

27 February 2015

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

Lodged online: www.qca.org.au

Dear Dr Roberts,

RE: Regulated Retail Electricity Prices for 2015-16 Draft Determination

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 Draft Determination (**the Draft Determination**).

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.

Under the *Competition and Consumer Act 2010* (Cth), the ERAA is not permitted to share or discuss information within the Association in relation to prices and the mechanisms for setting prices. As such, we refer to the individual submissions of our members for more detailed comments on appropriate retail pricing methodology.

The ERAA has consistently advocated for the deregulation of retail energy prices. Retail price regulation is inefficient, stifles product innovation and impedes competition. Additionally price regulation creates high levels of risk for retailers as the regulated price can be adjusted substantially on short notice which cannot be mitigated effectively by retailers as evidenced by the freezing of Tariff 11 in 2012-2013. Open, competitive energy markets free from distortions such as retail price regulation naturally encourage prices to be efficient through the development of market offers. Competition in retail energy markets, as in other sectors of the Australian economy, incentivises businesses to improve service, develop products that meet consumer needs and find ways to lower their costs and to pass these savings on to consumers.

Price regulation is not an effective mechanism to protect consumers from payment difficulties or deterring hardship. Targeted and transparent social welfare policies which provide direct assistance to consumers facing payment difficulties is the only viable long term approach to assisting consumers in need. Assistance should be provided through budget funded purposely designed measures to facilitate cost reflective pricing and promote competition in the market.



The ERAA takes this opportunity to provide further comment on the Draft Determination and the state of the Queensland electricity market.

Queensland market

The introduction of retail price monitoring in south east Queensland (SEQ) and the adoption of the National Energy Customer Framework (NECF) across all parts of Queensland from 1 July 2015 is major development which the ERAA strongly supports and endorses.

The ERAA believes it is necessary for the QCA to ensure a price setting methodology for the Ergon Energy network area (the Ergon area) that promotes competition and acknowledges the separation of energy regulation from social policy outcomes. This will facilitate a smoother transition to cost reflective tariffs and the removal of regulated pricing in the area at a future date.

The ERAA is aware of previously expressed policy contained in the Labor Party's *Our Assets Our Future Policy Paper* and *A Solar Future Policy Paper* with respect to both the commitment to cease privatisation of electricity assets and the consolidation of generation businesses in Queensland. If implemented, the ERAA considers these policies may have a materially adverse impact on the Queensland electricity market and consumers. Of particular concern is the proposed merger of the Queensland Government's electricity generation businesses and potentially their retail businesses into a single entity. If this was to occur it would create a more onerous market that was significantly less attractive for retailer participation relative to other jurisdictions. The ERAA is therefore seeking further information from the QCA as to what actions it may take should these Government policies come into effect during this notified price period.¹

Cost reflective tariffs and wholesale market

The ERAA believes a delineation of the notified prices in the Ergon area from the SEQ prices will follow from price deregulation in SEQ and should mitigate future customer misunderstanding related to tariffs. A transition to retail tariffs which reflect network tariffs and electricity supply costs accurately is a logical progression for the Ergon area. This will ensure the appropriate price signals are communicated to customers and support the longer term development of a competitive and sustainable market.

The ERAA continues to support the use of a Long Run Marginal Cost (LRMC) floor for calculating wholesale energy costs. Any approach which seeks to set regulated prices close to or at current market costs creates an investment risk for retailers, leading to adverse outcomes for customers as the competitiveness of the market decreases. Competition thrives when the regulated price setting methodology is appropriate, cost reflective and free from regulatory distortion. The Draft Determination contemplates the continued use of a market or hedging based approach. The ERAA continues to advocate for a methodology that takes account of different approaches to procuring wholesale electricity including recognition of the longer term costs of generating electricity.

The Uniform Tariff Policy and the Community Service Obligation

The Uniform Tariff Policy (UTP), achieved through the Community Service Obligation (CSO) payment is necessarily a large component of the pricing methodology as the previous Queensland Government has reaffirmed a commitment to its maintenance.² As previously articulated by the ERAA, the application of CSO payments to Ergon Energy (retail), as the incumbent retailer, inhibits the development of competition in the Ergon area. Should the new Government delay the introduction a network based CSO mechanism in the Ergon area

¹ Ergon Energy Queensland is a member of the ERAA but it is unable to support these statements.

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

from 1 July 2017, competition in the Ergon area will suffer and create further barriers to progressing an open and competitive market.

Application of the CSO payment at the distribution level and cost reflective tariffs will facilitate a more competitive electricity market in the Ergon area and ensure those consumers continue to receive assistance. It is imperative the retail energy sector does not suffer or is forced to absorb the costs of Government social policy.

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