



3 April 2017

Mr Charles Millstead  
Chief Executive Officer  
Queensland Competition Authority  
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Dear Mr Millstead

## **REGULATED RETAIL ELECTRICITY PRICES 2017-18 - DRAFT DETERMINATION**

Origin Energy (Origin) appreciates the opportunity to comment on the Queensland Competition Authority's (QCA) Draft Determination on Regulated Retail Electricity Prices for 2017-18 (Draft Determination). Origin notes that the pricing methodology for regulated prices in 2017-18 largely aligns with previous QCA pricing determinations for electricity consumers in regional Queensland.

Origin's comments on elements of the proposed pricing framework are set out below.

### **Network Costs**

Origin notes the network prices utilised in the Draft Determination are based on preliminary prices that Energex and Ergon have provided to the QCA ahead of the distribution businesses formally submitting prices to the Australian Energy Regulator (AER) in March 2017<sup>1</sup>. The proposed decrease in network prices as set out in the Draft Determination are greater than forecast by Origin.

Origin supports the Final Determination including the AER submitted network prices to ensure they align to the network prices that will be effective from 1 July 2017.

### **Energy costs**

It is noted that the QCA's Draft Determination only includes energy cost data relevant to November 2016. It is understood the Final Determination will include updated wholesale energy cost data.

As the QCA would be aware, the forward price for electricity has risen considerably since November 2016. It is anticipated that the energy costs included in the Final Determination will be considerably higher than that set out in the Draft Determination.

### **Retail Costs**

The QCA has determined that the 2016-17 retail cost allowance should be applied in 2017-18 without escalation in the variable retail cost component of both residential and small business customer tariffs<sup>2</sup>. The QCA proposes that only the fixed retail cost allowance will be adjusted to

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<sup>1</sup> QCA, Regulated Retail Electricity Prices for 2017-18, February 2017, p9.

<sup>2</sup> Ibid, p29.

take into account inflation. Origin submits that the variable retail cost component should also be adjusted in real terms given the QCA has no evidence that retail costs have fallen<sup>3</sup>.

Further, as set out in our 2016-17 Draft Determination submission, Origin did not support ACIL's implied benchmark allocation of the average fixed and variable retail cost allowance which resulted in a significant fall in the fixed retail cost component. Origin argued that ACIL's market analysis was not representative of a retailer's true allocation of costs given:

- the fixed component of market offers in Victoria had been artificially held back in 2015-16 to manage metering price impacts. The full metering costs were too great to pass through in the fixed charge in that year;
- New South Wales tariff structures had been constrained in 2015-16 by the transitional pricing arrangements and was not a true representation of the allocation of fixed and variable costs; and
- the balancing of tariff components was reliant on the assumptions ACIL made in relation to the average usage in each distribution area. Average usage influences the level of margin on the variable component on each of the tariffs. If there are any changes to the underlying average volumes utilised in each of the networks, the values can be influenced considerably.

Given the inherent issues with the benchmark allocation of the tariff components in 2016-17, Origin encourages the QCA to escalate both the fixed and variable component of retail costs.

#### Closing

Should you have any questions or wish to discuss this information further, please contact Caroline Brumby on (07) 8665 7155.

Yours sincerely



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<sup>3</sup> QCA, Regulated Retail Electricity Prices for 2017-18, February 2017, p30.