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6th September 2013

Dr Malcolm Roberts
Chairperson
Queensland Competition Authority
Level 19, 12 Creek St
Brisbane
QLD 4000

Submitted online at electricity@qca.org.au

Dear Dr Roberts

Submission on the interim consultation paper for Regulated Retail Electricity Prices for 2014-15

EnergyAustralia welcomes the opportunity to make a submission to the Queensland Competition Authority (the Authority) on the interim consultation paper for regulated retail electricity prices 2014-15 (Consultation Paper).

As a long-term participant and a major second tier retailer in the Queensland retail electricity market, we were pleased to hear the announcement of the Queensland Government notifying of their intention to remove retail price regulation in South East Queensland by the 1st July 2015. This will be a greatly beneficial step for the Queensland energy market as it will assist in improving competition. Increasing competition in the retail electricity market will put downward pressure on prices, encourage innovation and improve customer outcomes and service levels more effectively than any other mechanism. We acknowledge that this review process for setting of the 2014-15 prices may therefore be one of the last, depending on plans for the Ergon Energy supply area. EnergyAustralia believes that finding a way to introduce competition across the whole of Queensland as soon as practicable would provide the best outcome for Queensland households and businesses.

The Authority has indicated its preference to retain a similar methodology in 2014-15 to that used for the current financial year. EnergyAustralia agrees that maintaining a consistent approach will improve regulatory certainty and is appropriate given that pricing regulation may not continue for much longer.

The review for 2013-14 regulated retail prices has only recently concluded and many of the matters under consultation now have been discussed only months ago. The vast majority of our feedback and concerns relate to the estimation of the wholesale energy cost component.

Although we understand that the Authority has a strong preference for the use of a market-based methodology for setting the energy cost component of the regulated price, we do not agree that the approach is intuitive or has produced adequate estimates in past years. We are particularly concerned about the accuracy of the load scaling, the valuation of carbon and also consider that ACIL Allen has understated the exposure of retailer to wholesale prices between $70-$300/MWh in previous years. With such a black box modelling approach to setting the energy costs, we are not confident that the estimates will be appropriate this year either, however, it is difficult to comment in detail at this early stage before ACIL Allen have published their draft outputs.

If you would like more information on this submission, please contact me on (03) 8628 1242.

Yours sincerely

Melinda Green
Regulatory Manager - Pricing

EnergyAustralia submission to Queensland Competition Authority on the Interim Consultation Paper for Regulated Retail Electricity Prices 2014-15

September 2013

Contents

1. Network costs

1.1. Use of Energex and Ergon network tariffs

1. The Authority seeks stakeholders' views on the following:
   (a) the suitability of Energex's network tariffs as the basis of retail tariffs for residential and small business customers;
   (b) the suitability of Ergon Energy's network tariffs as the basis of retail tariffs for large customers and, in particular;
      (i) whether notified prices for large customers should be based on network charges in Ergon Energy's East pricing zone, Transmission Region 1 and, if not, what should they be based on?
      (ii) what better options, if any, are there for the network charge(s) to be used as the basis for notified prices for very large Ergon Energy customers?

The base Energex and Ergon Energy network tariffs used by the Authority for setting regulated retail prices in 2013-14 are likely to remain suitable for the 2014-15 year for most Queensland customers. The exception to this is large customers in the Ergon Energy area outside the Ergon East pricing zone or Transmission Region 1 should transition to a new separate retail price that reflects the underlying cost structures.

We note that the Queensland Government are investigating options for to introducing retail competition to small customers in the Ergon Energy supply area.[1] Depending on the plans developed and when these plans will be implemented, it may be sensible to also consider beginning to transition small customers to the new cost reflective tariff structures and price levels.

At this stage it's not possible to comment in detail about what this approach should entail. In general, we have a preference for transition matters to be dealt with as soon as they arise and for retail prices to reflect the underlying cost structures as far as practicable.

