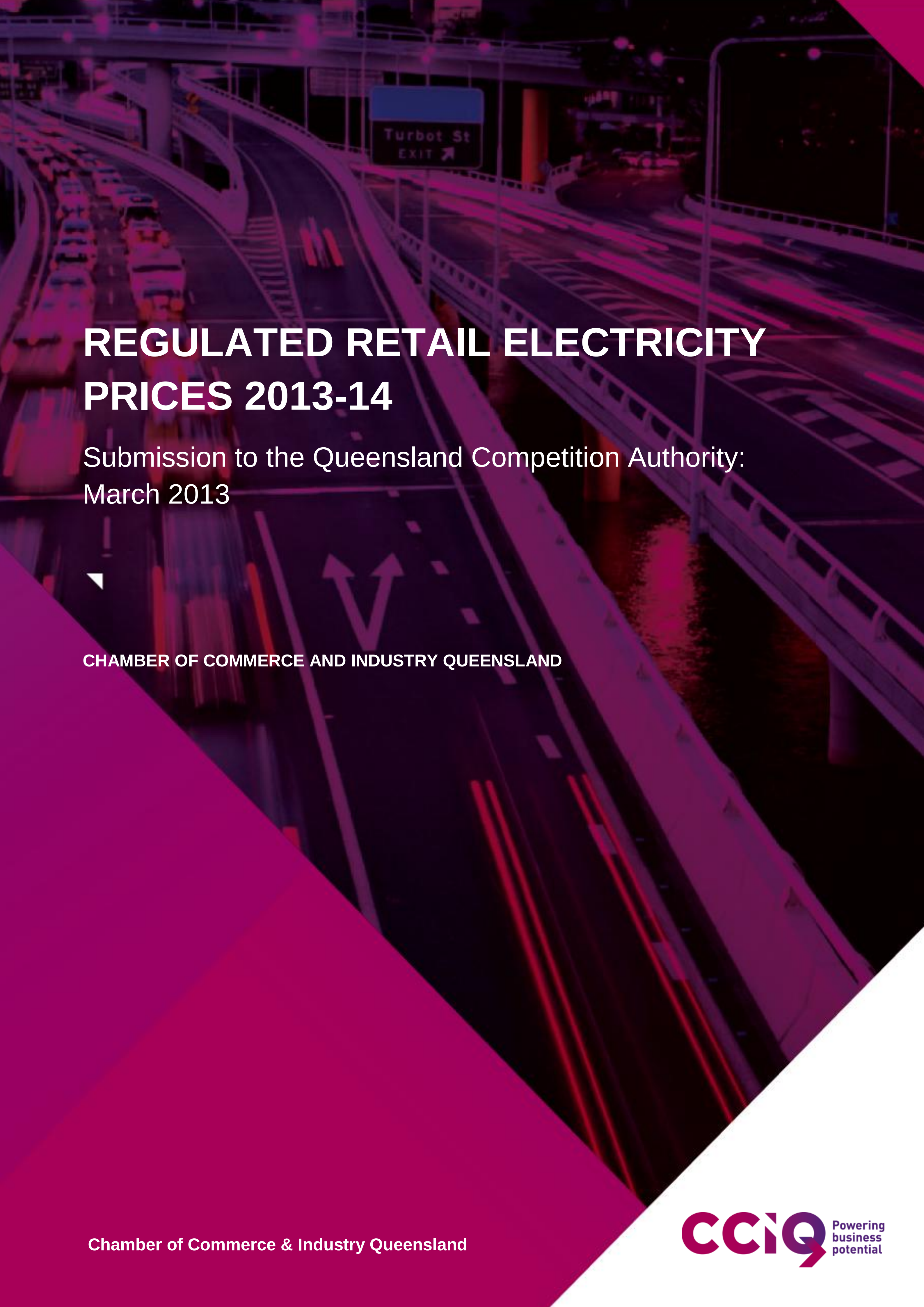


REGULATED RETAIL ELECTRICITY PRICES 2013-14

Submission to the Queensland Competition Authority:
March 2013

CHAMBER OF COMMERCE AND INDUSTRY QUEENSLAND

Chamber of Commerce & Industry Queensland

Powering business potential

CCIQ Submission to the QCA Draft Determination 'Regulated Retail Electricity Prices 2013-14'

About the Submission

CCIQ makes this submission in response to the QCAs Draft Determination for 2013-14 regulated retail electricity prices. The intent of this submission is to highlight the significant impact of this and previous years' pricing determinations on the competitiveness and profitability of Queensland businesses.

