



Office of the Minister for Energy and Water Supply

22 NOV 2013

DATE RECEIVED

Ref: EWS/ 003863
CTS19773/13Level 13 Mineral House
41 George Street Brisbane 4000
PO Box 15456 City East
Queensland 4002 Australia
Telephone +61 7 3896 3691
Facsimile +61 7 3012 9115

21 November 2013

Dr Malcolm Roberts
Chairman
Queensland Competition Authority
GPO Box 2257
BRISBANE QLD 4001

Dear Dr Roberts

The government is pleased to provide a submission to the Queensland Competition Authority's (QCA) *Interim Consultation Paper on Regulated Retail Electricity Prices for 2014–15*. The release of the Interim Consultation Paper is an important first step in the robust consultation process the QCA will undertake with industry, community groups and the wider public when determining notified electricity prices for 2014–15.

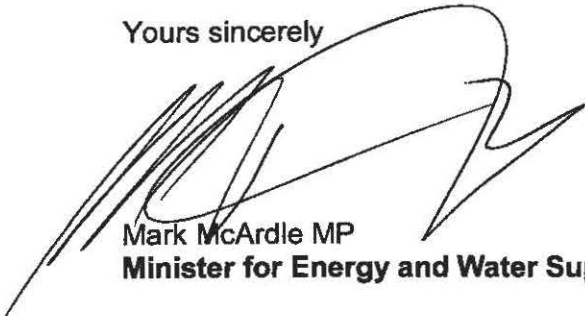
In its response to the Interdepartmental Committee on Electricity Sector Reform (the IDC) final report and recommendations, released on 16 June 2013, the government made it clear that enhancing competition in retail electricity markets is a critical energy policy priority. To this end, the government has endorsed the IDC's recommendation that retail electricity price controls be removed for all small customers in South East Queensland (SEQ) by 1 July 2015, provided that competition and customer protections are demonstrated to be adequate. The government has also committed to exploring options for enhancing competition in regional Queensland.

Notwithstanding these reform commitments, notified prices will continue to have an important role to play in the Queensland electricity sector for the immediate term. For example, the transitional measures established in 2013–14 for both Tariff 11 and the transitional and obsolete tariffs (including farming and irrigation tariffs) are vitally important to limit the impact on customers arising from changes in tariff structures. In addition, regardless of the regulatory settings in SEQ in 2015–16, regulated prices will still be required in regional Queensland to provide customers with a safety net until competition can be developed.

In regard to the QCA's 2014–15 price determination process, the government supports the QCA's view that the broad approaches adopted during the 2013–14 price determination process should be maintained. However, the government also endorses the QCA's sentiment that it will consider changing its approaches if there is good reason to do so, and will make refinements as necessary. To this end, extensive consultation with interested stakeholders will again be a crucial part of the price determination process, as it was in 2013–14.

The attached Government Submission on the Interim Consultation Paper provides further detail on the government's position on key issues the QCA should consider as part of its 2014–15 pricing process. I commend the QCA for the extensive technical work and consultative efforts that were undertaken during the 2013–14 price determination process and look forward to observing a similarly robust determination process for notified prices in 2014–15.

Yours sincerely

A handwritten signature in black ink, appearing to be 'Mark McArdle', written over a large, light-colored scribble or watermark.

Mark McArdle MP
Minister for Energy and Water Supply

Att: - Queensland Government Submission to the QCA: Response to the Interim Consultation paper on Regulated Retail Electricity Prices for 2014–15.

Queensland Government submission to the Queensland Competition Authority

Response to the Interim Consultation Paper on regulated
retail electricity prices for 2014-15

This publication has been compiled by the Energy Division of the Department of Energy and Water Supply.

© State of Queensland, 2013.

The Queensland Government supports and encourages the dissemination and exchange of its information. The copyright in this publication is licensed under a Creative Commons Attribution 3.0 Australia (CC BY) licence.



Under this licence you are free, without having to seek our permission, to use this publication in accordance with the licence terms.

You must keep intact the copyright notice and attribute the State of Queensland as the source of the publication.

For more information on this licence, visit <http://creativecommons.org/licenses/by/3.0/au/deed.en>

The information contained herein is subject to change without notice. The Queensland Government shall not be liable for technical or other errors or omissions contained herein. The reader/user accepts all risks and responsibility for losses, damages, costs and other consequences resulting directly or indirectly from using this information.

