



**CCIQ SUBMISSION**

**Draft Determination 2017-18**

**Regulated Retail Electricity Prices**

▾ **Queensland Competition Authority**

**CHAMBER OF COMMERCE AND INDUSTRY QUEENSLAND**

**3 April 2017**

# **CCIQ Submission to the QCA Draft Determination Regulated Retail Electricity Prices 2017-18 for Regional Queensland**

## ***1.0 About the Submission***

The Chamber of Commerce and Industry Queensland (CCIQ) makes this submission in response to the Queensland Competition Authority's (QCA) Draft Determination for 2017-18 regulated retail electricity prices for Queensland. The intent of this submission is to highlight the impact of pricing determinations on the competitiveness and profitability of Queensland businesses in regional areas.

CCIQ would like to acknowledge the QCA for their efforts in previous years to keep price increases for small businesses on tariffs 20 and 22A to a minimum. As such, it is encouraging to see that the draft determination projects a minimal increase of 1.5% for those businesses on tariff 20 and 1.0% for tariff 22A applicable businesses. However, it must be noted small businesses are still feeling the affect from the 2016-17 price hikes of 11.2 % for tariff 20 customers and 15.8% rise related to tariff 22A.

Although heartened by the minimal increase in the Draft Determination released by the QCA it ought to be noted the final determinations for 2016-17 were greater than the final determinations by over 2% for each relevant tariff. Even the smallest increase is detrimental to Queensland small businesses who are unable to absorb continual increasing energy prices.

## ***2.0 Pricing Impacts on Small and Medium Businesses***

As the QCA is aware, Queensland small businesses have suffered as a result of ongoing and exorbitant electricity price rises. Businesses saw minimal relief in 2015-16, however any minor respite felt was immediately retracted with an increase of 10% to 15%. Indeed, many small businesses have told CCIQ they have had to close their doors due to increasing input costs, such as rising electricity prices. Electricity prices have, on average, doubled for business over the past eight years, which has created an enormous hurdle for businesses trying to remain competitive.

When surveyed, small businesses across the state identified increasing electricity prices as one of the most significant business issues impacting profitability.

## ***3.0 QCA Methodology***

Since the deregulation on 1 July 2016, QCA is responsible for determining the notified prices for regions not located in South East Queensland, namely the Energex Distribution Area and Essential Energy Distribution Area. Consistent with the approach from previous determinations, the QCA is required to consider applying the network (N) plus retail (R) cost build-up methodology and the Queensland Government's uniform tariff policy (UTP).

The network cost component (N) is calculated using previous determinations equations. Non-time of use tariffs, specifically tariff 20, are calculated using Energex network charges and tariff structures. Time-of-use tariffs, notably tariff 22A, base network price levels charges under the Ergon distribution tariff structure levied by Energex.

The QCA notes the conflicts under the legislative framework and UTP and outline base cost options considered, electing to use a similar approach applied to previous determinations. This means the uniform tariff policy has resulted in network charges being below cost because they are based on network costs in south east Queensland, rather than regional Queensland. The QCA have noted that the current arrangements do not allow for cost reflectivity and results in customers continuing to pay much less than the cost of supply, potentially leading to inefficient investment and decision-making, as well as ongoing costs to taxpayers.

Another approach put forward was to base costs on the lowest costs of supply within the Ergon Distribution east pricing zone, transmission region one. This approach is applied to large business and it would improve cost reflectivity, however if applied it would increase small business bills by a substantial amount and conflict with the UTP.

