Mr Gary Henry
Queensland Competition Authority
L19 12 Creek St
Brisbane QLD 4000
SENT BY EMAIL

8 December 2011

Dear Mr Henry,

Re: Draft Methodology Paper – Regulated Retail Electricity Prices 2012-13

Thank you for the opportunity to provide a response to the 'Draft Methodology Paper – Regulated Retail Electricity Prices 2012-13'.

As you are aware, QEnergy is a new electricity retailer in Queensland, commencing operations in 2010 and already with a significant market share and strong presence in the state. QEnergy employs 35 Queenslanders in South Brisbane and is looking to increase that number in 2012, so has and continues to invest heavily in the future of the Queensland retail electricity market.

QEnergy offers its services to residential and business customers around Queensland, with a strong focus on building relationships with Queensland businesses. QEnergy has had particular success in offering choice to small business customers outside of South East Queensland, who have not previously had the opportunity to benefit from competition.

QEnergy supports the decision to introduce a new price determination process based on a network (N) plus retail (R) cost build-up approach, where network costs are treated as a pass-through and retail costs are determined by the Queensland Competition Authority (the Authority). In our view, this approach promotes transparency and reduces risk for all participants in the setting of tariff prices.

However, QEnergy has significant concerns about some of the specific elements within this methodology, as well as an overall concern regarding the higher-level framework for the 'R' component as outlined in the Authority's 'Draft Methodology Paper' of 11 November 2011.

In particular, QEnergy is concerned that:

- the methodology discontinues each of the pro-competitive measures that exist in the current pricing methodology to foster the development of competition;
- the removal of these pro-competitive measures will undermine previous effort to ensure that Queensland consumers have the opportunity to benefit from competition since the introduction of Full Retail Competition (FRC);
- while the process of competition has developed well in South-East Queensland (SEQ), the process has not been fostered for a sufficiently long period of time to allow the majority of small customers in Queensland to benefit from the results of that process. For example, 57% of small customers have not yet taken advantage of available market

contracts, including approximately 32% around rural and regional Queensland and 25% who are within SEQ where the process of competition is more strongly developed;

- the case has not first been made by the Authority that competition is sufficiently developed to be self-supporting, in order for the existing measures fostering competition to be removed. On all objective measures, this point has not yet been reached;

- the methodology does not give consideration to maintaining retailer headroom, in contrast to past practice and previous Ministerial Directions. This is a significant change in approach – it means the Authority is now attempting to set the competitive market price, as opposed to setting a price ceiling. Setting the market price, as opposed to setting a price ceiling, provides poorer outcomes for customers, particularly considering scenarios where a regulator gets it wrong;

- the methodology measures retailers' costs by reference to the costs of an established incumbent business, rather than the costs of a new retailer competing for consumers' custom. This is negative in that it discourages new entrant retailers;

- the methodology discontinues the past approach to determining the cost of energy by reference to the Long Run Marginal Cost (LRMC). This is inconsistent with the approaches of interstate regulators such as IPART. Instead, an alternative 'black box' solution using proprietary pool-price forecasting software has been put forward which not only is unlikely to be cost-reflective but is also difficult for retailers to understand or replicate;

- The single-year price path provides insufficient regulatory certainty for participants within the market.

These issues in combination will have serious detrimental impacts on competition and on consumers. New retailers such as QEnergy may be forced to cease actively marketing their offers in Queensland, and so consumers would be deprived of the opportunity to benefit from competition. This would likely lead to worse outcomes for consumers, including the establishment of an effective incumbent duopoly in SEQ, lower levels of choice for customers, more onerous (price and non-price) terms and conditions, lesser levels of service, and ultimately more consumer complaints.

The benefits of competition for consumers

As is included in the Ministerial Delegation of September 2011, Queensland electricity consumers should, wherever possible, have the opportunity to benefit from competition and efficiency in the marketplace.