Contents

1. Introduction	1
2. Retail Electricity Market Reform	1
3. Transitional Issues	2
3.1 Transitional Issues for Tariff 11 Rebalancing	2
3.2 Rationale for Determining Transitional Tariff Prices	3
3.3 Access to Transitional Tariffs	3
4. Electricity Cost Components (Network, Energy and Retail)	3
4.1 Network Costs	3
4.2 Energy Costs	4
4.2.1 Energy Purchasing Cost Methodology	4
4.2.2 Carbon Tax Uncertainty	4
4.3 Retail Costs	4
5. Other Issues	4
5.1 Application of a Cost Pass-through Mechanism	4
5.2 Time-of-Use Energy Charges and Metrology Procedures	5
5.3 Very Large Ergon Energy Customer Tariffs	5
5.4 Street Lighting	5
5.5 Electricity On-selling	5

1 Introduction

The Queensland Government welcomes the opportunity to make a submission to the Queensland Competition Authority's (QCA) Interim Consultation Paper on Regulated Retail Electricity Prices for 2014-15.

On 5 September 2012 the Minister for Energy and Water Supply delegated his responsibility for setting regulated prices under section 90AA(1) of the *Electricity Act 1994* (the Electricity Act) to the QCA for the period commencing 1 July 2013 until 30 June 2016. This was the first time the QCA had been issued with a multi-year delegation period, and one of the key reasons for a three-year delegation period was to provide greater certainty to stakeholders.

The government believes this objective is being achieved given that the QCA established a methodology and process for determining regulated retail prices in 2013-14, and intends to broadly follow this approach for 2014-15. The government shares the QCA's view that the broad regulatory approach adopted for the 2013-14 Final Determination should be maintained for 2014-15, but is encouraged by the QCA's willingness to consider changing or refining its approach if there are good reasons to do so.

The government remains deeply concerned about the increase in prices that occurred for 2013-14. This is why the government acted to increase the electricity rebate available to pensioners, seniors and eligible concession card holders. Over the course of 2013-14 the government has committed over \$150 million to assist vulnerable energy users.¹ Furthermore, the Community Service Obligation – which subsidises the electricity costs of households and businesses in regional Queensland – is expected to cost \$620 million in 2013-14.

The price rise announced by the QCA for 2013-14 was driven by increases to the underlying costs of supplying electricity (predominately network costs, including costs associated with the previous government's Solar Bonus Scheme). As such, whilst the government is acutely aware of the impact of escalating electricity prices on consumers, downward pressure on prices can only be achieved by addressing the underlying cost-drivers. For this reason, the government supports the continuation of a regulatory approach that leads to cost-reflective prices and, at the same time, is working to ease the cost pressures currently impacting the supply system through the implementation of an extensive electricity sector reform agenda.

This submission highlights some of the key reforms the government will be undertaking and the government's position in relation to some of the issues outlined in the Interim Consultation Paper.

2 Retail Electricity Market Reform

The Queensland Government has embarked upon an ambitious agenda of electricity sector reform. On 16 June 2013 the government released the report of its Interdepartmental Committee (IDC) on Electricity Sector Reform with over 60 recommendations to reform the sector. The IDC outlined three high-level strategies for reform which aim to ease the cost pressures currently impacting the supply system and provide much needed relief from price increases for consumers. The high-level strategies are:

¹ Includes Electricity Rebate Scheme, Home Energy Assistance Scheme, Electricity Life Support Concession Scheme, Medical Cooling and Heating Electricity Concession Scheme and the Reticulated Natural Gas Scheme (see <http://budget.qld.gov.au/budget-papers/2013-14/concessions-statement-2013-14.pdf>).

1. Stop building unnecessary infrastructure and improve the efficiency of network businesses;
2. Maximise the benefits of competition while protecting customers; and,
3. Develop a more effective role for government.

The full IDC report is available online at www.dews.qld.gov.au/policies-initiatives/electricity-sector-reform. At the same time as the IDC report was released the government also released its response to the IDC recommendations, with a large majority of the recommendations being accepted. Other recommendations were accepted in-principle or listed for further consideration.

The government has accepted a number of IDC recommendations which could reshape the electricity retail market in Queensland. One fundamental reform that has been endorsed is the introduction of price monitoring in South East Queensland (SEQ), provided that certain preconditions are satisfied. These preconditions, which will be developed through consultation with electricity retailers and consumers, will help to ensure that customers can benefit from competition and receive adequate protections. IDC recommendations relating to the development of a tariff reform strategy, a review of the hardship and concessions framework and addressing barriers to the growth of retail competition in regional Queensland have also been accepted by the government.