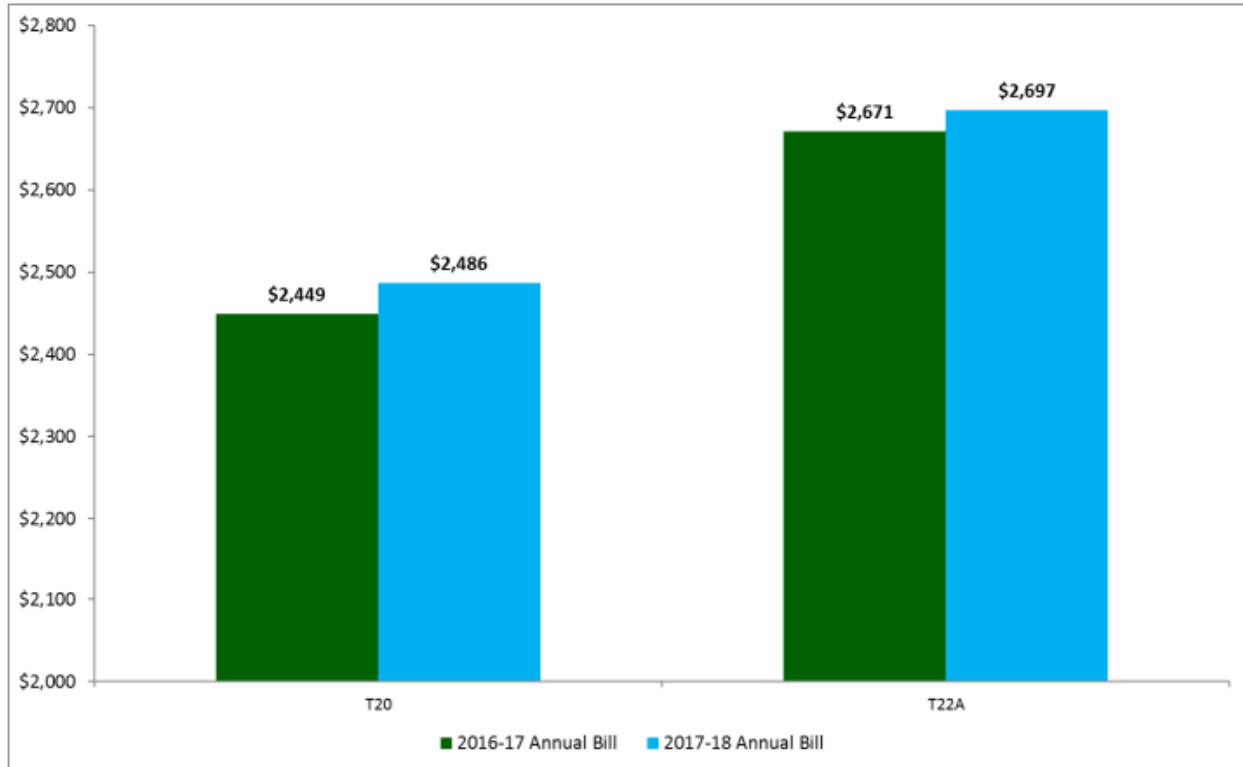
The QCA provide that setting cost-reflective notified prices (i.e. reflecting the actual costs of supply to customers in each region) would avoid the need to subsidise electricity prices and would promote retail competition. However, it would be inconsistent with maintaining uniform tariffs because it would result in different notified prices for customers based on their location. It would also mean significant price increases, particularly for customers in western parts of the state, and those supplied by isolated systems. For instance, a typical tariff 11 customers paying cost-reflective prices in 2016-17 would pay around 118% more in western Queensland than in South East Queensland.

CCIQ notes that notified prices based on the cost of supply in regional Queensland would be prohibitively expensive for small business customers. This measure would prove costlier for business customers who are unable to shift usage outside of the peak times. Whilst this tariff would be more cost reflective and provide sharper pricing signals, it would be ineffective on a small business restricted by the times they use electricity.

#### ***4.0 Summary of QCA Draft Determination***

On current forecasts, small business tariffs 20 (flat rate) and 22A (time of use) are expected to increase by \$37.00 (1.5%) and \$26.00 (1.0%) respectively. The QCA has applied their determination based on the latest forecasts for network, energy, retail and green scheme costs. The new tariff prices for the 2017-18 period recommended in the QCA draft determination are outlined in the below table.

**Annual bills for typical small business customers (GST inclusive)**



Source QCA Draft Determination 2017-18

**5.0 Increases in electricity prices**

The QCA provide that the increases in electricity prices have been primarily driven by higher energy costs, retail and network costs. Energy costs are predicted to increase across all tariffs due to higher wholesale costs and the Renewable Energy Target (RET). Wholesale energy costs have increased due to the ever-constricting conditions of demand and supply due to increase of in-field gas compression associated with liquefied natural gas export facilities, minimal growth in renewable energy capacity and the closure of Hazelwood power station with no transitional replacement. The QCA has predicted a 14.7% increase to wholesale costs compared to 2016-17 with an additional increase of 36.8% related to other energy costs.

Cost component	\$/MWh	% change from 2016-17
LRET	\$11.74	49.9%
SRES	\$3.47	-7.2%
NEM fees	\$0.51	6.3%
Ancillary services	\$0.29	-12.1%
Prudential capital	\$2.28	130.3%
<b>Total</b>	<b>\$18.29</b>	<b>36.8%</b>

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Retail costs have been increased due to inflation by 12.8% under the QCA's decision to maintain existing retail cost allowances. This is a marked increase from the 3.5% increase of 2016-17.

