



**EnergyAustralia**

9<sup>th</sup> January 2013

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Dear Dr Watson

**Response to Consultation Paper for Regulated Retail Electricity Prices 2013-14: Cost Components and Other Issues**

EnergyAustralia welcomes the opportunity to make a submission to the Queensland Competition Authority (the Authority) on the consultation paper for regulated retail electricity prices 2013-14: Cost components and other issues (Consultation Paper).

EnergyAustralia is one of Australia's largest energy companies, providing gas and electricity to over 2.7 million residential and business customers. 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 5,600 MW of generation in the National Electricity Market.

We have been retailing in South East Queensland since the beginning of full retail contestability and have a long-term interest in the level of the regulated retail prices and the state of competition in this market.

In October, we provided an initial response to the first consultation paper on the regulated retail electricity prices 2013-14 (Interim Consultation Paper) and in this submission; we recap on those major points and address the other matters set out in the Consultation Paper. The major themes included in this submission are:

- The overall level of the regulated tariff has been set too low for 2012-13. The major impact of this has been a stagnation of the retail electricity market in South East Queensland and the major step that the Authority can take to ensure that the energy cost component, retail margin and headroom allow retailers to cover all reasonable costs and compete effectively.
- If the restrictions on the cost pass-through approach are insurmountable, then we recommend a catch-up mechanism be used for prior tariff years. Failing this, the potential additional costs should be allowed for in the retail margin.
- We have outlined our views previously on Tariff 11 transition issues, but in this submission we concentrate on how to address issues with the time-of-use (TOU) tariffs (that is, Tariffs 12 and 22).

- Along with the comprehensive review that we believe is necessary to estimate the retail margin, we also propose why retail operating costs should be considered in detail to ensure the overall level of the regulated tariff is appropriate.

If you would like more information on this submission, please contact me on (03) 8628 1242.

Yours sincerely

Melinda Green  
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**EnergyAustralia response to  
Queensland Competition Authority  
for the  
Consultation Paper on  
Regulated Retail Electricity Prices 2013-14  
Cost Components and Other Issues**

**January 2013**

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## **1. Executive summary**

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EnergyAustralia welcomes the opportunity to provide comments on the Consultation Paper on Regulated Retail Electricity Prices 2013-14: Cost Components and Other Issues. This executive summary outlines our key points, which are discussed in more detail in our submission.

### ***Network costs***

The introduction of the Network + Retail approach that allows network costs to be passed-through has been a positive step. However, some areas remain where improvements are needed.

Analysis of the network rates for residential Tariff 11 and 12 shows that more could be done by Energex to assist in improving the attractiveness of Tariff 12. Similarly, issues with the peak and off peak rates of the business TOU tariff (Tariff 22) could be improved by addressing the underlying network tariff, but could also be aided by the introduction of interval metering which would also allow the benefit of the time difference of energy prices to be reflected in the tariff.

Another issue with the N+R approach is that final network tariffs are not available prior to the setting of the final regulated retail tariffs. If no mechanistic solution can be found to address this issue, we suggest an additional allowance is included in the retail margin to manage the network pricing timing mismatch risk.

### ***Energy costs***

The fundamental issue in this review for us is the proposed retention of the market cost based approach to setting the wholesale energy costs. Whilst reiterating arguments we put forward in our submission to the Initial Consultation Paper, we look deeper into the reasons that appear to be important in leading the Authority and ACIL Tasman to reject an approach that includes the long run marginal cost (LRMC) of generation. We also comment on possible improvements to the market cost methodology and ask that the Authority fully outline the treatment of risks and how these are accounted for in the energy costs, retail margin and/or headroom components.

Enhancement of time-of-use signals in regulated tariffs could be achieved by allowing the widespread introduction of interval metering. We don't agree with the synthesis of peak and off peak wholesale prices that bear no relation to retailers' true costs in order to sharpen TOU pricing signals.

For most of the small components of the energy costs (for example, the Large-scale Renewable Energy Scheme, Queensland gas scheme costs and energy losses, amongst others) we support the same approach used by the Authority in the 2012-13 Determination. Whilst the approach to Small-scale Renewable Energy Scheme (SRES) costs used in the last Determination is largely suitable, we've discussed possible approaches to managing timing issues in properly estimating SRES costs.

### ***Retail costs and margin***

We present reasons why the allowance for retail costs should be reviewed afresh as part of this regulatory process rather than relying on the simple indexing of the retail costs used in the last Determination. Caution is also recommended in undertaking a benchmarking approach to calculate the retail operating cost component.

The risk of retailers making excess profits is negligible as both the threat of, and actual, competition means that any excess profits will be competed away. Our view is that the retail margin used in the 2012-13 determination (5.4%) is too low and we recommend a range of 6.5-7%. The retail margin should also be increased to allow for non-systematic risks such as the lack of an effective cost pass-through mechanism to address changes in network and retail costs and to allow for risks not covered by a market cost approach to determining energy costs.

***Competition and other issues***

The Authority suggests that there has been no decline or stalling of competition in the South East Queensland retail electricity market, however we disagree and discuss what indicators and underlying trends we currently observe in sales and marketing behaviour amongst retailers. Several ideas are discussed for assessing and improving competition in Queensland.

The ability of the Authority to allow for unforeseen events is limited under the Electricity Act and Delegation. Given the level of change occurring in the electricity market, some type of catch-up mechanism is highly preferred. If this is not possible under the Delegation then we request that the Authority makes additional allowance for additional costs when setting the retail margin.

## 2. Network costs

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### 2.1. Network tariffs for residential and small business customers

The Authority seeks stakeholders' views on the following:

- a) the suitability of Energex's network tariffs as the basis of retail tariffs for small customers and, in particular, whether the network tariffs need to provide stronger time-of-use signals;

#### *Residential time-of-use tariffs*

##### **Transition arrangements for Tariff 11**

Until Tariff 11 has transitioned to reflect the actual fixed and variable costs, retailers will continue to subsidise low usage customers through the under-recovery of fixed costs. This issue is exacerbated by customers reducing their usage through the installation of solar panels. We have separately commented on Tariff 11 in our submission to the Interim Consultation Paper.<sup>1</sup>

##### **Attractiveness of Tariff 12**

In our view, the low take up of Tariff 12 results from both the price level of the usage and the supply charges between the Energex residential TOU network tariff (8900) and the usual flat residential network tariff (8400). The adjustment made the Energex 8400 tariff in relation to the Queensland government freezing Tariff 11 was a 10 cents per day reduction in the supply charge. The usage rate for network tariff 8400 increased from 8.824 c/kWh to 10.2 c/kWh between 2011/12 and 2012/13 so this rate and the usage rates in the TOU tariff (8900) are presumably set at a level deemed appropriate by the Australian Energy Regulator (AER). If this is so, the attractiveness of Tariff 12 would not be completely addressed by the transition of Tariff 11 to cost reflective levels alone.