CCIQ strongly advocate for fundamental reforms across the entire energy sector in Queensland:

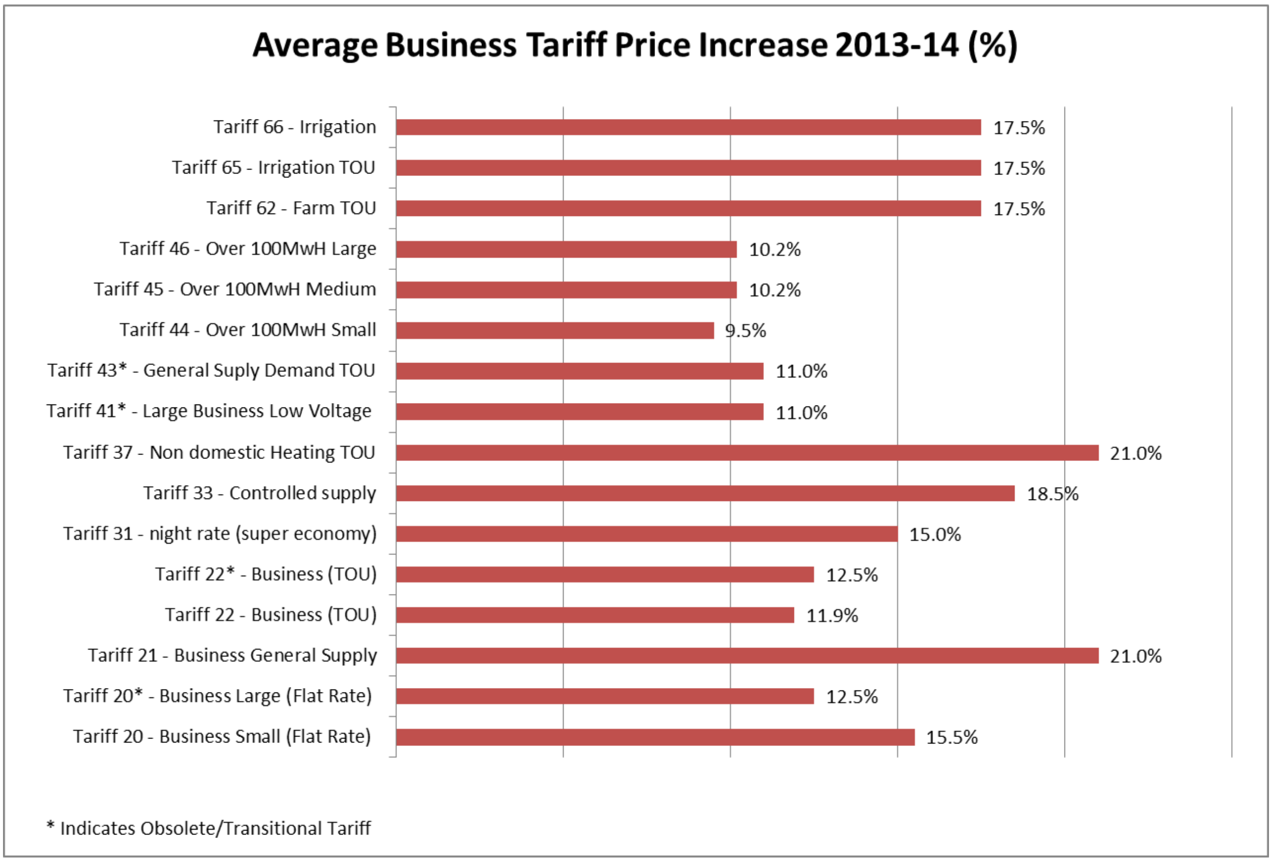
- Energy companies (generation, network, distribution and retail) operating efficiently to reduce cost pass through;
- The best policy and regulatory framework in place to encourage market and price competition and avoid unnecessary price/cost impacts;
- Long-term planning and investment in infrastructure to meet the needs of a growing population and industry base;
- Consumers who are educated, informed and supported to make long – term business and investment decisions.

CCIQ firmly believes that the Queensland Government needs to take responsibility for the regulatory and institutional framework and deliver necessary reforms to the energy sector in Queensland. Short of this it is conceivable that electricity prices will continue to rise under the QCA methodology to the same extent that it has over the past seven years.

Summary of QCA Determination

The QCA draft determination has recommended new tariff prices for the 2013-14 as outlined in the below table. These prices reflect increases in the underlying costs of supply, predominately driven by increases in network charges (average increase of 23% and 13% for Energex and Ergon respectively) and energy costs which are estimated to increase by approximately 9%.

