[redacted]

27 October 2014

Queensland Competition Authority
GPO Box 2257
BRISBANE QLD 4001

By email: electricity@qca.org.au

Dear Sir/Madam

RE: Submission on Regulated Retail Electricity Prices 2015-16 Interim Consultation Paper

Please find attached my submission in relation to the above.

I have no objection to this submission being available for public inspection.

Would you please be good enough to acknowledge receipt of this submission.

[redacted]

Mark Tranter

Submission One –Chapter 1: Introduction and Chapter 2: Legislative requirements and pricing approaches

As recognised by the Queensland Competition Authority (QCA) in the Interim Consultation Paper, in making its price determination the QCA is required to have regard to the matters set out in subsection 90(5) of the *Electricity Act 1994* (the Act). It is noted that in paragraph (b) of that subsection, the QCA "may have regard to any other matter the pricing entity considers relevant".

As also recognised in the Interim Consultation Paper, the QCA must also have regard to the objects of the Act contained in Section 3. I point out two of these which should be considered when taking into account this submission, namely:

> (a) set a framework for electricity industry participants that promotes efficient, economical and environmentally sound electricity supply and use; and
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> ....
>
> (d) ensure that the interests of customers are protected;

The nub of the issue facing the QCA in its determination of the notified prices is the commitment of the Government, after apparently some equivocation,[1] to the Uniform Tariff Policy (UTP). This determination will apply only to the Ergon distribution area and not to Southeast Queensland. The Ergon distribution area contains the most expensive area for network costs requiring the transmission of electricity over vast networks with the attendant transmission losses. The Minster has stated that the cost of the UTP in 2013-14 was $662 million.[2] If the Act requires "efficiency", then these vast network costs for small populations are not efficient either practically, economically or environmentally. While the QCA must make its determination on the present structure of the industry, it would seem relevant and in accordance with the objects of the Act to point out the limitations of the current generation and transmission structure of the industry in Queensland.

The QCA should take into account as relevant the possibilities of increasing the efficiency of the network by the greater use of distributed energy. An obvious source of distributed energy would be to make greater use of the enormous potential of solar power in the Ergon distribution area, whether through large scale generation or rooftop solar. In this regard it is noted that the QCA's advice to the Minister about the alleged inequality of the feed in tariff has led to the abolition of that tariff and seemingly also a rejection of solar energy as an aid to reducing prices. The UTP, which is a source of greater inequality, remains in place.

It would seem a sensible consideration, to put forward the suggestion that the inequalities of the UTP will continue because of the inherent inefficiencies in the supply of electricity to far flung centres. If the Government remains committed to the UTP, then it should consider spending a

[1] Its reference to a review of the UTP at paragraph 5(b) of the Terms of Reference dated 28 August 2014, and then the Minister's clarifying correspondence of 25 September 2014.

[2] Toowoomba *Chronicle*, 4 October 2014, p5.

portion of the subsidy to achieve the UTP in exploring the opportunities to reduce these inequalities by utilising distributed sources of renewable energy. This also fulfils the aim of promoting "efficient, economical and environmentally sound electricity supply".

Recommendation One: That the QCA recommend that the government explore the opportunities to promote an efficient, economical and environmentally sound electricity supply system by the greater utilisation of distributed renewable sources of electricity. That this is a means of reducing the inequalities of the Uniform Tariff Policy and a more productive application of a portion of the UTP subsidy.

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Submission Two - Chapter 2: Pricing Approaches: Residential and small business customers

In this Chapter of the Interim Consultation Paper, the QCA struggles with its task of arriving at pricing approaches for the notified prices in the absence of the benchmark Energex retail prices and still maintain a reasonable UTP. Setting competitive and cost reflective prices is impossible as the true cost of electricity to the regions would mean massive increases and be politically unpalatable. As indicated in Submission One the supply system is inefficient and there needs to be a reconsideration of the system as a whole which should include distributed renewable energy. However, the QCA's current problem is to advise within the existing physical structure of the system and the political parameter of the UTP.

It is relevant consideration to canvass the opportunity to reintroduce or maintain, where it currently exists, a reasonable feed in tariff for home and small business solar generation. This is not inequitable as it is paying for electricity supplied. In determining the feed in tariff there should also be consideration to the environmental benefits of such supplies as well as the benefits to distributing the load and the effect on network losses. This is separate to determinations that the 44c feed in tariff is to remain in place, although that should also be subject to review so that a level playing field is established for all solar feed in tariffs into the future.

Recommendation 2.1: Maintain the 2014-15 approach; and

Recommendation 2.2: Recommend the re-introduction of a feed in tariff for roof top domestic and small business solar.

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Submission Three – Chapter 3 Network Costs

Note Error: In table 2 of Chapter 3, the Ergon night controlled load (tariff 31) has no fixed charge.

Again this chapter struggles with balancing the real network costs against a palatable outcome for consumers. Again in the absence of a more efficient generation and supply approach the choice is the more gentle use of Energex's tariff structures.

Recommendation 3: The Energex tariff structure should be used.

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Submission 4 – Chapter 4: Energy and Retail Costs and Chapter 5: Other Issues

This submission relates to the profit or headroom that should be allowed in the price calculations. The suggested retail margin is said to be 5.7% while the headroom is set at 5%. This seems to indicate there is a double allowance for profit within the QCA determination. The soundness of the QCA's methodology to allow profits should be measured against the outcomes for 2013-14. Ergon produced a profit of $403 million in 2013-14 and Energex $508 million during the same period.[3] The QCA should test the soundness of its methodology in allowing profits/headroom by an analysis of the source of profit for both organisations for the 2013-14 year. Based on this analysis the QCA should adjust its allowances. It may be that network charges have been the greater source of profits for the two organisations.

There is no discussion that the profits/headroom should also be set to provide for the UTP subsidy. If that is the case, then this should be stated and the costs of the UTP should be part of the deliberations.

Recommendation 4.1: The QCA should undertake an analysis of the source of profits of Ergon and Energex in the 2013-14 and this should be compared to the profit allowances made by the QCA determination for that year.

Recommendation 4.2: The methodology is too generous in allowing retail margin and then headroom on the top. The analysis from recommendation 4.1 should guide a more precise calculation of profit allowance in the interests of the consumer. Headroom should be excluded.

Recommendation 4.3: It should be clearly stated the part that the cost of the Government's UTP subsidy plays in the QCA determination relating to the profit margin/headroom with respect to the notified price.

[3] Ergon Annual Stakeholder Report 2013-14 p6 and Ergon Annual Report 2013-14 p3.