Our assessment of the retail tariffs shows that considering usage rates alone, a customer using 6 MWh per annum with a typical usage split across peak, off peak and shoulder periods would be better off on Tariff 12 than Tariff 11. However considering the same analysis of the corresponding Energex network tariffs 8900 (and 8400, the costs are higher on the tariff 8900, that is the underlying network tariff for Tariff 12 (table 1).

**Table 1: Comparison of price level difference between Energex network tariff 8400 and 8900 usage rates for a residential customer**

Network Tariff	Tariff Component	Network usage rate	Difference to 8400 rate		Usage <sup>2</sup>	Difference to 8400	Total cost (usage only)	
			c/kWh	c/kWh			\$/qtr	\$/qtr
<b>8400</b>	All time	10.2			1500		\$153.00	
<b>8900</b>	Peak	23.525	13.325	131%	268	\$35.69	\$32.20 extra	21% extra
	Shoulder	11.369	1.169	11%	770	\$9.00		
	Off Peak	7.496	-2.704	-27%	462	-\$12.49		

<sup>1</sup> EnergyAustralia, Response to the Regulated Retail Electricity Prices 2012-13 Interim Consultation Paper, pages 11-12

<sup>2</sup> Reliable information on the usage splits for customers on network tariff 8900 are not available to us due to the low take up of customers to Tariff 12. To calculate these values we've assumed typical usage of: 6MWh pa, that peak usage is 50% greater than implied by an analysis of the peak, shoulder and off peak hours (respectively 20, 85 and 63 hours each per week). This results in a usage split of 18% peak, 51% shoulder and 31% off peak.

This indicates to us that the price level of the usage rates of tariff 8900 may not be set at the appropriate level compared to tariff 8400. The results of the analysis are not surprising as the 8900 usage rate for the peak period is more than double the all time rate for the flat 8400 tariff. The shoulder rate is also 11% higher for tariff 8900. Therefore, even if the supply charges for these two network tariffs were to be equal, then we would expect a customer would have to shift significant usage to the off peak period for tariff 8900 to produce lower costs than tariff 8400. Depending on the outcome of future regulated retail price reviews, these underlying network usage rates may contribute to the retail rates for Tariff 12 being unattractive compared to Tariff 11.

We support the introduction of TOU retail pricing in Queensland and encourage the Authority, Energex and the AER to ensure that tariff 8900 is set relative to tariff 8400 to in such a way that allows regulated and market based pricing for residential TOU tariffs to be competitive with the residential flat tariffs. This will assist Queensland in addressing issues around peak demand is a key driver of energy and network costs.

However, in addressing any of the current issues with the TOU network or retail tariffs, we strongly encourage Energex and the Authority to adjust the existing tariffs (8900 and Tariff 12) rather than creating new TOU tariffs. Creating an additional new residential network and regulated retail TOU tariff to replace Energex tariff 8900 and Tariff 12 for a very small group of customers would add unnecessary tariff implementation costs for all retailers. It would be far cheaper to completely revise these existing tariffs and compensate existing customers on 8900/Tariff 12 for any detrimental pricing impacts.

#### ***Business time-of-use tariffs***

The improvement and introduction of TOU and other innovative tariffs for business could also assist in bringing down peak demand and minimising cost increases for Queensland customers. In particular, we suggest:

- The peak to off peak ratio in Tariff 22 could be increased if the Queensland Government allowed Energex to convert meters to interval (half hourly) readings to allow separate peak and off peak energy costs to be calculated (see section 3.3).
- The sharpening of the TOU signals in Tariff 22 could also be achieved if Energex were able to alter network tariff 8800/8700 in a cost reflective way such that there was a greater difference between the peak and off peak rates.
- Critical peak pricing or demand based network/retail tariffs could be suitable for some small business customers, however we would not like to see these introduced without an ability for customers to access their demand reading at any point in time; and a trial being conducted to ensure that customers are able to respond effectively to the demand price and to establish an effective tariff structure. Both critical peak pricing and demand based products will require interval metering.

#### ***Solar network tariff***

The Authority discusses the idea of creating a new solar network tariff in the Consultation Paper.<sup>3</sup> Before judging this proposal, we would like to see how Energex would construct a solar PV network tariff and how the price level would compare to the current tariffs. We are not convinced that a new Energex solar network tariff would necessarily be the best solution even though it could theoretically help to reduce the existing cross-subsidisation of solar customers by non-solar customers.

If a more cost reflective solar network tariff were to apply only to new customers installing solar panels then this would be unfair. On the other hand, it could be operationally difficult and create significant backlash if the new solar tariff applied to all customers in Queensland with solar panels. The introduction of a specific solar network tariff would require retailers

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<sup>3</sup> QCA, Consultation Paper, pages 5-6

to implement new solar retail pricing that takes into account the new network costs. For solar customers this would mean a price increase. For retailers the creation of new solar tariffs would add to the already higher retail operating costs for solar customers.

We generally support cost reflectivity in network tariffs, but at times this can be difficult to achieve or may have unintended consequences. For example, the additional costs for a solar customer to connect to the network compared to a non-solar customer may vary widely and be difficult to predict and recover equitably from this customer group. It would be useful for Energex to comment further before any firm conclusions are made.

## 2.2. Network tariffs for large customers

The Authority seeks stakeholders' views on the following:

- b) the suitability of Ergon Energy's network tariffs as the basis of retail tariffs for large customers and, in particular;
  - i. whether the network tariffs need to provide time-of-use signals?
  - ii. whether notified prices for large customers should be based on network charges in Ergon Energy's East pricing zone, transmission region 1 and, if not, what should they be based on?
  - iii. what better options, if any, are there for the network charge(s) to be used as the basis for notified prices for very large Ergon Energy customers?

We support the transition of large customers in the Ergon Energy area to competitive retail tariffs. Last year the Authority improved the cost reflectivity of regulated retail tariffs for large customers in the Ergon area by introducing new regulated retail tariffs that better aligned to the costs of supplying these large customers.<sup>4</sup> This is a positive step for encouraging other retailers to enter the market and begin making competitive offers to these large customers.

Large electricity customers should be on cost reflective tariffs (including being on site-specific network tariffs) and should see the price signals from the network tariff – i.e. the inclusion of TOU and demand components. Some of these customers may have their electricity costs subsidised by the Queensland Government under the community service obligation (CSO), and others may be paying more than they would on a market contract.

## 2.3. Maintaining alignment of retail and network tariffs

The Authority seeks stakeholders' views on how best to maintain alignment between network and retail tariffs.

