

28 February 2014

Dr Malcolm Roberts
Chairperson
Queensland Competition Authority
GPO Box 2257
Brisbane QLD 4001

By email: electricity@qca.org.au

Dear Dr Roberts,

RE: Regulated Retail Electricity Prices 2014-15 Draft Determination

The Energy Retailers Association of Australia (ERAA) welcomes the opportunity to provide feedback in response to the Queensland Competition Authority's (QCA) *Regulated Retail Electricity Prices 2014-15 Draft Determination* (the Draft Determination). This submission complements our input to the *Regulated Retail Electricity Prices for 2014-15 Interim Consultation Paper*.

The ERAA represents the organisations providing electricity and gas to almost 10 million Australian households and businesses. Our member organisations are mostly privately owned, vary in size and operate in all areas within the National Electricity Market (NEM) and are the first point of contact for end use customers of both electricity and gas. Under the Competition and Consumer Act 2010 (Cth), the ERAA is not permitted to share or discuss information within the Association in relation to prices and the mechanisms for setting prices. As such, we refer to the individual submissions of our members for more detailed comments on appropriate retail pricing methodology.

Ensuring a smooth transition to price monitoring

The ERAA welcomes the Queensland Government's announcement to remove price controls for retail energy in south east Queensland by 1 July 2015. The ERAA has consistently advocated for price deregulation where competition is effective. Open, competitive energy markets free from distortions such as retail price regulation naturally encourage prices to be efficient through the development of market offers. Competition in retail energy markets, as in other sectors of the Australian economy, incentivises businesses to improve service, develop products that meet consumer needs and find ways to lower their costs and to pass these savings on to consumers.

The removal of price regulation gives customers new products and more choice in the retail energy market. Households and small businesses will be able to find the best deal to suit their needs and lifestyles. Since price caps were removed in Victoria on 1 January 2009 competition has developed strongly; offering customers more diverse and innovative energy products, and enabling consumers to save on their power bills by shopping around. Since this date there has been a growth in the number of smaller retailers. The Victorian market is the least concentrated in the country with the three incumbent retailers having about 70-75 per cent of the market while a range of new entrant retailers have secured about 25-30 per cent of overall customers.



On 1 February 2013 South Australia deregulated retail energy prices. Since that time South Australians have also enjoyed the benefits of energy market reform. The competitive market has delivered stable retail prices and provided customers with a range of offers. The ERAA recently commissioned Deloitte to undertake an assessment of this reform, **South Australian Energy Market Reform – one year on**. This report is included as **Attachment A** to this submission.

The ERAA believes competition in south east Queensland is effective. As outlined in the Draft Determination, there is a growing share of Tier 2 retailers, and an increased number of customers on market contracts. Removing price regulation will provide increased incentives for retailers to enter and expand activities in the market. With the planned introduction of the National Energy Customer Framework (NECF) in Queensland, customers should have additional confidence that they can switch away from regulated retail contracts and secure a better deal.

The 2014-15 pricing determination will play a key role in ensuring that Queenslanders are best prepared to benefit from this transition. The final determination needs to promote a strong competitive market, where retailers are encouraged to actively compete to provide customers with the best deals. This approach will also be important to ensure the Queensland Government achieves their goal of providing rural and regional Queenslanders with a more competitive market. To facilitate a transition to price monitoring outside of south east Queensland, the ERAA supports the removal of the Uniform Tariff Policy. Given the Queensland Government's commitment to this policy, the ERAA reiterates its previous recommendation to administer these concessions through Ergon's distribution business.

Wholesale energy costs

The ERAA continues to support the use of a Long Run Marginal Cost (LRMC) floor for calculating wholesale energy costs. Any approach which seeks to set regulated prices close to or at current market costs creates an investment risk for retailers, leading to adverse outcomes for customers as the competitiveness of the market decreases. Should the QCA continue to use a market-based (hedging) approach, the ERAA continues to advocate for a methodology that takes account of different approaches to procuring wholesale electricity including recognition of the longer term costs of generating electricity.

Estimating future wholesale costs is inherently uncertain. Retailers face this uncertainty on a day-to-day basis and use a wide range of options to manage these risks, including purchasing different types of hedging products, long-term Power Purchase Agreements (PPAs) and investing directly in generation themselves. Reliance on a single point estimate is also more likely to result in a wholesale cost allowance that turns out to be inadequate for retailers to cover the costs. It is thus a greater threat to effective retail competition, to which the QCA must also have regard.

These issues would be most effectively addressed by a methodology that takes account of different approaches to procuring wholesale electricity including recognition of the longer term costs of generating electricity. Such methodologies have been successfully used in NSW and South Australia, the latter state recently transitioning to deregulated prices with competition having thrived under a more appropriate regulated pricing methodology. However, the ERAA notes the QCA has decided to maintain a hedging-based approach to estimating wholesale costs. The ERAA will not be providing detailed commentary on this approach, referring to the arguments outlined in our submissions to recent determinations.

Carbon

The impact of future carbon policy reform remains uncertain, with the date of a potential repeal and the associated effect on retail energy prices still unclear. The ERAA supports the QCA's proposed approach whereby the carbon inclusive and carbon exclusive wholesale

energy costs are calculated. This will ensure that the regulated retail tariff will reflect the obligations that retailers will have to meet at any one time. As it is likely that the carbon price will remain in place after the release of the QCA's final pricing determination, the carbon inclusive price will remain the best estimate of wholesale electricity costs.

Retail costs, margin and pass through

The ERAA provides broad support to the Draft Determination's estimate of retail costs, retail margin and headroom. The approach taken provides consistency which will assist in the planned move to price monitoring. The ERAA also supports the allowance of pass through for variations in network charges and for Small-scale Renewable Energy Scheme (SRES) costs.

Transitional arrangements

The Draft Determination continues to facilitate a transition of Tariff 11 to cost reflectivity by 1 July 2015, utilising current costs and charges as the basis for determining the target fixed and variable costs on this date. The ERAA recommends that potential changes to network cost structures are also considered when determining the QCA's transitional approach for 2014-15.

Should you wish to discuss the details of this submission, please contact me on (02) 8241 1800 and I will be happy to facilitate such discussions with my member companies.

Yours sincerely,



Cameron O'Reilly
CEO
Energy Retailers Association of Australia