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11 April 2018

Professor Roy Green
Chairman
Queensland Competition Authority
Level 27, 145 Ann Street
Brisbane QLD 4000

By email: electricity@qca.org.au

Dear Professor Green,

Response to Draft Determination: Regulated Retail Prices 2018-19

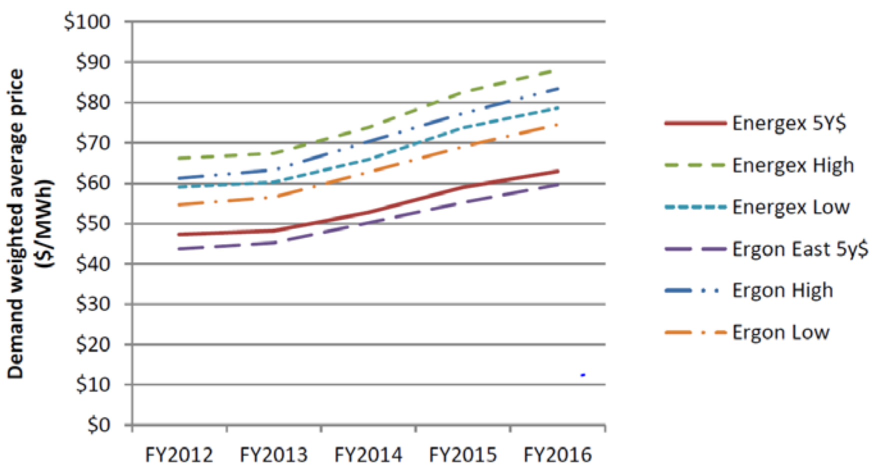
CANEGROWERS welcomes the opportunity to provide comment on the QCA's Draft Determination – Regulated Retail Electricity Prices 2018-19.

Flawed application of the N+R framework

In the Network (N) + Retail (R) pricing framework, the N component refers to the costs of operating and maintaining the network. The R component refers to all the costs associated with retail including the cost of energy, the Generation (G) component of prices.

In the draft determination, QCA acknowledges that Energex[1] has a 'peakier' load profile than Ergon[2]. ACIL Allen[3] estimates 2018-19 wholesale energy prices for Ergon will be $89.64/MWh, 11.44% below the $101.22/MWh they estimate Energex will pay. The wholesale energy price difference is consistent with that in previous periods.

Estimated Wholesale Prices – Ergon and Energex



[1] QCA Draft Determination, Regulated retail electricity prices for 2018–19, Figure 6 Energex NSLP, p30.
[2] QCA Draft Determination, Regulated retail electricity prices for 2018–19, Figure 7 Ergon NSLP, p31.
[3] QCA Draft Determination, Regulated retail electricity prices for 2018–19, p29.

Source: Sapere[4] analysis of AEMO data

The concern CANEGROWERS raised in its submission ahead of the draft determination was that Ergon's lower cost of energy should be taken into account in developing regulated retail electricity prices for regional Queensland.

The Minister's delegation requires regulated retail tariffs for residential and small business customers to be based on the network charges levied by Energex and the relevant Energex tariff structures. The delegation does not require regulated retail tariffs for residential and small businesses to be based on the cost of energy to Energex or to reflect the Energex load profile.

Using the energy cost estimates of the Energex NSLP and CLPs for residential, small business and unmetered supply (excluding street lighting) customers imposes a higher cost structure on electricity users in regional Queensland than is either warranted or required by the Ministerial delegation.

CANEGROWERS requires the QCA to act with integrity and calculate wholesale energy cost for regional Queensland based on the energy costs Ergon is expected to face, not those expected to face Energex.

Other Retail Costs

The market benchmark used by QCA incorporates non-existent costs reflected in NEM retail prices in markets that are no longer subject to price regulation, and where there is no effective market monitoring. There is evidence from a number of careful studies that retail prices significantly exceed efficient costs for the majority of electricity retail consumers, and that this is persisting for an extended duration rather than merely transitory.

The most compelling of these is the preliminary report of the ACCC Retail Electricity Pricing Inquiry. The ACCC expresses concern over the adverse impact of excessive retail costs and margins on electricity prices. The ACCC is scheduled to report to government on 30 June 2018.

In regional Queensland, not facing retail competition, Ergon Energy does not face the same customer acquisition (marketing, promotion including discounts and advertising) costs and costs incurred to retain customers as those faced by electricity retailers in South-East Queensland. In this environment providing a headroom margin to support competition adds to the already inflated cost estimates flowing from the QCA market benchmark approach to estimating retail costs.

