



13 April 2012

Queensland Competition Authority  
GPO Box 2257  
Brisbane QLD 4001

Email: [electricity@qca.org.au](mailto:electricity@qca.org.au)

### **Draft Determination on Regulated Retail Electricity Prices 2012-13**

Australian Power & Gas (APG) welcomes the opportunity to provide comments to the Queensland Competition Authority (QCA) with respect to its *Draft Determination on Regulated Retail Electricity Prices 2012-13*. APG's comments follow on our submission to the QCA on its *Draft Methodology on Regulated Retail Tariffs* and its *Review of Regulated Retail Electricity Tariffs and Prices*.

We are conscious that the setting regulated retail prices is complex and results in risks to the market and ultimately consumers. This is certainly further complicated with the introduction of a price on carbon to become effective 1 July 2012. We understand that it has been the Queensland government's objective to continue to ensure that consumers enjoy, wherever possible, the benefits of increased competition in the marketplace. However, we are concerned that the *Draft Determination* will have the net result of stalling competition as the regulated retail prices are not accurately reflective of energy costs being incurred by retailers.

APG began operating in the Queensland market in 2007. However, price increases brought on by drought conditions and the removal of hydropower available through Wivenhoe Dam required APG to retreat from the market. APG returned to the market in 2010 off against understanding of stability in the regulated retail pricing methodology. Since 2010, APG has built its offering of competitive prices to customers through its prudent approach to long term wholesale purchasing arrangements negotiated with the Long Run Marginal Cost (LRMC), or effective price floor in place. However, the removal of the LRMC by QCA with immediate implementation may require retailers such as APG to reconsider their position in Queensland.

We consider it essential to market competition that retailers in the market, particularly new market entrants, are able to manage their margins and risks in the wholesale energy market with some degree of certainty. We appreciate that QCA has considered a 5.7% retail margin in the *Draft Determination*. However, this is minimal in comparison to the over 9% margin provided to distributors, who have less risk to manage than retailers.

We maintain that in the *Draft Determination*, the wholesale energy cost has been set too low and will have serious repercussions on retailers with existing wholesale purchasing arrangements and current customer contracts. The removal of the price floor effectively prices wholesale electricity purchased under longer term contracts above that of the

regulated energy costs, thereby diminishing any allowable headroom. The 5.7% retail margin accounted for in the *Draft Determination* is not sufficient headroom to absorb the differential between the actual cost of energy under negotiated contracts and the wholesale energy costs factored into the *Draft Determination*.

As noted above, absent the ability to prudently manage margins and risks through wholesale purchasing arrangements, the Queensland energy market will not be viable for new market entrants. Further, there is a significant risk that retailers having little or no headroom will be forced to leave the Queensland market rather than operate in a potential loss making position. Without new market entrants to drive price competition, we believe that retail competition will be significantly curtailed to the detriment of consumers.

We also would like to raise our concern that the QCA has not recognised the cost to retailers of providing prudential capital and credit support to the Australian Energy Market Operator (AEMO) and networks and other counterparties. The cost of financing capital for these required operational provisions does not appear to be factored in as part of retailer operating costs, which puts further pressure on available headroom.

The squeezing of wholesale costs and lack of recognition of additional retailer operational costs as a means to drive down costs to the consumer is only a short term price setting mechanism, which will stymie competition. QCA should instead look to phase out regulated pricing in favour of a regime where market forces determine cost reflective pricing. Removal of retail price regulation is the best means to increase competition and protect consumer interests in the marketplace.

Thank you again for the opportunity to comment on the *Draft Determination*. Should you wish to discuss any aspect of these or previous submissions to the QCA, I can be contacted on (02) 8908-2714 or via email at hpriest@auspg.com.au.

Yours sincerely,

A black rectangular redaction box covering the signature of Hilary Priest.

**Hilary Priest**

Manager, Government Regulatory Relations & Compliance