



Interim Consultation Paper

**Regulated Retail Electricity Prices
2013-14**

September 2012

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SUBMISSIONS

Public involvement is an important element of the decision-making processes of the Queensland Competition Authority (the Authority). The Authority is releasing this Interim Consultation Paper as a first step in its determination of regulated retail electricity prices in Queensland for 2013-14. The Authority has outlined the key requirements that it will need to consider in setting prices and will take account of all submissions received by the due date.

Written submissions should be sent to the address below. While the Authority does not necessarily require submissions in any particular format, it would be appreciated if two printed copies are provided together with an electronic version on disk (Microsoft Word format) or by e-mail. Submissions, comments or inquiries regarding this paper should be directed to:

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The **closing date** for submissions is 19 October 2012.

Confidentiality

In the interests of transparency and to promote informed discussion, the Authority would prefer submissions to be made publicly available wherever this is reasonable. However, if a person making a submission does not want that submission to be public, that person should claim confidentiality in respect of the document (or any part of the document). Claims for confidentiality should be clearly noted on the front page of the submission and the relevant sections of the submission should be marked as confidential, so that the remainder of the document can be made publicly available. It would also be appreciated if two copies of each version of these submissions (i.e. the complete version and another excising confidential information) could be provided. Again, it would be appreciated if each version could be provided on disk. Where it is unclear why a submission has been marked “confidential”, the status of the submission will be discussed with the person making the submission.

While the Authority will endeavour to identify and protect material claimed as confidential as well as exempt information and information disclosure of which would be contrary to the public interest (within the meaning of the *Right to Information Act 2009 (RTI)*), it cannot guarantee that submissions will not be made publicly available. As stated in s187 of the *Queensland Competition Authority Act 1997* (the QCA Act), the Authority must take all reasonable steps to ensure the information is not disclosed without the person’s consent, provided the Authority is satisfied that the person’s belief is justified and that the disclosure of the information would not be in the public interest. Notwithstanding this, there is a possibility that the Authority may be required to reveal confidential information as a result of a RTI request.

Public access to submissions

Subject to any confidentiality constraints, submissions will be available for public inspection at the Brisbane office of the Authority, or on its website at www.qca.org.au. If you experience any difficulty gaining access to documents please contact the office (07) 3222 0555.

Information about the role and current activities of the Authority, including copies of reports, papers and submissions can also be found on the Authority’s website.

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1. BACKGROUND

Since the introduction of full retail competition (FRC) on 1 July 2007, electricity consumers in Queensland have been able to choose their electricity retailer. However, most consumers are still able to choose to be supplied by their retailer at the regulated or notified price¹ determined by the Authority.

To date, the Authority has determined notified prices under delegation from the relevant Minister (currently the Minister for Energy and Water Supply). While the Authority has been delegated this function since the start of FRC, amendments to the *Electricity Act 1994* (the Electricity Act) and *Electricity Regulation 2006* (the Regulation) in late 2011 significantly changed the method the Authority is required to follow in determining notified prices.

Prior to its most recent determination (the 2012-13 Determination), the Authority was required to adjust the existing notified prices annually according to its calculation of the change in the Benchmark Retail Cost Index (BRCI). Following the legislative changes mentioned above, for the 2012-13 Determination, the Authority was required to set notified prices based on a new N + R cost build-up approach where the N (network cost) component was treated as a pass through and the R (energy and retail cost) component was determined by the Authority.

This was a very different task to that undertaken previously and resulted in the introduction of a new set of retail tariffs which are aligned with the prevailing network tariff structure and retail prices which better reflect the cost of each customer's consumption. Given the significant change in methodology and some practical constraints on moving some customers immediately to new tariffs, the Authority implemented a number of transitional measures for certain customer groups for 2012-13. As a result, some customers continued to access tariffs that were below cost-reflective levels.

