Queensland Government

Office of the
Minister for Energy and Water Supply

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29 April 2013

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

Dear Dr Roberts

The Queensland Government welcomes the opportunity to provide comment on the Queensland Competition Authority's (QCA) Draft Determination on Regulated Retail Electricity Prices for 2013-14, published on 22 February 2013.

The Government is concerned about the size of the estimated increase in electricity prices for 2013-14, particularly for residential and small business customers, including farmers and irrigators. The Government also notes the QCA has identified rising network charges, including costs associated with the previous Government's Solar Bonus Scheme, as the key drivers of rising electricity costs. In addition, it is clear that the Commonwealth Government's green schemes, including the carbon tax and the Renewable Energy Target, are unnecessarily adding to household and business electricity bills.

Managing the ongoing impacts associated with the Solar Bonus Scheme is a key priority for this Government. Last year, the Government took action to limit the impact of the Solar Bonus Scheme on future electricity prices by reducing the solar feed-in tariff from 44 cents per kilowatt hour (c/kWh) to 8 c/kWh for new customers. This positive step forward is anticipated to result in savings of over $300 million over the life of the scheme.

In addition to reducing the feed-in tariff, the QCA has also been requested to provide advice to Government on ways to provide a more economically and sustainable feed-in tariff. Following the release of the QCA's final report on the solar feed-in tariff on 22 March 2013, the Government is considering what further changes could be made to the scheme that would lead to a more equitable solution for all Queenslanders.

The Government's submission in response to the QCA's Draft Determination highlights in detail the causes of rising electricity bills and also responds directly to the key proposals outlined by the QCA as part of its obligation to determine regulated retail electricity prices over the three year period (2013-14 to 2015-16).

The Government's key position in relation to the Draft Determination is summarised as follows:

- It is acknowledged the QCA has adopted the most practical approach to rebalancing the fixed and variable charges for the standard residential Tariff 11;
- The Government supports the QCA's proposal to maintain the majority of transitional and obsolete tariffs for a period of up to seven years for most tariffs;
- Expanding eligibility for transitional tariffs to include new and existing customers is also supported as a further means of alleviating adverse price impacts;
- The Government is still considering the QCA's advice in relation to the long term treatment of very large business customers in Ergon Energy's network area (i.e. Individually Calculated Customers (ICCs) and Connection Asset Customers (CACs)), but supports the QCA's treatment of ICCs and CACs in its Draft Determination; and
- Support is also provided for the QCA's continued use of a benchmarking approach to estimate Retail Operating Costs (ROC) and the application of different ROC allowances for customer groups.

The attached submission provides further detail on the Government's position and other issues the QCA should consider as part of its 2013-14 price determination process.

The Government is disappointed about the size of the price increases forecast by the QCA for 2013-14 and is carefully considering the Draft Determination and its implications for consumers.

Yours sincerely

[redacted]

Mark McArdle MP
Minister for Energy and Water Supply

Att: - Queensland Government Submission to the Queensland Competition Authority: Response to the Draft Determination on Regulated Retail Electricity Prices for 2013-14

Department of **Energy and Water Supply**

Queensland Government submission to the Queensland Competition Authority

Draft Determination on regulated retail electricity prices for 2013-14

Queensland Government

Contents

1. Introduction / Summary

The Queensland Government welcomes the opportunity to provide feedback to the Queensland Competition Authority (QCA) on its Draft Determination for Regulated Retail Electricity Prices for 2013-14 (the Draft Determination).

The Government acknowledges that electricity price rises in recent years have been unsustainable, and believes that the approach to determining retail electricity prices should protect the interests of consumers while also ensuring a viable, sustainable and competitive electricity industry.

In this context, the Government is concerned with the QCA's forecast increase in the standard residential tariff, Tariff 11, for 2013-14. The Government understands the cost of living pressures that Queensland households are under and is committed to finding ways to reduce the impact of further electricity price rises on Queensland families. The Government is also conscious of the significant increases forecast by the QCA for business tariffs, including transitional and obsolete tariffs, and is currently considering the best long-term approach to address the rising costs of electricity faced by businesses while also maintaining long term reliability and security of supply for the State.