2. The Authority seeks stakeholders' views on how best to maintain or improve alignment between network and retail tariffs for the purposes of setting notified retail prices.

The pass-through mechanism that the Authority outlined in the 2013-14 Final Determination should be suitable for maintaining alignment between network and retail prices. This may be required if the approved network tariffs differ too greatly from the draft network tariffs the Authority will use to set final regulated retail prices.

[1] Queensland Government response to the Interdepartmental Committee on Electricity Sector Reform, June 2013, http://www.dews.qld.gov.au/__data/assets/pdf_file/0007/78568/queensland-government-response-to-idc-report.pdf

2. Energy costs

2.1. Market-based energy costs

3. The Authority seeks stakeholders' views on the following:

   (a) What improvements might be made to ACIL Allen's hedging-based approach for 2014-15?

   (b) Is there any new information available to suggest an alternative approach might be better than the hedging-based approach for 2014-15?

Although we strongly favour the use of a long run marginal cost floor approach in setting regulated electricity prices, we understand that the Authority opposes this approach and is unlikely to form a different view given that 2014-15 may be the last year that prices will be regulated in South East Queensland.

The hedging-based approach is known to stakeholders, but it is a stretch to say that it is intuitive.[2] In past years, we've put forward the reasons why we believe the hedging-based approach doesn't produce valid wholesale energy costs. For this submission, we have again reviewed the method and historical outputs to better understand how ACIL Allen's approach consistently under-estimates the wholesale energy costs used in the regulated retail prices. We note that no additional data inputs or outputs from ACIL Allen's models were provided at the conclusion of the review of 2013-14 regulated electricity prices as we requested in our last submission to the 2013-14 regulated price review earlier this year.[3] Therefore, beyond the arguments we've presented in the past, we are unable to suggest with any certainty why ACIL Allen's approach produces low wholesale values.

An intuitive and transparent approach should allow us to reproduce similar wholesale cost estimates when using our own in-house models. Without this level of predictability, we are at a loss to estimate what wholesale energy cost will be calculated during the annual regulated price review process. This lack of understanding of ACIL Allen's modelling affects industry confidence and hinders the effectiveness of retail price regulation.

The underlying assumption is that undertaking a more thorough and detailed approach to market modelling produces a more accurate energy cost than a more simplistic and transparent approach. However, the more sophisticated and proprietary a model becomes, the more it turns into a black box that stakeholders are less able to understand or critique. In terms of 2014-15 wholesale energy costs, we have made some suggestions in the rest of this section, but will be able to comment further when the draft determination is published. We again request that ACIL Allen make more information available on their modelling approach, inputs and outputs.[4]

[2] QCA, Consultation Paper, page 11

[3] EnergyAustralia, Submission to the Draft Determination for Regulated Retail Electricity Prices 2013-14, pages 12-13

[4] We reiterate our comments in our last submission (ibid.) with the following notes for 2014-15: The operation of two Tarong units in Q1 & Q2 of 2015 are uncertain. There is an expectation of higher gas prices due to demand for LNG Exports, which may alter the operation and bidding behaviour of gas fired generation. Uncertainty remains around the availability of coal for Callide and Gladstone at historic prices.

3. The Authority seeks stakeholders' views on the following:

   (c) What factors should ACIL Allen take into account when determining modelling inputs such as customer load forecasts, plant outage scenarios, hedging strategies and spot price forecasts?

   (d) How best should the Authority account for carbon price uncertainty and the resultant potential lack of contract trading data?

2.1.1. Load

Several responses to the 2013-14 Draft Determination on regulated electricity prices highlighted that it was a problem that ACIL Allen had scaled the peak load across the 42 simulated load traces to match the 10% probability of exceedence (POE) summer demand forecasts in each region. Given that ACIL Allen's load simulations are based on 42 years' worth of data, we would expect the ACIL load simulations to exceed the AEMO 10% POE peak demand on four occasions as a 10% POE represents only a 1 in 10 year.