A key concern for CCIQ is that the increased network charges, which account for more than half of the price increase, reflect large increases in the distributers revenue allowed by the AER, catch-up from the Queensland government's Tariff 11 freeze in 2012-13 which was only partly subsidised, the impact of declining consumption and better energy management which means that network charges must increase across the consumption base to recover the allowed revenue. Additionally significant costs have been incurred by distributors in complying with the Queensland Governments Solar Bonus Scheme (costs expected to represent 29.5% of network costs by 2015-16). CCIQ wishes to reconfirm that the priority for Queensland businesses is on price stability rather than excessively high reliability standards.



CCIQ cannot generally fault the methodology applied by the QCA as it reflects the principles and policies for the regulation and management of the energy sector as determined by the Queensland and Australian Governments. Indeed it is important to highlight that it is the Minister's own delegation which directs the QCA on the factors which must be considered in making a price determination, these include:

- Regard for the 'actual costs of making, producing and supplying the goods and services' and the 'effect on competition in the retail electricity market'; and
- Application of a Network (N) plus Retail (R) cost build-up pricing methodology, where 'network costs are treated as a direct pass-through' from those approved by the Australian Energy Regulator (AER)\

Accordingly we agree that the QCA is considerably constrained in their ability to restrict the extent of price increases by the regulatory framework in place in Queensland's Energy Market.

That being said, CCIQ reiterates our position outlined in our previous submission to the QCA in relation to the cost components and pricing methodology:

- A much lower allowance for CARC, given that only a proportion of customers in Queensland are reasonably open to contestability and on the basis that such an allowance is not provided for in other unregulated industry sectors;
- A lower retail margin, on the basis that 5.4% seems to provide an unreasonable level of compensation for risk when the current pricing methodology (N + R cost build-up pricing

approach) better assesses and reflects the operational costs for retailers thereby reducing the inherent risks that existed under the previous BRCI process; and

- CCIQ outright oppose the additional allowance for retail head room of 5% of cost-reflective prices for all tariffs on the basis that it provides a perverse disincentive for retailers to operate more efficiently and innovatively, and provide better customer service.

CCIQ also argues strongly for the removal of policies and programs which duplicate the intention of the Carbon Pricing Mechanism (CPM) and contributed to costs for the generation, network or retail companies (e.g. the Queensland Gas Scheme, Smart Energy Savings Program and at a Federal level the renewable energy target scheme - LRET and SRES). Accordingly CCIQ notes that the recent announcement that the State Government was closing the QGS and SESP and repealing standards for new coal-fired power stations will hopefully reduce to some extent the overall energy cost component passed through in the retail price determination.

