

28 October 2014

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

Email: electricity@qca.org.au

Dear Dr Roberts,

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

The Energy Retailers Association of Australia (ERAA) welcomes the opportunity to provide comments in response to the Queensland Competition Authority's (QCA) Regulated Retail Electricity Prices for 2015-16 Interim Consultation Paper (**the Consultation Paper**).

The ERAA represents the organisations providing electricity and gas to almost 10 million Australian households and businesses. Our member organisations are mostly privately owned, vary in size and operate in all areas within the National Electricity Market (NEM) and are the first point of contact for end use customers of both electricity and gas.

The ERAA notes the significant change to the QCA's methodology for setting regulated prices in the Ergon Energy distribution area (Ergon area) due to the impending introduction of retail price deregulation in South-east Queensland (SEQ) from 1 July 2015. The QCA will no longer be able to reference the Energex notified prices and the Consultation Paper seeks views on the regulatory pricing approaches to apply to the Ergon area for 2015/16.

Pricing approaches

The network (N) + retail (R) approach is the fundamental building block for the final notified customer prices. The QCA is required to base the network cost component on the network charges levied by Energex and the relevant Energex tariff structure. The Uniform Tariff Policy (UTP) is another important component of the pricing methodology as the Queensland Government has reaffirmed a commitment to its maintenance.¹ The UTP is delivered through Community Service Obligation (CSO) which ensures as much as practicable that customers in the Ergon area and SEQ pay the same retail prices. The amount of the subsidy is predominately the difference between the higher Ergon network costs reflecting the geographic disbursement of this distribution area relative to Energex's distribution area.

The ERAA's view is that a significant improvement in retail competition in the Ergon area is predicated on reforms to the CSO and the transition to cost reflective tariffs. The ERAA has consistently advocated for the application of the Government's CSO payment to be at the distributor's level, enabling retail businesses to compete for customers based on the

¹ Queensland Competition Authority Interim Consultation Paper, Regulated Retail Electricity Prices for 2015-16, p.2



competitiveness of their product offering. We refer to member submissions as to how such an approach could be facilitated to foster competition in the region.

The transition to retail tariffs that reflect Ergon Energy's network tariffs and cost levels is a logical progression for this market. This will ensure the appropriate network price signals are communicated to customers and also reflect the different residential and business tariff structures of the Ergon Energy and Energex distribution areas.² A delineation from the unregulated standing offer prices in SEQ will be established and should mitigate future customer misunderstanding related to tariffs.

We recognise that this transition requires careful implementation to ensure that a strong foundation is laid for the competitive framework in the Ergon area.

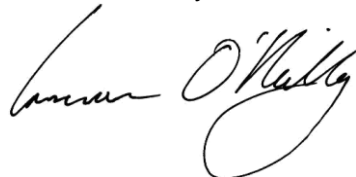
Energy and retail costs

The ERAA recommends that the current approach and methodology is maintained for the retail cost element of the R component of notified prices. We also see value in maintaining the allowance for headroom to facilitate future competition and ensure cost reflectivity is achieved.

However, our view is that the methodology for the wholesale energy costs should be based on long run marginal cost. The suppression of wholesale prices due to a number of factors including subsidised solar PV generation may lead to inaccurate wholesale cost factors, particularly when the market normalises in the future. Therefore utilising a retailer's actual cost of supply should provide a more accurate outcome than the QCA's market based approach.

Should you wish to discuss the details of this submission, please contact me on (02) 8241 1800 and I will be happy to facilitate such discussions with my member companies.

Yours sincerely,



Cameron O'Reilly
CEO
Energy Retailers Association of Australia

² Queensland Competition Authority Interim Consultation Paper, Regulated Retail Electricity Prices for 2015-16, p.11