The Queensland Government recognises that the key underlying driver of increased prices are the costs associated with building and maintaining the electricity network, including the increased network costs required to accommodate rising peak demand. While network costs represent around half of the total cost of supply, these costs are not regulated by the Queensland Government (nor the QCA), but are approved by the independent national regulator, the Australian Energy Regulator (AER). In addition, the introduction of the Solar Bonus Scheme by the previous State Government has contributed to further price increases, with an exponential growth in customer connections to the scheme escalating its costs to well in excess of the allowances approved by the AER. These cost drivers are discussed in more detail in the body of this submission.

The Government's key position in relation to the QCA's Draft Determination is summarised as follows:

- It is acknowledged the QCA has adopted the most practical approach to rebalancing the fixed and variable charges for the standard residential Tariff 11;
- The Government supports the QCA's proposal to maintain the majority of transitional and obsolete tariffs for a period of up to seven years for most tariffs;
- Expanding eligibility for transitional tariffs to include new and existing customers is also supported as a further means of alleviating adverse price impacts;
- The Government is still considering the QCA's advice in relation to the long term treatment of very large business customers in Ergon Energy's network area (i.e. Individually Calculated Customers (ICCs) and Connection Asset Customers (CACs)), but supports the QCA's treatment of ICCs and CACs in its Draft Determination; and
- Support is also provided for the QCA's continued use of a benchmarking approach to estimate Retail Operating Costs (ROC) and the application of different ROC allowances for customer groups.

In recognition of the major challenges facing the electricity industry in Queensland, particularly the impact of rising network costs, the Government is committed to reforming the electricity sector in Queensland. A number of wide-ranging reviews have already commenced aimed at examining all causes of electricity price increases, including network costs, energy supply and retail competition. The overarching objective of the Government's reform agenda is not just to lower the cost of electricity, but to ensure electricity supply is structured and delivered in the most cost-effective way possible for the benefit of all Queenslanders.

It is also noted that, for many customers, the extent to which they are impacted by the forecast price increases will vary depending on how much energy they consume. Accordingly, the Queensland Government considers it to be imperative that regulated retail electricity tariffs are structured appropriately and fairly so as to assist in reducing demand at peak times by encouraging off-peak electricity consumption.

The structure of this submission is as follows:

- **Section 2** outlines the Government's energy sector reform agenda;
- **Section 3** provides comment on the underlying factors driving increases in electricity prices;
- **Section 4** concerns the increases to residential tariffs forecast by the QCA, including transitional arrangements for Tariff 11;
- **Section 5** considers the proposed tariff increases for small and large business customers;
- **Section 6** responds to the QCA's proposed approach to obsolete and transitional tariffs, including forecast price rises and transition periods; and
- **Section 7** addresses a range of other issues, including the QCA's proposed methodology for calculating energy and retail cost components of the regulated retail tariffs and dealing with unforseen events.

2. Electricity sector reform

In recognition of the major challenges facing the electricity industry in Queensland, particularly the impact of rising network costs, the Government has commenced a series of sectoral reforms, including:

- *Establishing the Inter-Departmental Committee (IDC) on Electricity Sector Reform*, with a broad ranging terms of reference to examine all of the drivers of electricity prices. Recognising the key role that the cost of network infrastructure has on electricity prices, the IDC also engaged an Independent Review Panel (IRP) to examine the cost of the networks and provide recommendations in relation to the underlying drivers of these costs. In its Interim Report, the IRP has estimated that reductions in total expenditure across network service providers of around $3.6 billion[1] can be achieved compared with the current five-year regulatory expenditure programs approved by the AER.

- *Developing a 30 Year Electricity Strategy* aimed at identifying long-term improvement opportunities across the energy supply chain. The Queensland Government released a directions paper on 17 December 2012 as the first step in the development of the state's 30 Year Electricity Strategy. A more detailed discussion paper will be released in mid 2013.

The Final IDC Report, including the IRP, is to be considered by Government in mid 2013. These reforms however will address long term structural issues which are critical for longer term reform but are unlikely to impact on costs in 2013-14 in a substantial way.

3. Underlying Cost Drivers

3.1 Overview

The two primary drivers of current electricity price rises are increases in network costs and compliance with environmental and climate change policies.

[1] According to the IRP, this includes savings identified by the ENCAP review.

The Queensland Government is acutely aware that the costs associated with building and maintaining network infrastructure is placing a heavy burden on the cost of living in the state. Unfortunately, however, these costs (and the factors driving these costs) have been built into the system over a number of years and will continue to place upward pressure on electricity prices in 2013-14.