Pricing Impacts on Small and Medium Businesses

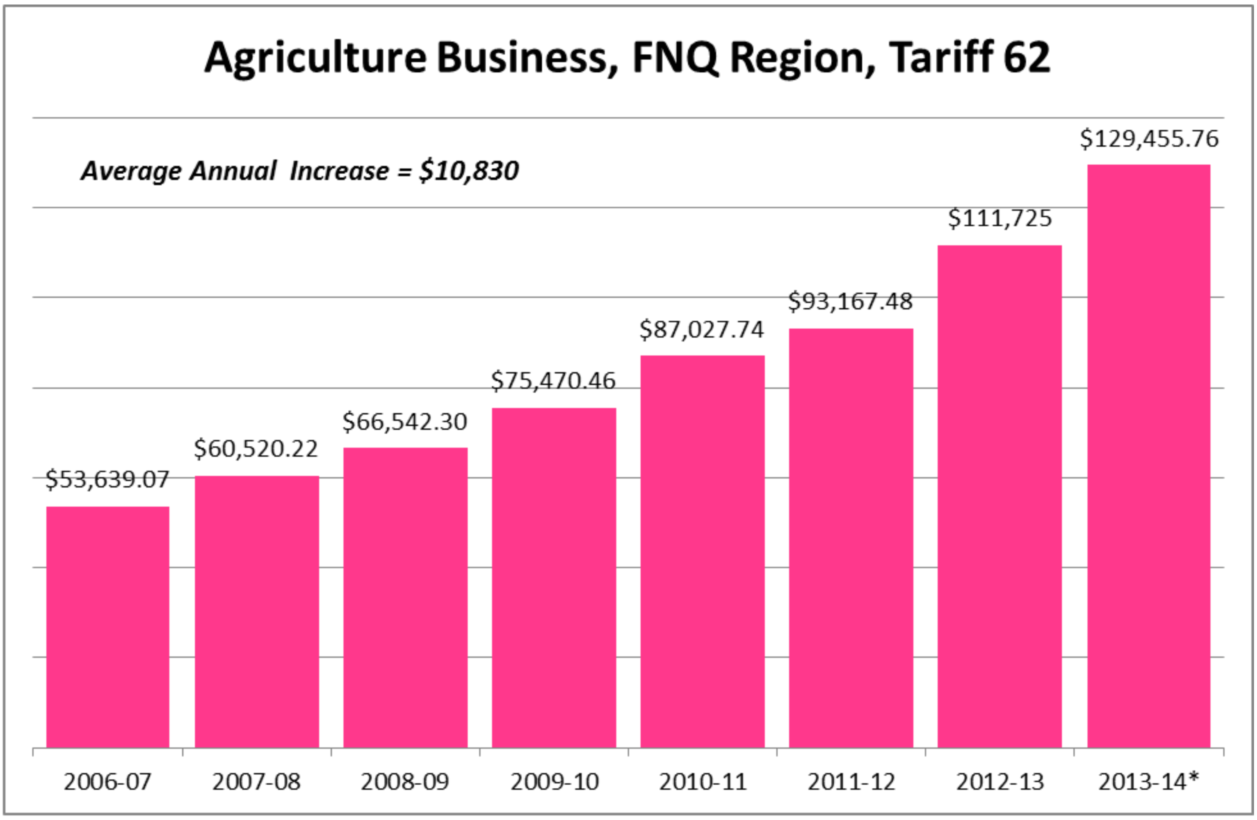
CCIQ firmly believes that electricity price increases have had a disproportionally higher impact on business then they have for the household/residential sector, primarily due to the scale of operations and level of energy use. What is often overlooked is that for businesses to maintain competitiveness and viability, electricity costs must be passed onto consumers through higher prices for goods and services. However due to high national and international market competition businesses have generally been unable to pass on cost increases, thus business profitability and viability has been eroded as a consequence of consecutive years of electricity price increases.

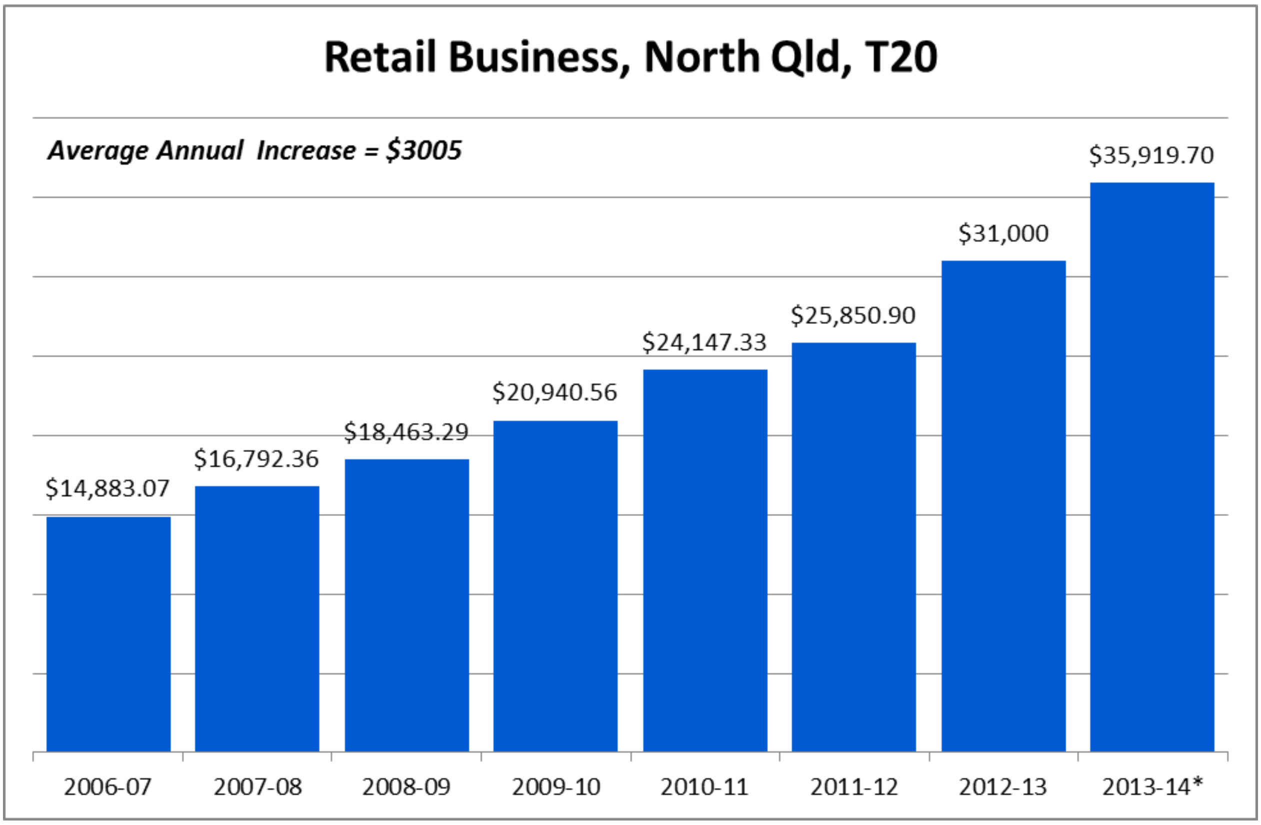
Throughout March 2013 CCIQ undertook a survey to determine the impact that electricity price increases are having on business profitability and competitiveness. The survey has also collected data on energy use, tariffs and opportunities for improved energy management.

