



Hon Stephen Robertson MP
Member for Stretton



**Minister for Energy and
Water Utilities**

22 SEP 2011

MBN5236

Mr B Parmenter
Chairman
Queensland Competition Authority
GPO Box 2257
BRISBANE QLD 4001

Dear Mr Parmenter

I refer to the Government's decision, in May 2011, to implement a new electricity pricing methodology based on a Network (N) + Retail (R) (N+R) cost build-up (building block) approach and establish a new set of regulated retail electricity tariffs (notified prices), to commence from 1 July 2012.

In accordance with this decision, the Electricity Price Reform Amendment Bill 2011 (the Bill) was passed by the Queensland Parliament on 7 September 2011 and received assent on 13 September 2011. The Bill contains the key legislative amendments necessary to allow for the implementation of a new electricity price-setting methodology and set of tariff structures in 2012-13.

I now attach a certificate which provides my delegation to the Queensland Competition Authority (the Authority), as the pricing entity, to determine the notified prices that retail entities may charge non-market customers in the 2012-13 tariff year. The delegation is authorised under section 90AA(1) of the Electricity Act 1994 (the Electricity Act).

The Delegation also contains a Terms of Reference which impose conditions on the Authority when undertaking the delegated function.

Consistent with the Terms of Reference, the Authority is required to undertake an open consultation process with all relevant parties and consider all submissions received within the consultation period.

The Authority must publish its draft methodology paper on the R component no later than December 2011, its draft price determination on 30 March 2012, and its final price determination by 31 May 2012.

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The Queensland Government remains concerned about the pressure that increases in the cost of living, including rising electricity costs, are placing on household budgets, and has consistently advocated in previous pricing decisions that only genuine increases in costs of supply be passed on to consumers.

With the introduction of the new price setting methodology in 2012-13, the Government wishes to again stress that the Authority must consider the impact of price rises on consumers when determining regulated prices.

It is acknowledged that a move to cost reflective tariffs will have an adverse affect on some consumers. To assist in mitigating these impacts, the Government has approved an inclining block tariff (IBT) structure for residential customers.

An IBT is designed to encourage customers to conserve electricity by charging a fixed supply charge and a series of consumption blocks priced so the more you use, the more you pay. Under this approach, the impact of moving to a cost reflective pricing structure on lower consumption customers will be lessened.

The Queensland Government will also undertake additional work to further investigate a range of customer assistance measures to further mitigate the impacts of a move to cost reflective tariffs and the increasing cost of living on small residential electricity customers. It is expected these options will be considered as part of the 2012-13 Budget process.

Delegation and Terms of Reference

In undertaking the delegated function, the Authority should consider the following:

- The network charges to be levied by ENERGEX when determining the N component of the regulated retail tariffs;
- The cost of energy component should seek to balance the long term need for maintaining pricing stability with ensuring customers are not subjected to unnecessary price volatility in the short term;
- The Government has endorsed the establishment of an IBT structure for residential customers to apply from 1 July 2012;
- The Government has endorsed the establishment of a new voluntary time-of-use tariff for residential customers from 1 July 2012;
- It is the Government's intention that any customer on an obsolete or declining block tariff will be required to move (or transition) to an alternative regulated tariff from 1 July 2012;
- Before making any changes to farming and irrigation tariffs, the Authority should consult with relevant stakeholders and industry groups and consider whether any transitional arrangements may be required;
- The Authority should consider an appropriate tariff for street lighting customers in Ergon Energy's network area and whether any transitional arrangements may be required; and
- It is the Government's intention that from 1 July 2012, all existing and new non-residential customers in ENERGEX's network area, who consume over 100 megawatt hours per annum, will be unable to access regulated tariffs and must be on a market contract.

This Delegation (and Terms of Reference) replaces the previous Direction Notice, issued to the Authority on 11 May 2011 under section 10(e) of the Queensland Competition

Authority Act 1997 (QCA Act), requiring the Authority to investigate and provide a report on:

- An alternative retail electricity pricing methodology for the determination of the cost components under an N+R approach; and
- An alternative set of retail electricity tariffs, based on an N+R approach, which could be applied from 1 July 2012.

Please be assured the process and intent reflected in the Direction Notice issued under the QCA Act will be deemed sufficient for the purposes of the price determination process for 2012-13, in accordance with section 329 of the Electricity Act.

If you have any questions about my advice to you, Ms Kathie Standen, Director, Electricity Pricing Policy of the Department of Employment, Economic Development and Innovation will be pleased to assist you and can be contacted on telephone 3225 8256.

Yours sincerely

A large black rectangular redaction box covering the signature area.

STEPHEN ROBERTSON MP

ELECTRICITY ACT 1994
Section 90AA(1)

DELEGATION

As the Minister for Energy and Water Utilities, pursuant to section 90AA(1) of the *Electricity Act 1994*, I hereby refer to the Queensland Competition Authority (the Authority) the determination of regulated retail electricity tariffs (notified prices) for Queensland to apply from 1 July 2012 to 30 June 2013, in accordance with the requirements set out in the following Terms of Reference.