ACIL Allen acknowledged in their final report for the 2013-14 review that this was a limitation with their methodology, but questioned whether it would make a difference to the projected pool price outcomes.[5] Part of the reason ACIL Allen believe this may not make a difference is that:

> *"increasing the overall peak demand does not necessarily guarantee higher priced outcomes across all 42 simulated demand sets and certainly does not guarantee a higher price for the 95th percentile of the hedged prices simulation."*[5]

It becomes very difficult to assess and comment on a load forecast and subsequent market modelling approach where the scaling approach is flawed. We request ACIL Allen ensure that:

- the simulated loads are not restricted by the AEMO 10% POE demands; and
- the peak demands in excess of the AEMO 10% POE occur during evening peaks consistent with the current trends.

2.1.2. Pool prices

The pool price duration curve below (figure 1), highlights the high percentage of pool prices between $70- $300/MWh during 2012-13. The pool price duration curve for the actual 2012-13 prices shows a much greater proportion of actual prices fell between $70-$300/MWh than forecast by ACIL Allen in May 2012. The figure clearly shows that ACIL has forecast that prices will rise above $70/MWh less than 5% of the time, whereas the 2012-13 actuals show that the price was in fact higher than $70/MWh for around 12% of the year. This is a significant difference and has contributed to a lower hedging / wholesale energy cost.

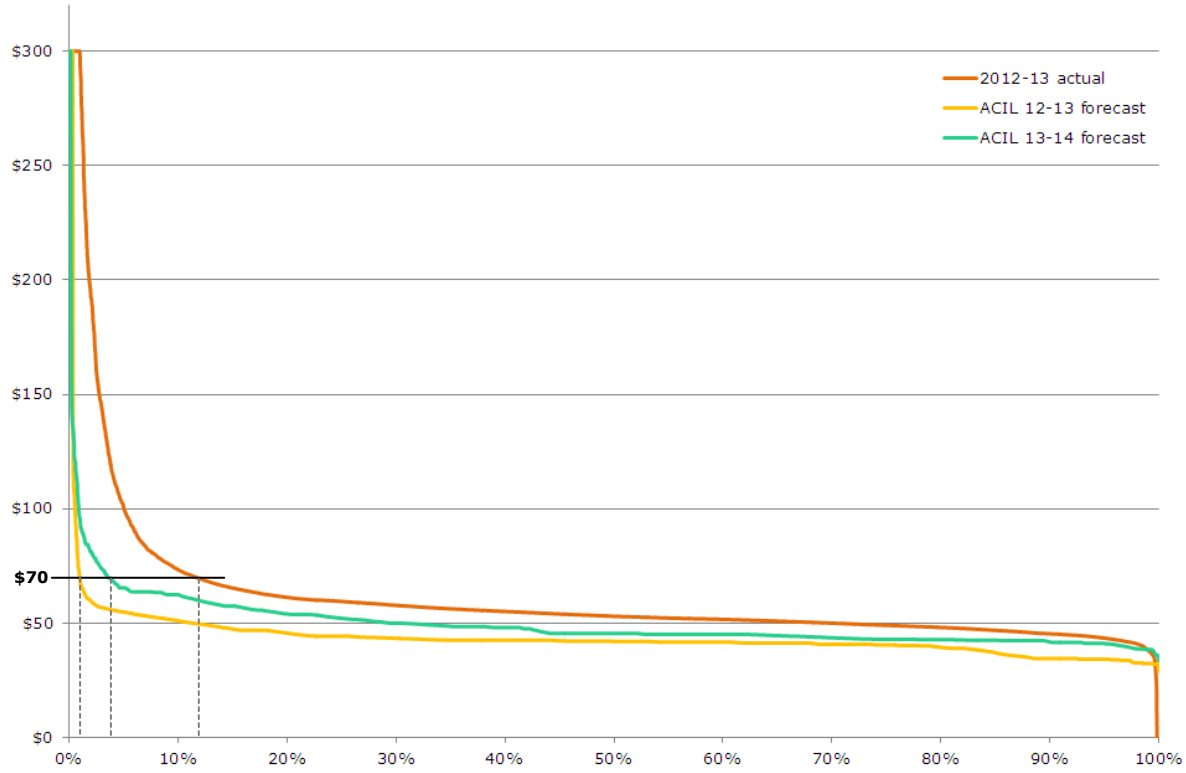
The exposure of retailers to prices between the swap price and $300/MWh, was clearly understated in ACIL Allen's 2012-13 pool price forecast and this has had a considerable financial impact on retailers. Given the form of regulation used in Queensland, the Authority (and at times the Government) sets the regulated prices based on forecast wholesale energy costs. When ACIL Allen wrongly forecasts these costs there is no adjustment or catch up

