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A few words.

18 May 2015

Dr Malcolm Roberts
Chairman
Queensland Competition Authority
GPO Box 2257
Brisbane Qld 4001

Dear Dr Roberts,

Re: Regulated retail electricity prices for 2015-16: Further Consultation Paper

AGL Energy (AGL) welcomes the opportunity to provide comments on the Queensland Competition Authority's (QCA) *Regulated Retail Electricity Prices for 2015-2016 – Further Consultation Paper* (Consultation Paper).

AGL is one of Australia's leading integrated energy companies and is an active retailer in southeast Queensland (SEQ), currently serving over 380,000 electricity customers. AGL does not market to Small customers in regional Queensland at this point in time.

This consultation has arisen as a result of the Queensland Government's decision to delay price deregulation in SEQ by a year and subsequent revised Delegation to the QCA. AGL's comments on the issues raised in this Consultation Paper as well as an additional concern regarding accounting for Small customers' metering costs in 2015-16 are outlined below.

Overall framework and headroom

AGL supports the QCA's view that it is appropriate to continue to include an allowance for headroom so that the level of notified prices is not a constraint on competition in SEQ. AGL has previously agreed that a minimum headroom allowance of 5 per cent should be applied in transition. If this level of headroom is to be reviewed, the QCA should take into account that:

- IPART's *Final Report on the review of regulated retail electricity prices in 2013-16* for NSW adopted an approach which recognised a discount of 8 per cent off the usage rate; and
- during 2014-15, retailers (including AGL) have offered discounts on residential market offers of 7- 12 per cent off the usage rates of standing offers. The discounts on small business market offers are even higher.

Any constraints placed on headroom would severely limit such discounts, curtail competition and prevent customers that wish to engage in the energy market from accessing these benefits.

Network costs

AGL agrees the approach of using Energex network tariffs for the flat rate (Tariff 11) and controlled load tariffs (31 and 33) is consistent with the draft determination and previous determinations.

For existing TOU tariffs (12 and 22), the QCA approach is consistent with the term of reference. In AGL's view, this is a change to the Uniform Tariff Policy (UTP) as tariffs in the Energex distribution region will not be the same as the tariffs in the Ergon Energy distribution region.

As a general principle, AGL supports cost reflective pricing. If a new distribution tariff such as a seasonal time of use demand (STOUD) tariff is introduced, new retail tariffs should be developed to reflect the appropriate pricing signals. Ergon Energy is proposing to introduce such a tariff in regional Queensland. This STOUD tariff will not be available in the Energex distribution region but it needs to be considered how a STOUD tariff will apply with the UTP.

The revised delegation, in relation to the UTP, requires the QCA to consider "*wherever possible non-market customers of the same class should pay no more for their electricity, regardless of geographic location*." In AGL's view, the reference to the UTP allows tariffs such as the STOUD tariffs to be developed only for regional Queensland. This is supported by the revised delegation allowing Tariffs 12 and 22 to have separate tariff structures for Energex and Ergon Energy distribution regions.

Other energy costs components

AGL supports the methodology used by the QCA in the draft determination to estimate the other energy cost components as it was consistent with recent year's price determinations. AGL would therefore expect the final report to reflect:

- an update of all market data by ACIL Allen when calculating the wholesale energy costs and renewable energy policy costs;
- continued use of a benchmark retail operating cost (including customer acquisition and retention costs) escalated by CPI; and
- a pass-through of the Small-scale Renewable Energy Scheme costs that were under-recovered in 2014-15.

Metering charges

As the QCA is aware, metering costs are now treated as alternative control service by the Australian Energy regulator (AER). Accordingly, they are not included in the standard network tariffs. However, metering costs will continue to be charged by network businesses and retailers will be allowed to recover these costs. Under regulated pricing, AGL considers the most appropriate mechanism for retailers to recover these costs is for metering costs be incorporated into notified tariffs. This can be done by including the network metering cost that will apply for each network tariff to be included in the retail cost allowance for each relevant retail tariff. AGL strongly recommends this approach because the:

- retail tariffs will be comparable to 2014-15;
- the prices paid by customers on their bill will reflect the notified prices; and
- prices paid under Standing Offer will be directly comparable to other market offers (as these will include metering charges).

The alternative is that retailers will include metering costs as an additional charge on customer's bills. In AGL's view, this is likely to create concerns with customers as well as issues with billing processes as customers' billed prices will likely differ from the gazetted notified prices. This will drive customer complaints as the metering charge will appear to consumers as a new charge compared to 2014-15 prices. In addition, AGL does not currently have the system capability to pass through the metering charge on consumer bills as a separate charge and to do so would require significant and costly system changes that will become redundant under a price monitoring regime.

If you have any questions in relation to this submission, please contact Patrick Whish-Wilson on (07) 3023 2426.

Yours sincerely,

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Nicole Wallis
Head of Energy Market Regulation