



CCIQ SUBMISSION

Draft Determination 2018-19

Regulated Retail Electricity Prices

▾ Queensland Competition Authority

CHAMBER OF COMMERCE AND INDUSTRY QUEENSLAND

9 April 2018

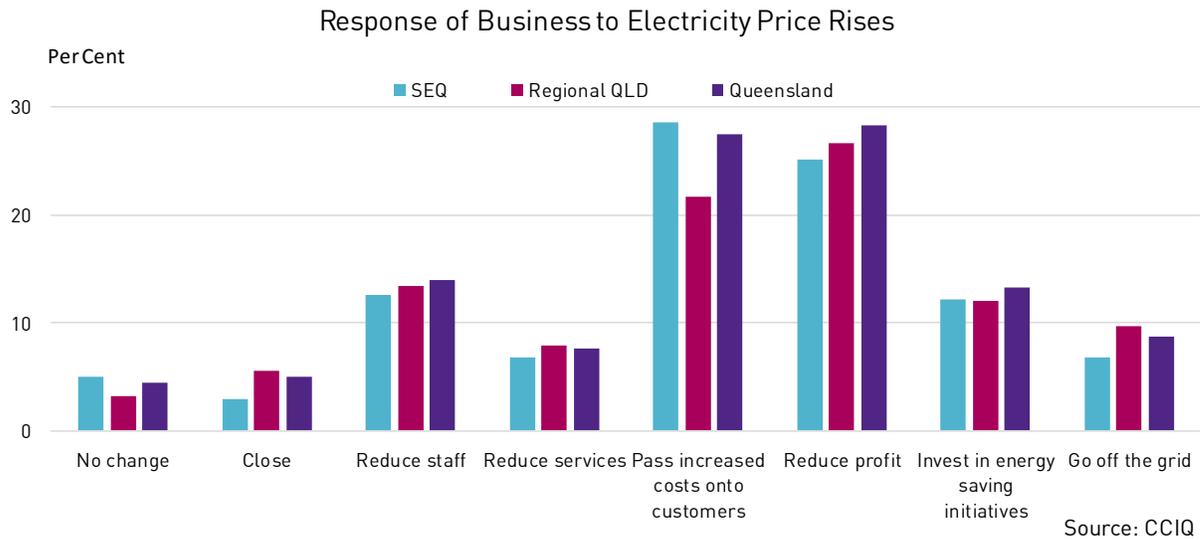
Introduction

1. The Chamber of Commerce and Industry Queensland (CCIQ) welcomes the opportunity to provide feedback to the Queensland Competition Authority's (QCA) Draft Determination for 2018 -19 regulated retail electricity prices for Queensland.
2. CCIQ is Queensland's peak industry representative organisation for small and medium businesses. We represent over 426,000 Queensland businesses on local, state, and federal issues that matter to them. Our guiding focus is to develop and advocate policies that are in the best interests of Queensland businesses, the Queensland economy, and the Queensland community.
3. CCIQ again acknowledges the QCA for their efforts in previous years to keep price increases for small businesses on tariffs 20 and 22A to a minimum, whilst acting within the confines of the Electricity Act 1994, the Uniform Tariff Policy and Ministerial Directions. As such, it was encouraging to see that the draft determination projected a minimal decrease of 4.3% for those businesses on tariff 20 and 22A.
4. Despite a projected decrease in the Draft Determination, CCIQ is wary of the final determination owing to the difference in the draft and final determinations as seen in previous years. CCIQ hopes to see the decrease remain, with hopefully a greater decrease as the smallest increase is detrimental to Queensland small businesses who are unable to absorb continual increasing energy prices. New metering charges will also take effect in this period which will see an increase of prices for meters, both in capital and operation cost.
5. However, it must be noted small businesses are still under financial stress from several years of increases, notably the 2016-17 price hikes of 11.2 % for tariff 20 customers and 15.8% rise related to tariff 22A. The 2017-18 determinations also saw a price increase of 4.1%, following a direct intervention by the then Minister for Energy.
6. The intent of this submission is to highlight the impact of pricing determinations on the competitiveness and profitability of Queensland businesses in regional areas.