[5] ACIL Tasman, Estimated energy costs for 2013-14 retail tariffs, May 2013, page 28

amount allowed for retailers. This is a key source of regulatory risk as the estimated energy costs have historically been too low.

The most recent experience suggests that ACIL Allen's pool price modelling should take into account the higher volume of pool prices occurring between $70/MWh and $300/MWh in 2012-13, and even more recently through the 2013-14 year-to-date, when estimating the 2014-15 energy costs.

Figure 1: Price duration curves for ACIL pool price forecasts and 2012-13 actual[6]



2.1.3. Contract prices

There is currently a lack of liquidity in Q1 2015 and Q2 2015 of Sydney Futures Exchange (SFE) ASX Energy futures prices that could make it difficult to use the hedging-based approach. However, it seems likely that liquidity will improve over time and when carbon uncertainty is resolved. If this uncertainty remains at the time the Authority must make its Final Determination, then we suggest that the wholesale cost estimate is instead based on over-the-counter (OTC) contract prices rather than from ASX Energy. We outline a method below by which OTC prices would additionally be useful in accurately estimating carbon inclusive contract prices.

The value of carbon in Sydney Futures Exchange prices

SFE futures contracts are carbon inclusive and comprise the expected energy and carbon costs: [7]

[6] Data from AEMO, Queensland actual regional reference prices, and ACIL Tasman forecast data for 2012-13 and 2013-14 available on the Authority's website.

[7] NEM: National Electricity Market

Contract price = Expected cost of energy during contract term
+ Expected cost of carbon during contract term
x Expectation of carbon scheme during contract term

where:
Expected cost of carbon = NEM average carbon intensity (tCO2e/MWh)
x Carbon cost ($/t CO2e)

If the market was sure that the carbon scheme would be in existence during settlement of a particular contract then (Expectation of the carbon scheme = 1) and the contract price would be the sum of the expected costs of energy and expected carbon price. However, in the current environment, the market believes there is a risk that the carbon scheme will be repealed or altered before or during the 2014-15 financial year and there is also uncertainty around the value of carbon post the fixed price period.

A retailer using SFE contracts to hedge customer sales therefore bears a risk that the carbon scheme will be changed. For this reason, a prudent retailer would more often choose to hedge its load via carbon exclusive contracts with a carbon pass through clause (as discussed in the following section) rather than carbon inclusive SFE futures.

Calculation of value of carbon using OTC data

Energy market participants utilise a number of different financial instruments to hedge their market risk including the carbon inclusive SFE futures and various OTC derivatives. OTC contracts, commonly arranged through OTC energy brokers, may be carbon inclusive or carbon exclusive. In the case where they are carbon exclusive, they typically include the 'AFMA Carbon Benchmark Addendum'. This is a clause developed by AFMA in cooperation with industry, specifically for the purpose of allowing parties to actively trade the electricity component of energy while passing through the carbon cost (commonly known as the 'AFMA pass-through' or 'carbon pass-through').[8]

These carbon exclusive contracts may therefore be considered to represent the expected cost of energy during the contract term. There is no public database of carbon pass-through contract prices, however, daily price data is collected by multiple OTC energy brokers and is publicly available under subscription agreements. These brokers include ICAP, GFI and Nextgen.[9] Carbon exclusive contract prices from these organisations typically aligns closely, and are widely accepted by market participants as representative of actual carbon exclusive contract prices.

