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Queensland Competition Authority  
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### **Regulated Retail Electricity Prices 2014-15 – Draft Determination**

The Energy Supply Association of Australia (esaa) welcomes the opportunity to make a submission to the Queensland Competition Authority's (the Authority) Regulated Retail Electricity Prices (2014-15) Draft Determination.

The esaa is the peak industry body for the stationary energy sector in Australia and represents the policy positions of the Chief Executives of 36 electricity and downstream natural gas businesses. These businesses own and operate some \$120 billion in assets, employ more than 51,000 people and contribute \$16.5 billion directly to the nation's Gross Domestic Product.

A key objective of regulated prices is to facilitate the development of competition in the Queensland retail electricity market and to provide a transition to price deregulation. As identified by the Authority, there is a range of challenges associated with setting regulated prices for the 2014-15 period, including the need to address imbalances in the structure of the main residential tariff (Tariff 11) and general uncertainty relating to carbon pricing policy. Given the Queensland Government has identified 1 July 2015 as a target date for deregulation in south east Queensland (SEQ) subject to certain conditions being met, ensuring these challenges are appropriately addressed is essential.

*Imbalances in the fixed/variable components of current tariff structures should continue to be addressed and Tariff 11 transitioned to cost-reflective levels*

As identified by the Queensland Government, the need for a regulated price-setting approach in SEQ has diminished and may even have become detrimental to the further development of competition in the region. A key objective of price regulation over the period to 1 July 2015 will therefore be to facilitate the development of competition in SEQ and provide a transition to price deregulation.

To provide for an easier transition on 1 July 2015 and encourage more competition over the interim, steps to address imbalances in current tariff structures and make Tariff 11 cost-reflective must continue to be taken. Under this approach, it is important to be mindful of the need to rebalance the fixed and variable components of tariff structures (consistent with higher fixed network costs), while also minimising the level of catch-up required for Tariff 11 in the remaining transitional step.

This will address the inequity of current tariff structures and provide consumers with more incentive to consider switching to a cost-reflective time-of-use tariff, which is a more efficient tariff for shaping energy consumption patterns. It will also leave only a small portion of catch-up to be achieved during 2015-16 and coincide with the removal of retail price regulation in SEQ.

*Carbon inclusive/exclusive wholesale energy costs based on over-the-counter contract information are appropriate and should be independently applied where relevant*

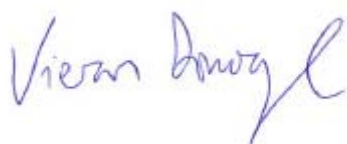
There is a high degree of uncertainty associated with estimating the wholesale energy cost (WEC) component of regulated tariffs, particularly given the potential for significant changes to carbon pricing policy following the September 2013 Federal election.

It is noted a market-based approach remains the Authority's preferred option for calculating the WEC component. To this end, the Association considers the proposal to develop carbon inclusive/exclusive estimates based on over-the-counter (OTC) contracts and apply them independently where the carbon price does/doesn't apply is appropriate. This approach will ensure notified prices more accurately reflect WECs over the 2014-15 period and also alleviate the risks associated with relying on illiquid carbon-inclusive futures contracts that may no longer capture the full cost of carbon over the regulatory period.

As noted in the draft determination, the Authority will require Ministerial direction to alter retail prices during the 2014-15 period. The Queensland Government therefore has a critical role to play in ensuring the delivery of this approach to price setting.

Any questions about our submission should be addressed to Shaun Cole, by email to [shaun.cole@esaa.com.au](mailto:shaun.cole@esaa.com.au) or by telephone on (03) 9205 3106.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Kieran Donoghue', written in a cursive style.

**Kieran Donoghue**  
General Manager, Policy