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Mr Gary Henry,
Director
Queensland Competition Authority
GPO Box 2257
Brisbane QLD 4001

7 January 2013

By email

Dear Mr Henry,

Regulated Retail Electricity Prices 2013-14 - Transitional Issues Consultation Paper, October 2012

AGL welcomes the opportunity to comment on the Queensland Competition Authority (Authority)'s Consultation Report on Transitional Issues on Regulated Retail Electricity Prices 2013-14 released in October 2012 (Draft Report). Detailed commentary is provided in the Attachment.

In relation to the transitional arrangements for Tariff 11, in AGL's view, as a general principle, prices should be made cost reflective as soon as possible given that the retail energy market in south east Queensland is competitive. If a transition is deemed necessary, at a minimum, the fixed supply charge should fully recover the network fixed supply charge and a portion of retail operating costs in 2013-14.

In relation to the transitional arrangement for obsolete tariffs, the existing obsolete prices should be aligned as closely as possible to the new cost reflective tariffs rather than creating separate discounts on the new tariffs for customers on obsolete tariffs.

In AGL's view, the obsolete tariffs should be closed to new large customers in the Ergon Energy network area.

If you have any further questions, please contact Meng Goh, Manager Regulated Pricing, on (02) 9921 2221 or mgoh@agl.com.au

Yours sincerely,

Beth Griggs
Head of Energy Market Regulation

ATTACHMENT

AGL submission

Regulated Retail Electricity Prices 2013-14 - Transitional Issues Consultation Paper, October 2012

Transitional arrangements for Tariff 11

The QCA has stated that the cross subsidies inherent in the current Tariff 11 charges has the potential to distort the retail market for electricity in Queensland and a move to cost-reflective tariffs in one step in 2013-14 would seem the most appropriate approach, with any social welfare implication best dealt with separately. However, the QCA also considered that the requirement in the Delegation implied that some transition was needed over the three years of the delegation. In AGL's view, in a competitive market, prices should be cost reflective to ensure retail competition is sustainable. Accordingly, AGL fully supports the QCA initial position that tariffs should be moved to cost reflective levels in one step in 2013-14.

AGl would also highlight that Government introduced a voluntary time-of-use residential tariff (Tariff 12) in 2012-13 with the stated intent of allowing customers to benefit from improving their electricity consumption patterns. This tariff has been set by the QCA at cost reflective levels. Clearly, this tariff is redundant whilst Tariff 11 remains below cost reflective levels with no customers electing to move to to time-of-use pricing and therefore no subsequent change in customer behaviour.

If the QCA deems that some transition over three years is necessary, Tariff 11 should be re-set with particular attention to the fixed supply charge. The fixed supply charge which is 26.17 cents per day for 2012-13 excluding GST should be based on the pass-through of network fixed charges and retail operating costs (plus margin allowances).

Under the 'tariff freeze' for 2012-13, the fixed charge under Energex Network Tariff 8400 was set at 25.802 cents per day by the Government instead of 35.0137 cents per day approved by the AER.

It is AGL's view that, at the minimum, from 1 July 2013, the fixed supply charge should be recover 100% of the fixed charge of Energex Network Tariff 8400 (flat residential) and at least a third of the annual retail operating costs determined for 2013-14 (plus margin allowances). Over each of the following two years thereafter, the fixed supply charges charge will recover a further one third of the annual retail operating costs while fully recovering the fixed network supply charge (plus margin allowances).

Similarly, the variable charges should be reduced by an appropriate amount each year although this will belargely dependent on the structure of the Energex network tariffs and whether they will maintain the flat variable charge or move to the inclining block rates that were initially proposed for 2012-13. AGL remains unclear on Energex's plans for network tariff structures in 2013-14.

Another alternative option is to transition over two years instead of three.

AGL agrees with the QCA's view that social welfare issues should be dealt with separately.

Transitional arrangements for obsolete tariffs

In the 2012-13 Final Determination, the QCA had aligned the existing farming, irrigation, obsolete and declining block tariffs to either Tariffs 20 or 22 (Table 6.4 on page 93 of 2012-13 Final Determination). However, the QCA also opted to retain the obsolete tariffs but limit the price increases at either 10% or 20% depending on the size of the gap between the existing prices and new prices.

In AGL's view, as a general principle, prices should be set at cost reflective levels as soon as possible. Since price signals are considered critical for resource allocation, this mispricing could provide incorrect incentives to consume energy.

The QCA has proposed an option to move customers on obsolete tariffs to the new cost-reflective tariffs which are discounted by progressively smaller amounts each year. AGL strongly disagrees with this option as this will set Tariff 20 and 22 below cost reflective levels and increase the number of customers on subsidised prices.

AGL's preference for any transitional arrangement is to modify the pricing of each tariff component of existing obsolete tariffs to closely match the tariff component of the new cost reflective tariffs (ie Tariffs 20 or 22):

- where there are multiple blocks (Tariffs 62 & 63), the block structure should be reduced to a single block (by setting the price of each block the same),
- fixed supply charge to be introduced where there is none (Tariff 62), and
- where the pricing periods are different from that of Tariffs 20 and 22, the prices should be aligned to the closest matching price blocks.

The 10% or 20% limitation of price increases for obsolete tariffs for 2012-13 has been arbitrarily set by the QCA. If the QCA considers that the transition arrangements continue to be necessary, these limits should not be less than the increases applicable for the tariffs which are at cost reflective levels. As noted by the QCA, the financial impact would vary according to individual customer consumption patterns and it would not be feasible to develop a price path for each individual customers. Therefore the financial impact should be based on an average profile only.

Allowing new large customers to access obsolete tariffs

The QCA is seeking stakeholders' views on whether large customers in the Ergon Energy network area using more than 100 MWh per year on the new Tariffs 44, 45, 46, 47 and 48 should be able to access the transitional arrangements for large customers on obsolete tariffs.

The QCA is correct in pointing out that it is not appropriate to allow new large customer to access the obsolete tariffs as it will allow customer to be placed on tariffs which are not cost reflective and create a large group of customers who would eventually need to be transitioned to more appropriate cost reflective tariffs. With the creation of the new cost reflective tariffs in the Ergon Energy network area, AGL has been active in providing competitive offers to these customers.

In AGL's view, the obsolete tariffs should remain closed to new customers. Large customers in the Ergon Energy network area who are currently on the obsolete tariffs should be transitioned to the new cost reflective prices as soon as possible.