Energy Supply Association of Australia www.esaa.com.au

ABN 98 052 416 083

Level 14
50 Market St
Melbourne

GPO Box 1823
Melbourne
Victoria 3001

P +61 3 **9205 3100**
E info@esaa.com.au

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Queensland Competition Authority
GPO Box 2257
Brisbane Q 4001

Lodged (online): www.qca.org.au/submissions

Regulated Retail Electricity Prices (2015-16) – Further Consultation Paper

The Energy Supply Association of Australia (esaa) welcomes the opportunity to make a submission to the Queensland Competition Authority's (the Authority) Regulated Retail Electricity Prices (2015-16) Further Consultation Paper.

The esaa is the peak industry body for the stationary energy sector in Australia and represents the policy positions of the Chief Executives of 37 electricity and downstream natural gas businesses. These businesses own and operate some $120 billion in assets, employ more than 59,000 people and contribute $24.1 billion directly to the nation's Gross Domestic Product.

The esaa appreciates the opportunity to comment on the revised retail price setting proposal, which effectively extends the scope of the earlier draft determination to include south east Queensland (SEQ). The Association is disappointed by the decision to delay deregulation of the SEQ retail electricity market but is keen to work with the Queensland Government to ensure a successful transition to price monitoring by 1 July 2016. Open, competitive energy markets free from distortions such as retail price regulation naturally encourage prices to be efficient through the development of market offers. This ensures retail prices are set as low as is sustainably possible while businesses can still make an appropriate return.

Where retail prices continue to be regulated the Association believes the N (network) + R (retail) methodology remains appropriate. But it will be important to ensure there is an overriding focus on facilitating competition and delivering efficient price signals. In this context, the esaa has provided comment below on a number of the key issues raised through the consultation process.

Headroom allowance

The Association is supportive of retaining the headroom allowance for notified prices. In considering the appropriateness of the 5 per cent allowance proposed in the draft determination, it is important to be mindful of the role of price regulation and the ongoing need to drive retail competition. This is particularly important in the context of the SEQ market over the next 12 months, given there will likely be a need to offset waning retailer confidence following the deferral of price deregulation.

It should also be noted that any reduction in the headroom allowance would also further increase the subsidy currently paid to regional Queensland consumers. The state's uniform tariff policy (UTP) subsidy has blown out significantly in recent years, with the cost estimated at $655 million for 2014-15 and further increases anticipated.

Network costs and tariff structures for regional Queensland

The state's UTP has delivered notified prices that are lower than the costs of supply for most regional customers. As a result, price signals are impeded and the ability of consumers to make rational decisions relating to energy consumption is diminished. Coupled with tariff structures that have historically been heavily biased toward high variable charges, this has implications for system utilisation and efficient investment in electricity supply infrastructure.

To address this issue, the Association considers retail tariffs in regional Queensland should be set at least in line with the lowest costs of NEM-connected regional Queensland (i.e. Ergon Energy's east pricing zone). The key benefits to this approach are more efficient pricing outcomes and a sustained reduction in the Queensland Government's exposure to high and variable subsidy costs.

To the extent this approach cannot be achieved for residential and small business customer tariffs, at a minimum, all tariff structures should be based on those in the Ergon Energy distribution area. The proposal to split each of the existing time-of-use tariffs (Tariff 12 and Tariff 22) into two tariffs – one based on Energex tariff structures for customers in SEQ and one based on Ergon Energy's tariff structures for customers in regional Queensland – is a positive step in this regard.

The Association understands the Authority's ability to address these issues is likely limited by the state's UTP and Ministerial Delegation as they are currently applied. In this respect, the Queensland Government has a critical role to play in continuing to progress key energy sector reforms in regional Queensland. This includes providing greater clarity around the objective of the UTP and ensuring it is applied in a way that delivers more cost-reflective price signals for consumers and enables competition to flourish.

Wholesale energy costs

In determining wholesale energy costs, the Association considers it important to be mindful of the uncertainties associated with such estimates. The cost of Large-scale Generation Certificates (LGC) is a perfect example in this regard. It has only been in recent months that industry and the market has gained confidence in policy makers agreeing to a forward target. This confidence has translated into higher trading volumes and a corresponding increase in the average LGC price above that observed over the past 12-months.

To this end, the esaa maintains a more appropriate methodology for determining wholesale energy costs is one that takes account of the different approaches to procuring wholesale electricity and recognises the longer term costs of generating electricity.

Cost pass through arrangements

The esaa is supportive of retaining a cost pass-through mechanism that allows for the recovery of costs incurred in previous regulatory periods, including differences in small-scale renewable energy scheme (SRES) costs. Requiring retail businesses to absorb costs that cannot be passed on creates financial pressure and adversely impacts the level of competition within the sector. Providing an opportunity for retailers to recover the efficient costs of uncontrollable events is therefore a prudent approach.

With regard to assessing the materiality of any cost pass-through event, the Association agrees with the Authority's position that no specific materiality threshold should be set. Materiality thresholds are highly subjective, particularly in isolation of other elements to which retailers are exposed. Given any change in costs will influence the ability of retailers to offer discounts below the regulated price to some degree, it is appropriate that applications for cost pass-through are assessed on their own merits.

Transitional arrangements

It is essential to complete the rebalancing of the fixed and variable components of Tariff 11 to make it cost-reflective by 1 July 2015. While regulated prices in regional Queensland should ultimately be based on Ergon Energy's distribution costs and tariff structures, this rebalancing will help address the inequity of current tariff structures. It will also provide consumers with more incentive to consider switching to a cost-reflective time-of-use tariff, which is a more efficient tariff for shaping energy consumption patterns.

Consistent with this, the Association also supports the continued transition of obsolete tariffs to cost-reflective levels, noting that consideration should be given to updating tariff structures. This would require rebalancing the weightings of different tariff components/charges as well as transitioning the overall quantum of such tariffs to cost-reflective levels.

With respect to Tariff 41, it is understood Energex will be moving some customers with interval meters from a kW based tariff structure to a kVa based tariff structure. It will therefore be important for the Authority to publish notified prices that cover both tariff combinations in the final determination.

Treatment of metering costs

As noted in the draft determination, the reclassification of type 6 metering services from standard control to alternative control from 1 July 2015 means metering charges will no longer be incorporated into notified prices. How these charges are passed through to customers' bills will now be a matter for retail businesses to determine through competitive market dynamics. This may result in a difference between the standing offer charges published by retail businesses and the notified price.

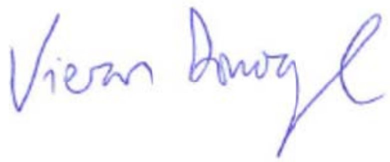
To avoid unnecessary confusion and assist with communicating this change, it would be beneficial for the final determination to note that:

- regulated prices will no longer include metering charges;
- metering charges may vary by customer, depending on their network tariff and how many meters they have; and
- retail businesses will be responsible for incorporating metering charges into both non-market and market customer charges, the form of which will be determined through competitive market dynamics.

An estimate of customer impacts and retail prices inclusive of metering charges could also improve consumers' understanding of the change.

Any questions about our submission should be addressed to Shaun Cole, by email to shaun.cole@esaa.com.au or by telephone on (03) 9205 3106.

Yours sincerely



Kieran Donoghue
General Manager, Policy