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Queensland Competition Authority

GPO BOX 2257

Brisbane, QLD 4001

Dear Sir/Madam

Draft Determination – Regulated Retail Electricity Prices 2012-13

Thank you for this opportunity to comment on the Queensland Competition Authority's (QCA) Draft Determination – Regulated Retail Electricity Prices 2012-13.

Click Energy is concerned that the consequence of the QCA's Draft Determination will be that Queensland does not continue to pursue its stated deregulation agenda and that the level of competition in the Queensland retail energy market will contract. This contraction will put the possibility of complete deregulation (including deregulation of retail prices) out of scope for an indeterminate period of time.

While pricing controls remain, the returns required for an electricity retailer are necessarily increased to compensate it for an additional regulatory risk from adverse price determinations. In Victoria, where the price regulation has been removed, Click Energy can compete with lower margins as we can adjust our prices to reflect the wholesale price. In Queensland, where Click Energy does not have control over its retail prices we are forced to include a risk loading or premium in order to remain profitable when the margin is squeezed by the wholesale market.

The added commercial risk introduced by the prices set in the Draft Determination may cause Click Energy and other retailers to review their Queensland positions and focus on other States where growth and business conditions are more certain.

While Click Energy believes that it is impossible for the QCA to determine a retailer's actual costs and that the QCA should not be involved in setting the Retail Electricity Prices, we believe that the QCA has significantly underestimated the actual costs in the draft determination. For the purposes of this submission however, we will limit our comments and recommendations to areas where we believe that the QCA has made errors in its Draft Determination. These errors are defined further below but, in summary, are:

- Wholesale Costs,
- ROC Retailers Operating Costs – In Particular the Variable Credit and Collection costs (Including Bad Debt and Merchant Service fees) associated with the increase in a customers retail energy bill from Carbon Tax, and
- Retail Margin.

Wholesale Costs

A wholesale allowance of $41.60MWh for the procurement of electricity for Energex NSLP is not reflective of the true costs of supplying electricity to a retail customer. In our experience, $41.60MWh is merely the sum of the components that go into the cost but not the price to a retailer or a fully risk loaded price for a retailer including a trading risk premium.

As a small retailer, Click Energy does not have a trading department and outsources this function to our counter-parties. To encourage these counter-parties to perform this trading function and assume the additional risk from trading and forecasting load, Click Energy pays a premium above the cost of the components that make up a "whole of meter" hedge that a prudent small retailer would pay to source the electricity to supply a NSLP customer. The $41.60MWh does not cover the following components:

- Costs of the procurement or trading function,
- Costs for load and forecasting errors,
- Costs for the trading risk, and
- Trading Margin.

In our experience, small retailers who have outsourced this procurement function to counter-parties, usually do so at a single moment in time for several years at a time. When acquiring a multi-year "whole of meter" hedge, unlike extremely large Industrial customers whose load could be curtailed, counter-parties are extremely unlikely to agree to a price below the LRMC while in years where the components are greater than the LRMC counter-parties may still accept LRMC price and remain profitable. This is another reason why the volume in the wholesale market has dried up again reflecting that the $41.60 is not truly reflective of the wholesale costs.

Accordingly Click's preference would be to include the LRMC as a floor, but we understand the draft position of the QCA and the consumer groups in that the LRMC does not reflect the prevailing conditions in the National Electricity Market, and we would like to make the following recommendations;

1. the inclusion of a trading margin to the cost components of at least 10%, and
2. moving to a two year rolling average model for the energy cost component (i.e., 50% of the 2011-2012 energy cost plus 50% of the 2012-2013 energy cost).

These recommendations we believe will iron out the peaks and troughs and more realistically align the energy costs with the actual energy costs for a small electricity retailer, while allowing for medium term trends in the wholesale price in the NEM be reflected in the retail price.

Finally, we are unsure how, given the AEMO settlement process and the wholesale market, how the Settlement classes can be separated out from the NSLP wholesale cost. That is, how can the Retail Tariff 31 and 33 be separated out from the Tariff 11 from an operational perspective. We need to understand this separation prior to providing further comment on this component.

Retail Operating Costs

Click Energy submits that the base ROC of $83.78 for 2011-12 underestimates the true costs of servicing a customer in Queensland. Furthermore, adjusting this figure by CPI does not accurately account for the costs associated with the cost of collection including bad debt and merchant service fees.

These costs increase at the same rate as the total increase in the customer's bill, as these costs are fixed to the dollar amount of the customer's bill. For example, given a bad debt expense of 2% of the customer's annual bill the average increase in this cost component for a typical residential customer on Tariff 11 (consuming 5,370 kWh per year) is 3.9% which is the same as the overall increase and not CPI of 3.25%. This underestimating of the increase in these costs for 2012-13 over 2011-12 is even worse for customers with either smaller or larger usage, where the total increases are higher.

Given that most of the ROC is based on customer numbers and that bad debt and Merchant Service fees can equal 3% of revenue or approximately $40 per customer, Click Energy recommends that the ROC is increased by a minimum of 3.9% to $87.05 and split 35:65 between the variable and fixed components.

Retail Margin

As previously mentioned, Click Energy believes that the regulatory risk in Queensland has increased due to the reduced likelihood that full competition and deregulation will be achieved within the foreseeable future. By full competition and deregulation we mean the deregulation of the Retail Price Setting. This delay intrinsically increases the required rate of return for an electricity retailer.

Moving to a 100% market based wholesale price without any stabilising factors, such as the rolling average or more preferable a LRMC wholesale floor, while maintaining a regulated retail price regime increases the risk for an electricity retailer in the Queensland market.

Also with no mechanism for adjusting the retail price path determination for unforeseen price events, this once again increases the risk to Retailers in the Queensland market, where they do not have control over the retail price setting.

Accordingly, Click Energy would need to see a retail margin at a minimum of 8%, to continue to direct marketing resources to the Queensland market.

Thank you once again for this opportunity to comment on the QCA's draft price determination.

Please contact me on 03 9473 1919 or by email on pdouble@clickenergy.com.au if you have any further questions.

Yours Sincerely

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