

18 May 2015

Dr Malcolm Roberts
Chairman
Queensland Competition Authority
GPO Box 2257
Brisbane QLD 4001

Email: electricity@qca.org.au

Dear Dr Roberts,

RE: Regulated Retail Electricity Prices for 2015-16 Interim Consultation Paper

The Energy Retailers Association of Australia (ERAA) welcomes the opportunity to provide comments in response to the Queensland Competition Authority's (QCA) Regulated Retail Electricity Prices for 2015-16 Further Consultation Paper (**the Consultation Paper**).

The ERAA represents the organisations providing electricity and gas to almost 10 million Australian households and businesses. Our member organisations are mostly privately owned, vary in size and operate in all areas within the National Electricity Market (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 in relation to prices and the mechanisms for setting prices. As such, we refer to the individual submissions of our members for more detailed comments on appropriate retail pricing methodology.

The ERAA notes the change to the QCA's delegation to set regulated prices for residential and small business customers in south east Queensland for 2015-16 following the Palaszczuk Government's announcement to delay the planned introduction of price deregulation and its subsequent delegation to the QCA. This includes revision of the Uniform Tariff Policy and the time-of-use (TOU) tariffs (tariffs 12 and 22).

We look forward to working with the Queensland Productivity Commission to assist them in the assessment of the benefits of retail price deregulation for consumers.

Overall framework

The ERAA has consistently advocated for the deregulation of retail energy prices. Retail price regulation is inefficient, stifles product innovation and impedes competition. Additionally price regulation creates high levels of risk for retailers as the regulated price can be adjusted substantially on short notice which cannot be mitigated effectively by retailers as evidenced by the freezing of Tariff 11 in 2012-2013.

Open, competitive energy markets free from distortions such as retail price regulation naturally encourage prices to be efficient through the development of market offers. Competition in retail energy markets, as in other sectors of the Australian economy,



incentivises businesses to improve service, develop products that meet consumer needs and find ways to lower their costs and to pass these savings on to consumers.

Price regulation is not an effective mechanism to protect consumers from payment difficulties or deterring hardship. Targeted and transparent social welfare policies which provide direct assistance to consumers facing payment difficulties is the only viable long term approach to assisting consumers in need. Assistance should be provided through budget funded purposely designed measures to facilitate cost reflective pricing and promote competition in the market.

The ERAA believes competition in south east Queensland is effective, which was evidenced by the Australian Energy Market Commission's (AEMC) 2014 Retail Competition Review where it found that 70 percent of residential households are on market contracts.

As outlined in the draft determination, there is a growing share of non-incumbent retailers, and an increasing number of customers on market contracts. Removing price regulation will provide increased incentive for more retailers to enter and expand activities in the market. With the planned introduction of the National Energy Customer Framework (NECF) in Queensland, consumers should have additional confidence that they can switch away from regulated retail contracts and secure a better deal.

Network costs

As stated in the QCA draft determination, network costs account for around 50 percent of the final cost of electricity for small customers. As regulated monopoly businesses, Powerlink, Energex and Ergon Distribution all earn regulated revenues that are determined by the Australian Energy Regulator (AER).

The QCA must take into account the new network pricing structures as outlined by the AER in its draft determination, which are set to become effective at 1 July 2015. Under existing legislation, while the QCA has the capacity to require retailers to offer a prescribed standing offer to customers, the same requirement does not apply to networks. This means networks may set tariff structures that do not align with a retail tariff structure prescribed by the QCA. This may occur if the QCA prescribes a retail tariff that is inconsistent with a new cost reflective Distribution Network Pricing Arrangements (DNPA). For example, Energex intends to move some tariff 41 customers who have interval meters from a kW based tariff structure to a kVa based tariff structure. It is important for the QCA publishes a notified price that covers both the kW and kVa tariff combinations.

Time-of-use tariffs

The ERAA agrees with the QCA's assessment in its draft determination that tariff 12 can be moved to the Ergon Distribution structure without any transitional arrangements. If tariff 22 is to be retained based on the Energex tariff structure, it should be closed to new customers.

Energy and retail costs

The ERAA recommends that the current approach and methodology is maintained for the retail cost element of the retail component of notified prices. We also see value in maintaining the allowance for headroom to facilitate future competition and ensure cost reflectivity is achieved. Encouraging effective competition is even more important to help offset the adverse impact on retailer confidence arising from the Government's last minute decision to defer price regulation in southeast Queensland.

However, our view is that the methodology for the wholesale energy costs should be based on long run marginal cost. The suppression of wholesale prices due to a number of factors including subsidised solar PV generation may lead to inaccurate wholesale cost factors,

particularly when the market normalises in the future. Therefore utilising a retailer's actual cost of supply should provide a more accurate outcome than the QCA's market based approach.

The ERAA is aware of previously expressed policy contained in the Labor Party's *Our Assets Our Future Policy Paper* and *A Solar Future Policy Paper* with respect to both the commitment to cease privatisation of electricity assets and the consolidation of generation businesses in Queensland. If implemented, the ERAA considers these policies may have a materially adverse impact on the Queensland electricity market and consumers. Of particular concern is the proposed merger of the Queensland Government's electricity generation businesses and potentially their retail businesses into a single entity. If this was to occur it would create a more onerous market that was significantly less attractive for retailer participation relative to other jurisdictions. The ERAA is therefore seeking further information from the QCA as to what actions it may take should these Government policies come into effect during this notified price period.¹

Treatment of metering costs in QCA final price determination report

In its draft determination, the QCA noted that Notified Prices would no longer include metering charges following the Australian Energy Regulator's decision to reclassify type 6 metering services from standard control to alternative control from 1 July 2015. The QCA also noted that customers would still face these metering costs, however. While the way these costs are presented to customers will be up to individual retailers, the ERAA would strongly recommend that in addition to publishing the required notified prices, the QCA's final report includes an estimate of customer impacts and retail prices inclusive of metering charges. This can help avoid possible customer confusion when understanding what charges are explicated excluded for the first time in 2015-16 notified prices.

Should you wish to discuss the details of this submission, please contact me on (02) 8241 1800 and I will be happy to facilitate such discussions with my member companies.

Yours sincerely,



Cameron O'Reilly
CEO
Energy Retailers Association of Australia

¹ Ergon Energy Queensland is a member of the ERAA but it is unable to support these statements.