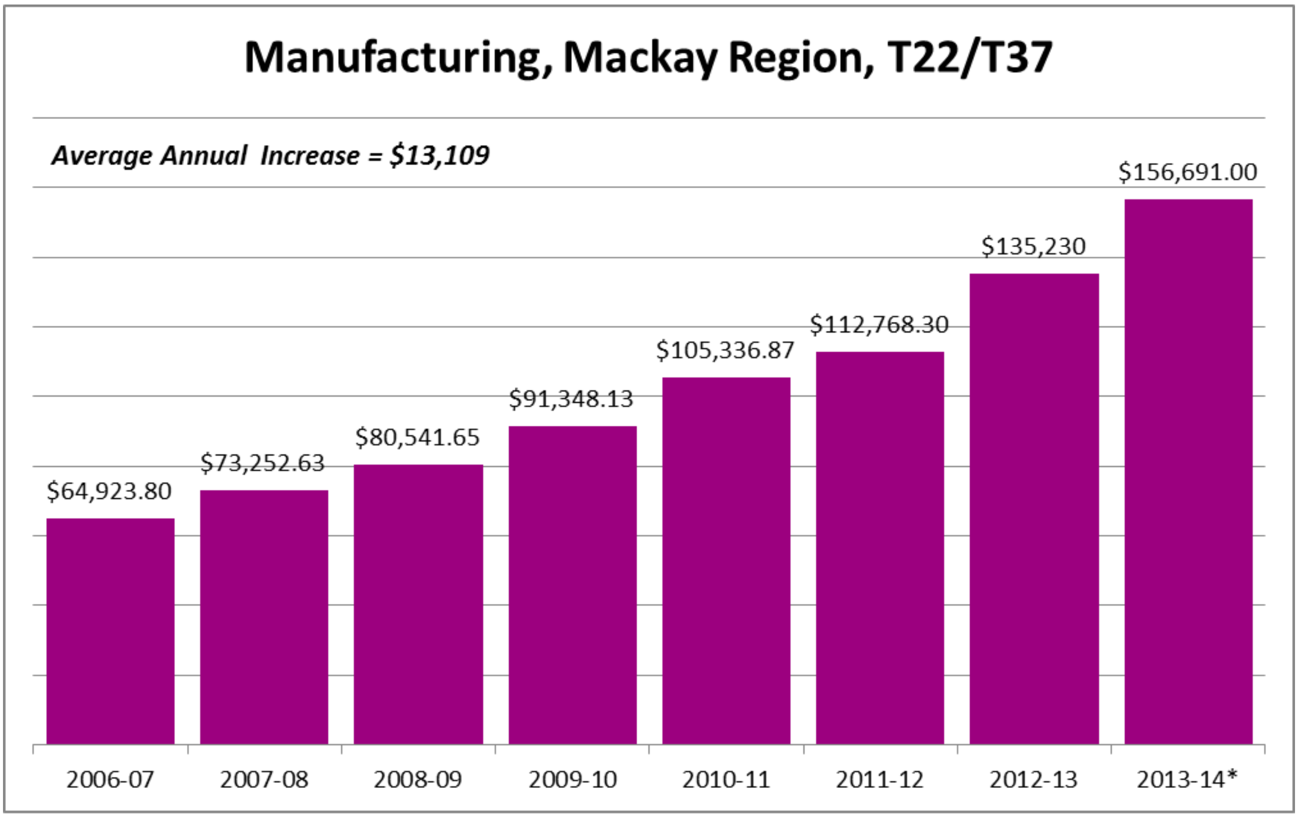
The following graphs demonstrate the price/cost impact on a selection of businesses since 2007/2006 when the electricity sector reforms were introduced. Based on this cost modelling, CCIQ wishes to put on the record that any suggestion that the proposed electricity price increases (ranging between 10% and 21%) are "reasonable" is erroneous and disconnected from the reality of doing business.