In addition, following the change of Government in the first half of 2012, the new Government decided to freeze notified prices for the standard residential tariff (Tariff 11) for the coming year, subject to inclusion of costs associated with the carbon tax. As a result, notified prices for Tariff 11 were determined by the Minister, rather than the Authority.

On 5 September 2012, the Minister provided the Authority with its latest electricity pricing Delegation, requiring it to determine notified prices (including for Tariff 11) for a three-year period from 1 July 2013 to 30 June 2016, rather than a one-year period as it had been required to do previously. While, the Delegation is for a three-year period, the Authority is still required to set notified prices on an annual basis, with the first determination to apply from 1 July 2013 to 30 June 2014 (the 2013-14 Determination).

1.1 Matters to consider

In accordance with section 90(5)(a) of the Electricity Act, the Delegation requires that the Authority have regard to the following in making its price determination:

- (a) the actual costs of making, producing or supplying the goods or services;
- (b) the effect of the price determination on competition in the Queensland retail electricity market; and
- (c) the matters set out in the Terms of Reference.

¹ Large customers in Energex's distribution area no longer have access to notified prices.

In accordance with section 90(5)(b) of the Electricity Act, the Authority may also have regard to any other matter it considers relevant.

The Delegation includes a Terms of Reference which requires that the Authority consider a number of specific matters, including:

- (a) basing each annual price determination on a N + R cost build-up approach;
- (b) the Queensland Government's Uniform Tariff Policy (UTP);
- (c) basing the network cost component for:
 - (i) small customers on the network charges to be levied by Energex; and
 - (ii) large customers on the network charges to be levied by Ergon Energy.
- (d) transitional arrangements for the standard residential tariff (Tariff 11) and the existing obsolete tariffs.

The three-year delegation period, together with some new requirements in the Delegation this year, might warrant some changes to the approach used in the 2012-13 Determination. However, the Authority notes that the legislation under which it must make its Determination is unchanged, which suggests that the approaches adopted last year will generally provide a good starting point.

The Minister's covering letter and Delegation are provided in **Appendix A**.

2. JUDICIAL REVIEW OF 2012-13 PRICING DETERMINATION

On 25 June 2012, the Authority was served with a notice of Origin Energy's (and Sun Retail's) application for Judicial Review of the Authority's Final Determination on Notified Electricity Prices for 2012-13. The Minister for Energy and Water Supply is the second respondent.

Origin contends that the Authority understated the actual costs incurred by Queensland retailers to supply electricity, which it says has resulted in artificially low retail tariffs.

The matter is before the Supreme Court of Queensland and a final hearing date is yet to be determined by the court.

Depending on the outcome, this Judicial Review of the 2012-13 Determination may have implication for the manner in which the Authority proceeds in setting regulated electricity prices for 2013-14.

3. PROPOSED APPROACH TO THIS REVIEW

In conducting this review, the Authority will provide for as much public consultation with stakeholders as is possible given the timeframes specified in the Delegation, the outcomes from the Government's Interdepartmental Committee on Electricity Sector Reform and the Independent Review Panel on network costs, as well as the progress and outcome of the Judicial Review to the extent that these are relevant to this review. While an initial timetable for the review is provided below, the Authority may consider the merits of conducting additional public consultation (workshops and papers) on key issues identified by stakeholders in their submissions.

Submissions are invited in response to this Interim Consultation Paper and are due no later than 19 October 2012. Interested parties should take this opportunity to inform the Authority of matters they believe are relevant to the Authority's task under the Delegation and Terms of Reference and provide detailed arguments and evidence to support their views.

In preparing its Draft Determination, the Authority will consider all submissions received by the due date.

The Authority is required to publish its Draft Determination for 2013-14 no later than 15 February 2013 and its Final Determination (including gazetting the notified prices) no later than 31 May 2013.