In addition, the Commonwealth Government's environmental policies[2] aimed at reducing carbon emissions have generated very high compliance costs for retailers and generators, which have been passed through to consumers' electricity bills. The significant costs associated with the Queensland Government Solar Bonus Scheme are also contributing to rising electricity prices.

Specifically, the major cost drivers are:

- Network cost driver - Large revenue allowances for Queensland's network businesses as approved by the AER;
- Green scheme and network cost driver - The costs of the Solar Bonus Scheme and the 44 c/kWh feed-in tariff; and
- Green schemes cost driver – Commonwealth environmental policies, including the carbon tax and RET.

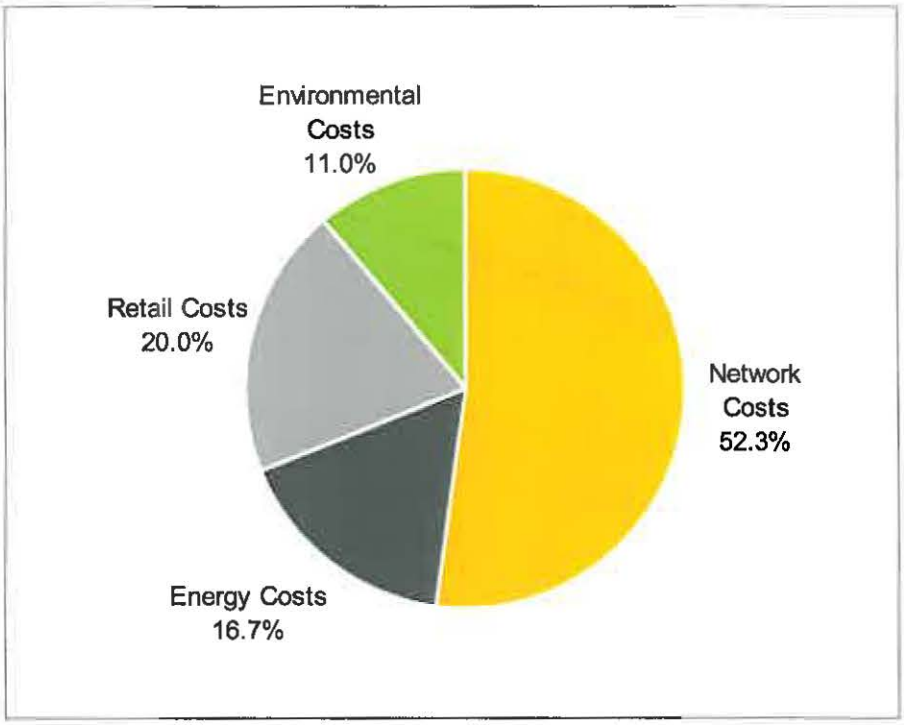
As outlined in Section 2, in recognition of the major challenges facing the electricity industry in Queensland, and in particular the impact of rising network costs, the Government has commenced a series of sectoral reforms, including establishing the Inter-Departmental Committee (IDC) on Electricity Sector Reform and developing a 30 year electricity strategy. Together, it is hoped that these reform programs will reduce electricity prices to more sustainable levels and lower the cost of living for Queensland households and businesses.

3.2 The high cost of network infrastructure

Typically, network costs account for over half of the final cost of electricity, followed by energy costs, then retail costs. Figure 1 illustrates the estimated breakdown of a typical residential electricity bill in Queensland in 2013-14, highlighting the significant contribution the networks make to electricity bills:

[2] Such as the fixed carbon price, the Small-scale Renewable Energy Scheme (SRES) and the Large-scale Renewable Energy Target (LRET)

Figure 1 – Estimated components of a typical residential electricity bill (2013–14)[3]



Source: QCA Fact Sheet – Changes in residential electricity prices from 1 July 2013

The QCA's Draft Determination indicates that for 2013-14, the underlying network charges will increase significantly. In the context of the QCA's estimated 21.4 per cent increase in an average household's (Tariff 11) electricity bill for 2013-14[4], the Queensland Government estimates that network costs, including the Solar Bonus Scheme, are responsible for approximately 14 percentage points.

