricity consumption as a typical solar electric installation and the Authority's interpretation and design of the R+N seeks to hit those solar hot water customers with increased fixed costs for the same reason that solar electric customers have reduced their consumption and now face increased fixed cost charges.

The report mentions that the proposed removal of retail price regulation will make it more 'attractive' for retailers to join the retail market. This seems a bit obvious but can the report avoid or perhaps better explain the euphemism 'attractive' with respect to what this might mean for the consumer's electric bill? If it means that retail prices might go way up, please make that clear. This report is primarily for the benefit of the consumer not as a prospectus for would be retailers.

Even the most senior Legislators personally have both solar electric and solar hot water but claim that neither is impacting negatively on any other user. Why are we not able to simply model the pricing mechanism on the same scheme under which those Legislator's personal supplies apparently work and then all will be good?

Sincerely

Kim Laurie