Table 3.1: Initial Timetable

<i>Task</i>	<i>Indicative Dates</i>
Release of Interim Consultation Paper	21 September 2012
Submissions in response to Interim Consultation Paper due	19 October 2012
Workshop on energy and retail costs	December/January
Release of Draft Determination	15 February 2013
Submissions on Draft Determination due	15 March 2013
Release of Final Determination	31 May 2013

APPENDIX A: MINISTERIAL DELEGATION AND COVERING LETTER

Office of the Minister for Energy and Water Supply

Ref: EWS/001799
MBN6648

4 September 2012

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41 George Street Brisbane 4000
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Mr Brian Parmenter
Chairman
Queensland Competition Authority
GPO Box 2257
Brisbane Qld 4001

Dear Mr Parmenter

I attach a Delegation and Terms of Reference (ToR) to the Queensland Competition Authority (QCA) to determine regulated retail electricity prices for the next three years (with annual determinations published each year), as authorised under Section 90AA(1) of the *Electricity Act 1994* (the Act).

The Queensland Government has taken action to address cost of living pressures. In relation to regulated retail electricity prices in 2012-13, the Government froze the standard residential tariff (Tariff 11) (plus the cost of carbon) as a short-term cost of living relief measure.

The Delegation and ToR contains a number of important measures designed to assist Queenslanders in dealing with changes to electricity prices. More information on these measures is provided below.

1. Three year Delegation and ToR

This is the first Delegation on regulated retail electricity prices from this Government, and in order to provide a degree of certainty to consumers and industry, a move from an annual price determination to a three year delegation period will apply. For consumers, the Government is committed to an approach that will assist in managing short-term price shocks, and for industry an approach that may assist in the longer term investment in the sector.

The Government is seeking from the QCA a strong consultation process with a clear focus on key issues, with regard to the objectives of the Act as set out in this Delegation and ToR.

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2. Consideration of customer impacts and 'transitional arrangements'

The Government is committed to tariff reform and addressing the cost drivers of electricity prices. However, this reform needs to be carefully managed and it is important that the QCA take into account the impacts of price increases on struggling Queensland households and businesses. To assist with this, the QCA is directed to consider transitional pricing arrangements over a number of years for a range of customers accessing the following tariffs:

- Tariff 11 (the standard residential tariff);
- Transitional and obsolete tariffs, including farming and irrigation tariffs; and
- Large business tariffs in Ergon Energy's distribution area.

Whilst the Government's freeze to Tariff 11 in 2012-13 provided households with immediate relief from cost of living increases, this was a short-term measure only. However, the Government expects the QCA to ensure that Queensland households experience a smooth transition from the freeze and to fully utilise the three-year delegation period to order to achieve this.

The other tariffs noted above have been chosen for transitional measures based on the unacceptable impacts for some customers accessing these tariffs, as identified by the QCA in their Draft and Final Determinations for 2012-13. Transitional arrangements over the three-year delegation period should be designed to assist in mitigating these potential impacts.

3. Extensive Consultation with Stakeholders and the Community

The QCA is required to undertake a rigorous consultation process with all relevant parties and consider all submissions received. The QCA is not limited by the consultation schedule outlined in the Delegation and ToR and, should undertake additional consultation on key issues, and as appropriate, publish the results of this consultation.

An important aspect of the consultation process will be the publication of a consultation timetable within two weeks after submissions on the interim consultation paper are due, detailing any proposed additional public papers (other than those required by the Delegation and ToR). It is critical that all stakeholders, including retailers, customers and consumer advocacy groups understand the intent and timing of this crucial process.

Furthermore, given the three-year period of this delegation (compared to one-year delegations issued in the past) it is important that continuity in decision making is maintained in regard to key cost components. Therefore, the QCA must conduct a public workshop prior to the release of the 2013-14 Draft Determination on how the energy and retail cost components of regulated retail tariffs should be determined.