In considering ways to address this challenge, the Government recognises that there are a number of drivers contributing to the upward trend in network costs. The nature of these cost drivers are largely due to historical factors and have constrained the ability of the government to reduce the impact of network costs in the short term. The primary cost drivers are outlined below:

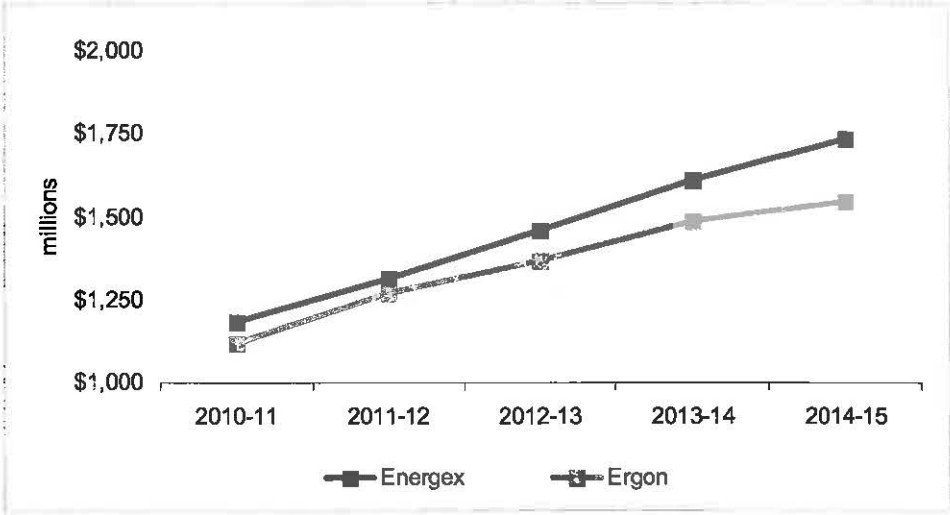
1. *Considerable increases in distribution network revenue and infrastructure capital investment allowed by the AER*

As illustrated in Figure 2 below, the allowable revenue for Energex and Ergon, as determined by the AER, has steadily increased over the current five-year distribution regulatory period. Energex's allowed revenue will increase by $150.4 million in 2013-14, which is the largest annual increase in revenue for Energex throughout the regulatory period:

[3] QCA (2013), Changes in residential electricity prices from 1 July 2013

[4] Consuming 4,250kWh per year

Figure 2 – Approved annual revenue requirements for Queensland distribution businesses[5]



For the 2010-11 to 2014-15 distribution regulatory control period, the AER approved more than $11 billion in capital expenditure for Energex and Ergon Energy combined.[6] When compared to the previous regulatory control period, these amounts represent expenditure increases of 38 per cent and 33 per cent for Energex and Ergon respectively.[7] The two distributors in Queensland currently have the second and third largest capital investment programs of all network businesses in the NEM.[8]

As noted by the Independent Review Panel (IRP) in its Interim Report on Network Costs, a number of recent reports have expressed concern about the current operation of the regulatory framework. The IRP noted that these reports have highlighted concern that there are incentives within the NER for network businesses to over-invest. This was further compounded by the regulatory model which, according to the IRP, inhibited the AER from driving network businesses towards the delivery of efficient capital and operating programs.

However, recent fundamental changes to the NER will provide the AER with additional strength and flexibility in setting revenues and prices for electricity network service providers. Additional reform processes are also underway to further strengthen the regulatory and governance frameworks for network operators.

2. The significant cost of the Solar Bonus Scheme

The Queensland Government Solar Bonus Scheme (the SBS), introduced in 2008 by the previous Queensland Government, pays eligible households and other small customers a 44 cents per kilowatt hour (c/kWh) feed-in tariff for every kWh of electricity exported to the electricity grid that is generated from solar PV. The 44 c/kWh is paid by Energex and Ergon and recovered from all electricity users through network charges.

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[5] AER (2011), Australian Competition Tribunal orders for Energex and Ergon

[6] Electricity Network Capital Program (ENCAP) Review 2011 - It should however be noted that Energex and Ergon Energy were directed to incorporate the effects of capital expenditure reductions identified in the 2011 ENCAP Review into their annual pricing proposals, which will marginally reduce their annual revenue requirements

[7] AER (2012), State of the Energy Market 2012

[8] The largest capital investment in the NEM at present is Ausgrid, at $8,855 million

The SBS was established with the aim of making solar power more affordable for Queenslanders, stimulating the solar power industry and encouraging energy efficiency. With over 820 megawatts (MW) installed to date[9], the SBS has well and truly exceeded expectations. According to the QCA, Queensland has the largest rooftop solar generating capacity of any state in Australia.