To assess the value of carbon in current futures prices, we have carried out an analysis of the SFE based on historic contract prices for 2014-15. Tables 1 and 2 below, highlight the average, maximum and minimum differences between the ASX Energy and AFMA contract prices as well as the differences between the ICAP carbon inclusive and AFMA contract prices.[10]

[8] AFMA, http://www.afma.com.au/afmawr/_assets/main/lib90047/ca%20website%20note%20v4.pdf

[9] ICAP: www.icap.com, GFI: www.gfigroup.com, Nextgen: www.nges.com.au

[10] ASX Energy and ICAP contract prices were obtained respectively from www.asxenergy.com.au and ICAP broker services on the 23rd August 2013. Daily differences were calculated between the ASX Energy and AFMA contract prices and the ICAP carbon inclusive and AFMA contract prices where daily prices existed. An average, maximum and minimum of the resulting differences was then calculated for the summary table above.

Table 1: Base swaps - Average differences between carbon inclusive ICAP and ASX Energy prices compared to ICAP carbon exclusive curve prices ($/MWh)[10]

	ICAP average difference	ASX Energy average difference	ICAP maximum difference	ASX Energy maximum difference	ICAP minimum difference	ASX Energy minimum difference
Q3 2014	$10.49	$10.55	$18.10	$18.23	$6.40	$6.27
Q4 2014	$10.56	$10.63	$18.10	$18.08	$6.40	$6.17
Q1 2015	$8.39	$8.59	$10.80	$10.80	$5.00	$5.00
Q2 2015	$8.39	$8.49	$10.80	$10.80	$5.00	$5.00

Table 2: Peak swaps - Average differences between carbon inclusive ICAP and ASX Energy prices compared to ICAP carbon exclusive curve prices ($/MWh)[10]

	ICAP average difference	ASX Energy average difference	ICAP maximum difference	ASX Energy maximum difference	ICAP minimum difference	ASX Energy minimum difference
Q3 2014	$8.28	$8.20	$17.59	$17.68	-$1.32	-$1.07
Q4 2014	$8.54	$8.07	$18.38	$18.38	-$1.63	-$10.02
Q1 2015[11]	$8.29	$2.15	$10.80	$26.00	$3.80	-$6.20
Q2 2015[11]	$8.28	$1.34	$10.80	$5.67	$3.73	-$4.68

This analysis clearly shows that the value of carbon in both ICAP and ASX Energy carbon inclusive contract prices is on average around $8-10/MWh for the 2014-15 financial year. This amount represents the weighted expectation of the carbon price by market participants. Table 2 also indicates that the ASX Energy contract prices produce misleading results where there is no volume traded in ASX Energy contracts (Q1-2 2015 for peak swaps). This brings into question the liquidity in the ASX Energy market as well as the validity of ASX Energy prices for this review.

Even if carbon price uncertainty is resolved during the review period for 2014-15 regulated electricity prices, the amount of carbon paid by market participants will still have been affected by the current period of uncertainty. That is, the value of carbon that will be paid by market participants for 2014-15 is partly determined by market expectations in earlier periods when retailers were purchasing hedges for the 2014-15 year. Developing a method that accurately values carbon will be useful in ensuring that any carbon amount in final regulated electricity prices is correct. If a misleading carbon price estimate is used for reporting purposes, then customers and other stakeholders will have an expectation of the value of carbon that may be inaccurate.

