

6 September 2013

Queensland Competition Authority
GPO Box 2257
Brisbane QLD 4001

By email: electricity@qca.org.au

Dear Sir/Madam,

RE: Regulated Retail Electricity Prices for 2014-15 Interim Consultation Paper

The Energy Retailers Association of Australia (ERAA) welcomes the opportunity to provide input to the Queensland Competition Authority's (the Authority) *Regulated Retail Electricity Prices for 2014-15 Interim Consultation Paper* (the Interim Consultation Paper).

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.

Ensuring a smooth transition to price monitoring

The ERAA welcomes the Queensland Government's recent announcement to remove price controls for energy in South East Queensland by 1 July 2015. The ERAA has consistently advocated for price deregulation where competition is effective. 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.

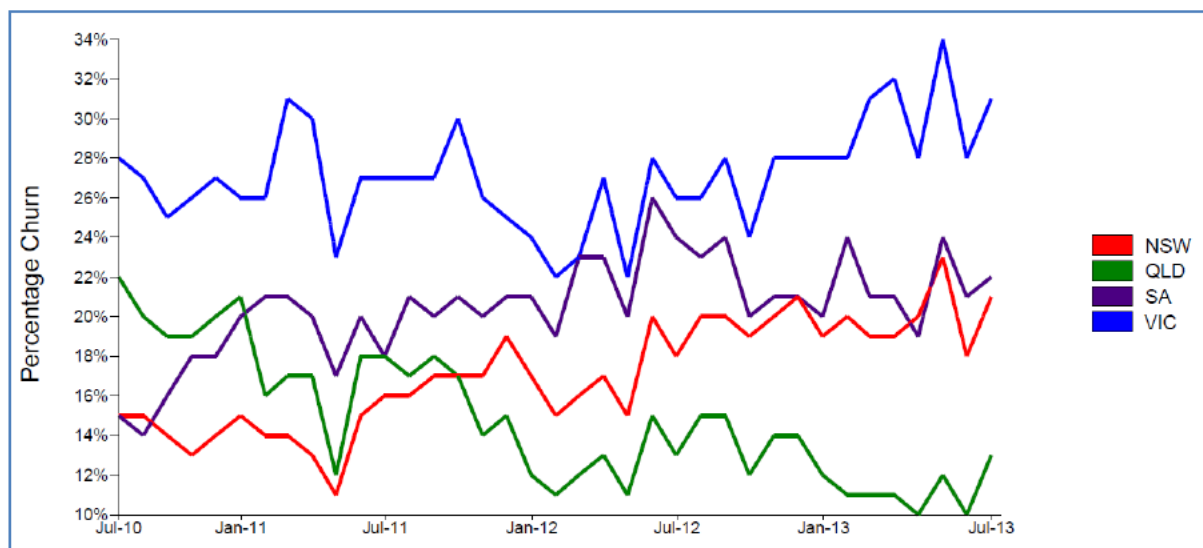
The move to price monitoring will give customers new products and more choice in the retail energy market. Those households and small businesses will be able to find the best deal to suit their needs and lifestyles. Victoria and South Australia have already proven retail electricity price deregulation can be effective. Since Victoria moved to price deregulation in 2009 - and South Australia on 1 February this year - households have seen new products and more choice, with a growth in the number and market share of smaller retailers. With the planned introduction of the National Energy Customer Framework in Queensland in the first half of 2014, customers should have additional confidence that they can switch away from regulated retail contracts and secure a better deal.

It is important that the Authority develops a methodology that will facilitate a competitive market in this upcoming transitional period. This pricing determination will play a key role in ensuring that Queenslanders are best prepared to benefit from deregulation. *Figure 1* outlines the long-term downward trend in customer switching in Queensland. However, it is



important to also note the recent increase in the switching rate in the July 2013 data. The 2014-15 pricing determination needs to promote a strong competitive market, where retailers are encouraged to actively compete to provide customers with the best deals. This approach will also be important to ensure the Queensland Government achieves their goal of preparing rural and regional Queenslanders for a more competitive market.

Figure 1: AEMO Historical Monthly Annualised Transfer Rate July 2013



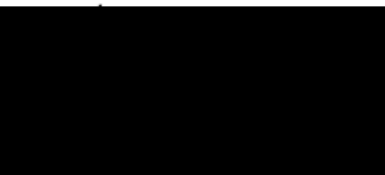
Wholesale energy costs

The ERAA notes that the Authority has requested comments on alternatives to the hedging-based model. 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. Should the Authority continue the use of the market-based (hedging) 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 Interim Consultation Paper states that other regulators and governments are starting to show a similar preference for a hedging-based approach. The ERAA notes that in the case of South Australia, the move towards a market-based outcome ceased when the government announced the deregulation of the retail energy market. In NSW, the Independent Pricing and Regulatory Tribunal (IPART) also adjusted its approach to calculating customer and acquisition costs to address the costs, risks and challenges faced by retailers. It is therefore too simplistic to suggest that a market-based approach to estimating wholesale energy costs is a clear preference of regulators and governments in other jurisdictions.

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