However, the exponential growth in customer connections to the scheme has escalated its costs well in excess of the allowances approved by the AER. This has placed intense pressure on network charges in subsequent years as Energex and Ergon have sought to recover the costs. For example, in the five years between 2010 and 2015, the AER approved allowances of $52.4 million to Energex and Ergon (combined) to account for the SBS, as outlined in Table 2 below.[10]

Table 2 – AER conclusion on solar bonus scheme opex (excluding pass throughs)

	2010-11	2011-12	2012-13	2013-14	2014-15	Total
Energex ($m)	4.8	6.0	7.2	8.5	9.7	36.2
Ergon ($m)	2.4	2.9	3.3	3.6	4.0	16.2

The actual costs of the SBS however have been much higher. As illustrated in Table 3[11], according to the QCA, feed-in tariff payments are expected to cost $239 million in 2012-13 and $275 million in 2013-14, well in excess of budgeted amounts. The QCA has indicated the total cost will be $3.4 billion by the end of the SBS in 2028.

Table 3 – Actual/Forecast solar bonus scheme opex incurred

	2010-11	2011-12	2012-13	2013-14	2014-15	Total
Energex ($m)	19.4	73.9	168.7	191.2	181.4	634.6
Ergon ($m)	6.5	27.0	69.7	83.5	64.7	251.4

** Note: There is a two-year lag between when the distributors incur the costs and when they can recover those costs via higher network prices.*

As described above, the costs incurred by Energex and Ergon for the Solar Bonus Scheme flow directly through to network charges and electricity bills. The Queensland Government notes that Energex has estimated that 9.2% of its 2013-14 network tariffs relate to the costs of complying with the SBS and that these costs are expected to increase significantly in future years, peaking in 2015-16 at which time almost 30% of Energex's network tariffs will be due to SBS costs.

Managing the ongoing impacts of the SBS is a key priority of the current Queensland Government. In July 2012, the Government took action to limit the impact of the SBS on future electricity prices by reducing the solar feed-in tariff from 44 c/kWh to 8 c/kWh for new customers. Under the new rules, the 8 c/kWh tariff is scheduled to end on 1 July 2014, and will be reviewed in mid 2013. This positive step forward is anticipated to result in savings of over $300 million over the life of the scheme.

In addition to the reduction in the feed-in tariff, on 20 August 2012 the Minister for Energy and Water Supply wrote to the QCA seeking its advice on the costs and price impacts associated with the SBS and ways to provide a more economic and sustainable feed-in tariff. The QCA released its final report on 22 March 2013, and proposed a number of options. The Government is currently

[9] At February 2013

[10] AER (2010), Queensland distribution determination 2010–11 to 2014–15 (p.153, 183-184). Figures reported in $2009-10 dollars.

[11] QCA (2013), Estimating a Fair and Reasonable Solar Feed-in Tariff for Queensland (Table 6.1, p.57)

considering what further changes could be made to the Scheme that would lead to a more equitable solution for all Queenslanders.

3. Commonwealth Government environmental policies or 'green schemes'

In addition to the high cost of network infrastructure, it is also important to note the major cost imposed by the Commonwealth Government's environmental schemes, including the carbon price. Based on cost component data contained in the QCA Draft Determination, it is estimated that as a direct result of the carbon price and the Renewable Energy Target (RET), a typical household[12] on Tariff 11 will pay around $174 more for their electricity in 2013-14, whilst a typical household on Tariff 11 and Tariff 33 (controlled load) will pay over $250 more[13].

Consistent with the Queensland Government's responses to the QCA's consultation papers, the Queensland Government strongly opposes the carbon price because of the counter-productive impact it has on industry development and employment, and the burden it places on the cost of living for families. While the Queensland Government cannot stop the carbon price, it has fulfilled one of its election commitments by ensuring that household electricity bills show the cost of carbon.