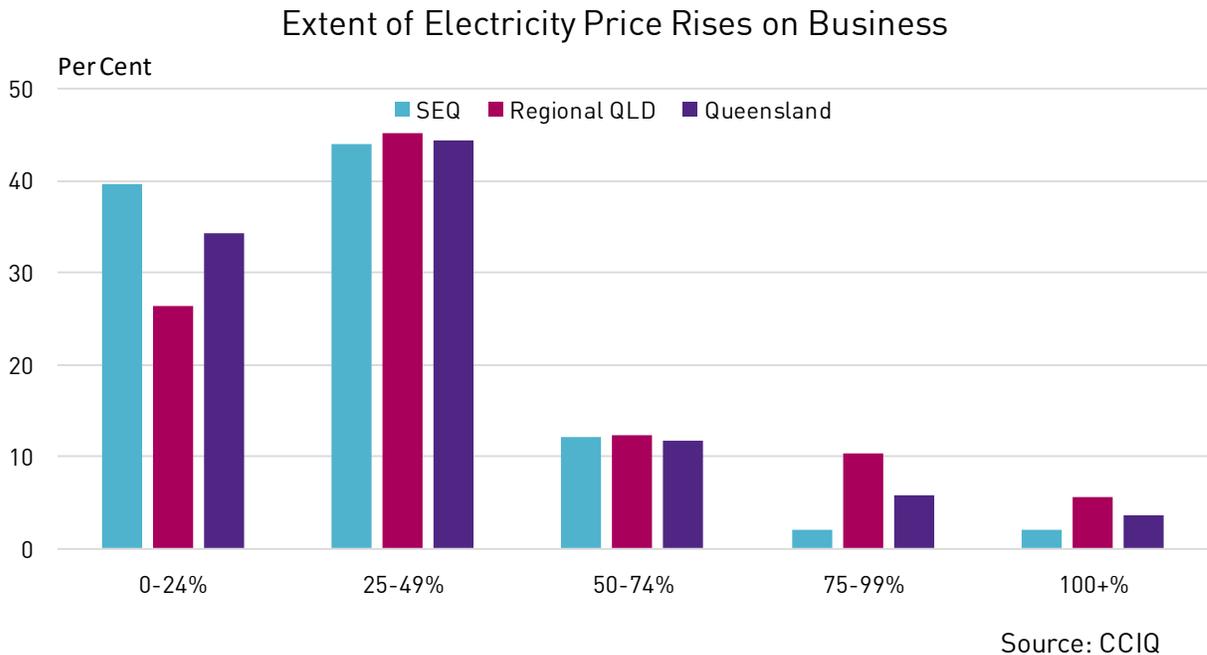
Pricing Impacts on Small and Medium Businesses

7. As highlighted in previous submissions and representations, Queensland small businesses have suffered as a result of ongoing and exorbitant electricity price rises and this has had ongoing social and economic impacts, especially in regional Queensland. A survey of CCIQ members outlined the result any increase to electricity prices would have on small

businesses.