It is widely acknowledged that a lack of competition, resulting in sellers having market power, can cause great harm to consumers. The potential harm to consumers is not necessarily limited to higher prices. Sellers with market power can decrease the quality of their products, decrease their customer service levels, fail to innovate, fail to seek cost savings and efficiencies, fail to offer variety or tailor their products to meet individual customer needs, or impose onerous (non-price) terms and conditions on customers.

The development of competition requires, firstly, the existence of the process of competition, whereby consumers are provided the opportunity to exercise a choice between the offers of competing suppliers. Over time, the process of competition will bring about the results of competition. Evidence of the results will include customers exercising their power of choice by changing suppliers, suppliers differentiating their products to meet different consumer needs, suppliers making a variety of offers based on differences in price and non-price terms and conditions, and all of these factors leading to the presence of sufficient numbers of suppliers in the marketplace that none has the power alone to influence market prices.

The current state of competition in the Queensland electricity market

In the four years since FRC was introduced in Queensland, the process of competition has generally developed well. In SEQ, where approximately two-thirds of electricity customers are located, most customers have had the opportunity to exercise choice between the offers of competing suppliers and, as a result, there is significant evidence of customers exercising that power. The operation of the process of competition has led to the entry of new retailers, including QEnergy, offering a range of differentiated products and a variety of price and non-price terms, to the benefit of consumers.

In rural and regional Queensland, where approximately one-third of electricity customers are located, the process of competition has not developed as well, owing to the different underlying price structure which prevents customers from benefitting from competition. The incumbent retailer Ergon Energy continues to service the majority of regional small customers.

There has been more development of competition for the large customers in this region, and QEnergy has been the only new retailer to have entered into market contracts with a significant numbers of small customers outside of SEQ. Given the uncertainty associated with this review of regulated retail prices, QEnergy has regrettably discontinued marketing in this region.

While the process of competition is well developed, at least in SEQ, this process has not yet existed for a sufficiently long period to allow the majority of small customers to obtain the benefits of competition. Until the process is sufficiently entrenched to allow competition to be self-supporting, the removal of pro-competitive measures will undo much of the good work done so far.

The following objective measures prove how the case cannot yet be made that competition is sufficiently developed to be self-supporting, in order for the existing measures fostering competition to be removed:

- published market statistics show that a significant portion of small customers, even within SEQ, have not yet had the opportunity to benefit from competition;
- the historic customer switching statistics may overstate the achievement of competition for a number of reasons, including the extent to which the incumbents transferred customers between related corporate entities;
- many small customers may have been locked into long term contracts since an early stage after the introduction of FRC, depriving them of the opportunity to exercise real choice;
- the market share of the original incumbents has been reducing over time, though there

was some consolidation after the Global Financial Crisis. Under the public tests applied by other competition regulators, such as the ACCC, the market shares of the incumbents would still be considered sufficiently significant to exercise market power if the pro-competitive measures are removed;

- small retailers are concerned about the impacts of the change of methodology and are proposing to cease their active marketing activities to customers. Published AEMO churn percentages have already fallen since the announcement of the review.

Removal of retailer headroom

One example of the Authority's decision to remove existing pro-competition measures relates to retailer headroom. Previously, the Authority's approach has expressly considered whether headroom was being maintained. This was consistent with the requirements of previous Ministerial Directions to the Authority.

The inclusion of retailer headroom has been to ensure that there is scope for retailers to provide discounts to customers, thus promoting the entry of new retailers into the market and the development of competition.

The Authority's Draft Methodology Paper makes no mention of headroom at all. This constitutes a significant change in approach, with considerable attendant impacts, and warrants a more open and transparent discussion.

By way of background, Queensland's gazetted prices are based on the set of tariffs in place at deregulation. Because prices were set centrally, these tariffs have had two implicit sources of headroom:

- Network prices were averaged across the state. Since Ergon Energy prices are more expensive than ENERGEX's, particularly in the case of business customers, this represents around 10% headroom for domestic tariffs and over 20% headroom for business tariffs.

- The cost of energy was calculated to support generation by the aggregated electricity industry at LRMC. The Authority estimate of this versus contract prices represents 10% headroom on all tariffs.