4. Residential Tariffs

The Queensland Government acknowledges the difficulties in transitioning Tariff 11 to a more cost-reflective level in three years but considers the proposed increase for 2013-14 to be unacceptable. The Government supports the establishment of the new PeakSmart Tariff 13 and notes the issues potentially affecting customer uptake of Tariff 12.

4.1 Transitional Arrangements for Tariff 11

Consistent with the Ministerial Delegation to the QCA for the determination of regulated retail electricity prices from 2013-14 to 2015-16, the QCA has adopted a three-year stepped approach to transitioning to cost-reflective Tariff 11 prices, with some rebalancing of fixed and variable charges achieved in each year.

However, despite this, the QCA estimates that an average household[14] on the standard residential tariff, Tariff 11, will see an increase of around 21.4 per cent from 1 July 2013.

The Queensland Government is very concerned at the magnitude of the proposed increase, considering that it represents a significant price shock for Queensland households rather than a gradual transition to cost-reflectivity.

Given the cost of living pressures facing Queensland households, the Government is concerned about the magnitude of this increase and is looking at ways to ensure it is reduced.

The key causes of the proposed double-digit price rise have been outlined above, which is largely due to rising network costs (including costs associated with the Solar Bonus Scheme). Network costs account for more than half of the forecast Tariff 11 increase and are discussed in more detail earlier in this submission. The Commonwealth Government's carbon tax and other green

[12] Consuming 4,250kWh per year for Tariff 11 and 2,000kWh per year for Tariff 33

[13] Costs include retail margin, headroom and GST

[14] Consuming 4,250kWh per year

schemes, including the Renewable Energy Target, also add to electricity bills and are estimated to account for around 11 per cent of the average customer's electricity bill in 2013-14.

The Government acknowledges that the QCA has adopted the most practical approach to transitioning Tariff 11 to a cost-reflective level through its proposal to apply three equal increases in the Tariff 11 fixed charge during the three-year transition period. The Government also notes that the cost drivers noted above (large annual network revenue allowance, previous Queensland Government's SBS, Commonwealth green schemes) have somewhat concealed the benefit to customers in moving to cost-reflective prices under a transitional approach, whereby the higher fixed charge should have been offset by a lower variable charge (if the underlying cost increases were not so excessive). The three-year transitional approach to moving to more cost-reflective pricing is still the best way to achieve cost-reflective prices (rather than a straight one-off move), although it is disappointing that past policies and practices have made this task more difficult.

The QCA's decision not to attempt to forecast the future cost-reflective 'target' rates for Tariff 11 (i.e. for 2014-15 and 2015-16) is also considered a sensible approach.

4.2 Other Residential Tariffs

The Government supports demand management initiatives to lower peak demand such as the establishment of a new voluntary residential time-of-use 'PeakSmart' electricity tariff, Tariff 13, which is designed for customers who have 'Demand Response Ready' (DRR) appliances, such as air-conditioning units.

This tariff will allow the distributor to control the customer's DRR appliance for the purposes of assisting with managing peak demand and in return, the customer will receive a lower off-peak charge relative to the alternate residential time-of-use tariff, Tariff 12. To encourage uptake of this tariff, it is imperative that consumers receive a sufficient financial incentive to connect to this tariff, to compensate them for relinquishing control of their appliances during critical peak periods. To this end, the Government will closely monitor customer connections to Tariff 13 and consider whether the underlying network charges are priced appropriately. The Government will consult with Energex and Ergon throughout the course of 2013-14 to assess the effectiveness of the peak-smart tariff, and whether it provides customers with adequate incentive to move load or provide load control to the distribution businesses.

The Government is also keen for consumers to view the existing residential time-of-use tariff, Tariff 12, as a viable and beneficial option for their household electricity use. Based on the QCA's draft tariff rates for 2013-14, Queensland Government modelling indicates a Tariff 11 customer consuming around 5,810kWh per annum may be better off on Tariff 12. This modelling is based on the QCA's consumption split of 16 per cent during the peak, 53 per cent in the shoulder and 31 per cent in the off-peak. In examining these results, the Queensland Government notes that the QCA's consumption split is quite different to Ausgrid's estimate of typical household electricity usage, which is 22 per cent over the peak, 51 per cent over the shoulder and 27 per cent over the off peak. Applying Ausgrid's consumption usage breakdown to the QCA's draft tariff rates reduces the financial attractiveness of Tariff 12, with around 7,000kWh/annum being the consumption switch-point.