We recognise the timing issues raised by Energex and the Authority that are associated with obtaining final network tariffs for use in the setting of the regulated retail prices.<sup>5</sup> Despite the best endeavours of Energex we appreciate that there is always a chance that the Australian Energy Regulator (AER) will require changes to the network tariffs proposed by Energex before approving these by the 31<sup>st</sup> May in any year (or possibly later).

In the last Determination, the Authority considered three different options for maintaining alignment between retail and network tariffs.<sup>6</sup> Of these options, two required changes to regulatory and legislative timeframes and were more difficult to implement than the third option (c). This latter option relied on the Authority using **proposed** network tariff pricing in determining the regulated tariffs and making adjustments after the 1<sup>st</sup> July if necessary.

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<sup>4</sup> QCA, Regulated Retail Electricity Prices 2013-14 Transitional Issues: Consultation Paper, October 2012, page 11

<sup>5</sup> QCA, Consultation Paper, page 10

<sup>6</sup> QCA, Regulated Retail Electricity Prices 2012-13: Final Determination, May 2012, page 16

In the last Determination, the Authority discussed the possibility of adjusting regulated retail tariffs that apply from the 1<sup>st</sup> July as well as any adjustments due to the time lag in resetting prices.<sup>7</sup> However, it appears that in this consultation, the Authority considers that they would need to do this prior to the 1<sup>st</sup> July (when the tariffs take effect) as there is no allowance made in the Delegation for cost pass-through events during the tariff year. Therefore, we question that option (c) really addresses the issue effectively.

In addition, the Authority noted in the last Determination that there were potential issues with option (c) being seen to be inconsistent with the requirement in the Delegation to implement an N+R approach.<sup>8</sup> We agree that this is the case. When considering the introduction of Time of Use (TOU) tariffs or any other multi-part network tariff, we believe that there are several reasons why the proposed network tariffs may differ substantially from the ones finally approved by the AER.

We have observed (particularly in Victoria<sup>9</sup>) that the AER must consider the pricing structure and pricing of each component. Differences in methodology and approach between individual distributors and the AER appear to lead to wide variations between the proposed and final network tariffs. Some of the specific matters that the AER and distributors may differ on include:

- estimations of how many customers will take up a new network tariff;
- pricing level differential between old and new tariffs – e.g. to encourage take up of a new TOU tariff compared to an existing flat tariff;
- assumed usage splits between peak, off-peak and shoulder components once customers have a price incentive to shift usage away from peak times; and
- the appropriate price differential between each tariff component – i.e. between peak and off-peak prices.

In our experience, the first two matters can lead to significant impacts to the pricing of the existing network tariffs, not just to new tariffs being introduced or substantially altered.

In this consultation, the Authority is considering the attractiveness of Tariffs 12 and 22, and Energex has expressed interest in introducing new types of pricing.<sup>10</sup> There is also greater potential for larger differences between proposed and final tariffs when the network price path increase is higher. The expected increase for Energex distribution use of system (DUOS) SAC Non-demand (i.e. residential and small business) network tariffs in 2013/14 is 24%, which is higher than allowed in recent years.<sup>11</sup>

For all these reasons, we are concerned that there could be a material difference or even a delay in the setting of final network prices in South East Queensland in mid 2013 that could materially retail electricity margins and therefore competition over the 2013-14 year. If the Authority can see no effective way around these timing issues then we feel it is appropriate that a higher retail margin be allowed to compensate retailers for the additional risk. This extra retail margin could be determined by estimating the possible percentage difference between proposed and final network tariffs and be converted to a percentage margin using the final N and R components used by the Authority to set the regulated retail tariffs (see discussion in section 4.3.1).

<sup>7</sup> QCA, Regulated Retail Electricity Prices 2012-13: Final Determination, May 2012, pages 16, 18

<sup>8</sup> QCA, Regulated Retail Electricity Prices 2012-13: Final Determination, May 2012, page 16

<sup>9</sup> See for example the extended review process for the approval by the AER of the SP AusNet annual electricity network pricing proposal for 2013 at: <http://www.aer.gov.au/node/18375>

<sup>10</sup> Energex, Workshop presentations 19<sup>th</sup> December 2012, <http://www.qca.org.au/electricity-retail/NEP/ConsultPaperCostComp.php>; Energex, Response to the Regulated Retail Electricity Prices 2012-13 Interim Consultation Paper, page 5.

<sup>11</sup> Energex, Statement of Expected Price Trends 2012-13, page 4

### **3. Energy costs**

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#### **3.1. Wholesale energy costs**

##### **3.1.1. Potential approaches to calculating wholesale energy costs for 2013-16**

In our initial submission, we outlined our preference for an LRMC floor approach to setting wholesale energy prices. We still hold the same views and reiterate the points covered in section 3 of our earlier submission to this review.<sup>12</sup>

##### **Scope of the Delegation**

We disagree with the Authority's views that the wholesale energy costs must be calculated in such a way that makes them as sensitive to annual fluctuations in wholesale energy cost for the year that prices are being set. Certainly, the use of the market cost approach does usually result in a more highly variable energy cost. However, we don't believe that it is a requirement of the Delegation that the Authority must set prices for each tariff year **based on the costs for each tariff year**. The specific wording in the Delegation is:

*'3. In accordance with section 90(5)(a) of the Act, in making a price determination for each tariff year QCA must have regard to all of the following:*

*(a)The actual costs of marking, producing or supplying the goods or services; ...'*

In the Delegation for 2012-13, it was specified that the Authority should include in the cost of purchasing energy in setting the regulated tariffs.<sup>13</sup> However, we question the assumption made by the Authority that costs must apply specifically to one year. Estimating costs for a particular year:

- is a more difficult task when liquidity concerns limit the availability of market contract data;
- is inconsistent with the approach taken by the Authority in determining other cost components in the regulated retail tariff; and
- leads to a more highly variable energy cost that could lead to additional price shocks for customers (compared to a LRMC floor based approach).

In determining Large-scale Renewable Energy Target (LRET) costs, Queensland Gas Scheme costs, National Electricity Market (NEM) fees and ancillary service costs, the Authority has relied on historical data and/or long term averages rather than creating a method for forecasting these costs for the tariff year. These points were discussed in detail in our submission to the Interim Consultation Paper and we believe they are still relevant.<sup>12</sup>

In addition to the Delegation for the 2013-14 period, the Queensland Government made a submission to the Interim Consultation Paper to request the Authority to look at and consult on the points listed in the table below.<sup>14</sup> We've put forward our views on each point raised by the Government.

1. *Whether LRMC is considered an appropriate pricing approach and whether its use has any detrimental consumer or industry consequences.*

Yes, a LRMC floor approach is appropriate and doesn't have any detrimental impacts to consumers or industry.<sup>9</sup> If LRMC is higher than market cost in any year then retailers will use this to provide higher discounts to customers (see point 4 below). We don't believe the use of LRMC will have a detrimental effect on industry – the generation sector faces costs more akin to LRMC and distributors would not be affected by the use of LRMC.