The Authority's new methodology for setting gazetted prices adds network costs – a pass-through of ENERGEX charges – plus retail costs 'R'. This 'R' does not contain headroom and moves away from the LRMC as a method of estimating EPC.

Following from the simple methodology implied in the averaging review above, an adoption of the proposed methodology – without explicit headroom – would imply a 20% fall in domestic and a 30% fall in business tariffs.

This can be tested by comparing an estimate of the numbers arising from the methodology with current tariff levels. Based on historical Authority determinations, the 'R' component of the new tariff methodology would likely be made up of:

- Market costs (including renewable scheme compliance costs and market charges) – estimated last year by the Authority at $55.71 / MWh

- Retail costs – estimated last year by the Authority at $7.30 / MWh
- Retail return – set at 5% which equates to $8.20 / MWh

Building up costs from the above figures using existing ENERGEX network prices and comparing them to current tariff rates, we estimate the following new variable prices:

- Domestic tariff – 15.95 c/kWh against the existing 20.69 c/kWh – a 23% fall
- Business tariff – 15.62 c/kWh against the existing 23.19 c/kWh – a 33% fall

This confirms the headroom implicit in the tariffs as well as the headroom modelling in the MMA 'Review of Queensland Notified Electricity Retail Prices' completed in 2009.

So comparing current network and gazetted variable tariff rates genuinely highlights expected falls in the 'R' component, which contains the competitive headroom. Based on Authority Price Comparator and market data, competitive contract rates are currently:

- Domestic tariff – 8-10% below tariff
- Business tariff – 15-20% below tariff

Customer surveys indicate that customers require savings of around 10% to churn which must come out of headroom. As there is none in the proposed methodology, if this methodology is implemented then competition in the Queensland electricity market will become non-viable. This is a logical outcome of the removal of headroom, either explicit or implicit, from the pricing methodology.

The fall in variable prices is likely to be to some extent offset by increased fixed costs in the gazetted tariffs, although the impact appears likely to be small. Restructuring in the ENERGEX network tariffs may also provide some relief. However, this impact will change depending on the size of customer within each category and pursuing patchy customer bases is unlikely to be worthwhile for retailers to operationalise when there are more commercial returns to be made interstate.

Further, current contract discounts will leave existing customers on market contracts as loss-making customers, requiring wholesale contract breakages in South-East Queensland as customers are returned to tariff.

Whilst it may be argued that competitor retailers could charge higher than tariff and then discount to tariff, existing companies undertaking this strategy have been plagued by complaints and customer concern has been high. Further, 'premium' services where higher rates are charged for a higher level of service have not been successful anywhere in the national electricity market (or, arguably, any commodity market at all).

Finally, it might be argued that retailers could become more efficient than the benchmark tariff rate, however this would be impossible given that the Authority's stated intention is to provide the pricing for an efficient retailer. Certainly, given historical determinations in each of the component elements by the Authority, it would not be practically achievable.

The 2009 Ministerial direction to the Authority at the commencement of the overall tariff review process 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 retailer services to small non-market customers at a loss.*

Whilst headroom was not explicitly referenced in the 2011 Ministerial direction, it stated that:

Queensland electricity consumers should, wherever possible, have the opportunity to benefit from competition and efficiency in the market place.

In order to achieve this, QEnergy is of the view that the Authority should explicitly consider headroom as part of the 'R' component. The Ministerial direction relating to the 2011 Review does not detail the components of 'R', but merely states that:

The R cost component of each tariff should include appropriate allowances for energy and retail costs.

With relation to headroom, in the 2009 review the Authority stated that:

The Authority is required to ensure that prices continue to support the implementation of full retail competition by providing sufficient headroom to foster a competitive electricity market.

Headroom refers to a 'premium' above the required (efficient) retail margin that provides an additional return to encourage competitive retail electricity market activity and attract competitive retailers to enter the market ...

Careful consideration needs to be given to what is a reasonable level of headroom to encourage further activity in the competitive section of the market while not imposing undue cost on customers who have no choice but to pay notified prices.