Terms of Reference

1. Matters to be considered

In calculating the regulated retail electricity tariffs for the relevant tariff year, the Authority should ensure its price determination has regard to:

- the actual costs of supplying electricity;
- the effect of the determination on competition in the Queensland retail electricity market, consistent with the Government's policy objective that consumers, wherever possible, have the opportunity to benefit from competition and efficiency in the marketplace;
- the Queensland Government's Uniform Tariff Policy, which ensures customers of the same class have access to uniform retail tariffs and pay the same notified price for their electricity supply, regardless of their geographic location; and
- the information contained in the Attachment.

Methodology for calculating regulated retail tariff prices

Retail electricity tariffs comprise three main cost components:

- network costs;
- energy costs; and
- retail costs.

In calculating the regulated retail tariffs for the relevant tariff year, the Authority should, to the extent possible, base its determination on a Network (N) plus Retail (R) cost build-up approach to setting notified prices, where N (network cost) is treated as a pass-through and R (energy and retail cost) is determined by the Authority.

Network Costs

In determining the network cost component of each regulated retail tariff, the Authority must consider the network charges to be levied by ENERGEX for each tariff for the relevant tariff year.

Energy Costs

The energy cost component of each regulated retail tariff should include the cost of purchasing energy, environmental and renewable energy costs, energy losses and National Electricity Market fees.

In calculating the energy cost component, the Authority must consider:

- the cost of energy,
- fees, including charges for market and ancillary services, imposed by Australian Energy Market Operator (AEMO) under the National Electricity Rules;
- energy losses as published by the AEMO;
- the likely impact resulting from Commonwealth legislation to put a price on carbon dioxide emissions;
- the efficient costs of meeting any obligations under environmental and energy efficiency schemes (including present and future State and Commonwealth schemes); and
- a mechanism to address any new compulsory scheme that imposes material costs on the retailer.

Retail Costs

Retail costs relate to the services provided by a retailer to its customers.

In determining the retail cost component of each regulated retail tariff, the Authority must consider the retail costs that would reasonably be incurred by an efficient, representative retailer, the characteristics of which should be determined by the Authority. The Authority is also required to determine an appropriate retail margin giving consideration to any risks not compensated for elsewhere.

2. Consultation

The Authority should consult with stakeholders, conduct workshops and consider submissions, within the timetable for making the price determination and publishing the draft and final reports. The Authority must make its reports available to the public.

3. Timing

(a) Draft Methodology Paper

The Authority must publish a paper outlining its draft methodology for calculating the R component of regulated retail electricity prices no later than December 2011.

(b) Draft Price Determination

The Authority must publish a report on its draft price determination of regulated retail electricity tariffs (with each tariff to be presented as a bundled price) for the period 1 July 2012 to 30 June 2013, on 30 March 2012.

The Authority must publish a written notice inviting submissions about the draft determination. The notice must state a period (the *consultation period*) during which anyone can make written submissions to the Authority about issues relevant to the draft determination.

The Authority must consider any submissions received within the consultation period and make them available to the public, subject to normal confidentiality considerations.

(c) Final Price Determination

The Authority must publish a report of its final price determination on regulated retail electricity tariffs (with each tariff to be presented as a bundled price) for the period 1 July 2012 to 30 June 2013, and gazette the (bundled) retail tariffs, no later than 31 May 2012.

STEPHEN ROBERTSON



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*Determination of regulated retail electricity tariffs
for the period 1 July 2012 to 30 June 2013*

In making its price determination on regulated retail electricity tariffs for the period 1 July 2012 to 30 June 2013, the Queensland Competition Authority (the Authority) must have regard to the following:

- the general supply residential tariff (existing Tariff 11) is to be structured as an inclining block tariff;
- a new voluntary time-of-use tariff is to be established for residential customers;
- for farming and irrigation tariffs, targeted consultation should be undertaken with relevant stakeholders and industry groups, and consideration given to whether any transitional arrangements are needed for customers who may be required to move from one tariff to another;
- an appropriate tariff is to be established for customers who are supplied under the Rural Subsidy Scheme, or are located in a drought declared area;
- an appropriate tariff for street lighting customers in Ergon Energy's network area is to be established, and consideration given to whether any transitional arrangements are needed for customers on the existing tariff (Tariff 71); and
- consideration should be given to transitional arrangements for customers who are on obsolete and declining block tariffs.

In making its price determination, the Authority should note the following:

- From 1 July 2012, all existing and new non-residential customers in ENERGEX's network area, who consume more than 100 megawatt hours per annum, will be unable to access regulated retail electricity tariffs, and must be on a market contract;
- As at 1 July 2012, any customer who is on an obsolete or declining block tariff will be required to move to, or be transitioned to, an alternative regulated retail tariff;
- In relation to the establishment of a voluntary time-of-use tariff for residential customers, any customer who opts to transfer to this tariff, providing they have the appropriate metering, will be permitted to revert to the standard regulated tariff for residential customers in accordance with the requirements set out in the regulated retail tariff schedule.