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<sup>12</sup> EnergyAustralia, Response to the Regulated Retail Electricity Prices 2012-13 Interim Consultation Paper, pages 3-7

<sup>13</sup> QCA, Regulated Retail Electricity Prices 2012-13: Final Determination, May 2012, Appendix A, page 122

<sup>14</sup> Queensland Government submission to the QCA, Response to the Regulated Retail Electricity Prices 2012-13 Interim Consultation Paper, page 12

2. *Whether a market-based approach is considered an appropriate pricing approach and whether its use has any detrimental consumer or industry consequences.*

The use of a market based approach alone is not as suitable for consumers or industry as we outlined in our initial submission.

3. *Whether a hybrid approach should be considered, such as in NSW, and if so what the appropriate proportion should be.*

A LRMC based floor approach is a hybrid approach. If the Authority were to consider a weighted average approach of LRMC and market costs similar to that include in the Independent Pricing and Regulatory Tribunal (IPART) Terms of Reference set by the NSW Government, then it would be more complicated to assess what the appropriate proportions should be.

4. *What are the consequences of the adopted approach on retail competition, consumers and the industry.*

Broadly, the risks in choosing a methodology to determine the wholesale energy cost are asymmetric. An energy cost that is set too low will particularly hamper retail competition and send detrimental signals to generators. However, the risks of allowing the energy cost to be slightly higher than the actual costs in any year are lower as retails will 'compete away' any additional allowance.

The dynamics of a retail business are such that retailers will use to the utmost any means to attract and retain customers. As a collective group, retailers will not accept a higher than necessary margin. If margins are too high then there will be profits to be made by any retailer who increases their market share by offering a lower price than their competitors offer. If this behaviour is not occurring to the degree expected, then the obvious conclusion is that the level of the tariff is less than adequate for supporting competition.

#### ***ACIL Tasman recommendations***

In ACIL's discussion on the cost of energy for customer retail services, they postulate that a vertically integrated retailer who acts rationally should have an advantage in that the costs of its own generation would be expected to be no more than the cost of the market instruments used by a stand-alone retailer.<sup>15</sup> ACIL appear to argue that:

- a vertically integrated retailer has access to all the same risk hedging instruments as a stand-alone retailer, but have made a choice to improve their cost position by investing in generation;
- the actual energy costs faced by a retailer for their own plant will be reflective of wholesale market costs every year; and
- retailers who enter into PPAs or tolling agreements don't pay long term average costs for that portion of their load hedged by these means.

We assert that these arguments are incorrect. The energy costs faced by a retailer who is vertically integrated or who relies heavily on PPAs or tolling agreements will tend to reflect long term average costs more than the wholesale market costs. Retailers in this category over the long term would hope to do better than if they had relied solely on market hedging instruments, however in any year they would expect to do better or worse than the market. Last year there were several examples of generators not being able maintain adequate profitability at current wholesale prices.<sup>16</sup>

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<sup>15</sup> ACIL Tasman, Estimated energy costs for use in 2013-14 electricity retail tariffs, December 2012, pages 7-9

<sup>16</sup> EnergyAustralia, Response to the Regulated Retail Electricity Prices 2012-13 Interim Consultation Paper, Section 3.4, pages 5-6

We understand that the Authority is seeking to set a regulated retail tariff that suits the cost profiles of a variety of retailers; however, we feel it is oversimplifying the issues to suggest that all retailers will face actual energy costs that vary with market costs.

ACIL also state that:

*'... because of an expected oversupply of generation in Queensland in 2013-14, the LRMC to supply any additional load in 2013-14 for equal the marginal cost of the lowest cost of an existing generator. Being an existing plant, this LRMC would not include fixed or capital [costs] and can be expected to be noticeably lower than the market based methodology...'*

This is only true if an incremental LRMC is calculated. However, we recommend that a stand-alone LRMC value is determined which instead assumes a greenfield build of a complete set of new plant to supply the regulated load using current technology. The stand-alone approach is therefore not affected by matters relating to the current generation environment or outlook. We discussed the standalone approach in our earlier submission,<sup>17</sup> and this approach was also recommended recently by Frontier Economics in their draft methodology report to IPART.<sup>18</sup>

### **Market liquidity**

Another matter of concern to us in the Authority proposing to use a market cost approach is the lack of liquidity in the Queensland market. As we outline below this is likely to cause problems with the estimation of black energy and carbon costs. We question if an LRMC floor approach is not a more reliable and transparent method than a market cost method that must overcome a lack of good quality data.

For 2013-14 and later years, Queensland Base and Peak Swaps have become much more thinly traded on the Sydney Futures Exchange (SFE) for the period 6-12 months ahead (Q3 - Q4 2013, table 2) compared to 2012-13 trades the same time a year earlier (Q3 - Q4 2012, table 3).

**Table 2: Queensland 2013-14 traded volumes as at 31/12/2012 (d-cyphaTrade)**

Quarter	Base Swaps	Peak Swaps	Caps
Q3 2013	3739	75	258
Q4 2013	3664	80	140
Q1 2014	1187	40	245
Q2 2014	803	5	230
<b>Average</b>	<b>2348</b>	<b>50</b>	<b>218</b>

**Table 3: Queensland 2012-13 traded volumes as at 31/12/2011 (d-cyphaTrade)**

Quarter	Base Swaps	Peak Swaps	Caps
Q3 2012	7252	94	157
Q4 2012	7414	143	147
Q1 2013	389	10	95
Q2 2013	264	5	95
<b>Average</b>	<b>3830</b>	<b>63</b>	<b>124</b>

<sup>17</sup> EnergyAustralia, Response to the Regulated Retail Electricity Prices 2012-13 Interim Consultation Paper, Section 4.3, page 8

<sup>18</sup> Frontier Economics, Methodology Report – input assumptions and modelling: A draft report prepared for IPART, November 2012, pages 10-12

In both cases, considerably fewer trades have occurred for SFE Swap products dated more than 12 months into the future (e.g. for Q1 –Q2 2013 Swaps traded as at 31<sup>st</sup> December 2012). Although the situation may improve somewhat if ACIL use d-cypha data in several month's time, it is still deeply concerning to us that the Authority intends to rely on prices from d-cyphaTrade that are based on quarters with reduced liquidity.

The Delegation states that the Authority must have regard to 'the actual costs of making, producing or supplying the goods or services'. However, in the past ACIL have arrived at a market based energy cost that is not recognisable to us as being reflective of the energy costs we bear. In our view, the quality of the modelled output is affected by the reduced quality of the available input data.

