

CCIQ Submission to the QCA Draft Determination Regulated Retail Electricity Prices 2015-16 for Regional Queensland

1.0 About the Submission

The Chamber of Commerce and Industry Queensland (CCIQ) makes this submission in response to the Queensland Competition Authorities (QCA) Draft Determination for 2015-16 regulated retail electricity prices for regional Queensland. The intent of this submission is to highlight the impact of pricing determinations on the competitiveness and profitability of Queensland businesses.

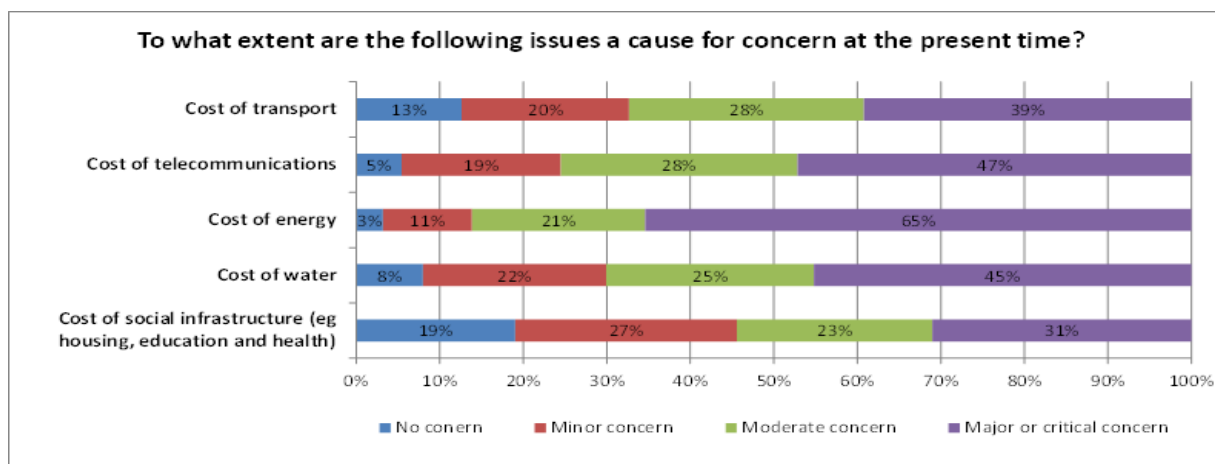
CCIQ has strongly advocated for fundamental reforms across the entire energy sector in Queensland to relieve small businesses of the rising cost of electricity that has occurred over the past 7 years.

CCIQ would like to acknowledge the QCA in their efforts to keep price increases for small businesses on tariffs 20 and 22 to a minimum. Regional Queensland small business electricity customers will be heartened to hear that reductions are on the way for electricity prices.

2.0 Pricing Impacts on Small and Medium Businesses

Queensland small businesses have seen unsustainable increases in electricity prices in recent years. Electricity prices have, on average, doubled for business over the past seven years, which has created an enormous hurdle for businesses trying to remain competitive.

CCIQ recently surveyed more than 1100 small businesses across the state ahead of the Queensland state election to determine key issues. Of those businesses surveyed it was identified that increasing electricity prices is currently the most significant business issue with 65% of Queensland businesses surveyed indicating a major or critical concern with the cost of energy.



Source: Refer to <https://www.cciq.com.au/assets/2015-State-Election/2015-State-election-Super-7-Foldout.pdf>

3.0 QCA Methodology

The QCA is required to consider principles of cost reflectivity in making their determination. The uniform tariff policy has resulted in network charges being below cost because they are based on network costs in south east Queensland, rather than regional Queensland. The QCA have noted that the current arrangements do not allow for cost reflectivity and results in customers continuing to pay much less than the cost of supply, potentially leading to inefficient investment and decision-making, as well as ongoing costs to taxpayers.

The QCA provide that setting cost-reflective notified prices (i.e. reflecting the actual costs of supply to customers in each region) would avoid the need to subsidise electricity prices and would promote retail competition. However, it would be inconsistent with maintaining uniform tariffs because it would result in different notified prices for customers based on their location. It would also mean significant price increases, particularly for customers in western parts of the state, and those supplied by isolated systems. For instance, a typical tariff 11 customer paying cost-reflective prices in 2014–15 would pay around 140% more in western Queensland than in south east Queensland.

CCIQ note that notified prices based on the cost of supply in regional Queensland would be prohibitively expensive for small business customers. This measure would prove more costly for business customers who are unable to shift usage outside of the peak times. Whilst this tariff would be more cost reflective and provide sharper pricing signals, it would be ineffective on a small business restricted by the times they use electricity. CCIQ are pleased to see that the QCA consider the impact on customers as a very relevant factor, particularly given the significant price increases customers have faced in recent years.

4.0 Summary of QCA Determination

The review conducted by the QCA will set regulated retail electricity prices in the Ergon Energy distribution area, which covers regional and rural areas of Queensland.

On current forecasts small business tariffs 20 (flat rate) and 22 (time of use) will see nominal increases of 1.3% (\$27) and 2.0% (\$158) respectively. The QCA has applied their determination on the basis of the latest forecasts for network, energy, retail and green scheme costs. The new tariff prices for the 2015-16 period recommended in the QCA draft determination are outlined in the below table. Additionally, CCIQ notes that the below percentage adjustments may well result in real term price reductions for small business.