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4. Public Communication of QCA Decisions/Determinations

Every Queenslanders is impacted by electricity price increases, so there will be significant public interest in the QCA's determination of regulated tariffs. Because of this, the Queensland Government expects the QCA to fully explain its decisions and encourages the QCA to, at a minimum, publish and communicate the outcomes of its reports in a clear and concise fashion using consumer oriented fact sheets and media releases. Access to this additional material should be easily accessible on the QCA website and be obvious to any new visitor to the QCA site.

5. Other matters in the Delegation and ToR

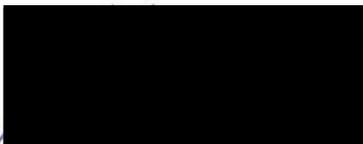
Time-of-Use Tariffs

Queensland customers should be rewarded for shifting their consumption of electricity from peak periods to off-peak periods, which has material benefits for network and generation infrastructure. The QCA should determine whether its approach to determining the rates for time-of-use tariffs can strengthen or enhance the underlying network price signals and encourage customers to switch to time-of-use tariffs and reduce their energy consumption during peak times.

Finally, I would like to point out the Queensland Government has established longer-term reform processes to address unsustainable electricity price increases. This includes establishing an Inter-departmental Committee (IDC) on Electricity Sector Reform. In recognising the key role that the cost of poles and wires (transmission and distribution networks) has on electricity prices, an Independent Review Panel (IRP) is examining the cost of these networks. These reform processes are currently underway and scheduled to report back to Government in late January 2013.

I look forward to following the QCA process for determining regulated retail electricity prices and will be encouraging stakeholders to actively participate in the consultation process, and to assist the QCA at every turn in understanding the potential impacts arising from the determination of regulated retail electricity prices.

Yours sincerely



Minister for Energy and Water Supply

Att

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ELECTRICITY ACT 1994**Section 90AA(1)****DELEGATION**

I, Mark McArdle, the Minister for Energy and Water Supply, in accordance with the power of delegation in section 90AA(1) of the *Electricity Act 1994* (the Act), delegate to the Queensland Competition Authority (QCA) the function under section 90(1) of the Act of deciding the prices that a retail entity may charge its non-market customers for customer retail services for the tariff years from 1 July 2013 to 30 June 2016.

The following are the Terms of Reference of the price determination:

Terms of Reference

1. These Terms of Reference apply for each of the tariff years in the delegation period.
2. In each tariff year of the delegation period, QCA is to calculate the notified prices and publish an annual price determination, in the form of a tariff schedule, in accordance with these Terms of Reference.
3. In accordance with section 90(5)(a) of the Act, in making a price determination for each tariff year QCA must have regard to all of the following:
 - (a) the actual costs of making, producing or supplying the goods or services;
 - (b) the effect of the price determination on competition in the Queensland retail electricity market; and
 - (c) the matters set out in paragraph 5 of these Terms of Reference.
4. In accordance with section 90(5)(b) of the Act, QCA may have regard to any other matter that QCA considers relevant.
5. The matters that QCA is required by this delegation to consider are:
 - (a) Uniform Tariff Policy - QCA must consider the Government's Uniform Tariff Policy, which provides that, wherever possible, non-market customers of the same class should have access to uniform retail tariffs and pay the same notified price for their electricity supply, regardless of their geographic location;
 - (b) Time of Use Pricing – QCA must consider whether its approach to calculating time-of-use tariffs can strengthen or enhance the underlying network price

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signals and encourage customers to switch to time-of-use tariffs and reduce their energy consumption during peak times;