#### **Treatment of risk**

In this review, we strongly urge the Authority to provide a full analysis of the energy risks a retailer must manage, including an explicit outline of each different type of risk and how this is accounted for in the energy costs, margin and/or headroom components. While ACIL has not been engaged to determine a margin on the wholesale cost, they have proposed methods to minimise residual market volume or price risk (i.e. by take the 95<sup>th</sup> percentile of simulated annual hedged prices). A comprehensive a clear view of the treatment of risk, margin and headroom in the Draft Determination and consultant reports will assist stakeholders in assessing the suitability of the overall approach.

### **3.2. Approach to determining market cost**

The Authority seeks stakeholders' views on the following:

- a) Is ACIL's proposed method for estimating wholesale energy costs reasonable given the requirements of the Electricity Act and the Delegation?
- b) What other approaches should the Authority consider?
- c) What factors should ACIL take into account when determining modelling inputs such as customer load forecasts, plant outage scenarios, hedging strategies and spot price forecasts?

In terms of the market cost approach, we make the following comments on the approach outlined by ACIL:

- We reiterate the comments we made in our initial submission to this review.<sup>19</sup>
- It's not entirely clear how ACIL are intending to develop the regulated load traces and we request more information on this. We note that constructing a regulated load trace by selecting the regulated demands correlating in time to the developed system load profiles does not guarantee a representative regulated load. Notwithstanding this, we support the approach by ACIL to construct the system demands first and then the regulated load profiles subsequent to this. However, in order to demonstrate the appropriateness of the results, we request that the regulated load traces be shown to be within sensible ranges. We also request that the volatility of the system load and price traces be verified against historic outcomes over a representative period of time.
- We are supportive of ACIL's proposed approach to use the 95<sup>th</sup> percentile of energy cost estimates instead of the median of the 462 simulated annual hedged prices.

Our experience in recent reviews conducted by the Authority and other regulators has shown that the best way to assess a market modelling approach is to have key data and results sets made available and a detailed approach outlined so that we and other stakeholders may become comfortable that the approach leads to realistic outcomes. This

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<sup>19</sup> EnergyAustralia, Response to the Regulated Retail Electricity Prices 2012-13 Interim Consultation Paper, Section 4.1, 4.2, page 8

data is required in enough time for stakeholders to review thoroughly before responding to the Draft Determination.

### **3.3. Enhancing time-of-use signals**

- d) How could appropriate time-of-use signals be included in energy cost estimates under the current metering and settlement arrangements?

We believe the best way for time-of-use pricing to be set up effectively in Queensland is to introduce interval metering (type 5 metering) into the retail market, which allows retailers to settle their energy costs against each customer's half hourly load profile, rather than against the Net System Load Profile (NSLP).

We do not support the artificial raising and lowering of the peak and off peak usage rates in the regulated retail tariffs for business or residential customers as this would makes the tariffs less cost reflective. This will introduce a new issue that will drive perverse behaviour in the retail market as customers with peaky load profiles would be preferred by retailers as the revenue obtained from these customers would provide a higher profit margin compared to customers with a less peaky load profile. A move to a less reflective tariff could also require rectification via a transition plan sometime in the future.

Apart from providing benefits in sharpening the price signal for TOU tariffs, a move to interval metering for small customers in the Energex area would also facilitate:

- other advanced types of pricing such as demand and critical peak pricing (see section 2.1); and
- enable retailers to offer products and services associated such as the provision of detailed energy usage reports and advice on minimising energy costs through altering use of appliances.

In fact, a move to interval metering in Queensland would be expected to have a positive effect on competition as it enables retailers to offer more tailored prices and services to customers and therefore allows them to better differentiate themselves from their competitors. A broader range of types of products and services, especially ones that offer tangible benefits to customers, would also be expected to have a positive effect on customer satisfaction.

### **3.4. Carbon costs**

- e) Could ACIL's approach to estimating carbon costs be improved?

We are concerned that ACIL appears to be recommending that market data from d-cyphaTrade be used as the basis for the carbon inclusive prices for the estimate of the wholesale energy cost. The futures prices beyond year one are demonstrably lower than the expected black + carbon price as the market is responding to the risk of carbon repeal. We showed this recently in detail for NSW for the 2014/15 year in our submission to IPART for their review of regulated retail pricing in NSW.<sup>20</sup> Continuing to use the same approach for carbon in each year of the period of the Delegation could undervalue the energy cost unless separate steps are taken to compare carbon inclusive and exclusive market costs and ensure carbon costs can be fully recovered by the regulated retail tariff.<sup>21</sup>

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<sup>20</sup> EnergyAustralia, Submission to the IPART Issues Paper for the Review of Regulated Retail Pricing 2013-16, pages 41-42

<sup>21</sup> EnergyAustralia, Submission to the IPART Issues Paper for the Review of Regulated Retail Pricing 2013-16, pages 40-44

### 3.5. Queensland gas scheme

The Authority seeks stakeholders' views on the following:

- How should a retailer's cost of complying with the Queensland Gas Scheme best be estimated?
- What data source(s) should the Authority use in modelling the Queensland Gas Scheme?
- Are there any other issues that should be considered in estimating this cost component?

We support the continuation of the approach taken to estimating Queensland Gas Scheme costs used by the Authority in the 2012-13 Determination.

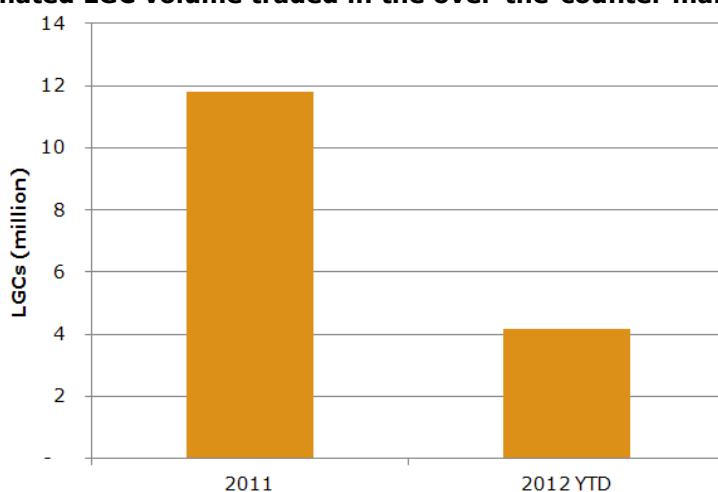
### 3.6. Large-scale Renewable Energy Scheme

The Authority seeks stakeholders' views on the following:

- How should the Authority estimate retailers' costs of complying with the ERET scheme?
- What factors should be considered in forecasting the REC costs likely to be incurred by retailers in the SRES and LRET markets?

The cost based approach to estimating the cost of the certificate is preferred over an approach referenced to market prices. Current liquidity in the traded Large-scale Generation Certificate (LGC) market is very low (figure 1), and had reduced greatly since the removal of supply from small-scale technologies since the beginning of 2011.

