



Hon Stephen Robertson MP
Member for Stretton



Minister for Energy and
Water Utilities

MBN5579

06 DEC 2011

Mr B Parmenter
Chairman
Queensland Competition Authority
GPO Box 2257
BRISBANE QLD 4001

Dear Mr Parmenter

The Queensland Government welcomes the opportunity to provide comment on the Queensland Competition Authority's (QCA's) Draft Methodology Paper for Regulated Retail Electricity Prices 2012-13.

The Queensland Government remains concerned about the pressure that increases in the cost of living, including rising electricity costs, are placing on household budgets, and has consistently advocated in previous pricing decisions that only genuine increases in costs of supply be passed on to consumers.

With the introduction of the new price setting methodology in 2012-13, the Government wishes to again stress that the Authority must consider the impact of price rises on consumers when determining regulated prices.

To assist in mitigating the impacts of a move to cost reflective tariffs on consumers, the Government has approved an inclining block tariff (IBT) structure for residential customers. The IBT is designed to encourage customers to conserve electricity by charging a fixed supply charge and a series of consumption blocks priced so the more you use, the more you pay. Under this approach, the impact of moving to a cost reflective pricing structure on lower consumption customers will be lessened.

The Government will also undertake an assessment, as occurs every year, of the energy rebates and concessions and how their value can be maintained to protect vulnerable households.

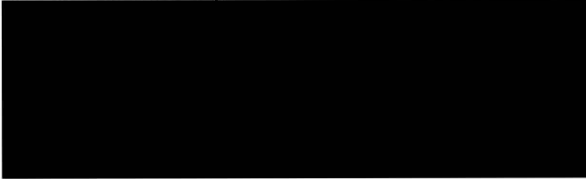
The Queensland Government has reviewed the QCA's Draft Methodology Paper and provides the attached submission for your consideration.

Consistent with previous submissions, the Government again wishes to emphasise that only genuine increases in costs should be passed onto consumers through the 2012-13 notified prices.

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I thank you for your consideration of these matters. If you have any questions regarding my advice to you, Mr Stuart Bushett, Acting Director, Energy Markets and Pricing Policy, of the Department of Employment, Economic Development and Innovation, will be pleased to assist you and can be contacted on telephone 3225 8256.

Yours sincerely



STEPHEN ROBERTSON MP

Att



Submission to the Queensland Competition Authority

Response to the Draft Methodology Paper on
Regulated Retail Electricity Prices: 2012-13

Prepared by the Department of Employment,
Economic Development and Innovation
December 2011

INTRODUCTION

The Queensland Government welcomes the opportunity to provide feedback to the Queensland Competition Authority (QCA) on its Draft Methodology Paper on *Regulated Retail Electricity Prices 2012-13*.

The Queensland Government remains concerned about the pressure that increases in the cost of living, including rising electricity costs, are placing on household budgets, and has consistently advocated in previous pricing decisions that only genuine increases in costs of supply be passed on to consumers.

The disasters of early 2011 have had an unprecedented impact on Queenslanders and the impact has been felt across all facets of the community including residents, businesses, and community organisations. Adversely affected Queenslanders are already facing an up-hill battle to restore some balance to their everyday lives and business. The Queensland Government wishes to do all possible to continue to aid in this recovery.

The Government appreciates the work the Authority has undertaken to date in the implementation of these significant reforms to Queensland's regulated retail electricity prices (notified prices).

In line with previous submissions to the QCA, the Government reiterates that notified prices are an important feature of Queensland's electricity market. This 'safety net' policy is especially important for customers in regional and remote locations where the cost of supply is higher than the notified prices, and as a result the Queensland Government subsidises the supply of electricity to these customers.

One of the most significant factors driving price rises is the continued increase in peak demand. However, it is important that regulated prices reflect the ongoing investment in Queensland's network infrastructure necessary to ensure safety and reliability of supply.

