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& Industry Queensland

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Mr Gary Henry
Queensland Competition Authority
GPO Box 2257
Brisbane QLD 4001
electricity@qca.org.au

Dear Mr Henry,

The Chamber of Commerce and Industry Queensland (CCIQ) welcomes the opportunity to comment on the Queensland Competition Authority's Draft Methodology Paper for Regulated Retail Electricity Prices 2012-13.

Electricity is an essential input into nearly every good and service and accordingly the cost of electricity is a key issue for Queensland businesses. While it is acknowledged that many businesses are not on regulated tariffs and are instead on negotiated market contracts, CCIQ believes that the notified prices influence the market price by providing a base price against which discounts and market contracts are compared for value. For this reason the business community maintains an ongoing keen interest in regulated retail electricity prices.

The key concern for CCIQ in making this submission is protecting the efficiency and financial viability of Queensland businesses. As noted in CCIQ's Electricity Blueprint (attached), the majority of Queensland businesses have been dissatisfied with the previous consecutive years of electricity price rises and the methodology by which price increases have been determined. Queensland businesses have also been relatively dissatisfied with the efficiency, productivity and performance of Queensland's electricity industry over recent years.

CCIQ firmly believes that the future methodology for setting regulated retail prices represents an opportunity to address these concerns, primarily by ensuring that the methodology reflects as closely as possible a market based approach which encourages efficiency and performance improvements by not overcompensating market participants through unnecessarily high retail margins. CCIQ offers general support for the draft methodology. The Chamber has provided specific comments on the proposed approaches to determining key elements of regulated retail tariffs which is outlined in the attached table.

Should you have any questions regarding this submission please contact me on 3842 2279.

Yours Sincerely,

[redacted]

Nick Behrens
General Manager – Advocacy

Issue and Proposed Approach	CCIQ Position	Comments
Characteristics of representative retailer: the QCA considers that a representative retailer is one that is an incumbent standalone retailer of sufficient size to achieve economies of scale; serves small and large retail customers in SE Queensland and other jurisdictions; is not vertically integrated.	Support	CCIQ agrees with the QCA's observations that the Queensland Energy Market is sufficiently mature to expect appropriate levels of competition and that the Queensland Energy Market continues to be attractive to new entrants. CCIQ believes that the characteristics determined by the QCA are appropriate to provide ongoing incentive to energy market participants to improve efficiency and productivity. CCIQ also notes that in matching the characteristics of the Queensland Energy Market as closely to a pure market will continue to ensure adequate competition and efficient price outcomes for consumers.
In adopting a 'N + R' approach to electricity pricing, QCA determined that the N component should be equal to the Energex network price, regardless of the network to which the customer is connected.	Support	CCIQ notes that the adoption of a 'N + R' approach will require the business community to take greater interest in the consultation activities of the AER in relation to their approval of Queensland network costs.
In order to maintain alignment of the retail and network tariffs, the QCA will request Energex supply proposed network tariff and prices to the Authority when they are submitted to the AER and use these as the basis forward annual price determinations. Should adjustments based on final AER decisions be required these will be applied to regulated retail prices.	Conditional Support	CCIQ does express some concern over the possibility that allowing for inter-year electricity price adjustment will create additional risk for the business community and notes that Queensland businesses have limited opportunity to pass on fluctuating and unforseen costs onto customers. CCIQ notes that in determining the R cost components the QCA has already allowed for systematic risks and unforseen events within the retail margin. CCIQ contends that these risks include "unforseen" adjustments required following AER decisions and therefore may negate the need for inter-year adjustments to the regulated retail tariff.
Estimating Wholesale Energy Costs: The QCA has indicated its preference for adopting a market based approach based on an assumed hedging strategy. The continuation of the use of a LRMC approach and/or the inclusion of a LRMC floor was rejected	Support	CCIQ again notes a preference for the adoption of a methodology that is as closely aligned with a market approach as possible. CCIQ agrees with the QCA that a "floor" is not necessary given the maturity and level of competition in the market as previously identified.