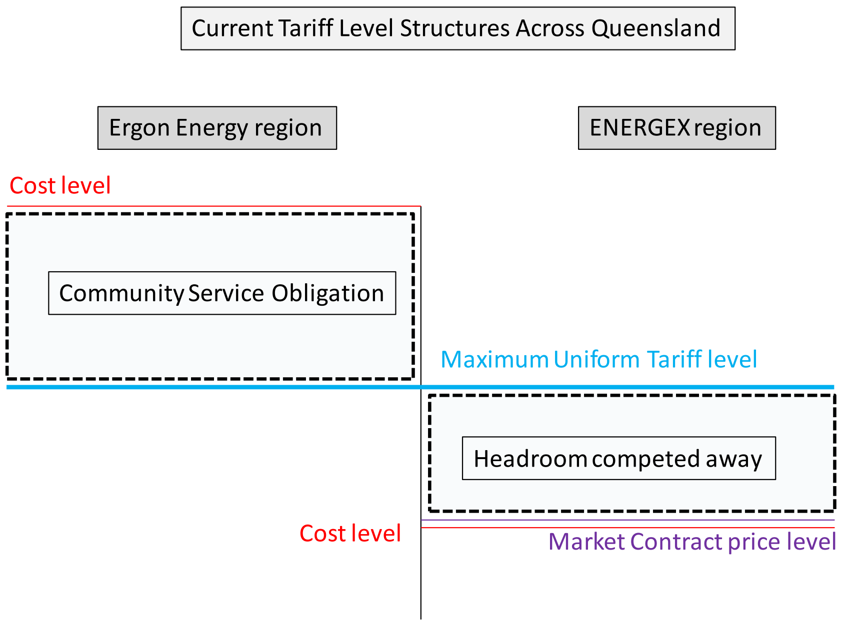
Over time, a framework for competition – including a component of headroom – allows more customers to move off the regulated tariff onto contracts, and continues to create a framework in which customers have choice, and where competition rather than the regulator disciplines prices. Essentially, headroom is required to create the conditions for long-term price competition which is good for customers in the medium- to long-term.

Impacts of removing headroom

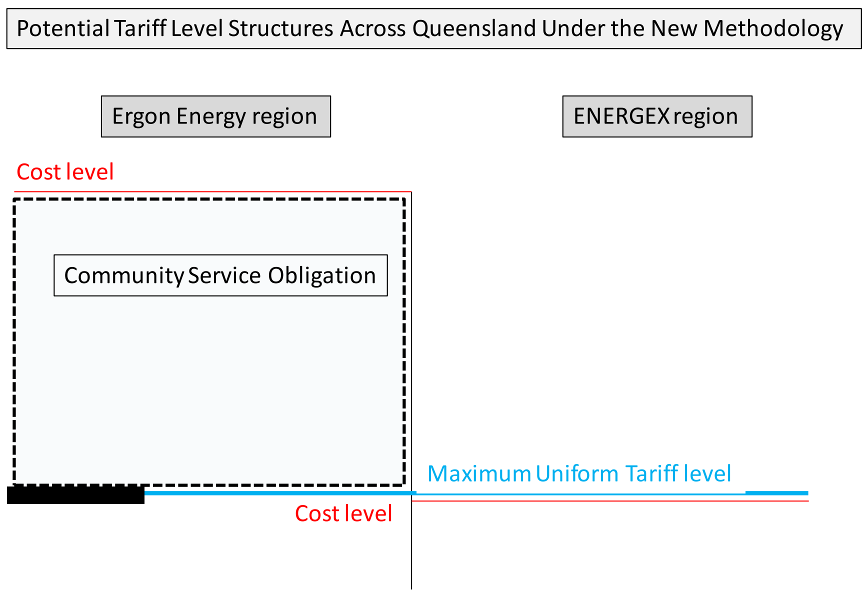
The Authority is required to consider the new tariff structure within the context of the Queensland Government's Maximum Uniform Tariff Policy. Whilst this is a complicating factor, the current level of tariffs – regardless their structure – has promoted competition in SEQ to date and has also supported level tariffs across Queensland.

