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22nd March 2013

Queensland Competition Authority
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Dear Sir/Madam,

Responses to Draft Determination – Regulated Retail Electricity Prices 2013-14

Click Energy appreciates the opportunity to contribute to the Draft Determination – Regulated Retail Electricity Prices 2013-14, and the opportunity to encourage a healthy and competitive electricity market in Queensland.

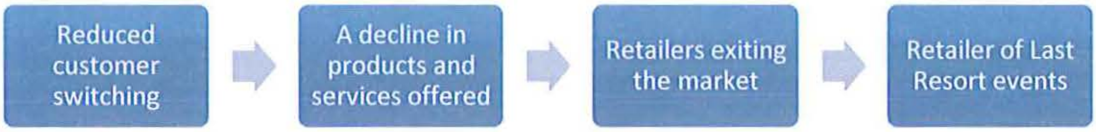
As stated in our submission to the Draft Determination - Regulated Retail Electricity Prices 2012-13 our concern is that due to the unsustainable level of retailer headroom and continued political interference, in particular pricing controls, we believed that competition in Queensland will contract putting the possibility of complete deregulation out of scope for an indeterminate period of time. We are unfortunately now seeing this scenario come to fruition, as shown by the real reduction in competition in Queensland.

Competition is falling in Queensland

"In accordance with section 90(5)(a) of the Electricity Act, the Delegation requires the Authority to have regard to the effect of its price determination on competition in the Queensland retail electricity market."[1] We seek to demonstrate that retail electricity competition is reducing in Queensland and has fallen by 25% to date and continues to decline.

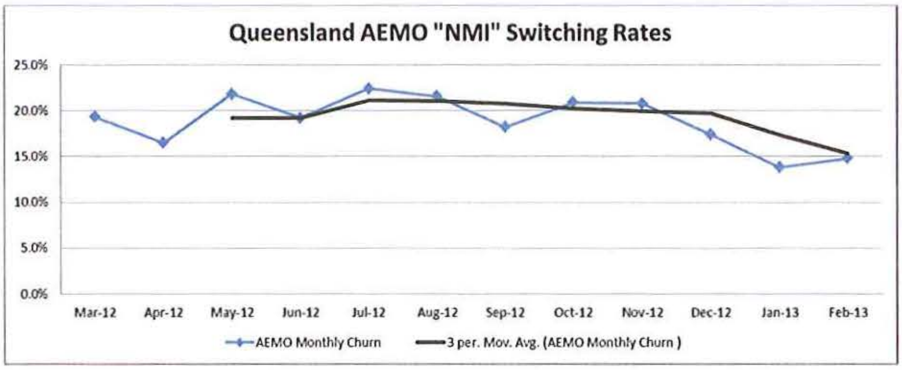
The measures suggested in the Draft Determination for identifying levels of competition include switching, product and service options, number of retailers, number of new entrants and consumers being aware of products and service options. It is important to note that a number of these measures are lagging indicators, in that they are based on past market conditions and require a great deal of consideration before commencement. These include number of retailers and new entrants to the market. These adjustments take upwards of one year to come in to fruition. Hence we would suggest that reduced switching is the key first indicator, followed by a reduction in products and services offered, which to our evidence is becoming apparent, and then finally, or as a result of the lack of headroom, the reduction in retailers potentially by a Retailer of Last Resort event, as shown below.

[1] Draft Determination - Regulated Retail Electricity Prices 2013-14, QCA, February 2013, p. 48.



The Draft Determination highlights that the Queensland switching rate is 11%, and with the Ergon Energy customers removed this would become 15%, which according to our modelling (please see table below Queensland annualised AEMO switching rates) Queensland has experienced a 25% reduction in switching rates since the 20%+ switching rates that were experienced prior to the last price determination.

Table 1.0 Queensland annualised AEMO switching rates



As also noted this is far below other states including 20% in NSW, 24% in South Australia and 28% in Victoria[2]. Although this has been compared to international markets it is worth noting that many international electricity markets do not work on a three tier system of generation, network and retailer.

This switching rate, which has fallen by 25%, and is the primary early indicator of churn, is a direct result of the headroom being too low in Queensland. Also additional headroom is required in Queensland, due to the additional regulatory risk from future Government imposed price freezes. The saying goes "Perception is Reality" and currently this is the perception in QLD, i.e., that the regulatory risk has increased deterring further investment in retail.

Without either a removal of the price controls or an increase in the headroom, we will shortly find ourselves in a vicious cycle, where competition is not strong enough to protect small customers, however with such a low headroom, retailers cannot invest further in the QLD market, so we are caught in a self-fulfilling prophecy.

Recommendations

Our key suggestion is the removal of the price controls and to allow the natural forces of competition to control prices. This will not only increase competition and retailer investment in Queensland, but more importantly reduce the requirement for additional headroom due to the additional regulatory risk. Failing the removal of the price controls, ensure sufficient retailer headroom to provide for a competitive retail electricity market in the long run, avoiding further the reduction in competition and possible reduction in the number of retailers.

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[2] Draft Determination - Regulated Retail Electricity Prices 2013-14, QCA, February 2013, p. 52.

We would also like to see the QCA divide its measures of competition between early indicators and laggard indicators, to better communicate the real competitive position in Queensland.

Thank you again for this opportunity to contribute to this Draft Determination.

Yours Sincerely

[redacted]

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