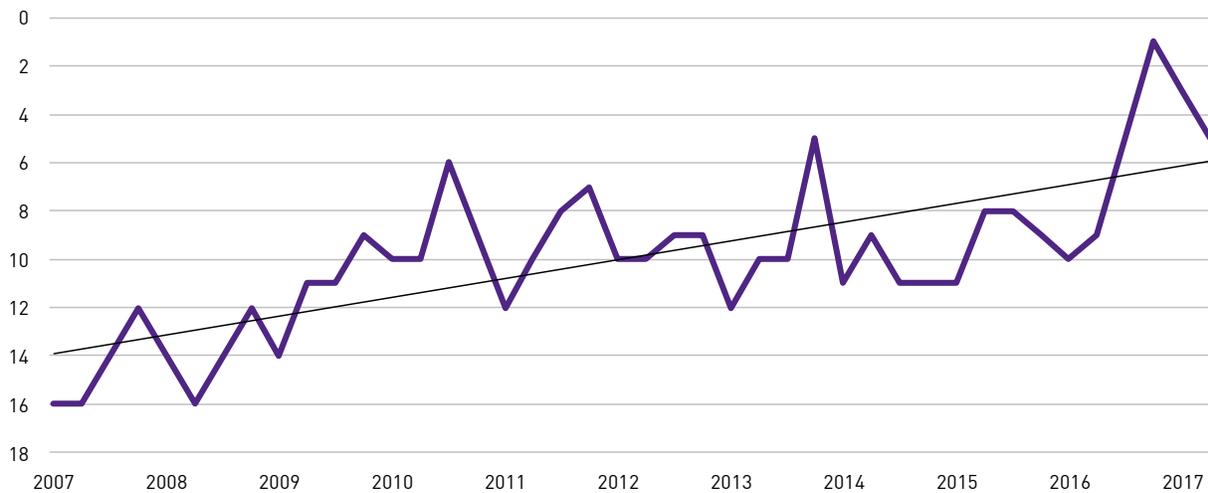


- Regional small businesses have told CCIQ they have had to close their doors due to increasing input costs, such as rising electricity prices. Electricity prices have doubled and in some cases trebled for business over the past eight years, creating a hurdle for businesses trying to remain competitive.



- Over the past ten years, small businesses across the State identified increasing electricity prices as one of the most significant business issues impacting profitability and constraining growth.

Energy Rank as a Constraint on Business



QCA Methodology

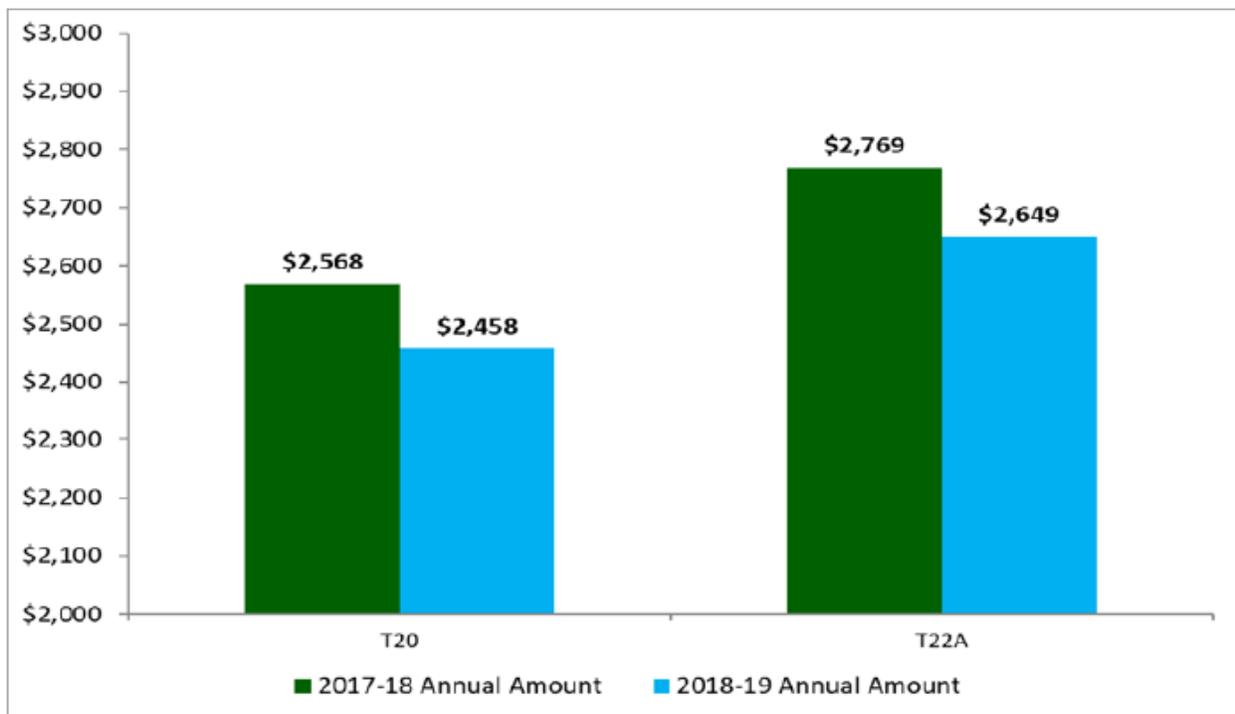
10. Since the deregulation on 1 July 2016, QCA is responsible for determining the notified prices for regions not located in South East Queensland, namely the Ergon Distribution Area and Essential Energy Distribution Area. Consistent with the approach from previous determinations, the QCA is required to consider applying the network (N) plus retail (R) cost build-up methodology and the Queensland Government’s uniform tariff policy (UTP).
11. The network cost component (N), as advised will use the same approach and equations as developed and utilised in previous determinations. Non-time of use tariffs, specifically tariff 20, are calculated using Energex network charges and tariff structures. Time-of-use tariffs, notably tariff 22A, base network price levels charges under the Ergon distribution tariff structure levied by Energex. CCIQ continues to accept this methodology as appropriate.
12. The QCA notes the conflicts under the legislative framework and UTP and outline base cost options considered, electing to use a similar approach applied to previous determinations. This means the UTP has resulted in network charges being below cost because they are based on network costs in south east Queensland, rather than regional Queensland. The QCA have noted that the current arrangements do not allow for cost reflectivity, and results in customers continuing to pay much less than the cost of supply. This will potentially lead to inefficient investment and decision-making, as well as ongoing costs to taxpayers.
13. Another approach put forward was to base costs on the lowest costs of supply within the Ergon Distribution east pricing zone, transmission region one. This approach is applied to large business and it would improve cost reflectivity, however if applied it would increase small business bills by a substantial amount and conflict with the UTP.
14. The QCA provide that setting cost-reflective notified prices (i.e. reflecting the actual costs of supply to customers in each region) would avoid the need to subsidise electricity prices and would promote retail competition. However, it would be inconsistent with maintaining