Residential demand remains a key component of the strong growth in demand. Growth in peak demand in SEQ, which has a high residential component, is forecast to average approximately 3.9 per cent over the next ten years¹ (up from 3.4 per cent in the 2010 Powerlink Annual Planning Report), and contributes 2,152 megawatts (MW) or around 52 per cent of the 4,166MW overall increase in peak demand across Queensland forecast by 2020-21. Also, in contrast to the rest of the State, peak demand growth in SEQ is significantly higher than overall consumption growth, reflecting the increasingly 'peaky' nature of demand in this region.

To meet these challenges the distribution companies, ENERGEX and Ergon Energy, have had to spend some \$10 billion since 2005 and expect to spend about \$15.6 billion between 2010 and 2015 on their electricity networks (capital and operating costs). This level of expenditure is needed to cope with the continued growth in both population and peak demand, and has been set by the Australian Energy Regulator, the independent federal body charged with making this determination.

The new pricing structure the Government is implementing is a fairer system and will aim to provide incentives for consumers to use electricity more efficiently while providing greater certainty to Queensland consumers and retailers. This will assist in ensuring the ongoing competitiveness of the Queensland electricity market to the benefit of consumers.

¹ Powerlink Annual Planning Report 2011

NEW DOMESTIC (RESIDENTIAL) TARIFFS

From 1 July 2012, Queensland electricity consumers will see the introduction of a Network (N) + Retail (R) cost build-up (building block) approach to setting notified prices, where retail and network tariffs are aligned.

In conjunction with this new cost reflective N+R methodology, an inclining block tariff (IBT) structure will be introduced for domestic customers on the general residential/domestic tariff instead of the current flat rate charges.

The IBT is designed to encourage customers to conserve electricity by charging a fixed supply charge and a series of consumption blocks priced so the more you use, the more you pay. From 1 July 2012, residential consumers will also have the option of moving to a voluntary Time-of-Use (ToU) retail tariff for those with the appropriate metering.

ToU tariff structures allow for electricity price variations across different times of the day or week, reflecting differences in the underlying costs of providing electricity during these times. By allowing such price variations, customers can be provided with incentives to shift load away from higher priced peak periods to times when prices are lower, thus achieving a reduction in electricity costs.

ToU tariffs have the potential to assist in reducing consumption and peak demand by sending price signals at times when demand on the network (and therefore cost of supply) is greatest (generally between 4pm – 8pm Monday to Friday, however these times are yet to be finalised).

Customers who have the flexibility to shift their consumption from peak periods to off-peak periods, and who are sensitive to price, are likely to benefit most from a ToU pricing structure.

CONSUMER ASSISTANCE

Electricity is an essential service with a generally low elasticity of demand. The Government is concerned about the impact of electricity price rises on household budgets, particularly for those facing financial and other barriers to reducing their consumption through energy efficiency measures. There is evidence that as prices rise, low-income households are at greater risk of being forced to consume less than a basic, reasonable quantity of electricity, suffer fuel poverty or lose access to supply through disconnection.

To address these risks, the Queensland Government has established a concession framework which provides assistance in meeting the cost of electricity supply to:

- Eligible pensioners and seniors (through the Electricity Rebate);
- Residents reliant on eligible life support equipment (through the Electricity Life Support Concession Scheme);
- Residents reliant on heating and cooling to manage specified medical conditions (through the Medical Cooling and Heating Electricity Concession Scheme); and
- Households requiring one-off assistance where an emergency or crisis limits their ability to pay their energy bills (through the Home Energy Emergency Assistance Scheme).

The Government will consider the impact of the new tariffs on energy affordability. This will include an assessment, as occurs every year, of the energy rebates and concessions and how their value can be maintained to protect vulnerable households.

