alintaenergy

25 March 2013

Mr Gary Henry
Director
Queensland Competition Authority
GPO Box 2257
Brisbane QLD 4001

Dear Gary

Draft Determination: Regulated Retail Electricity Prices 2013-14

Alinta Energy appreciates the opportunity to provide a submission to the Queensland Competition Authority (**the Authority**) in relation to the above Draft Determination.

Alinta Energy is both a generator and retailer of electricity and gas in the West Australian and Eastern States energy markets. It has over 2500MW of generation facilities and more than 700,000 retail customers, including about 95,000 customers in Victoria and South Australia. As an incumbent retailer in WA and a new entrant retailer in the National Energy Market, Alinta Energy is well placed to comment on this review.

Alinta Energy is a member of both the ERAA and ESAA. Alinta Energy contributed to and was consulted on the joint submission made by the ERAA and ESAA. Alinta Energy fully supports their submission and encourages the Authority to consider the joint submission in detail. In addition to the comments made in the joint submission, Alinta Energy raises a number of further issues below.

Retail competition

Alinta Energy is an active retailer in Victoria and South Australia where it has successfully won a significant customer base by offering innovation and choice in the retail market. In particular, Alinta Energy is currently offering customers a 15% discount without a lock in contract or early termination fee to be applied. This innovative product is evidence of the benefit to customers bought about by competition.

Despite Alinta Energy's success in Victoria and South Australia, and the Authority's Draft Determination to increase retail tariffs on 1 July 2013, actual margins in Queensland remain too low for Alinta Energy to be able to compete for small customers. This is largely bought about by the Wholesale Energy Cost (WEC) allowance being set too low to recover actual wholesale costs.

Alinta Energy's own experience in Queensland is reinforced in the joint ERAA/ESAA submission, which shows customer switching has declined considerably over the past couple of years as margins have been driven to unsustainable levels.

Alinta Energy once again urges the Authority to reconsider the methodology used in its Draft Determination to ensure that competition is not further hindered by regulated prices being set too low.

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Wholesale Energy Costs

As stated in its previous submissions, Alinta Energy does not support the Authority's approach to rely solely on market based prices in determining the Wholesale Energy Cost (WEC) allowance, given this methodology does not reflect the way retailers hedge their portfolio as it does not include the cost of medium and long term hedge strategies, including building or underwriting generation.

However, if the market based methodology is to be applied appropriately it is vital that it fully reflect the costs and risks faced by a retailer in meeting its peak demand for a 1 in 20 year event. In this regard Alinta Energy questions the annual peak demand modelled by ACIL Tasman which appears to not reflect extreme events. By excluding extreme demand periods the resulting WEC will not cover the costs of a retailer hedging its small customer load. Alinta Energy encourages the Authority to request that ACIL Tasman reconsider their peak demand forecasts.

Alinta Energy also has concerns about the fact the WEC methodology chosen by the Authority has imported the volatility from the wholesale market into retail prices – which is the very thing retailers seek to avoid by entering medium and long term hedge arrangements. This issue is evidenced by the fact the WEC is to increase by 9% seemingly due to a corresponding increase in wholesale market prices. As stated in the Authority's Draft Determination:

> *"This increase [in energy costs] is due to uncertainty in the wholesale energy market, which has increased the risks faced by retailers in purchasing energy, and a tightening of supply in the wholesale energy market".* (See Page viii)

Given wholesale market prices are naturally volatile, it's important that retailers are able to recover their costs of managing this price volatility through entering short, medium and long term wholesale contracts. However, by only allowing the recovery of costs for short term hedging strategies, significant swings in the WEC will result. Alinta Energy believes this is suboptimal for customers and exposes retailers to a level of risk that will have to be factored into their decision to enter the Queensland market.

If you would like to discuss this submission, please contact me on 08 9486 3762.

Yours sincerely

[redacted]

Michelle Shepherd
General Manager Regulatory and Government Affairs