uniform tariffs because it would result in different notified prices for customers based on their location. It would also mean significant price increases, particularly for customers in western parts of the State, and those supplied by isolated systems.

15. CCIQ notes that notified prices based on the cost of supply in regional Queensland would be prohibitively expensive for small business customers. This measure would prove costlier for business customers who are unable to shift usage outside of the peak times. Whilst this tariff would be more cost reflective and provide sharper pricing signals, it would be ineffective on a small business restricted by the times they use electricity.
16. As outlined in our [submission](#) to the interim consultation paper (ICP), the standing offer differential method is flawed. Due to recent directions by the Federal Government to retailers to move consumers onto market offers, or ‘cheaper deals’ to battle rising electricity prices, it would be inequitable to base notified prices on the standing offers in south-east Queensland, as a larger portion of consumers are on market offers.

Summary of QCA Draft Determination

17. On current forecasts, small business tariffs 20 (flat rate) and 22A (time of use) are expected to decrease by \$110.00 (4.3%) and \$120.00 (4.3%) respectively. The QCA has applied their determination based on the latest forecasts for network, energy, retail and green scheme costs. The new tariff prices for the 2018-19 period recommended in the QCA draft determination are outlined in the below table.



Annual bills for typical small business customers (GST inclusive)
Source QCA Draft Determination 2018 – 19

18. It is important to note that a key price 'driver' as noted by the QCA Fact Sheet,¹ was the network prices. Due to the networks draft prices provided this was cited as a key factor for the 4.3 per cent price reduction. This highlights the importance network costs play in determining prices for regional Queensland. CCIQ strongly recommends QCA now, and for future determinations, considers network costs with great scrutiny as a reduction of network costs have demonstrated impacts to the final determination.
19. The 2017-18 electricity price increases were in part due to higher generation costs. Ever-constricting conditions of demand and supply, because of an increase of in-field gas compression associated with liquefied natural gas export facilities and suspect bidding practices by Queensland's major generators resulted in higher wholesale costs, driving prices up.
20. After a direct intervention last year by the Queensland Government to Stanwell Corporation as part of the Powering Queensland Plan to implement strategies to reduce costs and put downward pressure on prices, there was an immediate reduction in wholesale costs. However, what was believed to be a permanent direction, it has come to CCIQ's attention that the direction was finite in nature, having been renewed in December, extending the direction until March 2018. If Stanwell Corporation is no longer under a direction to implement strategies to place downward pressure on prices, this may impact the final determination prices.