In the Ergon Energy area, costs are well above customer tariff revenue so that customers in regional Queensland are subsidised by all Queensland taxpayers through a Community Service Obligation paid to Ergon Energy Queensland. In 2010/11 this amounted to approximately $400 million.

In the ENERGEX area, costs are below customer tariff revenue, although as noted above this has been competed away by customers changing away from tariffs onto market contracts. The relationship between costs, the tariff and market contract levels in the Ergon Energy and ENERGEX regions is given overleaf.



A potential scenario should the Authority continue with its proposed methodology of highly efficient price-setting for components and no explicit margin for headroom is as follows:



Under the scenario costed in the previous section, and based on Ergon Energy annual report information and publicly reported Community Service Obligation data, the fall in tariff rates implies an increase in Ergon Energy's Community Service Obligation of around $240m p.a. This must be funded by Queensland's taxpayers and would reflect an effective increase in the cross-subsidisation of regional Queensland customers. QEnergy is of the view that should this be the preferred policy position, this would be more appropriately undertaken explicitly through direct Government grants.

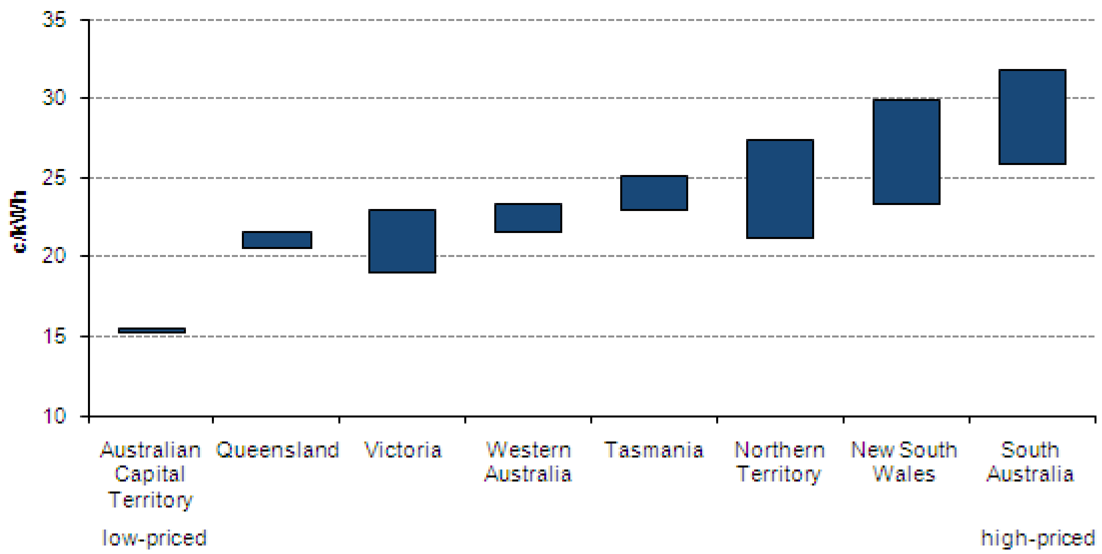
In this case, there would also be insufficient headroom for competition in South-East Queensland, and what the Authority argues is a well-functioning competitive market would be exited by new entrant retailers (including QEnergy). Whilst any customers who had already churned to new entrant retailers would be supported without loss at tariff levels, marketing for new customers in Queensland would not be commercial given more appropriate headroom levels interstate.

This would leave the South-East Queensland market open only to the two incumbent retailers – AGL and Origin Energy – resulting in an effective re-regulation of South-East Queensland as well as regional Queensland.

By setting regulated tariffs to include headroom explicitly, the Authority would be creating the conditions to retain retail competition in the South-East Queensland market and even increase that level, as for example Alinta Energy have said that they would not participate in Queensland until the tariff review was complete and appropriately commercial arrangements were in place.