Changes to tariffs 20 and 22 (excluding GST)

		Fixed charge (c/day)	Peak rate (c/kWh)	Shoulder rate (c/kWh)	Off-peak/flat (c/kWh)	Change in typical annual bill(%) ²
Tariff 20	2014–15	140.437	-	-	23.585	
	2015–16	131.088	-	-	23.913	1.3%
Tariff 22	2014–15	140.437	25.598	-	18.918	
	2015–16	131.088	25.700	-	19.739	2.0%
Tariff 22A	2015–16	131.088	43.524	34.791	20.634	2.0% ²

1. Includes GST and expected impact of metering charges.

2. Based on a typical customer moving from tariff 22 to the new tariff 22A.

5.0 Transitional Tariffs

The QCA have also introduced a new transitional time of use tariff 22A for small business customers. This tariff will be based on Ergon Distribution's network tariff structures. This tariff includes a peak usage charge for the summer months only, rather than all year, as is the case for the existing small business time of use tariff 22. The existing tariff 22 (which is based on the Energex network tariff structure) will be retained for two more years, during which time customers will be allowed to choose to switch to tariff 22A.

CCIQ is wary of supporting increasing cost reflectivity for regional Queensland small business customers in the absence of appropriate policies. There is a high risk of negative impacts on small businesses where there is a lack of market competition.

6.0 Uniform Tariff Policy

A key concern for CCIQ is the future direction of the uniform tariff policy and regional pricing. At this point, the uniform tariff policy is likely to be retained so that residential and small business customers do not pay more than reasonable expectations of the prices that would be available to standing offer customers in south east Queensland. The end of notified prices in south east Queensland from 1 July 2015 requires that the QCA reassess their approach to setting notified prices for residential and small business customers in regional Queensland. In the absence of notified prices in south east Queensland, the QCA needs to set regional prices on a new basis, according to their obligations under the *Electricity Act 1994* and taking into account matters raised in the delegation.

However, the QCA note that they are required to consider the effectiveness and objectives of the uniform tariff policy and options for improved regional competition. The additional costs of the uniform tariff policy are significant with the subsidy for regional electricity customers expected to be \$655 million for 2014-15.

For small business customer tariffs, this means using Energex's network charges and tariff structures for the flat rate tariffs (i.e. tariff 20). Adopting this approach would mean that

network charges are below cost because they would be based on network costs in south east Queensland, not regional Queensland. The QCA must also consider using Energex's network charges for the time of use tariffs. However, new requirements in the delegation require the QCA to consider using Ergon Energy's level as Energex's network prices, but based on the structure of Ergon Distribution's network tariffs. CCIQ's concerns with adopting this approach will be discussed further below.

CCIQ stress that until such a time that the Queensland Government decide to reform the current arrangements of the uniform tariff policy, little can be done to improve the effectiveness of its operation. Ideally, CCIQ would like to see the uniform tariff policy applied to Ergon Distribution so as to increase competition in the retail market for regional Queensland.

7.0 Solar Bonus Scheme

Additionally significant costs have been incurred by distributors in complying with the Queensland Governments Solar Bonus Scheme (SBS). Solar feed-in tariffs under the SBS will continue to be a major cost for small business customers. The costs of the SBS have almost doubled since 2013-14 and were expected to spike in 2015-16. Energex's latest regulatory proposal seeks to spread the 2015-16 increase across the five years of the next regulatory period to reduce the immediate impact on customers. The costs of the SBS are expected to increase by about 13.4% for tariff 20.

CCIQ note that Queensland Labor have committed to establishing the Queensland Productivity Commission to investigate fair prices for solar feed-in-tariffs. CCIQ believe the Queensland Government should commit to removing the impost of costs associated with the solar bonus scheme to relieve pressure from consumers subsidizing excessive feed-in-tariff rates.

8.0 Network costs

The QCA have decided to use Ergon Distribution tariff structures as the basis for setting time of use tariffs for small business customers, while reducing the overall level of prices to Energex levels. In order to do this, the QCA have opted to maintain the Energex fixed charge and decrease the Ergon Distribution consumption charges to a level where customers will on average pay the same as in south east Queensland. The realities of this means that low consumption customers would be paying less and high consumption customers would be paying more. However it provides incentive for a larger number of customers to move to time of use tariffs. This option is also likely to have the least customer impacts.

CCIQ notes that the impacts on some tariff 22 small business customers is more extensive than residential customers, but are pleased to see the QCA will retain the existing tariff 22 for two years to allow customers to voluntarily move to the new tariff during that period.

CCIQ stresses that the QCA needs to ensure that consumers are adequately educated about their options in relation to moving to time of use tariffs.

CCIQ also notes the ineffective timing structure of the AER network revenue determination process with the QCA regulated retail pricing determination. Given the QCA base their determination on the basis of the latest information available, the QCA final determination prices will not be based on the final determination prices for the networks. Therefore it is highly likely that there will be changes in costs between the QCA draft and final determinations, particularly given significant uncertainty in relation to network costs.

9.0 Other issues

Improving competition in regional Queensland is an important issue that needs to be considered by the Queensland Government. Providing subsidies to Ergon distribution, rather than its retail business would be one option of achieving this goal. CCIQ support the QCA in its recommendation to remove key barriers to competition in the market and allow retailers to compete on a more even level playing field.

10.0 Conclusion

CCIQ appreciates that many of these issues are outside the scope of this review and the responsibilities of the QCA. However, CCIQ strongly urges the QCA and the Queensland Government to ensure that the full and compounding impact of this and previous years electricity price increases for Queensland small businesses are considered in the final determination for 2015-16 regulated tariff prices.

Additionally we urge the QCA and Queensland Government to work together to inform and educate Queensland businesses - as energy consumers – about future energy costs, fast-track reforms to the overall energy market which have the potential to achieve price efficiency and support business planning and transition towards the reality of a high energy cost operating environment.