Uniform Tariff Policy

21. A continuing concern for CCIQ is the uniform tariff policy (UTP). The State Government is committed to retaining the UTP so that residential and small business customers do not pay more than the prices that would be available to standing offer customers in south east Queensland. CCIQ affirms its comments in the ICP; we support the principle of not penalising regional, rural and remote small businesses for their geographic location, however the UTP is flawed and not sustainable in the long term. The Queensland Government and Department of Natural Resources, Mines and Energy must explore other options for future determinations.
22. The QCA provide that they will continue to base notified prices for residential and small business customers on the cost of supply in south east Queensland. The QCA determines notified prices based on expected standing offer prices in south east Queensland. CCIQ believes that a case could be made for the QCA to set prices somewhere between the market contract prices and standing offer prices available in south east Queensland to better reflect current practice in the South East Queensland energy market.
23. CCIQ stresses that until such a time that the Queensland Government reforms the current arrangements of the UTP, little can be done to improve the effectiveness of its operation. In

¹ <http://www.qca.org.au/getattachment/2a52665e-1320-489c-b2de-0b5fbb2a09ad/Fact-sheet-forecast-small-business-electricity-p.aspx>

2017-18 under the UTP the State Government subsidised \$441.1 million to cover supply costs to regional customers.

Network costs

24. For small business customers on retail tariffs 20, the QCA have decided to base the network cost component on Energex network charges and tariff structures. For small business customer time-of-use retail tariffs (tariff 22A), the QCA will base the network cost component on Energex network charges, but use the relevant Ergon Distribution network tariff structures. This is a similar approach to the 2017-18 determination. Basing the time-of-use tariffs on Ergon Distribution's network tariff structures allow for improved cost reflectivity. CCIQ is satisfied with this approach, noting the challenges presented by the UTP and Ministerial directions.

Metering Costs

25. The QCA will now consider metering charges as part of the notified price process due to the recent 'Power of Choice' reforms. New advanced 'smart' meters will become the legislated preferred meter for all future installations and replacements. Due to the higher capital and operating costs for smart meters, small businesses will be hit with a higher metering charge.

26. Although there are recognised benefits of smart meters, which CCIQ welcomes, the higher costs could be a deterrent and / or handbrake on uptake. CCIQ supports the Energy Queensland suggestion of setting the prices at the accumulation metering prices. However, we would suggest that the principle be applied for five years. To avoid the concern raised by QCA regarding high uptake and then bill shock in 5 years' time, CCIQ recommends over the five years a smoothing economic mechanism is put in place. This will encourage uptake, smooth out bill shock, while allowing for operating and capital costs to come down as the system matures.

Other issues

27. Improving competition in regional Queensland is an important issue that needs to be considered by the Queensland and Federal Government. CCIQ supports recommendation 30 made by the QPC in their final report on electricity pricing to implement a network Community Service Obligation (CSO) no later than 1 July 2019 allowing time for relevant stakeholders to prepare and begin maturing regional competition.

Conclusion

28. CCIQ appreciates that some of these issues are outside the scope of this determination, however as a key stakeholder involved in the electricity pricing process, CCIQ strongly urges the QCA and the Queensland Government to ensure that the full and compounding impact of

electricity prices for Queensland small businesses are considered in the final determination for 2018-19 regulated tariff prices.

29. That said, CCIQ believes the 2018-19 draft determination received a positive, yet guarded response by the business community in comparison with the previous year's determinations. Queensland small businesses continue to struggle with the costs of electricity prices and will not be able to cope with any increases. CCIQ urges the QCA to consider the future implications for small businesses when making the final determination.
30. CCIQ welcomes any feedback or questions related to this submission. Please contact Policy Advisor, Joseph Kelly at jkelly@cciq.com.au.