Based on customer feedback QEnergy considers that the Authority should estimate headroom explicitly and maintain the current levels of headroom in the domestic tariff. Although competition has not yet reached full maturity in SEQ, there is at least a sufficient number of active participants to indicate that there is sufficient headroom in the current tariff levels to promote competition, and to allow it to develop over time into a mature competitive market.

As evidence that current domestic tariffs are not inordinately expensive in relative terms – and therefore that the headroom implicit in them is not outrageous – the Office of the Tasmanian Economic Regulator (OTTER) gives the following chart of prices available to residential customers based on average consumption of 10MWh per annum for each state or territory as at 1 August 2011 which demonstrates Queensland's genuine competitiveness:



Headroom could be included as a component of retail margin or explicitly considered as a separate item. It may be more convenient to argue it as a separate item as that would allow benchmarking of retail returns at levels consistent with interstate regulated retail price caps, which do not explicitly (but do implicitly) include headroom in their setting of prices.

No longer setting a price ceiling

The Authority's proposed approach to headroom is also significant because it means that, in effect, the Authority is no longer setting a price ceiling. Instead, under its proposed methodology, the Authority will be attempting to set the competitive market price.

A price ceiling both protects consumers and supports competition. It removes the capacity for any suppliers with market power to charge excess prices or make excess profits at the expense of consumers and, simultaneously, allows retailers to compete by offering discounts to consumers below the default price ceiling. The setting of a price ceiling is one of the key aspects of the current approach that has, to date, successfully managed to foster the process of competition in Queensland.

Attempting to set the market price, as opposed to setting a price ceiling, is a far riskier approach for any regulator, particularly considering the consequences in scenarios where a regulator gets it wrong. If the regulator incorrectly sets the market price too low, this will destroy the process of competition, harm non-incumbent retailers who have no vertical or interstate integration, and incentivise the remaining retailers to lower their levels of customer service or impose more onerous non-price terms and conditions.

Choice of representative retailer

Turning to more subsidiary issues, the Authority's Draft Methodology Paper states that the Authority has decided to measure retailers' costs by reference to the costs of an established incumbent business, rather than the costs of a new retailer competing for consumer's custom.

While the Authority's remit is to ensure cost reflectivity in the notified tariffs, the question is whether the costs measured are those incurred by a retailer subject to rigorous competition, or the costs of an incumbent retailer with market power and no incentive to promote competition. Given the current state of competition in the Queensland market, it would be more appropriate to estimate the costs of the non-incumbent retailers needed to ensure that Queensland customers have the opportunity to benefit from competition.

Estimation of energy costs

The Authority has decided to discontinue its past approach to determining the energy purchase costs (EPC) by reference to the Long Run Marginal Cost (LRMC) of energy. This is inconsistent with the approaches of interstate regulators such as IPART and ESCOSA. Indeed, the only regulator currently using only a market-contract method of setting EPC is the ICRC in the ACT. As is apparent from the OTTER graph given previously, price caps in the ACT are the lowest in Australia. There is no competition within that market.

In addition to the risks that the cost of energy will be underestimated following the move away from an LRMC approach, there is a reduced likelihood that retailers will be willing to underwrite electricity generation projects in Queensland. This has been a consistent message in submissions from gentailers throughout both the Authority's 2009 and 2011 consultation processes.

QEnergy believes that over the long-run, LRMC pricing will be delivered by the Queensland electricity market since this is the rational approach to electricity generation pricing. We do not support the adoption of a solely market-based approach to estimating EPC, chiefly because this would significantly add to year-on-year volatility for customers. The volatility would in some periods be beneficial for customers, and in some periods punitive, but would always make forward budgeting uncertain and more complex.

As noted by IPART (Changes in Regulated Electricity Retail Prices from 1 July 2011 – draft report April 2011 p.31):

The market-based cost is sensitive to the supply-demand balance and can move significantly from year to year. As a result for some years the market price can be significantly above the LRMC of generation, for example, during the tightening of the supply-demand balance ... Over the longer term we would expect the market price to reflect the LRMC of generation.