In addition, the Queensland Energy Management Plan contains several initiatives aimed at assisting vulnerable households to reduce energy consumption and access energy efficiency measures. These include:

- improving the energy efficiency of state-owned social housing stock;
- establishing a Social Policy Taskforce to investigate the social impacts of changes to energy costs;
- undertaking demand management opportunities in remote and isolated communities; and
- investigating ways to encourage energy efficiency in leased properties in the residential sector.

ENERGY EFFICIENCY

The Queensland Government remains committed to assisting consumers improving energy efficiency in households and businesses. The ClimateSmart Home Service is available to assist households by installing energy saving devices, providing customers with behaviour change tools and offering detailed, tailored advice on ways to reduce energy use.

The ClimateSmart Business and Business Cluster Programs help Queensland small and medium enterprises lower greenhouse gas emissions, save on energy, water, materials and waste, and reduce business costs.

These programs are part of the Queensland Government's ClimateSmart Living initiative aimed at reducing Queensland households' greenhouse gas emissions, improve energy efficiency and save money on household electricity bills.

COST COMPONENTS

Energy Costs

The Government notes that the QCA proposes to use a market-based approach to estimating wholesale energy. The Government acknowledges the complex task facing the QCA in determining an appropriate approach to estimate wholesale energy prices and supports the ongoing process of consultation being undertaken by the QCA to find a workable methodology for estimating energy costs.

In the Draft Methodology Paper, the QCA noted that, if a carbon tax is implemented on 1 July 2012, the costs associated with this tax will need to be accounted for in the energy purchase cost. The QCA has indicated that in calculating wholesale energy costs, ACIL Tasman intends to run two pricing scenarios – one that is carbon-inclusive and one that is carbon-exclusive. If a carbon tax takes effect from 1 July 2012, the QCA will apply the carbon-inclusive scenario to its energy cost allowance. If not, the carbon-exclusive scenario will be used. The Queensland Government supports this approach.

Retail Costs

The QCA intends to include allowances for retail operating costs, customer acquisition and retention costs, and a retail margin in its calculation of the retail cost component of the regulated retail tariffs.

In relation to the retail margin, the QCA intends to undertake an assessment of the appropriateness of the current margin of five per cent in the context of margins adopted in other jurisdictions. This approach is supported.

OTHER ISSUES

The Queensland Government also specifically notes the following:

Farming and Irrigation Tariffs

In relation to farming and irrigation tariffs and customers supplied under the Rural Subsidy Scheme or in drought declared areas, it is noted that the QCA has indicated it may consider transitional provisions once financial impacts of changes to these tariffs are known. Consistent with the ToR, the QCA is encouraged to ensure that adequate levels of consultation with these stakeholders are undertaken.

Implementation Issues

The QCA acknowledges that in rationalising the tariff schedule (removal of obsolete and declining block tariffs), there may be some disruptions for some customers. The QCA has also noted that it will consider the impact of these changes and may consider transitional arrangements to smooth the changes once the level of impacts is known. This approach is supported by Government and the QCA is encouraged to consult as necessary with affected stakeholders to minimise the impacts of these electricity price reforms.

Card Operated Meters (isolated communities)

With regard to the treatment of card operated meter customers in Ergon Energy's isolated communities, it is noted that an inclining block tariff structure cannot be applied to card operated meters as they are only capable of capturing a flat rate. The QCA has indicated it may be necessary to create a separate regulated tariff applicable to these customers only. The Government acknowledges this issue and supports this approach by the QCA.

CONCLUSION

The Queensland Government emphasises the importance of ensuring that only genuine changes in the costs of electricity supply are passed onto consumers. It is acknowledged that if prices do not rise in line with the cost of supplying electricity, the secure provision of electricity to Queensland consumers - including households - will be at risk. However, the Government also stresses the QCA has a responsibility to ensure price rises are no greater than necessary to cover cost increases.

The Government considers that the level of transparency provided by the QCA and ACIL Tasman in the Draft Methodology Paper is appropriate and consistent with good regulatory practice. Such an approach facilitates an open and constructive consultation process.