5. Business Tariffs

The Queensland Government notes the QCA's recommended increases for small business customers and the proposed transitional arrangements for customers on Tariff 22. The Government supports the use of Ergon Energy network tariffs as the basis for calculating large

customer electricity tariffs, and acknowledges the difficulties associated with determining regulated retail electricity tariffs for very large commercial and industrial customers.

5.1 Small Business Tariffs

The Queensland Government acknowledges the pressure that rising electricity prices are placing on Queensland's small businesses.

In response, the Government is considering the best approach to address the rising costs of electricity while also maintaining long term reliability and security of supply for the State. A key aspect of this is the Government's commencement of a wide range of sectoral reforms aimed at limiting future price rises.

The Government notes that increases in the small business time-of-use tariff, Tariff 22, remain a significant concern for customers, especially for farming and irrigating communities. While the differential in the underlying network charges for peak and off-peak consumption have increased relative to the 2012-13 rates, it is of some concern that this is largely due to an increase in the peak rate. In addition, the slight increase proposed by the QCA to the off-peak rate for Tariff 22 will also add to the impacts felt by customers in 2013-14.

The Government acknowledges the pressure that changes in the underlying network tariff for Tariff 22 in 2012-13 have had on consumers. The Government also recognises that, although customers will have more of an incentive to consume electricity during off-peak periods under the proposed increases to the Tariff 22 peak rate in 2013-14, this will not address the significant cost increases they are currently facing as a result of changes to the off-peak rate in 2012-13. In light of this, the Government is pleased to note the transitional assistance recommended by the QCA for small business customers on Tariff 22. It is hoped that allowing Tariff 22 customers access to the transitional Tariff 22 (Large), to be renamed as Tariff 22 (Small and Large), will assist in alleviating some of the cost burden they would otherwise face.

5.2 Large Business Tariffs

The Government notes the forecast increases in the regulated retail tariffs for Ergon's large customers (Tariffs 44, 45, 46, 47 and 48), but supports the QCA's use of Ergon Energy's network tariffs as the basis for these tariffs (as directed by the Delegation). Following the deregulation of the large customer market in South East Queensland in July 2012, the QCA's approach is consistent with the Government's Uniform Tariff Policy, which ensures all non-market customers of the same class, regardless of their geographic location, have access to the same regulated retail tariffs.

The Government recognises that calculating regulated retail tariffs for very large customers (those consuming more than four gigawatt hours per year) can be difficult due to confidentiality arrangements and individually tailored network charges. The Government acknowledges this constraint for the QCA.

The Government also acknowledges that in November 2012, the QCA provided advice to the Government regarding 'Retail Electricity Prices for Ergon Energy Queensland Very Large Customers'. The report highlighted some large adverse impacts for customers should they be required to pay individual regulated tariffs, or be forced to market. Some of these customers will be large employers in regional Queensland. It is appropriate that this report and its implications be given due consideration, and that decisions are not made hastily. To this end, the Government supports the treatment of Individually Calculated Customers (ICCs) and Connection Asset Customers (CACs) as outlined in the Draft Determination for 2013-14.

6. Transitional Tariff Arrangements

The Government supports the QCA's proposal to retain the majority of the obsolete and transitional tariffs (except Tariffs 41 and 43 Large) and considers that the proposed seven-year transition period for most tariffs is appropriate.

6.1 Broadening of access to all transitional tariffs

The QCA was required under the Ministerial Delegation to consider allowing large customers on the new cost-reflective tariffs (Tariffs 44 to 48) access to the large customer transitional tariffs.

In this regard, the Government agrees with the QCA's proposal to broaden access to transitional tariffs to include all new and existing customers in order to assist those who are likely to face significant price rises if required to move to, or remain on, cost-reflective tariffs.

As well as assisting large customers, this approach may also assist farmers and irrigators who had moved to Tariff 22 before 1 July 2012 and are now facing significant cost increases. Under the QCA's approach, these customers will now have the option of returning to a dedicated farm or irrigation transitional tariff (Tariff 62, 65 or 66). These tariffs also contain a time-of-use component that encourages off-peak consumption to the benefit of customers, as well as to the network in the future.