Overall, CCIQ believes that the QCA should, when making their final determination, revisit reviewing the cost to retail. CCIQ appreciates the process of a thorough comprehensive review to best reflect UTP however it is difficult for small businesses to accept that a change in methodology has negatively impacted on their overall electricity costs.

2017-18 sees a minimal price hike, however coupled with the 2016-17 price increase on the back of several years of increases, current price determinations are not only unsustainable; but also, inconsistent with the State Government's commitment to Queensland small businesses that electricity pricing is stabilising and coming down.

### **6.0 Uniform Tariff Policy**

A key concern for CCIQ is the future direction of the uniform tariff policy (UTP) and regional pricing as Queensland small businesses continually see increasing electricity prices. The State Government is committed to retaining the UTP so that residential and small business customers do not pay more than the prices that would be available to standing offer customers in south east Queensland. The end of notified prices in south east Queensland on 1 July 2016 required that the QCA reassess their approach to setting notified prices for residential and small business customers in regional Queensland. In the absence of notified prices in south east Queensland, the QCA needs to set regional prices on a new basis, per their obligations under the *Electricity Act 1994* and considering matters raised in the delegation.

The QCA provide that they will continue to base notified prices for residential and small business customers on the cost of supply in south east Queensland. The QCA determines notified prices based on expected standing offer prices in south east Queensland. CCIQ believes that a case could be made for the QCA to set prices somewhere between the market contract prices and standing offer prices available in south east Queensland to better reflect current practice in the south east Queensland energy market.

CCIQ stresses that until such a time that the Queensland Government reforms the current arrangements of the uniform tariff policy, little can be done to improve the effectiveness of its operation. In 2016-17 under the UTP the State Government subsidised \$561.2million to cover supply costs to regional customers. This figure has been increasing since the UTP was implemented.

### **7.0 Solar Bonus Scheme**

As has been highlighted in the past by CCIQ, significant costs have been incurred by distributors in complying with the Queensland Government's Solar Bonus Scheme (SBS). Solar feed-in tariffs under the SBS will continue to be a major cost for small business customers as costs are passed along, increasing bills by 9%.

CCIQ supported the recommendations made by the Queensland Productivity Commission (QPC) in their draft report on electricity pricing in Queensland for the Queensland Government to consider the merits of an earlier end to the SBS than the planned 2028 closure. CCIQ believes the Queensland Government should commit to removing the burden of costs associated with the solar bonus scheme to relieve pressure from consumers subsidising excessive feed-in-tariff rates.

CCIQ understands the State Government has rejected these recommendations and have pledged to continue with the Scheme as scheduled. This pledge is at odds with their commitment to keep electricity prices from rising.

### **8.0 Network costs**

For small business customer retail tariffs (tariff 20), the QCA have decided to base the network cost component on Energex network charges and tariff structures. For small business customer time-of-use retail tariffs (tariff 22A), the QCA will base the network cost component on Energex network charges, but use the relevant Ergon Distribution network tariff structures.

This is a similar approach to the 2016-17 determination. Basing the time-of-use tariffs on Ergon Distribution's network tariff structures allow for improved cost reflectivity. CCIQ is satisfied with this approach. CCIQ notes the issue of the Ergon Distribution network tariffs will need to be phased out to a more cost-reflective system in the future and understand the impact this will have on regional consumers and welcome the QCA position to delay decision regarding network costs until clarity has been provided.

CCIQ stresses that the QCA needs to ensure that consumers are adequately educated about their options in relation to moving to time of use tariffs.

### **9.0 Other issues**

Improving competition in regional Queensland is an important issue that needs to be considered by the Queensland and Federal Government. CCIQ supports recommendation 30 made by the QPC in their final report on electricity pricing to implement a network Community Service Obligation (CSO) no later than 1 July 2019 allowing time for relevant stakeholders to prepare and begin maturing regional competition.

### **10.0 Conclusion**

CCIQ appreciates that many of these issues are outside the scope of this review and the responsibilities of the QCA. However, CCIQ strongly urges the QCA and the Queensland Government to ensure that the full and compounding impact of this and previous years' electricity price increases for Queensland small businesses are considered in the final determination for 2017-18 regulated tariff prices.

That said, CCIQ believes the 2017-18 draft determination will receive a warm response by the business community in comparison with the 2016-17 determinations. Queensland small businesses continue to struggle with the costs of electricity prices and will not be able to cope with further increases. CCIQ urges the QCA to consider the future implications for small businesses when making the final determination.

CCIQ welcomes the recently announced Australian Competition & Consumer Commission review into the Energy Retail market and look forward to its findings and encourage the QCA to consider its findings when making future determinations.