**Figure 1: Estimated LGC volume traded in the over-the-counter market<sup>22</sup>**



Retailers' obligations under the scheme are largely met through either building large scale renewable generation (predominantly wind farms) or long term contracting of the output of such generators. As the legislated target increases significantly to achieve the 20% renewable energy goal by 2020, significant new capacity will need to be built and will be the main driver of the cost of compliance. As such, the LRMC approach better reflects the costs to retailers than the limited volumes trading through the market.

We would not recommend that a market based approach be used only because it is more transparent and less complex than a LRMC based approach. The Authority should ensure that the resultant LRET cost allowance is accurate.

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<sup>22</sup> Sourced from internal data

### 3.7. Small-scale Renewable Energy Scheme

#### 3.7.1. Small-scale Technology Certificate prices

- c) Do stakeholders agree with using clearing house price in estimating SRES costs, or would market prices be more appropriate? How can the proportion of STCs sold through the clearing house be calculated?

ACIL has recommended that a price of \$40 should be allowed for Small-scale Technology Certificates. Under the current design of the SRES, the opportunity cost of the Small-scale Technology Certificate (STC) remains at \$40 and therefore we agree that the price continues to be set at that level.

While the market price of STCs has traded below this level in the brief history of the scheme, this has been due to the inability of the Clean Energy Regulator (CER) to forecast the effect of market factors such as the Solar Credits Multiplier and various state based feed-in-tariffs when setting the target Small-scale Technology Percentage (STP). These factors have largely been removed from the start of 2013, which will reduce greatly the creation of STCs, and will enable the CER to set a target more accurately in line with supply. With demand equal to supply, sellers will obtain the guaranteed \$40 offered by the clearing house. We note that at the end of November 2012 there were over 5 million STCs in the Clearing House.

Attempting to model other factors that may lead to market participants selling below the \$40, such as their individual holding costs, would be extremely difficult. As the STC market has matured it has also consolidated and the number of cash constrained participants has decreased.

#### 3.7.2. Addressing variations in the Small-scale Technology Percentage

- d) Do stakeholders agree with using non-binding STP targets for 2014 and future years? Are there any better forecasts that the Authority could use?
- e) How should the Authority deal with variations from the STP targets used in determining 2013-14 prices?
- f) Are there any other issues that should be considered in estimating this cost component?

We note that downward pressure is expected to be placed on the number of STCs created following the announcement from the Federal Government of the phasing out of the solar credits multiplier from the 1<sup>st</sup> January 2013.<sup>23</sup> This may lead to STP values being more stable in future. The Climate Change Authority has also very recently announced a recommendation that the STP the binding estimate be released in December each year instead of March.<sup>24</sup>

It appears difficult to create an approach to estimating the STP that would be seen by stakeholders as valid given that the CER publishes updated non-binding estimates several times a year. We believe that the difficulties in estimating SRES costs for any particular tariff year should be dealt with via either of the following approaches:

- a catch up mechanism in the following tariff year to address any over or under-recoveries of SRES costs; or
- using the STP for the calendar year for the whole of the next tariff year rather than using a combination of the STP binding estimate for the first six months of the tariff year (i.e. July to December) and the non-binding estimate for the next calendar year (January to June).

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<sup>23</sup> Clean Energy Regulator, <http://ret.cleanenergyregulator.gov.au/Latest-Updates/2012/November/3>

<sup>24</sup> Climate Change Authority, Renewable Energy Target Scheme: Final Report, Overview, page 4

### **3.8. NEM participation fees and ancillary services charges**

The Authority seeks stakeholders' views on the following:

- a) How should the Authority estimate NEM participation fees and ancillary services charges incurred by retailers?
- b) Are there any other issues that should be considered in estimating this cost component?

We support the method used by the Authority to determine NEM participation fees, however we believe it could be more appropriate to use a method to forecast the ancillary services charges rather than rely on historical data. Frontier Economics have established a predictive methodology for calculating ancillary services charges in their work with IPART.<sup>25</sup>

### **3.9. Energy losses**

The Authority seeks stakeholder's views on the following:

- a) How should the Authority take account of energy losses that occur between the regional reference node and the retail customer?
- b) Are there any issues other associated with the incorporation of energy losses in its energy cost estimate.

We support the approach taken by the Authority in determining energy losses in the 2012-13 Determination.

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<sup>25</sup> Frontier Economics, Final Report for IPART: Energy costs – Electricity retail review, April 2007, Appendix A

## 4. Retail costs

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### 4.1. Calculating retail operating costs

The Authority seeks stakeholders' views on the following:

- a) Is the Authority's 2012-13 approach to determining the retail operating cost allowances appropriate to use for 2013-14? If not, what is an appropriate alternative approach and why would this be superior?
- b) Have there been any recent developments that would suggest a significant change in current costs has occurred?

As the Authority is now seeking to determine an approach to setting Retail Operating Costs (ROC) for a three-year Delegation period, we recommended that a more comprehensive approach is taken to ensure that the costs are appropriate rather than indexing the previous ROC value by the consumer price index (CPI). Retail operating costs are driven by completely different factors than those that contribute to the CPI.

With the increases in network costs and also carbon costs, both the risk of non-payment and the amount lost when debts are eventually written off, has increased. This means, increase working capital is now required to manage customers paying their bills in arrears. As a consequence of the number of customers defaulting, we have also experienced growth of complaints, credit and collection, and call centre costs. These costs could be compensated through either an increased allowance for retail operating costs, or an increase to the allowance for retail margin.

New sources of cost have also been introduced over the last regulatory period. In supporting services that customers demand, such as solar, we can face much higher fixed costs through that customer's lifecycle. As other new schemes are introduced, we believe we will see that some costs will greatly increase in a similar way to that experienced for solar customers.<sup>26</sup> These costs can be exacerbated if schemes are set up inefficiently by industry or government.

Although the industry and individual businesses do make changes over time to move to a more efficient level in servicing these customers, it cannot be said that the retail operating costs will ever be as low for solar customers (for example) as they are for customers without solar panels as. We disagree with the Authority's statement in the recent Draft Determination on the Solar Feed-in tariff in Queensland that additional retail costs for solar customers will reduce to negligible levels in the next few years.<sup>27</sup> There will always be more tasks to complete at installation and quoting stages, more to explain to the customer, a wider variety of industry data to manage for solar customers and these components are very unlikely to diminish to negligible levels over this regulatory period.