QEnergy therefore supports a continuation of the LRMC based approach to estimating energy costs. However QEnergy recognises that the Authority has genuine concerns with the LRMC approach, so as a next best option QEnergy would recommend a blend of LRMC and market-based approaches to assist in smoothing out this volatility.

QEnergy considers that much of the logic for choosing the proposed option is flawed, and that of the three options presented as alternative methods to estimate energy purchase costs, the draft methodology has settled on the most opaque approach and the one with the most inherent problems.

For example, in outlining their proposed an Annual Price Distribution Approach, ACIL Tasman stated that:

The reliance on a proprietary market simulation model to estimate future pool prices presents two problems in the calculation of a regulated price. The first is the "black box" nature of such models.

This argument was used in dismissing the market-based approach to determine energy purchase costs, yet the use of a proprietary market simulation model (Powermark) was proposed as the alternative basis for calculating EPC.

ACIL Tasman also argues against the market-based approach by stating:

The estimation of contract market prices for 2012/13 poses a significant problem at present as there has been virtually no trading in 2013 contract futures because of the uncertainty over whether or not the Commonwealth Government's proposed carbon pricing regime will be successfully implemented.

However, in explaining the cost of the LRET scheme to the EPC, ACIL Tasman also states:

A low volume of trading does not necessarily mean that the traded prices are an unreliable source on which to base the estimation of the cost of the scheme.

This statement appears contrary to the very reason for the dismissal of the market-based approach.

Under the proposed methodology the mean price is taken as a measure of the average cost of energy, covering both the pool price and the cost of contracting under an efficient strategy which would encompass all types of hedges. Low probability high impact events are assumed to be covered by retailers and the mean price is seen as a measure of the cost of such a strategy over time. It is very concerning that no verification of the accuracy of this estimate is provided relative to historical experience.

Further, the use of the mean at 50%POE is reflective of a very high risk appetite approach to hedging and it does not take into account the short-term impact of price events in the market which have to be hedged by retailers with a lower appetite for risk. Most retailers hedge such that they understand their risk to a 95% probability, and for smaller new entrant retailers – who are the drivers of competition in the Queensland electricity market – risk is understood and hedged at a 99% probability.

Under the modelling proposed and based on the 50%POE forecast, the impact of market fluctuations have been smoothed out over the longer term. However, short term volatility must be hedged against by the retailer as the burden on the balance sheet (i.e. cash balances) cannot be sustained in the event of high pool pricing.

This burden is not merely quarantined to pool and hedge contract settlements, but is also defined by the need to provide instantaneous capital against movements in outstandings against AEMO Trading Limits with respect to a retailer's prudential assurance.

Therefore, for all of these reasons, QEnergy supports a continuation of the LRMC based approach to estimating energy costs, with as noted a next best option being a blend of LRMC and market-based approaches to assist in smoothing out this volatility.

For the market-based component, QEnergy considers that a period of three years should be used for establishment of the hedge as this is the period over which a prudent retailer would hedge. For the final year for which ACIL Tasman has expressed real concerns, QEnergy would be happy to share our views and even market data on a confidential basis.

For example, it is implied that the Sydney Futures Exchange is the only source of pricing data for 2012/13 contracts; however all brokers in the electricity contract market would be able to provide an independent curve in order to calculate average contract prices, although this may be at a cost. Also, daily screen scrapes of Reuters would also provide fairly comprehensive levels of the quarterly and annual contract prices being bid / offered in the market.

Establishment of retail load trace

In estimating the retail load traces in the Energex area, ACIL Tasman uses data not readily available to general market participants. Aside from all the issues associated with using data that is unverifiable and based on customers who have voluntarily opted into a trial for metering, the methodology does not represent the actual costs associated with retailing customer load.

Specifically, a retailer's AEMO settlement is based entirely on a single NSLP profile for its basic-metered customers so for any modelling, QEnergy considers that the Authority must use the ENERGEX NSLP load trace to actually be cost-reflective.

