

9 December 2011

Momentum Submission Re: *Draft Methodology Paper Regulated Retail Electricity Prices 2012-13*

As a new entrant to the Queensland Market, Momentum has a number of concerns with the *Draft Methodology Paper Regulated Retail Electricity 2012-13*, specifically, that it removes incentives for new retailers to enter the Queensland small customer market and consequently inhibits competitive outcomes from being achieved.

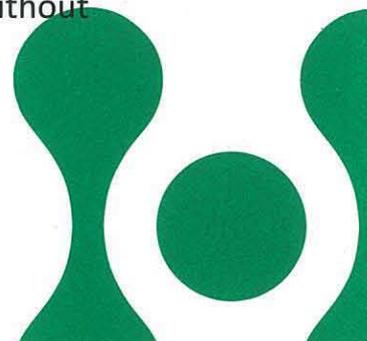
The paper notes the 2009 review's conclusion that "the existing suite of notified prices was unlikely to fully reflect the costs of supply (at least not for each individual tariff group) and did not provide good signals to customers regarding the underlying costs of their electricity usage". Momentum welcomes this conclusion but feels strongly that actual market participants are ultimately best place to provide price signals and that the methodology used to determine the N+ R components of the notified tariffs has not rectified this shortcoming. It firmly believes that the N+R approach should also include a required headroom to allow retailers to show true costs, with the notified tariff existing only as a protection for customers who choose not to exercise their right to enter a market contract.

In making its determinations, the QCA is required to ensure that its annual indexation of electricity tariffs should keep retail headroom stable. In its approach which bases notified tariffs on Energex's network costs, plus a retail component R, this headroom is effectively removed. This approach sees the network component increases reflected in an average network cost increase rather than the full cost in the Energex distribution area, further eroding any headroom.

If the proposed methodology is applied using existing network prices and the QCA's own estimates of the R components¹ (including an actual %5 retail margin), domestic and retail tariffs fall by 23% and 33% respectively. This highlights the need for acceptable headroom to be enshrined.

The N+R approach also assumes a considerable degree of certainty with regard to calculation of the components. Momentum is concerned that without

¹ Final Decision Benchmark Retail Cost Index for Electricity: 2011-12 QCA May2011



sufficient headroom in notified tariffs, miscalculations, incorrect assumptions or unforeseen market events could have significant impacts on retailer profitability.

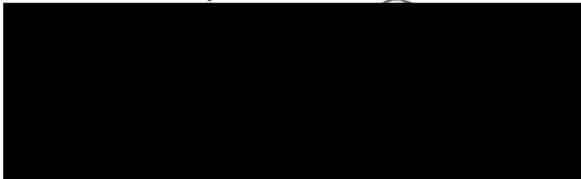
Momentum's specific concern in this regard centres around the assumptions made in the Calculation of Energy Costs for the 2011-12 BRCI Final Decision in calculation of STC costs. This final decision forecasts an STC excess of zero, where other modelling forecasts an excess of up to 20 million STCs. An excess of this magnitude would significantly increase the 2012 SRET compliance costs as a result of ORER raising the 2012 target. Reasonable headroom in notified tariffs provides retailers with the ability to adjust prices to reflect costs in the event of a miscalculation or unexpected market event. An inability to do this would have a major impact on existing retailers and act as a deterrent to new market entrants.

Momentum is conscious of the pressures faced by government in determining pricing for essential services such as electricity however it believes that the proposed methodology would lead to the failure of the competitive electricity market in Queensland and will impact negatively on businesses, consumers and generators.

Momentum considers that competitive outcomes can only be fully achieved through the removal of regulated pricing, however concedes that Governments may deem price caps to be the most suitable means of ensuring that customers are protected. Where this is the case we would argue that the methodology used to determine regulated prices is established such that it promotes competition and enables retailers to operate in an environment which stimulates innovation in product offerings and allows retailers headroom to provide electricity to customers at a significant discount to notified tariff.

If you have any queries with regard to this submission, please contact me on (03)8612 6467 or email nigel.clark@momentum.com.au

Your sincerely



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