We believe that regulated prices should reflect the actual cost of carbon to the retailer. An accurate valuation of the true cost of wholesale energy costs must therefore include consideration of the carbon-exclusive OTC market prices. With the current high level of uncertainty around the carbon scheme, it is difficult to see how carbon could otherwise be valued. It may also be necessary to consider the floating price of carbon post 1st July 2014 as we suggested recently to IPART. The method we proposed for valuing carbon was based on a

[11] Note: no volume traded for ASX Energy data for these two quarters.

rolling average premium fee for 'At the Money' Options using European Union Allowance prices.[12] Alternatively, in the event the Coalition win the imminent federal election, the Authority may also need to consider any possible wholesale price impacts that may flow through from the Coalition's Direct Action Plan.

2.2. Other energy costs

2.2.1. Green energy costs

4. The Authority seeks stakeholders' views on the following:

   (a) What improvements might be made to ACIL Allen's approach to estimating SRES costs for 2014-15?

   (b) What improvements might be made to ACIL Allen's approach to estimating LRET costs for 2014-15?

   (c) Is there any new information available to suggest alternative approaches might be better at estimating SRES and LREST costs for 2014-15?

In combination with the pass-through approach, the method used by ACIL Allen to estimate SRES (small-scale renewable energy scheme) costs in 2013-14 remains suitable for 2014-15.

Ideally, a broader approach would be used by ACIL Allen to estimating LRET costs for 2014-15 than relying only on LGC market prices.[13] Retailers use a variety of approaches to meeting LRET compliance and thus it would be more accurate for the Authority to consider a long run marginal cost method. We expect that ACIL Allen would be able to develop this approach in time for consultation and release of the Draft Determination later this year.

2.2.2. NEM participation fees and ancillary service charges

5. The Authority seeks stakeholders' views on the following:

   (a) What improvements might be made to ACIL Allen's approach to estimating NEM fees for 2014-15?

   (b) What improvements might be made to ACIL Allen's approach to estimating ancillary services charges for 2014-15?

   (c) Is there any new information available to suggest alternative approaches might be better at estimating these costs for 2014-15?

The approach taken by ACIL Allen to estimating NEM participation fees and ancillary service charges in 2013-14 is suitable for 2014-15, so we have no additional comments to make.

[12] EnergyAustralia, Response to the draft determination on NSW regulated retail prices & charges for electricity 2013-16, 20th May, page 19

[13] LRET: Large-scale renewable energy target; LGC: Large generation certificate

2.2.3. Prudential capital costs

6. The Authority seeks stakeholders' views on the following:
   (a) What improvements might be made to ACIL Allen's approach to estimating prudential capital costs for 2014-15?
   (b) Is there any new information available to suggest alternative approaches might be better at estimating these costs for 2014-15?

We have no significant comments to make on the approach to estimating prudential capital costs.

2.2.4. Energy losses

7. The Authority seeks stakeholders' views on the following:
   (a) What improvements might be made to ACIL Allen's approach to estimating energy losses for 2014-15?
   (b) Is there any new information available to suggest alternative approaches might be better at estimating losses for 2014-15?

No improvements or alternative approaches are required for estimating energy losses for 2014-15 regulated prices.

3. Retail costs and margin

3.1. Retail operating costs (ROC)

8. The Authority seeks stakeholders' views on the following:

   (a) Are there any compelling reasons why the benchmarking approach should not be used for 2014-15?

   (b) Is there any evidence to suggest that retail operating costs have changed materially, making the 2013-14 values irrelevant?

   (c) Is the Authority's 2013-14 approach to allocating the ROC allowance to retail tariffs cost-reflective?

   (d) If not, what would be a more cost-reflective approach, and why?

We do not expect that ROC for 2013-14 will change materially in 2014-15 and thus believe it's appropriate for the Authority keep the ROC allowance constant in real terms (as IPART indicated they would do in NSW[14]).

As discussed in our submission to the Authority's 2013-14 regulated price review, we support the continued application of ROC to the fixed component of retail tariffs.[15] This is the most cost-reflective approach as the vast majority of these costs do not vary at all with respect to usage.

3.2. Retail margin

9. The Authority seeks stakeholders' views on the following:

   (a) Are there any compelling reasons why the benchmarking approach should not be used for 2014-15?

