EnergyAustralia Pty Ltd
ABN 99 086 014 968

Level 33
385 Bourke Street
Melbourne Victoria 3000

Phone +61 3 8628 1000
Facsimile +61 3 8628 1050

enq@energyaustralia.com.au
energyaustralia.com.au

18 May 2015

Adam Liddy
Queensland Competition Authority
GPO Box 2257
Brisbane QLD 4001

Submitted Electronically to: www.qca.org.au/submissions

Dear Mr Liddy

Further Consultation Paper - Regulated Retail Electricity Prices for 2015-16

EnergyAustralia appreciates the opportunity to provide input into determination of Regulated Retail Electricity Prices in Queensland. We are one of Australia's largest energy companies, providing gas and electricity to over 2.6 million household and business customers in NSW, Victoria, Queensland, South Australia and the Australian Capital Territory. EnergyAustralia owns and operates a multi-billion dollar portfolio of energy generation and storage facilities across Australia, including coal, gas and wind assets with control of over 4,500MW of generation in the National Electricity Market.

EnergyAustralia is obviously disappointed by the Government's decision to continue to regulate prices in South East Queensland (SEQ) however we wish to congratulate the QCA on their approach to expediting the final determination under difficult circumstances.

We note that the QCA's consultant, ACIL, continues to adopt a hedging based approach to calculate energy price. It it is imperative the Authority provide for as accurate as possible measure of the energy costs to be incurred by a retailer and EnergyAustralia considers the Long Run Marginal Cost (LRMC) approach to be more robust and consistent with regulatory principles associated with setting prices. The hedging based approach does not allow for the suppression of wholesale prices due to factors such as subsidized solar generation and consequently the LRMC methodology should be adopted to provide a more realistic picture.

Retail Operating Costs, Retail Margin and Headroom

EnergyAustralia is concerned that the QCA's calculation of Retail Operating Costs will not adequately reflect Customer Acquisition and Retention Costs (CARC). The previous government's announcement of price deregulation in SEQ stimulated considerable sales and marketing activity by EnergyAustralia and other retailers in preparation for the commencement of a retail market free from the risk associated with price regulation. Although increased marketing activity is an inevitable feature of a newly deregulated market, under ordinary circumstances an equilibrium would be achieved which would see retailers' expenditure on customer attraction and retention return to sustainable levels. The current circumstances of the minimum one year delay to the introduction of price monitoring will have the effect of artificially maintaining this expenditure above normal levels. EnergyAustralia consider that this effect should be factored into CARC calculations.

We believe that a retail margin of 5.7% is the minimum amount required by a retailer as a return on investment and consider that the proposal appears insufficient to ensure that electricity retailers are adequately compensated for the current risk and regulatory uncertainty within the Queensland market. As outlined above anticipation of the imminent arrival of a deregulated market has led a number of retailers to increase investment in SEQ and the recent decision to delay deregulation pending a review by the Productivity Commission has demonstrated how real the oft cited issue of regulatory risk is. In light of this, EnergyAustralia considers that the QCA should increase the level of retail margin to recognise that investment decisions by retailers were made on the basis that price monitoring would commence and that these decisions would not have been made had there been an expectation of retail price regulation beyond 1 July.

EnergyAustralia has previously argued that headroom must be maintained in real terms on an ongoing basis. We consider that 5%, in line with the 2014-15 determination, is the minimum headroom required to stimulate competition in SEQ in a regulated market. Dependent on the regulatory approach to be adopted by the Queensland Government in setting prices for non-SEQ customers in the future and the interaction of this approach with a price monitoring scheme for SEQ customers EnergyAustralia maintains our view that the headroom allowance must a real 5% for the foreseeable future.

Summary

EnergyAustralia appreciates that the QCA is constrained by its delegation in determining regulated prices for Queensland for 2015-16, however we urge that the cost impacts on retailers of recent policy uncertainty be accounted for in the final determination. The false start for price monitoring has highlighted that retailers are keen to actively participate in the Queensland market under the right regulatory conditions and we consider that the QCA's 2015-16 retail price determination plays a role in creating those conditions in the short term.

If you require any further information with regard to this submission, please contact me on 86281731 or via email at joe.kremzer@energyaustralia.com.au

Yours sincerely,

Joe Kremzer
Regulatory Manager, Retail