

25 March 2013

Queensland Competition Authority
GPO Box 2257
Brisbane QLD 4001

Email: electricity@qca.org.au

Dear Sir /Madam

RE: Momentum Energy's submission to Draft Determination - Regulated Retail Electricity Prices 2013/14

Momentum Energy is pleased to provide the following comments in relation to the Queensland Competition Authority's Draft Determination - Regulated Retail Electricity Prices 2013/14. Momentum Energy is fully owned by Hydro Tasmania, which produces more clean energy than any other company in Australia.

In responding to the Draft Determination Momentum Energy has specially addressed the following issues

- The importance of marketing activity in determining the level of competition
- The approach adopted to determine retailers' wholesale electricity costs
- The definition of materiality for the cost-pass through mechanism
- The regulation of retail electricity costs outside South East Queensland

Momentum Energy strongly supports a competitive retail electricity sector in South East Queensland and believes that ultimately competition will deliver better outcomes for customers in the long term. Under section 90(5) (a) of the Electricity Act, the Authority must have regard for the effect of the setting of regulated prices on competition in the Queensland retail electricity market. Momentum Energy is concerned that there has been insufficient consideration of this requirement on the basis that at least circumstantially, there is currently little marketing activity occurring in the Queensland market. While there are likely to be a number of reasons for this, for Momentum Energy considers the most important of these is that the previous regulated electricity determination failed to fully reflect the costs to make it profitable for retailers such as Momentum Energy to actively market in Queensland. Although Momentum Energy is currently active in most of the other markets in the NEM, there currently exists little incentive for it to commence actively marketing to Queensland customers. Momentum Energy does not dispute that there has been some churn in the South-East Queensland market, however when this is considered alongside the lack of marketing activity, especially from second tier retailers it does not portray the market as competitive as the switching statistics might suggest. The 'Current State of Competition' section of the Draft Determination therefore provides an inaccurate picture of the market, mainly because it fails to pick on the fact that the level of marketing activity has reduced. While the Authority is correct in that the number of new entrant retailer will increase the competitiveness of a market, in order to assess the impact of new entrant retailers, the QCA should not assume that all retailers are actively marketing to customer simply because they have a Queensland electricity license.

As such, Momentum Energy does not believe that the number of retailers licensed in the market provides an accurate indication of their marketing activity. Momentum Energy therefore believes prevalence of retailer advertising, direct marketing activity and other forms of promotion provide a much better assessment of the level of competition in the market. In order to gauge the level of marketing activity the QCA could confidentially survey retailers on their level of

marketing activity. On the basis of these observations Momentum Energy would strongly encourage the Authority to re-examine the level of marketing activity among retailers.

In considering the approach the Authority has taken to determine the regulated tariffs, Momentum Energy endorses the adopting of the N+R approach, given the identified issues with the Benchmark Retail Cost Index, along with the increasing of the margin to 5.4%. However, it is import to recognise that if the Authority's assessment fail account accurately for the retailer's other costs this margin will be eroded away. In terms of the wholesale electricity costs component, Momentum Energy remains very concerned by the approach proposed by ACIL Tasman in the Draft Determination to assess the wholesale market electricity costs, namely because the approach does not represent how any retailers actually hedge their load in the Queensland market. As such, in order for the Authority to have full regard for the Section 90(5) (a) of the Electricity Act Momentum Energy believes further work should be undertaken to ensure the approach used accurately reflects how retailers operate in the Queensland market.

As well as the concerns associated with determining the wholesale cost component, Momentum Energy does not consider the definition of materiality for the cost-pass though mechanism used in the Draft Determination fully represents the asymmetric risk borne by retailers. Given the increasing part of customers' bills for environmental charges, ie Large Renewable Energy Certificates, Small Renewable Energy Certificates, Carbon Tax, there is substantial costs on retailers if there are changes to any of these schemes during the price path which cannot be passed through to end customers. With the potential for a change of government after the Federal Election in September, ensuring there is scope in the Determination for the possibility of these schemes being changed would be prudent. Moreover, as these schemes have been established to meet the policy objectives of governments, retailers must be provided with the scope to pass though all additional costs associated with amendments, revocation, and where new schemes are created.

Finally, given the significant influence that the retail costs in the Ergon Network area have on the Uniform Tariff Policy, Momentum would endorse further work being done to determine a better way to regulate prices outside of the South East Queensland retail market. Currently the inability for customer to revert back to Ergon for the regulated tariff represents a strong disincentive for any retailers to market to these customers and as such, Momentum Energy would support the Community Service Obligation being applied at the network level.

Thank you for the opportunity to contribute to this important paper. Should you or your staff wish to discuss this matter further please feel free to give me a call on (03) 8612-6471.

Yours sincerely

Alastair Phillips

General Manager Regulatory and Compliance