- (c) Framework - QCA must use the Network (N) plus Retail (R) cost build-up methodology when working out the notified prices and making the price determination, where N (network cost) is treated as a pass-through and R (energy and retail cost) is determined by QCA;
- (d) When determining the N components for each regulated retail tariff for each tariff year, QCA must consider the following:
 - (i) for residential and small business customers, that is, those who consume less than 100 megawatt hours (MWh) per annum - basing the network cost component on the network charges to be levied by Energex;
 - (ii) for large business customers in the Ergon Energy distribution region who consume 100MWh or more per annum - basing the network cost component on the network charges to be levied by Ergon Energy given that, from 1 July 2012, large business customers in the Energex distribution region no longer have access to notified prices;
- (e) Transitional Arrangements - QCA must consider:
 - (i) for the standard regulated residential tariff (Tariff 11), implementing a three-year transitional arrangement to rebalance the fixed and variable components of Tariff 11, so that each component (fixed and variable) of Tariff 11 is cost-reflective by 1 July 2015;
 - (ii) for the existing obsolete tariffs (i.e. farming, irrigation, declining block, non-domestic heating and large business customer tariffs), implementing an appropriate transitional arrangement should QCA consider there would be significant price impacts for customers on these tariffs if required to move to the alternative cost-reflective tariffs; and
 - (iii) for the large business customer tariffs introduced in 2012-13 (i.e. Tariffs 44, 45, 46, 47 and 48), whether customers on these tariffs should be able to access the transitional arrangements for the obsolete large business customer tariffs should QCA consider that a transitional arrangement for the obsolete tariffs is necessary.

Interim Consultation Paper

- 6. As part of each annual price determination, QCA must publish an interim consultation paper identifying key issues to be considered when calculating the N

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and R components of each regulated retail electricity tariff and transitioning relevant retail tariffs over the three-year delegation period.

7. QCA must publish a written notice inviting submissions about the interim consultation paper. The notice must state a period during which anyone can make written submissions to QCA about issues relevant to the price determination.
8. QCA must consider any submissions received within the consultation period and make them available to the public, subject to normal confidentiality considerations.

Consultation Timetable

9. As part of each annual price determination, QCA must publish an annual consultation timetable within two weeks after submissions on the interim consultation paper are due, which can be revised at the discretion of QCA, detailing any proposed additional public papers and workshops that QCA considers would assist the consultation process.

Workshops and additional consultation

10. As part of the Interim Consultation Paper and in consideration of submissions in response to the Interim Consultation Paper the QCA must consider the merits of additional public consultation (workshops and papers) on identified key issues.
11. Specifically, given the three-year period of the delegation the QCA must conduct a public workshop on the energy and retail cost components used to determine regulated retail tariffs prior to the release of the 2013-14 Draft Determination.

Draft Price Determination

10. As part of each annual price determination, QCA must investigate and publish an annual report of its draft price determination on regulated retail electricity tariffs, with each tariff to be presented as a bundled price, for the relevant tariff year. The draft price determination must also specify the carbon cost allowances for the relevant tariff year.
11. QCA must publish a written notice inviting submissions about the draft price determination. The notice must state a period during which anyone can make written submissions to QCA about issues relevant to the draft price determination.
12. QCA must consider any submissions received within the consultation period and make them available to the public, subject to normal confidentiality considerations.

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Final Price Determination

- 13. As part of each annual price determination, QCA must investigate and publish an annual report of its final price determination on regulated retail electricity tariffs, with each tariff to be presented as a bundled price, for the relevant tariff year, and gazette the bundled retail tariffs. The final price determination must also specify the carbon cost allowances for the relevant tariff year.

Timing

- 14. QCA must make its reports available to the public and, at a minimum, publicly release for each tariff year the papers and price determinations listed in paragraphs 6 to 13.
- 15. QCA must publish the interim consultation paper for the 2013-14 tariff year no later than one month after the date of this Delegation and no later than 30 August before the commencement of the subsequent tariff years.
- 16. QCA must publish the draft price determination on regulated retail electricity tariffs no later than 15 February 2013 for the 2013-14 tariff year and no later than 13 December before the commencement of the subsequent tariff years.
- 17. QCA must publish the final price determination on regulated retail electricity tariffs for each relevant tariff year, and have the bundled retail tariffs gazetted, no later than 31 May each year.

DATED this *5th* day of September 2012.

SIGNED by the Honourable)
Mark McArdle,)
Minister for Energy and Water Supply)



(signature)