5 September 2013

Queensland Competition Authority
GPO Box 2257
Brisbane QLD 4001

By email: electricity@qca.org.au

Dear Sir/Madam,

## Regulated Retail Electricity Prices for 2014-15 Interim Consultation Paper

Alinta Energy (**Alinta**) is both a generator and retailer of electricity as well as being gas supplier in Western Australia and the Eastern States energy markets. Alinta has in excess of 2500MW of generation facilities and services over 700,000 retail customers, this includes over 100,000 energy customers across Victoria & South Australia. As an incumbent retailer in WA and a new entrant retailer in the National Energy Market (**NEM**) Alinta is well placed to provide comment on the *Regulated Retail Electricity Prices for 2014-15 Interim Consultation Paper.*

Alinta welcomes the opportunity to provide comment on the Queensland Competition Authority (**Authority**), consultation paper. Alinta remains of the view that a well-functioning competitive market provides greater customer benefit. It is with this in mind that we welcome and support the recent Government announcement to transition to a price monitoring regime by 2015.

Alinta, whilst being an active retailer in Queensland, we are currently only supplying and making offers to large unregulated customer. This decision has been based on the risk faced by retailers when attempting to operate in markets where regulated prices are not set at a level that allows retailers to recover their efficient costs of operating in the market.

Alinta has previously highlighted these risks faced by retailers. We recognise the difficult task the Authority, has in attempting to determine a regulated (safety net) price, and the need to do so whilst also having regard for its impact on the level of competition. If the Authority fails to set prices at an appropriate level, recognising the efficient cost and risk faced by retailers in supplying customers, it will continue to have an impact on the level of competition in Queensland.

The complexities faced by the Authority in attempting to determine prices are highlighted in the interim consultation paper as it identifies the individual elements that require assessment and determination in setting an end retail price. These include but are not limited too;

- Network Costs,
- Wholesale Energy Costs,
- Energy Costs,
    - Renewable Energy Target Scheme Costs,
    - NEM participation fees and ancillary service charges,
    - Prudential Capital,
- Energy losses,
- Retail Costs,
    - Retail Operating Costs,
    - Retail Margin,

Each cost component to be determined has multiple assessment criteria that may be used in assessing their relative costs, each with their own benefits and detriments. This complexity highlights the possible risk of incorrect (non-reflective) assessment of one or multiple cost elements.

The move to a price monitoring regime will remove this risk for the Government / Authority and allow retailers a level of control and stability that will encourage new entrants. The price monitoring regime allows for greater stability for retailers to manage the risks it faces from operating in the market, facilitating new entry that will aid in product innovation and customer choice as barriers to market entry are eroded.

As previously stated Alinta welcome and supported the move to a price monitoring regime.

Our specific comments on the interim consultation paper are provided in the attached submission. We look forward to further participating in this consultation. If you would like to discuss our submission, please contact me on 02 9372 2653.

Yours sincerely

[redacted]

**Shaun Ruddy**
Manager National Retail Regulation

alintaenergy

# Alinta Energy Submission Regulated Retail Electricity Prices for 2014-15 Interim Consultation Paper

## Wholesale Energy Costs

As outlined in Alinta's previous submissions a prudent retailer will seek to manage price and load risks by hedging its load over time using a number of different instruments.

Any assessment of a representative retailers' Wholesale Energy Costs (**WEC**) should therefore assume that a retailer has layered in hedge cover over the short, medium and longer term through a mix of contracts and through either building or underwriting generation. This assumption should include the relevant risk premiums incurred through a layered portfolio management approach.

Accordingly, Alinta remains of the view the WEC assessment should be made up of;

- a mix of Long Run Marginal Cost (**LRMC**) of energy *and* market prices as appropriate proxies for the above portfolio approach (as LRMC reflects the cost of entering into long term power purchase agreements or directly investing in generation plant and market prices are a better reflection of the short term costs of managing load);
- market prices should be based on published market data;
- the hedging strategy applied should be conservative to ensure a retailers' price and volume risks are minimised; and
- an additional risk allowance should be provided for to cover unforeseen extreme load or price events (for example, a volatility allowance which reflects the liquid form capital on hand to fund any volume exposure to the market price cap).

Alinta continues to support its position on the use of LRMC in determining the WEC, with the acceptable option of a mix of LRMC and market based prices with the weighting focused on the LRMC component.

We note the comments in the paper that Governments are starting to show a preference for a hedged based approach to determining WEC. However the move to a market approach in South Australia ceased with the advent of a move to a price monitoring regime, likewise in NSW the Independent Pricing & Regulatory Tribunal (**IPART**) maintained a heavy weighting (75%) towards LRMC whilst also adjusting its approach to other retail costs. Therefore to suggest that Governments (Regulators) are moving to adopt a market based approach is somewhat simplistic.

## Retailer Operating Costs

Given the Authority has recognised the importance of competition; it should aim to ensure that regulated prices reflect the cost of an efficient new entrant standalone retailer. We note comments in the consultation paper that the Authority looked at recent determinations in other jurisdiction, and that the Authority looked at the NSW determination and that the Authority considered the Retail Operating Cost allowance (**ROC**) for small customers in IPART's determination was relevant and adopted IPART's ROC value with a minor adjustment to account for late payment fees.

As we did in the Authorities original pricing consultation, and the IPART price review we raised our concern with the use of incumbent retailer costs in determining the ROC. Whilst we are supportive of the methodology used in determining the ROC, our concern remains around the input values used. The input values used to determine the ROC should be those based on a standalone second tier retailer.

Determining the ROC on the basis of an incumbent retailer, which already has scale and significant brand awareness does not adequately account for critical aspects of second tier (new entrant) retailer costs, such as branding and marketing costs, customer acquisition and network prudential (credit support) costs.

Alinta remains of the view that the input cost values used in determining the ROC should be based on those of a new entrant standalone retailer.

## Competition

The promotion of and development of competition in the QLD market remains a key priority. It is important that the Authorities methodology in determining the notified (safety net) price both promotes and facilitates the further development of a competitive market in this lead up to the transition to a price monitoring regime.

In promoting competition the Authority must ensure that prices are set at cost reflective levels (inclusive of adequate retail margin). In consideration of this, and as previously stated the Authority should look to;

- Use LRMC, or at minimum a mix of LRMC & market based pricing, to determine the WEC,
- Use the retailer operating costs of second tier retailers when determining the ROC, and
- Seek to move the Community Service Obligation (CSO) payments off the retailer and on to the network companies

The CSO as part of the Governments Uniform Tariff Policy has the effect of creating an uneven playing field. The government's Uniform Tariff Policy currently allows for a CSO payment to the rural retailer (Ergon), effectively a subsidy, which is not afforded to any new entrant retailer, restricting retailers from entering this market.

Alinta would suggest the Government's CSO payment be paid at the distribution level, thereby facilitating additional retailers to enter the rural Queensland electricity market.