Under the proposed methodology, if the retailer's portfolio is skewed toward tariffs that have low correlation to the NSLP then margins could be eroded to the point of negative profit and loss. This could present an opportunity for cherry picking the most profitable tariffs in relation to the NSLP.

Accounting for unforeseen events

QEnergy strongly supports the Authority's view that it would be appropriate to include some form of mechanism to account for the material impacts of unforeseen events, and that it would be prudent to allow customers to share the risk of these events occurring rather than including a risk allowance in the retail margin.

QEnergy supports that this should be in the form of catch-up on a materiality basis.

Consumer impacts of proposed approach

The aforementioned issues in combination will have serious detrimental impacts on competition. Should tariff rates be set too low, new retailers such as QEnergy will be forced to cease actively marketing their offers to consumers, who will be deprived of the opportunity to benefit from competition. And QEnergy is not alone – Alinta Energy has publicly stated that they will await the consideration of the review prior to entering the market given the uncertainty and risk, despite having generation assets in Queensland.

A reduction in competition would likely lead to worse outcomes for consumers, including less choice, more onerous (price and non-price) terms and conditions, lower levels of service, and ultimately more consumer complaints.

QEnergy notes that the published statistics for electricity customer transfers already demonstrate a worrying decline as the methodology review has progressed.

QEnergy's position

In addition to the substantial consumer impacts outlined above, there are significant business impacts for QEnergy and other non-incumbent retailers. QEnergy has employed many Queenslanders and invested substantially in the future of the Queensland retail electricity market. Similarly, other non-incumbent retailers such as Lumo Energy and APG have invested heavily by underwriting Queensland sporting teams such as the Queensland Reds and Gold Coast Titans.

On the estimates of the notified tariffs for 2012-13 based on the Authority's Proposed Methodology Paper given above, QEnergy and other non-incumbent retailers must plan not to actively market to Queensland customers after the new framework commences. QEnergy would focus instead on growing its business and customer base in other states.

QEnergy also notes the significant sovereign risk issues that arise from this sort of regulatory change, both for incumbent businesses like Origin Energy and AGL who purchased State assets and for businesses such as QEnergy who have invested to establish in the State but should tariff rates be set too low would be required to consider withdrawing from competitively retailing (although we would clearly continue to service existing customers in accordance with our licence obligations).

QEnergy suggests that the Authority should:

- carefully consider whether the proposed approach as outlined in the Draft Methodology Paper is in accordance with the Queensland Government policy objective, and the instruction in the Minister's Delegation, to allow consumers, wherever possible, the opportunity to benefit from competition and efficiency in the marketplace;

- have express regard to the level of headroom necessary to continue to foster the development of competition for the benefit of consumers, as in previous years;
- estimate the costs of a representative retailer engaged in rigorous competition and coming to scale in a market, rather than basing retailer costs on those of an incumbent at scale in a market with market power and little incentive to promote competition;
- expressly identify its proposed change from an approach that sets a price ceiling to an approach that attempts to estimate the competitive market price, and explain the differences and relative risks relating to regulatory error under either approach;
- estimate energy costs by reference to the LRMC, consistent with the approaches of interstate regulators such as IPART and ESCOSA;
- as a condition of removing all of the pro-competition measures that currently exist in the pricing methodology, first outline the Authority's view on the current state of competition, whether the process of competition is now self-supporting, and whether the majority of Queensland consumers have received the benefits of competition; and
- apply a common sense checking mechanism towards the completion of the pricing determination process, by comparing the proposed new notified tariffs against the previous notified tariffs in Queensland as well as the notified tariffs in comparable jurisdictions such as New South Wales. This may also be extended if required to confidential surveys of participants.

QEnergy will separately be approaching the Minister for Energy to consider instructing the Authority, through a new or revised Delegation or via some other mechanism, to have specific regard to these items.

Thank you again for the opportunity to comment on these issues. If you have any queries or comments regarding this letter, please do not hesitate to contact Kate Farrar, Managing Director on (07) 3339 9500.

Yours sincerely

[redacted]

Kate Farrar
Managing Director