by the QCA. However due to limitations in the current hedge market, the QCA has supported the adoption of the alternative market based approach recommended by ACIL. The proposed ACIL alternative approach involves the estimation of the price that a retailer would be willing to pay in purchasing energy to meet load while mitigating a range of risks, principally those flowing from weather and plant outage impacts on spot prices.		CCIQ notes the current limitations of the forward electricity contract market and accordingly supports the ACIL methodology on the basis that this serves as an interim approach and that the QCA continues to review the quality and quantity of market data available and moves as soon as possible to the recommended hedge market based approach to determining forward wholesale energy costs. However CCIQ is somewhat concerned that the ACIL approach is somewhat complicated and does not significantly avoid the public transparency and complexity issues that existed under the BRCI process. CCIQ would like it to be noted that Energy companies are not unlike other Queensland businesses who must plan for and mitigate against the impacts of weather and plant outages on their business operations
Features of the ACIL approach: Wholesale Spot Price will be used to forecast energy purchase costs faced by retailers; Customer load forecasts will use a 50%POE load traces for each region of the NEM and each tariff to remove effect of annual variances; The most recent transmission loss factors and AER-approved distribution loss factors will be be used to account for energy losses; Proposed to run two pricing scenarios through the spot price model – one that is carbon-inclusive and one that is carbon-exclusive. The effect of combustion emissions and fugitive emissions will be accounted for; Queensland Gas Scheme GEC's will be accounted for in the spot price model	Support	CCIQ notes that where a sufficient market exists and quality data and information is available, the QCA has adopted a market-based approach to estimating energy market costs. Again CCIQ recommends the QCA establish mechanisms to ensure ongoing review of the quality and quantity of market data available and move as soon as possible to the market based approach for estimating energy costs. CCIQ also notes that issues identified in relation to impacts of carbon price may be resolved closer to the release of the final report given recent passing of the Federal Government's carbon pricing scheme through parliament. Now that the Federal Government has gained approval for its Carbon Pricing Legislation, CCIQ strongly encourages the Queensland Government to begin the process of phasing out state-based and

and due to current low trading volumes will be applied using longer time series data. SRET and LRET will be accounted for in the spot price model using a market based approach (spot market price). The authority briefly discussed the issue of applying a cost catch-up factor for losses from previous years caused by the changes to RET schemes and determined that it would consider the inclusion of a mechanism for the pass-through of future unforeseen, material costs incurred by retailers.		duplicative energy efficiency programs including the Queensland Gas Scheme. CCIQ does not support any consideration being given to the application of a catch-up factor for losses from previous years caused by Government programs and policies as performance outcomes for retailers to date does not suggest they have been adversely affected. The QCA report indeed suggests that despite apparent losses that the Queensland Energy market remains competitive and profitable.
Retail Operating Costs: The QCA proposes to use the current retail cost allowance and to benchmark that allowance against those recently accepted in other jurisdictions to test its reasonableness.	Conditional Support	CCIQ supports the process of benchmarking retail operating cost allowances against those accepted in other jurisdictions. As noted in our original submission to the review, CCIQ continues to advocate the inclusion of mechanisms to encourage performance and productivity outcomes such as a declining indexation factor that is applied as the Queensland energy market continues to mature and retailers become established in the market.
Customer Acquisition and Retention Costs (CARC): QCA determined that it was no longer appropriate to consider CARC as a separate retail cost item; and that the current allowance will be maintained in real terms over time.	Conditional Support	CCIQ believes that Customer Acquisition and Retention activities are a key activity in the retail market and therefore should be included in general retail operating costs. Reflecting on previous comments in relation to the inclusion of performance and productivity measures, it is our contention that a retailer maintaining high customer satisfaction and efficiency standards would have low CARC, while retailers not meeting customer expectations or operating efficiently would have high CARC. Accordingly a low CARC allowance and declining allowance for CARC is CCIQ's preferred approach. A declining CARC allowance would also provide an incentive to retailers to engage

		in continual improvement and maintain high performance standards to maintain competitive in the Queensland energy market.
The QCA considers that the retail margin should compensate retailers for systemic risks which result from exposure to overall economic or market conditions. The authority therefore proposes to undertake an assessment of the appropriateness of the current margin of % in the context of margins adopted in other jurisdictions.	Conditional Support	CCIQ maintains its position that retail margins should reflect those experienced within the broader business community and therefore considers that a set rate (currently 5%) applied annually is an unrealistic approach. However CCIQ also appreciates the benefit of a competitive energy market in Queensland and the need to encourage new market entries. CCIQ supports a review of the appropriateness of the current allowance and would encourage a consideration of retail margins achieved in Victoria, where the energy market has been fully privatised, while taking into account the unique nature of the Queensland Energy sector.
The preferred approach (as recommended by ACIL) is to allocate energy costs through the variable, consumption-based component of each tariff; Retail costs are recommended to be recovered as per the IPART approach with 75% through the fixed and 25% through the variable component of retail tariffs; Retail margins are proposed to be applied equally on a percentage basis to each of the fixed and variable component of retail tariffs.	Conditional Support	CCIQ supports the general justification for the allocation of energy and retail costs within tariffs. However without knowing how the new consumption-based tariff system it is hard to determine the impact of this decision on energy users. CCIQ will review comments following release of the proposed consumption based tariff structure.