   (b) Is there any evidence to suggest that the retail margin the Authority adopted for 2013-14 is not applicable for 2014-15?

Similarly, to the retail operating costs, we do not see a need to review the retail margin level again. The retail margin adopted by the Authority for 2013-14 is suitable for 2014-15 and is the same as used by IPART for NSW regulated electricity prices and is intended to apply over the 2013-16 period (in percentage terms).[16]

It's also unlikely that any other regulators in states with similar retail electricity markets will publish any more up-to-date retail margin information for the Authority to use for benchmarking.

[14] IPART, Review of regulated retail prices and charges for electricity- 1st July 2013 to 30th June 2016: Final report, page 106

[15] EA, Response to Consultation paper on QCA Regulated Retail Tariff Review 2013-14:Cost Components and other issues, Jan 2013, page 20

[16] IPART, Review of regulated retail prices and charges for electricity- 1st July 2013 to 30th June 2016: Final report, page 89

10. The Authority seeks stakeholders' views on the following:

    (a) Is the Authority's 2013-14 approach to applying the retail margin to retail tariffs appropriate to use for 2014-15?

    (b) If not, what would be a more appropriate approach and how would it be applied in practice?

We agree with the manner in which the retail margin was applied in 2013-14 and consider that the same approach should be retained in 2014-15.

4. Competition and other issues

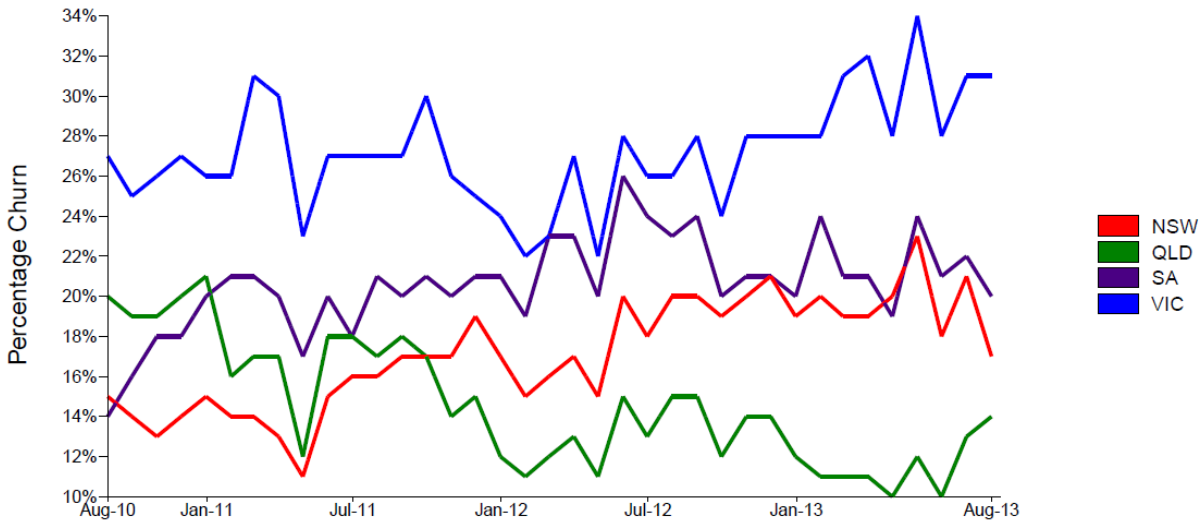
4.1. Competition

11. The Authority seeks stakeholders' views on the following:
    (a) What is the impact of the Authority's 2013-14 Determination on competition in:
        (i) SEQ in relation to residential and small customers; and
        (ii) regional Queensland, particularly in relation to large customers.
    (b) How could the Authority improve its assessment of the state of competition in SEQ?
    (c) What information could assist the Authority in assessing the level of competition in regional Queensland for large customers?
    (d) What impact are factors other than the Authority's price determinations having on competition in SEQ and regional Queensland?

