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Mr Gary Henry
Queensland Competition Authority
GPO 2257
Brisbane QLD 4001

Dear Mr Henry

RE: Draft Decision Benchmark Retail Cost Index (BRCI) for Electricity: 2011-12

TRUenergy welcomes the opportunity to provide comments on the Benchmark Retail Cost Index (BRCI) for Electricity 2011-2012 Draft Determination (Draft Decision).

TRUenergy notes that the Queensland Competition Authority (QCA) itself has said that it considers that *"all customers will be best served by a well functioning competitive electricity market"*.[1] TRUenergy agrees with this and believes that over the long term customers will be better off if retail energy prices are disciplined by effective competition than they will be if prices are based on regulatory estimates.

TRUenergy understands from the Minister's Delegation to the QCA that this is intended to be the last year that the BRCI methodology will be used. TRUenergy welcomes this and would like to highlight the need for extensive consultation prior to the finalisation and implementation of a new price-setting methodology for 2012-13 and beyond. Such consultation should begin immediately to ensure the new methodology can be operational by 1 July 2012.

TRUenergy provides the following comments on specific areas of the Draft Decision:

Cost of Energy

TRUenergy supports setting wholesale costs with reference to both market-based and long-run marginal cost (LRMC) estimates. In the short term, prices must not be lower than market purchase costs incurred by an efficient retailer to ensure retail margins are not eroded or eliminated. However, over the longer term the allowance should not be lower than the LRMC to ensure long-term forward contracting does not diminish and generation investment decisions are not delayed.

The QCA's adoption of a hybrid approach with 50% weightings means the 2011-12 cost of energy used in the Draft Decision is below the LRMC. Given uncertainty already in the market regarding carbon costs, such an approach will make long-term forward contracting even harder and create further challenges for private capital investing in the new generation capacity that Queensland clearly requires.

For 2012-13 and beyond, where retail price regulation is required TRUenergy supports the cost of energy allowance being the higher of the LRMC and the market-based cost. This is consistent with the

[1] QCA, *Final Report: Review of Electricity Pricing and Tariff Structures - Stage 2*, November 2009, page i

approach of the Independent Pricing and Regulatory Tribunal (IPART) in NSW and will facilitate efficient market development both in the short and long term, in the best interests of consumers.

TRUenergy notes that the use of the penalty price of the Queensland Gas Electricity Scheme (GES) Scheme in the estimation of LRMC LRMC for the cost of energy is inconsistent with the move away from using the penalty price for estimating the cost of the GES scheme. This will lead to the LRMC for the cost of energy being unrealistically low and TRUenergy requests that this anomaly is corrected.

TRUenergy notes the public release of capital and fuel cost data prepared by ACIL Tasman and used in the 2010 National Transmission Network Development Plan for AEMO. TRUenergy recommends that this data be utilised for the LMRC calculation as it is the most up to date industry reviewed source available.

Renewable Energy Target (RET) changes

TRUenergy notes that the Renewable Power Percentage (RPP) and Small-scale Technology Percentage (STP) have been set for the 2011 year by the Office of the Renewable Energy Regulator (ORER) and these should be used in the Final Determination.

TRUenergy notes that the introduction of the Small scale Renewable Energy Scheme (SRES) in the first 6 months of 2011 is resulting in additional cost to retailers which were not factored into the 2010-11 regulated tariffs.

In many areas it is appropriate for regulators to estimate costs that an efficient retailer will incur and to not adjust for actual outcomes. Allocating this risk to retailers provides an incentive for the retailers to manage costs and achieve efficiency savings. However it is clear that the SRES cost is based on both price and volumes that are beyond the retailers' ability to control hence there is no scope to manage costs and achieve efficiency savings.

It is therefore appropriate for the 2011-12 tariffs to include a "true-up" element to cover the Jan-Jun 2011 SRES costs. Furthermore, the QCA should consider developing an approach for 2011-12 that ensures that retailers and Queensland consumers are not subject to windfall gains or losses when the STP for 2012 is finalised.

TRUenergy believes that small-scale technology certificates (STCs) should be valued at $40, being the guaranteed price for which STCs can be sold through the STC Clearing House.

In the Draft Decision the QCA adopts an estimate for the 2012 STP based on ACIL Tasman's low case projection. TRUenergy does not believe it is appropriate to adopt a low case estimate for this. However, TRUenergy understands that ORER will publish an updated estimate for the 2012 STP before the end of March 2011 and the QCA should adopt this in its final decision.

In the Draft Decision the QCA outlines a preference for the use of market-based data as a basis for the estimation of costs associated with the Large-scale Renewable Energy Target (LRET). However this approach does not allow for the fact that there has been a change in the nature of the schemes.

A stated policy objective of the Commonwealth Government in removing small-scale technologies from the RET/LRET scheme was to ensure more large-scale technologies will be built. New generators required to fulfil LRET will require higher REC/LGC prices to proceed, otherwise they would have displaced the small-scale technologies in the old RET and no changes would have been required. Given this, the use of current market prices that are distorted by the previous RET scheme to estimate costs for the new LRET will lead to cost allowances that are below the true cost of the LRET.

In this situation it is more appropriate to use the LRMC of the LRET to estimate the LRET cost and TRUenergy recommends QCA adopt this approach.

Network Costs

TRUenergy notes that on 23 November 2010 the Australian Competition Tribunal extended its timeframe to 2 May 2011 for the making of determinations in respect to the review of the Australian Energy Regulator's Final Electricity Distribution Determination for Energex and Ergon Energy. The outcome of this review should be factored into the Final Decision on the BRCI for 2011-12.

TRUenergy also notes the potential for the recent flooding and cyclones to increase the costs of providing network services. TRUenergy requests that if 2011-12 network charges are increased to account for this then a mechanism to allow these increases to be passed through and recovered during the 2011-12 tariff year must be developed as it is not appropriate for retailers to be exposed to this uncontrollable risk.

Retail Cost and Margin

TRUenergy notes that IPART, in their Final Decision for regulated retail electricity tariffs for 2010-2013, provided a retail margin of 5.4% while also allowing for annual reviews of the total energy cost allowance and cost pass through provisions.

TRUenergy believes retail regulatory risks are greater in Queensland than in New South Wales and should therefore warrant a higher retail margin, not a lower one. This is highlighted by the Jan-Jun 2011 costs of the new SRES. In the Draft Decision the QCA has ignored these costs whereas IPART has defined cost pass through provisions to cover changes in legal and tax obligations such as this. Adopting a BRCI regulatory framework that exposes retail businesses to uncontrollable costs such as this increases the risks associated with energy retailing, and in turn increases the required returns.

Further, by applying the same percentage increase across all tariffs and customer classes, with no consideration of underlying cost structures and changes, the BRCI creates more risks for retailers that in a competitive market they would be able to mitigate by tariff rebalancing.

TRUenergy recommends a retail margin of well above 5% is required to properly account for these risks. We note that a change for 2011-12 is unlikely but would request that the framework for 2012-13 and beyond either address the risks created by the current approach or provide appropriate return to retailers to account for it.

Conclusion

TRUenergy believes that some of the outcomes in the Draft Decision again highlight the deficiencies in the BRCI approach and we encourage the QCA and the Queensland Government to begin work developing a new approach aimed at fostering a well functioning competitive retail electricity market. This will be the best long term outcome for Queensland consumers.

Should you wish to discuss any of the issues raised in this submission please feel free to give me a call on (03) 8628 1120.

Yours sincerely,

[redacted]

Andrew Dillon
Regulatory Pricing Manager