

570 George Street
Sydney NSW 2000

Address all mail to
GPO Box 4009 Sydney
NSW 2001 Australia

www.energy.com.au



10 February 2011

Mr. Brian Parmenter
Chairperson
Queensland Competition Authority
GPO Box 2257
Brisbane QLD 4001

Email: electricity@qca.org.au

Dear Mr. Parmenter,

Re: Draft Decision Benchmark Retail Cost Index for Electricity 2011-12

EnergyAustralia welcomes the opportunity to comment on the Queensland Competition Authority (QCA) Draft Decision on the Benchmark Retail Cost Index (BRCI) for Electricity 2011-12. We recognise the importance of this review with the outcome of the price setting process significantly impacting on the ongoing viability of the Queensland electricity market.

EnergyAustralia continues to be of the view that retail tariff reform is necessary in Queensland to ensure that the notified prices are cost reflective. EnergyAustralia maintains that the review started by the QCA in 2009, should be restarted and the outcomes reflected in the 2012-13 notified prices.

EnergyAustralia recognises that the QCA remains bound by the current BRCI framework, however, is of the view that even under this methodology regulated tariffs in the Queensland electricity market must be set at cost reflective levels, and to not do so effectively restricts market competition.

Distribution and Transmission Costs

EnergyAustralia remains concerned about the use of the average of the Energex and Ergon increases, however, acknowledges that the QCA has calculated this component in accordance with the legislative requirements.

As in past years there exists a difference between the changes in network rates for the Ergon and Energex areas. The result of applying the average increase is an erosion of margin due to the actual increase in network costs being greater than that included under the BRCI. This issue is further exacerbated by any tariff rebalancing undertaken by the distribution or transmission operators.

While identified in the QCA's review of Electricity Pricing and Tariff Structures – Stages 1 and 2, that an N+R tariff structure is infinitely preferable, EnergyAustralia recognises that any change of methodology in the BRCI process is out of the scope of this year's determination.

Energy Purchase Cost

EnergyAustralia reiterates its view that the energy purchase cost component of the BRCI should move away from the hybrid LRMC and energy purchase cost approach to a market-based energy purchase cost approach for assessing wholesale energy costs with the LRMC as a floor price.

Through the inclusion of the LRMC as a floor, EnergyAustralia believes that the QCA can meet its obligations to take into account the LRMC of energy when calculating the actual cost of purchasing energy.

RET Scheme Costs

The cost to retailers of complying with SRES has been estimated by ACIL using the published STP for 2011 and an estimate of STCs expected to be created for 2012. EnergyAustralia considers the use of ACIL's lower estimate to be too conservative and as a result the cost of complying with SRES for the second six months of 2011/12 is significantly understated.

The Office of Renewable Energy Regulator (ORER) published estimates of the number of certificates forecast to be created provided by three consultants, namely ACIL Tasman, Green Energy Markets and SKM-MMA. The estimates for STC creation forecast for 2012 is summarised below:

Calendar Year	Green Energy Markets Forecast	SKM-MMA Forecast	ACIL Tasman Forecast		
			Upper estimate	Best estimate	Lower estimate
2012	30,883,000	22,485,000	34,630,000	30,295,000	18,000,000

In its report to the ORER, ACIL says "it is worth considering that extremes of both the upper and lower bound estimates rely to some extent on conscious decisions of government to reduce or maintain the up-take of these technologies over the projection period"¹. The announcement by the Federal Government to bring forward the reduction in the solar multiplier means that ACIL's upper estimate is no longer applicable. EnergyAustralia considers that the lower estimate calculated by ACIL is a worst case scenario and should not be used in isolation given the significant variance from the other consultants' reports which were forecast using the same historical data and applied the reduced solar multiplier case.

ACIL in its report to the QCA acknowledges that there is "significant uncertainty regarding the number of STCs created over this period (as highlighted by the size of the range)"². Given ACIL's concerns with its own estimate, EnergyAustralia considers that the highest of the three estimates prepared by the consultants on behalf of the ORER is a more appropriate estimate than ACIL's lower estimate.

EnergyAustralia notes that there is a lack of transparency as to the relevant electricity acquisitions and the PECs estimate used in ACIL's calculation of the STP for 2012. The ORER has previously indicated that the level of PECs for 2011 is approximately 30,000 GWh³. Using this to backcalculate the relevant acquisitions and assuming an annual average electricity growth of 1.8% gives an estimate of relevant electricity acquisitions for

¹ ACIL Tasman, "Small Scale Technology Certificates Data Modelling Projected take-up of small scale renewable technologies over Calendar Years 2011 to 2013" 15 November 2010, p47

² ACIL Tasman, "Calculation of energy costs for the 2011-12 BRCI – Draft Report", 16 December 2010, p43-44

³ Indicated at the Bioenergy Conference 9 December 2010

2012 of 223,000GWh. Based on these values and using the methodology above EnergyAustralia calculates the forecast STP for 2012 to be approximately 16% as shown below. It is EnergyAustralia's view that this STP forecasts should be applied for 2012.

STC Forecast (Green Energy Markets)	PECs Estimate (GWh)	Relevant electricity acquisitions (GWh)	STP
30,883,000	30,000	223,000	16.00%

Retail Operating Costs

EnergyAustralia is pleased to see that additional costs associated with the Authority's decision to impose a regulatory fee on retailers for the Authority's cost of performing regulatory functions in respect of the retail electricity industry has been taken into account in estimating the retail operating costs for 2011-12.

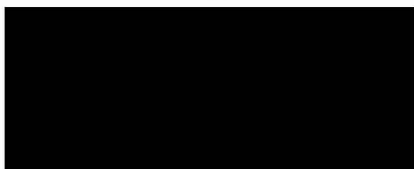
Retail Margin

EnergyAustralia notes that the Authority has acknowledged it has not taken explicit account of the requirement in the Current Delegation to maintain the "headroom" of incumbent retailers. EnergyAustralia is of the view that the widely acknowledged shortcomings in the BRCI (such as the use of the "average network increases" and structural mismatches in the tariffs) result in an erosion of margin and therefore the requirements of the Delegation are not being met.

Energy Australia maintains that a 5% retail margin does not adequately reflect the risks or the cost levels faced by retailers and as such does not encourage a competitive retail electricity market within Queensland. A margin at the upper end of the range of margins accepted by Regulators in other jurisdictions is more appropriate if these Government objectives are to be met.

I trust this submission will assist the QCA in preparing its Final Decision on the BRCI for 2011-12. Please contact EnergyAustralia's Executive Manager – Energy Pricing, Catherine Marshall on (02) 9269 7256 should you have any questions.

Yours sincerely,



Mike Bailey
Executive General Manager Retail