As the lead agency for reforming the state's electricity sector, the Department of Energy and Water Supply (DEWS) is working in partnership with industry and the community to implement the recommendations from the IDC Report, as well as recommendations from the Queensland Commission of Audit (CoA) and the Independent Review Panel on Network Costs (IRP) report. In order to successfully implement these extensive reforms DEWS will look to consult directly with a range of stakeholders. One of the most important avenues for consultation will be through the development of the 30-year electricity strategy (the strategy). Work on the strategy commenced in late 2012 with the public release of a directions paper. Following on from this, a discussion paper was released for public comment on 11 September 2013.

The discussion paper draws on a number of the recommendations of the IDC, CoA and IRP and seeks the views of the public and industry on the best way to move forward to ensure these reforms are sustainable and robust to meet the future challenges for the sector over the next 30 years. A copy of the 30-year electricity strategy discussion paper is available at <http://www.dews.qld.gov.au/policies-initiatives/electricity-sector-reform/discussion-paper>. The government encourages stakeholders with views on retail electricity market reform issues to voice their opinions during the extensive consultation processes being undertaken by DEWS. Feedback on the discussion paper should be submitted by 6 December 2013.

However, the government will also be closely monitoring the QCA's consultation process for the determination of regulated retail electricity prices for 2014-15, and considers it a valuable resource in order to fully understand the needs of Queensland households and businesses. To this end the government will take on board the concerns of stakeholders raised through the QCA's consultation process.

3 Transitional Issues

3.1 Transitional Issues for Tariff 11 Rebalancing

The government considers that the QCA should continue with the approach to transitioning Tariff 11 to cost-reflectivity that was established in the 2013-14 determination. When issuing the delegation, the government considered that the rebalancing of the fixed and variable cost components should occur gradually over three years, rather than in one step which would

result in a significant price-shock for customers. The government's position on this has not changed, and it is therefore appropriate that the transitional approach for rebalancing fixed and variable charges for Tariff 11 customers over three years is maintained.

3.2 Rationale for Determining Transitional Tariff Prices

In 2013-14 the government took significant action to support customers accessing transitional and obsolete tariffs, many of which are farming and irrigation customers, by limiting the increase for these tariffs to 10 per cent. This was achieved through legislative action and is a direct reflection of the government's commitment to supporting Queensland agriculture, a key part of the government's strategy to develop a four pillar economy.

The government does not accept that the QCA should consider a 'catch-up' because of the 10 per cent price cap that was applied in 2013-14. Instead the QCA should maintain a consistent approach to the way it determined the escalation rate for these tariffs in 2013-14.

The government is deeply concerned about how excessive price increases in recent years are affecting the viability of key agricultural industries, most of which compete in international markets, and the adverse flow-on effects for regional communities. The government is considering the suitability of tariffs for farming and irrigation customers from both a network and retail perspective and acknowledges it presents a difficult policy challenge. Ultimately ensuring farming and irrigation customers can access affordable energy will require a range of measures, and any solution could involve demand management and water and energy efficiency measures, coupled with working on identifying the optimal tariff arrangements for these customers.

3.3 Access to Transitional Tariffs

The government supports the access arrangements for transitional tariffs introduced in 2013-14 by the QCA, whereby new and existing customers can access the transitional tariffs. This allows all customers to consider the best tariff arrangements for their circumstances throughout the seven year transition period that applies to the majority of the transitional and obsolete tariffs.

4. Electricity Cost Components (Network, Energy and Retail)

As noted above, a key reason for the three-year delegation period, compared with the previous practice of a one-year delegation period, was to ensure a degree of certainty and coherence in the development of regulated retail electricity prices. To this end the government supports the QCA using a similar methodological approach to that used in 2013-14 when accounting for the network, energy and retail costs that will make up regulated electricity prices (notified prices) in 2014-15.

4.1 Network Costs

The government supports the current practice for allocating network tariff charges to notified prices, whereby Energex network charges are allocated to small customer notified prices and Ergon Energy network charges (East pricing zone, Transmission Region 1) are allocated to large customer notified prices. This approach is consistent with the cost-reflective Network plus Retail (N+R) methodology set out in the delegation. It is also consistent with the Government's Uniform Tariff Policy (UTP), which states that, wherever possible, non-market customers of the same class should have access to uniform retail tariffs and pay the same notified price for their electricity supply regardless of their geographic location.

4.2 Energy costs

4.2.1 Energy Purchasing Cost Methodology

Neither the Electricity Act nor the delegation prescribes a particular method for setting energy purchasing costs. As per the government's position for 2013-14, the government considers that the QCA should utilise its independent expertise, access to information and ability to consult with a wide range of stakeholders, in order to determine the most appropriate methodology for calculating Energy Purchasing Costs for regulated electricity tariffs.