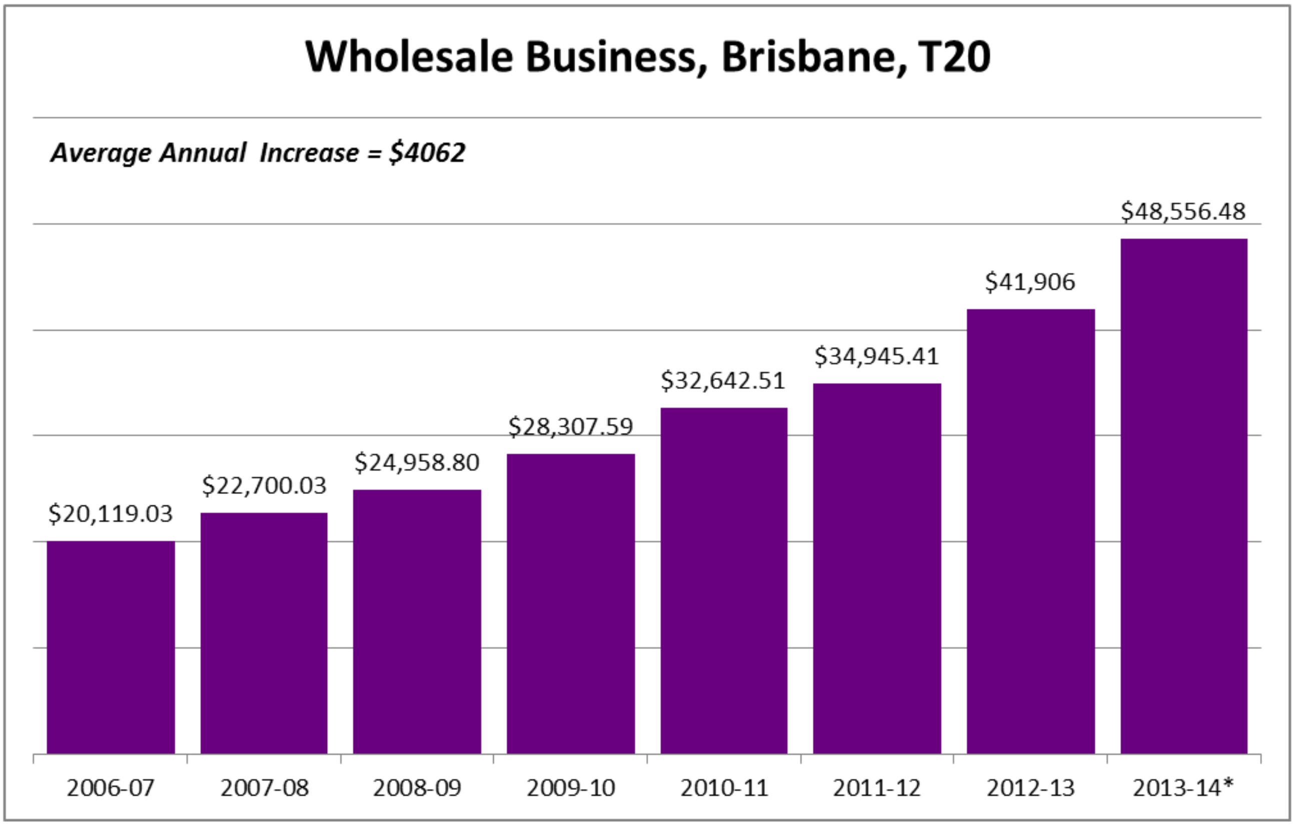
Note: Price/cost modelling has been produced using 2012 annual energy consumption data as the 'base year'. It assumes consistent level of energy consumption over the period from 2006-07. Actual Tariff prices per KwH have been applied in the modelling.