Retailers are always going through some level of change, but it has been particularly acute recently and will continue for at least the next few years as we evolve to deal with the digital environment and further regulatory changes. As we've argued for the energy cost allowance, it is important that the Authority set the regulated tariff at the right level overall to ensure that Queensland continues to see the benefits of competition. There are many smaller retailers who are not currently playing a particularly active role in the Queensland market and we believe that this is due to the regulated tariff being too low. Therefore, we recommend that the Authority make sure that ROC and all other components of the regulated retail tariff are set at an efficient level.

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<sup>26</sup> EnergyAustralia, Submission to the QCA Issues Paper on Estimating a Fair and Reasonable Solar Feed-in Tariff for Queensland, September 2012, pages 3-4

<sup>27</sup> QCA, Estimating a Fair and Reasonable Solar Feed-in Tariff for Queensland: Draft Report, November 2012, page 25

## 4.2. Applying retail operating costs to tariffs

The Authority seeks stakeholders' views on the following:

- Is the Authority's 2012-13 approach to allocating ROC to retail tariffs cost reflective?
- If not, what would be a more cost-reflective approach, and why?

In the last Determination the Authority allocated ROC to the fixed component of each retail tariff and we believe this remains a suitable approach to use in the next regulatory period.

The Authority is correct in indicating that retail costs tend to vary more with customer numbers than they vary with electricity consumption.<sup>28</sup> The only retail cost component that we believe is partly influenced by consumption is the cost of bad debts. However, even taking this into account only a small percentage of the overall retail operating costs could be considered variable.

## 4.3. Retail margin

### 4.3.1. Estimating the retail margin

The Authority seeks stakeholders' views on the following:

- Is there any evidence to suggest that the current retail margin of 5.4% should change?

As the 5.4% retail margin was based on analysis that SFG carried out for IPART in 2009-10 for the NSW regulated retail customer base we suggest that the Authority should undertake a more thorough review of this component for the next regulatory period. Not only is the Queensland retail market quite different to the NSW market, there have also been major changes over the last few years.

The retail margin calculated by SFG process focuses on systematic risk. There are indications of a longer term change to the one-to-one relationship previously seen between electricity consumption and gross domestic product. This is likely to result in increasing systematic risk for electricity retail businesses meaning that an increase in retail margin is likely to be required.

However, we believe that the retail margin in Queensland should be set at a higher level than the 6.5-7% we recommended in NSW as there are other major (non-systematic) risks that retailers face in Queensland, which are not compensated for elsewhere in the regulated cost allowances. We recommend that the Authority assess each of these and add an additional percentage to the overall retail margin:

- The risks associated with maintaining alignment between retail and network tariffs without the ability to use cost pass-through reviews to address changes in costs (see section 2.3).
- Similarly, there is no indication of how other types of unforeseen events (e.g. government or regulatory changes, major market changes or industry driven changes) will be allowed for in the ROC component.
- ACIL Tasman have been engaged to determine the wholesale energy costs but appear not to be undertaking a thorough assessment of energy cost related risks and making allowance for this in the wholesale energy costs they develop. It is crucially important that energy cost risks are accounted for in the retail margin, especially if The Authority proceeds with using a market based approach to determining the energy cost component of the regulated retail tariff.

Retailers face significant risks in minimising exposure to very high price periods and can quickly go out of business if these risks are not well-managed. In these

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<sup>28</sup> QCA, Consultation Paper, page 23

circumstances a catch-up in the next year is not a good approach, allowance must be made for risk in each year.

- b) If [the current retail margin of 5.4% should change], what level should the margin be set at and why?
- c) What information should the Authority rely upon in determining an appropriate margin?

Using analytical methods, it can be time-consuming and complex to determine a suitable range for retail margin based on systematic risk. However, we contend that a risk premium should be added to account for the volume uncertainty during this period until electricity volumes return to a new base level. Given the risky environment that retailers operate under we believe that the current 5.4% is too low. As part of the IPART review we submitted that a range between 6.5-7% may be appropriate given the risks our investors face. It is important to note that this only covers the systematic portion of the risk faced by retailers.

As discussed above, we contend that the retail margin set for the Queensland regulated tariff should also consider sources of non-systematic risk. We strongly recommend that the Authority does not utilise the new retail margin percentage that is being developed by SFG Consulting for IPART in isolation, and also does not rely on a benchmarking approach alone.

In the Consultation Paper, the Authority outlines reasons why it would not seek to rely on retail margin decisions in South Australia, Tasmania and the ACT. We agree that these markets are significantly different to Queensland and agree with the Authority that these decisions on retail margin are not relevant for this review. We would like to see a complete assessment of the retail margin specifically for the Queensland market that addresses the issues above.

The higher the level of competition the more incentive a retailer has for reducing their own margin to attract customers. If the margin is set too low then there will be less incentive for existing retailers to offer innovative deals to customers and minimal incentive for new entrants to enter the market. The end result is a stagnant market. In contrast a higher retail margin will encourage new competitors to enter the market and gain market share via discounting and new offerings.

#### **4.3.2. Applying the retail margin to tariffs**

The Authority seeks stakeholders' views on the following:

- a) Do you agree with the Authority's 2012-13 approach to applying the retail margin to retail tariffs?
- b) If not, what would be a more appropriate approach and how would it be applied in practice?

The approach previously used by the Authority in applying the retail margin to all cost components of each retail tariff is still the most suitable method in our view. The Authority is correct in stating that network costs are not a costless pass-through for retailers due to cash flow issues.<sup>29</sup> Rising network costs can also affect retailer's bad debt costs. Therefore, we support the retail margin being applied to both the N and R components.

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<sup>29</sup> QCA, Consultation Paper, page 24

## 5. Competition and other issues

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### 5.1. Competition considerations

#### 5.1.1. The state of retail competition in Queensland

##### ***Switching activity and what it indicates about the level of competition***

It is very concerning to us that the Authority believes that retail competition in the Queensland electricity market has not been negatively affected by the pricing outcome in the 2012-13 Determination. We reaffirm the statements we made about competition based on analysis of Australian Energy Market Operator (AEMO) data and our own internal data in our submission to the Initial Consultation Paper.<sup>30</sup> The latest retail transfer statistics were very recently published by the AEMO and this shows a decline back to a 12% monthly annualised churn rate in December 2012, which further indicates an average decline since July 2012.<sup>31</sup>

In assessing competition in Queensland we also encourage the Authority to take a closer look at which retailers are contributing most to the transfer figures reported by AEMO and to look at the trends in activity for individual retailers over time. The Authority refers to the possibility of retailers 'withdrawing from the market'. Except in the case of severe financial difficulty, we would be surprised to see a retailer withdraw completely from the retail market once they have made a decision to enter. Retailers tend to make long-term decisions about market entry. When conditions are tough, they will reduce their sales and marketing behaviour significantly, but will still remain in the market. Some channels to market can be considered more active and easier to shut down at short notice, while other (more passive) channels are expensive to close down once set up and are usually left open at times when a retailer would rather not be accepting new customers. There is also the matter of wholesale energy commitments, which can also be costly to exit.

