



Energy Retailers Association
of Australia Limited

13 April 2012

Queensland Competition Authority
PO Box 2257
Brisbane QLD 4001

By email: electricity@qca.org.au

Dear Sir/Madam

RE: Draft Determination on Regulated Retail Electricity Prices for 2012-13.

The Energy Retailers Association of Australia (ERAA) welcomes the opportunity to comment on the Draft Determination on Regulated Retail Electricity Prices for 2012-13 (the Draft Determination).

The ERAA is the peak body representing the core of Australia's energy retail organisations. Membership is comprised of businesses operating predominantly in the electricity and gas markets in every State and Territory throughout Australia. These businesses collectively provide electricity to over 98% of customers in the NEM and are the first point of contact for end use customers of both electricity and gas.

Under the *Competition and Consumer Act 2010 (Cth)*, the ERAA is not permitted to share or discuss information within the Association in relation to prices and the mechanism for setting prices. We refer to the individual submissions of our members to comment on this and strongly recommend that the QCA has due regard to these submissions in determining their Final Determination. It is within this context that the ERAA provides the following comments to the Draft Determination.

As outlined in our submission to the Draft Methodology Paper: Regulated Retail Electricity Prices 2012-13, the ability of retailers to offer market contracts is predominantly driven by the most influencing factor in the development of an effective energy market: the prevailing regulated retail price. If regulated retail prices are set too low (or otherwise are inefficient in their reflection of retailer costs) retailers will cease to be active in the market; if prices set too high, consumers remaining on non-market contracts will be paying too much for electricity. The ERAA has always maintained that best way to manage these risks and uncertainties whilst protecting consumer's interests is to remove retail price regulation, as was achieved in Victoria in 2009.

Whilst the ERAA supports that the QCA has recognised the impact of the carbon price in the setting of its tariffs, the ERAA also considers that there is a risk that the Draft Determination could contradict section 90(5)(a)(ii) of the Electricity Act, where the Authority is required to have regard to "*the effect of the price determination on competition in the Queensland retail electricity market*".¹

The ERAA has specific concerns with the weight that the QCA apparently gives to decisions of the ACT's Independent Competition and Regulatory Commission, particularly on the matter of LRMC. As the QCA would be aware, in 2010 the AEMC determined that there was no effective competition in the ACT retail

¹ Queensland Competition Authority, Draft Methodology Paper: Regulated Retail Electricity Prices 2012-12, November 2011

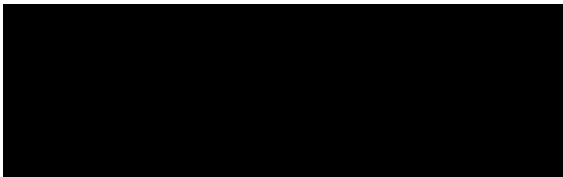
electricity market for small electricity customers.² Sufficient head room is essential to offer customers with a competitive market offer whilst maintaining costs. In addition the ERAA is concerned that the reduction in some of the tariffs will disadvantage retailers that have entered into existing market offers, and wholesale positions, based on conditions determined in previous determinations

Finally, the ERAA would like to seek clarification on two issues: return on capital and prudential costs. The ERAA considers retailing to be a riskier commercial environment than distribution and seeks clarification from the QCA as to whether in determining the appropriate return on capital provided for in the Draft Determination consideration was given to benchmarking these against those awarded to distribution businesses in past determinations. Secondly, the ERAA is unclear as to whether an allowance has been made in the Draft Determination that accounts for the costs required by retailers in having a sufficient prudential level to operate in the retail market. This is a cost often neglected which dilutes further any available head room.

It is the view of the ERAA that the Draft Determination presents a significant risk to competition in the market, potentially driving retailers out of the market which will restrict choice for consumers.

Should you wish to discuss the details of this submission further, please contact me on (02) 9241 6556 and I will be happy to facilitate such discussions with my member companies.

Yours sincerely

A large black rectangular redaction box covers the signature area of the letter.

Cameron O'Reilly
Chief Executive Officer

Energy Retailers Association of Australia

² AEMC, Review of the effectiveness of competition in the electricity retail market in the ACT, Stage 2 Draft Report, 24 November 2010