**2013-14 is forecasted price increases based on existing QCA draft determination regulated tariff prices.*


Agriculture Business, FNQ Region, Tariff 62
Average Annual Increase = $10,830
$53,639.07
$60,520.22
$66,542.30
$75,470.46
$87,027.74
$93,167.48
$111,725
$129,455.76
2006-07
2007-08
2008-09
2009-10
2010-11
2011-12
2012-13
2013-14*

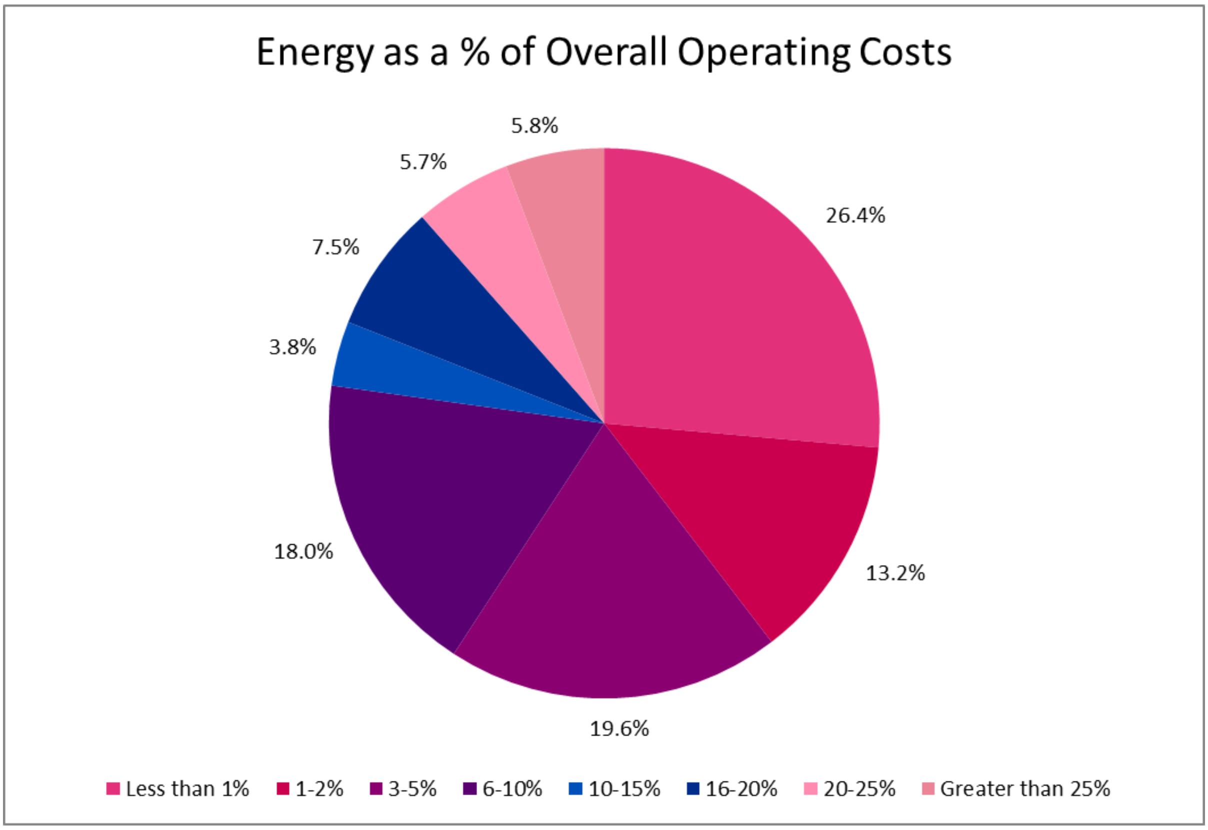

Retail Business, North Qld, T20
Average Annual Increase = $3005
$14,883.07
$16,792.36
$18,463.29
$20,940.56
$24,147.33
$25,850.90
$31,000
$35,919.70
2006-07
2007-08
2008-09
2009-10
2010-11
2011-12
2012-13
2013-14*


Manufacturing, Mackay Region, T22/T37
Average Annual Increase = $13,109
$64,923.80
$73,252.63
$80,541.65
$91,348.13
$105,336.87
$112,768.30
$135,230
$156,691.00
2006-07
2007-08
2008-09
2009-10
2010-11
2011-12
2012-13
2013-14*


Wholesale Business, Brisbane, T20
Average Annual Increase = $4062
$20,119.03
$22,700.03
$24,958.80
$28,307.59
$32,642.51
$34,945.41
$41,906
$48,556.48
2006-07
2007-08
2008-09
2009-10
2010-11
2011-12
2012-13
2013-14*