A closer inspection of retail transfer data, we believe, would show that many retailers in Queensland are becoming more passive in acquiring and retaining customers. Some people may consider that this is not such a bad thing. However, if this situation looks set to continue for the indefinite future, then it is possible that some retailers will cut their losses and exit formally from the market. This would clearly be a backward step for competition.

##### ***Price and non-price based competition***

We have not seen the same level of competitive breadth and intensity due to the regulatory risk in Queensland reducing the attractiveness of the market, particularly for smaller second tier retailers and new market entrants. Competition in the Queensland electricity market is predominantly discount focused and we are not starting to see the emergence of non-price based offers that assists consumers to more effectively control and manage their energy costs and as we other in other states.

The Authority's Price Comparator website provides all available market based electricity prices available to residential customers in South East Queensland. We accessed this to attempt to verify the 15% discount being offered by one retailer as reported by the Authority in the Consultation Paper.<sup>32</sup> At the time we accessed the site (in early January 2013), there were no offers that were close to offering an overall 15% discount off Tariff 11 and not even any that had a 15% discount off usage prices only. The highest overall discount we found offered on Tariff 11 was an overall 11% discount from two retailers (based on a 12% discount off usage rates). Thus, it appears that there has only been only an increase of one percentage point from the 2011-12 maximum discount reported by the Authority.

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<sup>30</sup> EnergyAustralia, Response to the Regulated Retail Electricity Prices 2012-13 Interim Consultation Paper, Section 4.1, 4.2, page 10-11

<sup>31</sup> AEMO, Retail Transfer Statistical Data Specifications, December 2012, <http://www.aemo.com.au/Electricity/Data/Metering/Retail-Transfer-Statistical-Data>

<sup>32</sup> QCA, Consultation Paper, page 27

Queensland is the only competitive retail electricity market in Australia that has such a slow-moving market in terms of discounting and introduction of non-price offers for residential customers. While the market is competitive in some senses, far greater improvements and benefits could be realised over time. To encourage competition, we believe the Authority should determine a regulated retail price that better reflects the costs that face in managing all the underlying costs of electricity supply including an appropriate margin and headroom. As we have discussed above, competition could also be improved by the introduction of interval metering for small customers in the Energex region (section 3.3).

### **5.1.2. Assessing competition and determining headroom**

The Authority seeks stakeholders' views on the following:

- a) What matters should the Authority take into account to assess the effectiveness of competition in SEQ? What information could assist the Authority in this task?

In assessing competition, the factors that we think would be suitable for use in this review are:

- the change in the number of active retailers;
- the trend in marketing activity for individual retailers (as assessed by trends in retail market transfer activity published by AEMO and discussed in the section above);
- the number and range of different types of retail offers available;
- the trend in pricing and discounts;
- customers' ability to access the competitive market;
- customers' attitudes to, and awareness of, retail offers; and
- customer satisfaction with choice of retail offers.

This information to assess most factors is already accessible to the Authority. The last three factors, however, are probably best assessed via a customer survey. We encourage the Authority to make use of the detailed market transfer statistics to delve further into the trends underlying the high level charts published by AEMO.

- b) What impact has the level of headroom had on competition in SEQ?

The fact that discounting has not risen by 5% on average suggests that the explicit headroom component has been used by retailers to cover costs. Therefore, we believe the headroom has partly negated the impact to competition that has resulted from the decision in the 2012-13 Determination to set the regulated tariff level too low.

- c) Are there other factors impacting on competition in SEQ? How could these be addressed?
- d) What else should the Authority take into account in determining the appropriate level of headroom?

There are no other significant factors impacting competition in South East Queensland other than those covered by the Authority and those we've addressed in our submission. The main factors we believe are stalling the development of competition in the Queensland retail electricity market that the Authority should take into account when assessing the appropriate level for headroom are:

- the use of the market cost approach in setting the energy cost component leading to an overall regulated tariff that does not allow the level of retail margin and headroom anticipated by the Authority and is limiting discounting, investment and innovation in the retail market;
- the lack of cost reflectivity of some tariffs;

- the absence of interval metering meaning that retailer wholesale energy costs for small customers don't allow TOU price signals to be strengthened in the regulated tariff (in a cost reflective manner); and
- the absence of interval metering that could allow retailers to introduce additional services to customers to help them manage their usage and keep their bills down.

## 5.2. Accounting for unforeseen events

The Authority seeks stakeholders' views on whether the Authority should include a catch-up mechanism if it is able to do so and what events this should be applied to?

A catch-up mechanism is certainly required if a cost pass-through mechanism is not possible under the Electricity Act. If a catch-up mechanism is also not possible under the Electricity Act or Delegation, then we strongly urge the Authority to increase the retail margin accordingly (section 4.3.1).

Due to the heightened sensitivity to electricity prices and the interest in addressing peak demand and other challenges currently faced by the energy industry we are seeing a greater level of government and regulatory change. This adds risks and therefore cost to retailers. It is critical that the Authority accounts for costs faced by retailers in prior tariff years (as outlined directly above) and to ensure that all components of the regulated retail tariff are open to revision in each year of the Delegation period. We note that other regulators such as the Essential Services Commission of SA (ESCOSA) and IPART have in the past set particular components such as ROC for a three-year period. This would not be appropriate for Queensland. Therefore, we recommend that the Authority retain the flexibility to review all tariff components each year under this Delegation.

The events that should trigger either a cost pass-through review or the inclusion of a catch-up amount relate to any change that is made by a statutory or industry body that is outside of retailers' control. This includes decisions made by government, regulators and other government bodies, the tax office and distributors. It should also include events where an expected change is rescinded or substantially revised after costs have been incurred by retailers. For example, if the Queensland Government were to decide not to implement the National Energy Consumer Framework (NECF).

## 5.3. Access to obsolete tariffs

- Should new customers be allowed to access obsolete tariffs during the transitional period?

No. We agree with the views stated by the Authority in the Consultation Paper that making obsolete tariffs available to new customers would 'exacerbate the inefficiencies that pricing reform was intended to eliminate.'<sup>33</sup>

- Should some customers who were already being supplied prior to 1 July 2012 on what were to become obsolete tariffs be granted access to the corresponding obsolete tariffs. If so, which customers, which tariffs and why?

No. Allowing any customers to re-access obsolete tariffs once they are closed hinders the complete removal of these obsolete tariffs.

We support consistency in transitioning from obsolete tariffs and in managing issues through effective communication rather than having obsolete tariffs linger on. An appropriate transition plan should minimise customer impacts and ensure that all customers are moved off the obsolete tariff at the earliest date to assist in reducing overall retail operating costs.

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<sup>33</sup> QCA, Consultation Paper, page 29