It is the government's view that the consultative process undertaken by the QCA when arriving at a methodology for setting energy purchasing costs for 2013-14 regulated prices should be repeated during the 2014-15 price setting process. This process ensured that different stakeholder views regarding the energy purchasing cost methodology were rigorously and transparently debated over the course of the 2013-14 regulated price determination process.

4.2.2 Carbon Tax Uncertainty

The current federal political environment means that the level of carbon tax burden that will be levied against electricity generators and passed through to electricity consumers in 2014-15 is uncertain. This uncertainty could create difficulties for the QCA as it will be required to determine what a retailer's energy purchasing costs will be in 2014-15. It goes without saying that households and businesses consuming electricity should not pay for any carbon tax burden that is no longer incurred by electricity industry participants. It is encouraging that the QCA intends to seek independent expert advice, and the advice of stakeholders, on the most appropriate way to deal with potential carbon policy uncertainty in the lead up to the 2014-15 determination.

4.3 Retail Costs

As was the case for the 2013-14 pricing determination process, the government considers that the QCA should determine retail costs in accordance with its obligation under the Electricity Act. However, the government would also like to stress that it is critically important that the QCA provide stakeholders with a detailed explanation on the approach it uses to quantify and apply the allowances that relate to the retail cost component. As part of the Draft and Final Determinations, the government would also like to see the QCA discuss competition considerations, as it did in 2013-14. This discussion will be even more pertinent in light of the government's decision to implement price monitoring by 1 July 2015, provided it can be demonstrated that customers can benefit, and adequate customer protections are in place.

5 Other Issues

The Interim Consultation Paper noted a number of issues either out of the QCA's control and/or for government consideration. A number of these issues have been considered in the IDC report and the initial phase of the implementation of the IDC recommendations. Outcomes on these matters will be made known as they are resolved.

5.1 Application of a Cost Pass-through Mechanism

Consistent with the government's position during the 2013-14 price determination process, the government acknowledges the view that the three-year delegation period allows for a cost-pass through mechanism that enables an efficient retailer to recover (or reimburse) costs (or savings) that have resulted from unavoidable or unforeseen events during the

preceding tariff year. This mechanism should only be applied when it can be demonstrated that such an event has caused material and transparent financial impacts that are systemic to efficient electricity retailers.

5.2 Time-of-Use Energy Charges and Metrology Procedures

The QCA has indicated that a time-of-use signal in the 'R component' of retail electricity tariffs could be passed through to customers if the government initiated amendments to the Australian Energy Market Operator's (AEMO's) Metrology Procedures. The government considers this a worthwhile consideration and is currently investigating the application of the metrology procedure in Queensland (as it pertains to the use of the Net System Load Profile for settlement purposes).

5.3 Very Large Ergon Energy Customer Tariffs

The following recommendations were made by the IDC in regard to very large customers in the Ergon Energy Distribution Region:

- Develop a strategy to transition very large electricity customers (in Ergon Energy's distribution region) onto cost-reflective electricity prices (IDC Rec. 4.3.1); and
- Consider removing notified prices for very large customers in tranches, starting with the largest customers first (IDC Rec. 4.3.2).

The government has not yet accepted these recommendations but has decided that they should be considered further. The government response to the recommendations also notes that work has commenced under the Queensland Commission of Audit Taskforce to support targeting Community Service Obligation (CSO) arrangements to those consumers most in need.

5.4 Street Lighting

The government has accepted the IDC's recommendation that 10 per cent of non-energy street lighting charges be passed through to customers whose street lights are owned and maintained by Ergon Energy in the 2014-15 notified prices set by the QCA (IDC Rec 4.4.1). The government has also accepted the recommendation that, over time, the recovery of non-energy street lighting charges from these customers should be enhanced (IDC Rec. 4.4.2).

The government is currently considering the best way to implement this recommendation, although no decisions have been made on the exact nature of any future price path. It is acknowledged that customer impacts, and the regulatory environment (such as the Australian Energy Regulator's treatment of alternative control services in the next regulatory determination), need to be considered before making any final decision on the nature of a price path.

5.5 Electricity On-selling

In early 2013 the Department of Energy and Water Supply (DEWS) released a discussion paper about on-supply pricing arrangements. A number of submissions were received from stakeholders. The discussion paper and the submissions are public and can be accessed on the DEWS website at (<http://www.dews.qld.gov.au/energy-water-home/electricity/choosing-changing-retailers/on-supply>). A range of issues were raised in the submissions, and there is significant diversity in the positions of stakeholders. DEWS aims to work through these issues carefully to ensure any policy decisions do not further adversely affect receivers and sellers in on-supply arrangements.

Telephone enquiries

Water: 13 QGOV (13 74 68) business hours

Energy: 13 43 87 business hours

Visit: www.dews.qld.gov.au