6.2 Ergon large customers

The Government agrees with the QCA's position that if the obsolete and transitional tariffs, including Tariffs 37, 62 and 65, are to be retained for small customers, it would be reasonable to continue to allow large customers in Ergon's area to also remain on these tariffs.

6.3 Small customers

The QCA's analysis indicates that more than half of the customers on the irrigation tariff, Tariff 66, could be better off on the small business tariff, Tariff 20. However, the QCA has identified potentially significant impacts to large customers if they are required to move to one of the cost-reflective tariffs (Tariffs 44 to 48). For this reason, along with "continued metering constraints associated with moving large customers to cost-reflective tariffs"[15], the QCA has decided to retain Tariff 66 for a period of seven years. Since this tariff is to be retained for large customers, the QCA considers small customers should also be able to remain on Tariff 66.

The Government supports the QCA's position, however retailers are encouraged to discuss tariff arrangements with their Tariff 66 customers, given the majority of customers may be better off on an alternate tariff.

The Government also supports the QCA's proposal to broaden access arrangements for the existing transitional Tariff 22 (Large) to include small business customers. Broadening access arrangements to this transitional tariff may provide some relief to customers on Tariff 22 who are facing significant cost increases as a result of changes to the underlying Tariff 22 network tariff in 2012-13.

[15] Page 92 of the QCA Draft Determination (22 February 2013)

6.4 Proposed increase to obsolete and transitional tariffs

The Government notes the QCA's estimated increases of between 11 and 21 per cent for obsolete and transitional tariffs in 2013-14, and acknowledges the need to escalate these tariffs in order to bring them closer to the cost-reflective tariffs customers will eventually be required to move to.

However, the Government also recognises the significance of these price increases for businesses and is currently considering the best approach to address the rising costs of electricity for business customers, particularly small business customers including farmers and irrigators.

7. Other

The Queensland Government supports the QCA undertaking a rigorous assessment of methodological approaches to wholesale energy costs and acknowledges that the QCA has consistently found that a market-based approach is appropriate in determining regulated retail electricity prices. The Government notes that energy costs (excluding carbon and green costs) are estimated to make up around 16.7 per cent of the total cost of supply for a household in 2013-14, compared to around 52.3 percent for network costs, 20 per cent for retail costs (including headroom) and 11 per cent for carbon and green costs.

The QCA was directed under the Ministerial Delegation to consider whether its approach to calculating time-of-use tariffs can strengthen or enhance underlying network pricing signals and encourage uptake of time-of-use tariffs. In this regard, the Government notes the QCA's conclusion that the issues with Tariff 22 (including the limited differential between the peak and off-peak rates) cannot be addressed solely through incorporating time-of-use signals in energy costs, as energy costs will not make up a large enough proportion of overall supply costs in 2013-14.

The Government also acknowledges the QCA's justification that due to jurisdictional requirements, the settlement procedures of the Australian Energy Market Operator (AEMO) provide limited scope to determine anything but a flat-rate for energy costs in the regulated retail tariffs. However, the Government remains disappointed that stakeholders did not appear to engage heavily on this aspect of the Ministerial Delegation. No advice was provided to the QCA from stakeholders (as part of the ongoing consultation process) as to how a time-of-use signal could realistically be included in the energy cost component, and how risks to deviating from the flat-rate approach could have been overcome (given the AEMO settlement process). Although network tariff structures drive the time-of-use price signal, in terms of incentivising customers to use energy outside of peak times, every little bit helps, and it is disappointing that the retail (R) component of time-of-use tariffs will not be enhancing the network (N) component.

The Government supports the QCA's continued use of a benchmarking approach to estimating Retail Operating Costs (ROC) and the application of different ROC allowances for customer groups. It is also pleasing to see the QCA has provided a more detailed breakdown of its approach to determining ROC, including an explanation of how the benchmark ROC is calculated for customers of different sizes, and why the proposed allowances for ROC are considered to be reasonable.

The Government also acknowledges the QCA's position that a three-year Delegation allows for a cost pass-through mechanism which will enable tariffs to be adjusted in the second and third years of the delegation period to account for unexpected changes in costs that were not provided for in setting tariffs for the previous year. Should the QCA decide to include a cost pass-through mechanism to apply during the three-year delegation period, the Government considers it essential that the criteria for determining eligible pass-through events be transparent, well defined and offer improved certainty for retailers and consumers.