We have been advised that the purpose of retaining the headroom charges is to reduce the amount required for the CSO under the uniform tariff policy.

As noted in CANEGROWERS original submission to this QCA determination, the onus should not be on consumers to provide evidence that retail margins are too high. It is the role of the regulator to determine the prudent and efficient cost of providing retail services in a monopoly environment and have these reflected in retail prices.

CANEGROWERS is concerned that the retail margin allowed for Ergon in the draft determination is too high.

[4] Sapere (2016), Quantification of excess costs in QCA draft electricity retail price determination for 2016-17.

CANEGROWERS requires that QCA revisits its approach to calculating retail costs and, in light of the preliminary ACCC finding, reduces the allowance provided for electricity retail costs and margins in regional Queensland.

Transitional Agricultural Tariffs

The tariffs widely used for irrigation (T62, T65 and T66) are destined for removal on 30 June 2020. CANEGROWERS is concerned that the removal of these tariffs will place undue hardship on irrigators and the regional communities they support. We are working with Energy Queensland to assist in the design of network tariffs that will enable the ongoing use of agricultural tariffs, tariffs that were originally designed to meet the needs of both irrigated agriculture across the state and the regional electricity network.

Part of this work, supported by the Government's Agricultural Tariff Trial as part of its Regional Business Support Package, is monitoring the experiences of a small number of agricultural businesses utilising various electricity tariffs and collecting real time data that shows their electricity use patterns. The purpose of this work is to better understand the potential for using controlled load or seasonal demand tariffs as an alternative to the current transitional agricultural tariffs.

Some participants are trialling the use of a seasonal time-of-use tariff (T24) as an alternative to the transitional farming business time-of-use tariff (T62). Initial reporting from this part of the trial is that several participants would have faced significantly higher electricity bills on T24 than they would on T62 due to the significantly higher demand charges, despite being on uncongested parts of the Ergon network.

Other participants are trialling the suitability of control load tariffs for agricultural use. A third group has had smart meters installed to monitor usage patterns on their existing tariffs.

The trial, in its early days, is designed to capture sufficient information to inform Energy Queensland's network tariff designs for 2020 and beyond.

CANEGROWERS is concerned that QCA's draft decision not to reduce agricultural tariffs in line with those for small business will bias the results of the trial and influence future tariff design.

CANEGROWERS requires that electricity prices for agriculture are reduced in line with the reductions identified for small business.

Large-scale Generation Certificate (LGC) prices

In its submission, CANEGROWERS raised the concern that the methodology relied on by QCA in the calculation of LGC prices significantly overstates the costs of LGCs to an efficient long term incumbent retailer such as Energy Queensland in the light of Queensland government policy and its obligations to manage and operate Ergon Energy.

QCA responded by stating that, "In the absence of confidential data showing the actual LGC contractual position of Ergon Energy or other retailers in south east Queensland, ACIL Allen is maintaining the view that transparent market prices provide a better indicator of actual LGC costs compared to any modelled estimates"[5]

Given that Energy Queensland is the single energy distributor in Queensland, albeit with two networks, and the monopoly retailer in regional Queensland, it would seem appropriate for

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[5] QCA Draft Determination, Regulated retail electricity prices for 2018–19, p29.

QCA to seek from Energy Queensland, in-confidence, a report on the actual costs incurred in managing its obligations with respect to acquiring LGCs. The actual costs could be compared on an *ex-post* basis with the *ex-ante* expected costs to assess the reliability of the current estimation methodology.

CANEGROWERS recommends the QCA seeks from Energy Queensland, in-confidence, a report on the actual costs of LGCs as a basis for reviewing current calculation methodology.

Conclusion

The QCA draft determination on regulated retail electricity prices for regional Queensland overstates the costs facing the Ergon network.

- QCA reports the wholesale energy costs faced by Ergon are lower than those faced by Energex.
- ACCC reports that retail margins are excessive
- QCA includes retail costs that Ergon does not incur in its price build up.
- QCA has not undertaken an *ex-post* review of its LGC methodology to ensure it reflects the costs Ergon incurs.

Taken together, the issues CANEGROWERS has identified would result in a further reduction in retail electricity prices for regional Queensland to those contained in the QCA draft determination.

CANEGROWERS is also concerned that the QCA decision not to reduce agricultural tariffs in line with those for small business could bias the results of the Agricultural Tariff Trial and influence future tariff design.

The QCA decision not to reduce electricity prices faced by the intensive agricultural sector at least in line with the price reduction for small businesses continues to disadvantage regional Queensland.

Yours faithfully

Dan Galligan
Chief Executive