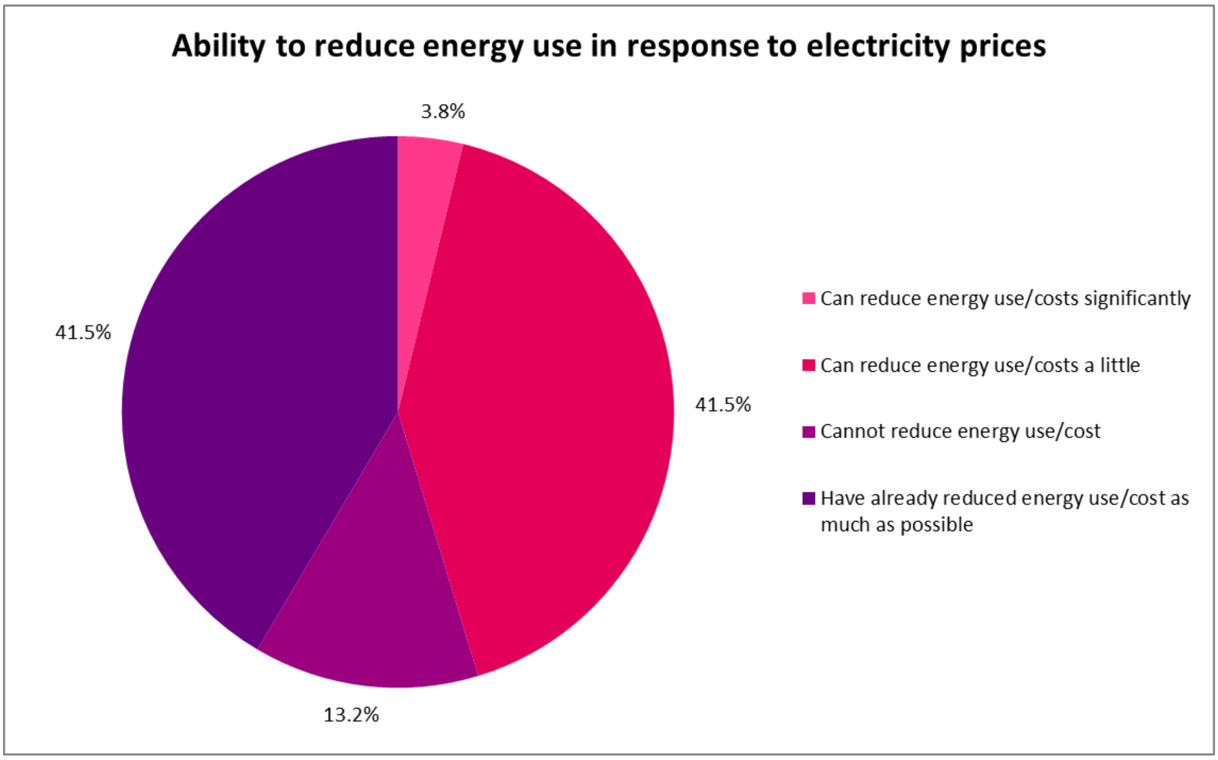
CCIQ research has also demonstrated that for many Queensland businesses, energy costs represent a significant proportion of overall operating cost:

- for 18 % of businesses energy represents between 5 and 10 per cent of operating costs;
- for 22 % of businesses energy contributes more than 10% to operating costs (of which 11.5% have energy costs greater than 20% of overall operating costs); and
- for the majority of businesses (59.2%) energy represents less than 5% of overall operating costs.



The primary concern for CCIQ is those businesses whose energy costs represent up to and greater than one quarter of their overall operating costs – it is understandable that these businesses are facing significantly reduced profitability and competitiveness levels as energy costs continue to rise.

Businesses were also asked to rate their ability to reduce their energy use in response to rising electricity costs. The majority of businesses (54.7%) indicated that they have already taken all action possible and/or cannot further reduce their electricity any further than they already have. Importantly, 100% of those businesses with energy costs in excess of 20 per cent of overall operating costs, have taken all action to reduce their energy costs and indicated that they were unable to reduce their energy costs any further.



CCIQ Recommendations:

CCIQ have ongoing concerns that the political, policy and regulatory context in which electricity prices are managed in Queensland is too focused on the residential consumer without due recognition being given to the contribution that a competitive business sector makes to employment and the economic and social wellbeing of all Queenslanders.

The Queensland businesses community is numb to the rhetoric and lack of genuine commitment to comprehensively reform the electricity market/sector in Queensland. CCIQ considers it a constrained exercise to continue to consult on and review the regulated retail tariffs and prices, without first overhauling the network tariffs, pricing structures and broader regulation of the sector.

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 2013-14 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.