The state of competition and the factors affecting switching rates

For the first time in over a year, the monthly annualised transfer rate for Queensland electricity customers has risen twice in successive months and now appears to be trending upwards after hitting a three-year low in the first half of 2013 (Figure 2). This is pleasing to see especially when transfer rates in other states have declined or remained flat over the last two months.

Figure 2: Historical monthly annualised transfer rate (up to August 2013)[17]



While it is still too early to draw any firm conclusions on the impact of the Authority's 2013-14 on competition in Queensland, it does not appear that there has been a significant negative impact on competition. It can be difficult to isolate the factors that lead to an increase or decrease in the monthly switching rates. Not long after the final 2013-14 prices were set, the One Big Switch campaign concluded after having gained registrations from 60,000 customers

[17] Australian Energy Market Operator, Monthly retail transfer statistics, http://www.aemo.com.au/Electricity/Data/Metering/Retail-Transfer-Statistical-Data, Aug 2013

who were interested in switching retailers.[18] Many of these customers are likely to have switched in the subsequent weeks thereby driving up the monthly switching rate for July and August 2013. The Queensland Government's announcement of its plans to deregulate pricing in South East Queensland in the coming two years may also have had some impact.

It is EnergyAustralia's firm view that the Queensland electricity market is already in a state that would benefit from immediate deregulation of prices. Price deregulation would generate improvements in competition and outcomes for customers leading to the sustained level of competitive breadth and intensity seen in other markets.

To encourage competition while price regulation still exists, it is crucial that the Authority:

- determines a regulated retail price that reflects the costs that face in managing all the underlying costs of electricity supply including an appropriate margin and headroom; and
- seeks to minimise regulatory risk through the use of predictable, transparent and reliable price-setting methodologies.

Assessing the level of competition

The approaches used by the Authority to assess competition are generally suitable and are similar to those used by other state regulators. To assess competition for large, regional electricity customers in Queensland, we suggest that the Authority conducts a specific survey as most other commonly available measures are too high level to provide any useful information about this customer sub group.

4.2. The cost pass through mechanism

12. The Authority seeks stakeholders' views on how the Authority should apply a cost pass-through mechanism, and whether there is a need to apply such a mechanism when setting notified prices for 2014-15?

The cost pass-through mechanism detailed in the Final Determination for 2013-14 is suitable for the next year. At this stage, we are not aware of any significant changes in costs that will need to be considered as part of a pass-through review for 2014-15 prices.

4.3. Transitional tariffs

13. The Authority seeks stakeholders' views on whether there are any compelling reasons not to continue with the approach to transitioning Tariff 11 that was established in the 2013-14 determination.

While we would prefer that Tariff 11 be set at cost-reflective levels as soon as possible, we have no other issue with the transition approach adopted by the Authority for Tariff 11.

[18] The Courier Mail, "More than 60,000 householders make One Big Switch to cut power bills with Click Energy", Jacinda Tutty, 14th Jul 2013, http://www.couriermail.com.au/news/queensland/more-than-60000-householders-make-one-big-switch-to-cut-power-bills-with-click-energy/story-fnihsrf2-1226678952284

14. The Authority seeks stakeholders' views on the following:

    (a) How should obsolete and transitional tariffs be increased towards cost-reflectivity, given the 10% increase applied in 2013-14?

    (b) Any other suggestions on how customers might be transitioned to cost-reflective prices over the remaining six years of the transition period.

The general approach outlined by the Authority to increasing tariffs for customers on obsolete and transitional tariffs in 2013-14 was appropriate. Since a 10% increase was applied in 2013-14 instead of the increase recommended by the Authority, the approach may need to be adjusted, but this should not involve any extension of the transition period.

15. The Authority seeks stakeholders' views on whether access to transitional arrangements should remain open to all eligible customers.

Transitional tariffs should be set in a manner that ensures they do not attract customers other than those the transition arrangements were put in place for. If this cannot be done via price, then the eligibility requirements for accessing transitional tariffs should be restricted accordingly.