

9 December 2011

Queensland Competition Authority
GPO Box 2257
Brisbane QLD 4001

By email: electricity@qca.org.au

Dear Sir/Madam

Re: Draft Methodology Paper: Regulated Retail Electricity Prices 2012-13

The Energy Retailers Association of Australia (ERAA) welcomes the opportunity to comment on the Draft Methodology Paper to determine Regulated Retail Electricity Prices for 2012-13.

The ERAA is the peak body representing the core of Australia's energy retail organisations. Membership is comprised of businesses operating predominantly in the electricity and gas markets in every State and Territory throughout Australia. These businesses collectively provide electricity to over 98% of customers in the 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 mechanism for setting prices. In this submission we do not make comments on the appropriateness of an alternative retail electricity pricing methodology for the determination of costs components under an N (network) + R (energy and retail), nor an alternative set of retail electricity tariffs that could be applied should this methodology be adopted. We refer to the individual submissions of our members to comment on this.

The ability of retailers to offer market contracts is predominantly driven by the most influencing factor in the development of an effective energy market: the prevailing regulated retail price. If regulated retail prices are set too low (or otherwise are inefficient in their reflection of retailer costs) retailers will cease to be active in the market; if prices set too high, consumers remaining on non-market contracts will be paying too much for electricity. The ERAA has always maintained that best way to manage these risks and uncertainties whilst protecting consumer's interests is to remove retail price regulation, as was achieved in Victoria in 2009.

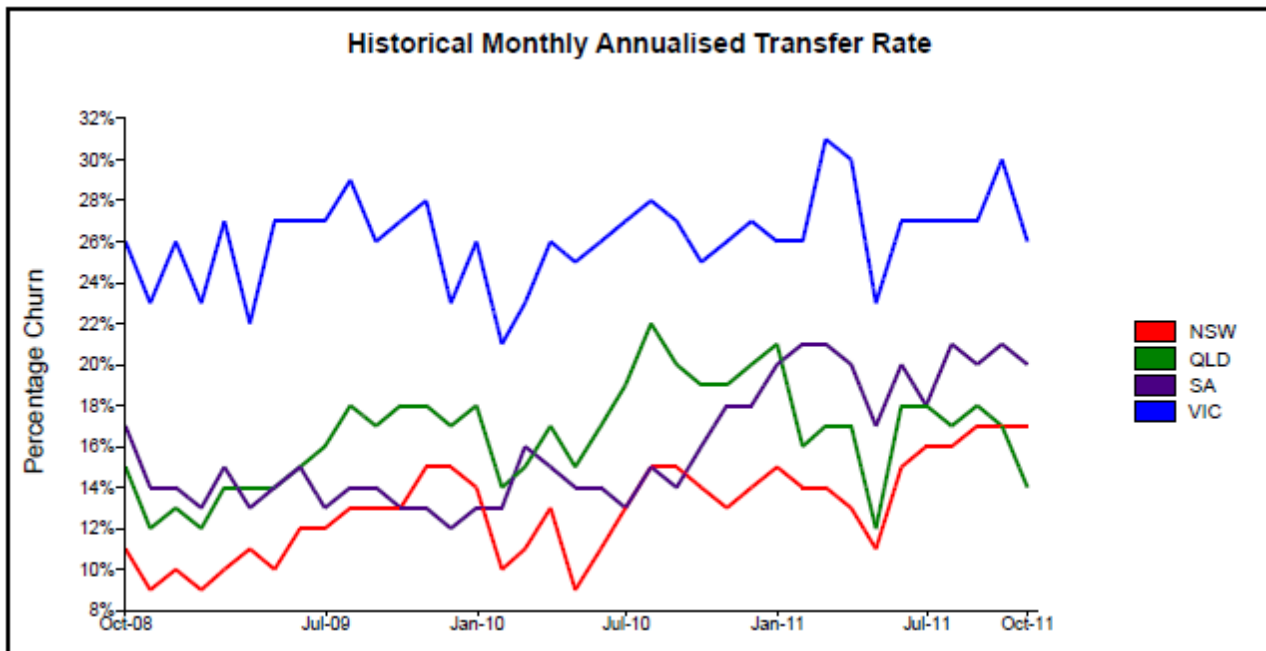
Victorian customers now enjoy the full range of benefits resulting from strong and effective competition. This includes more diverse and innovative energy products and consumers can save on their power bills by shopping around.¹ Clear evidence of strong and effective competition in Victoria can be seen by:

- Switching rates are now consistently greater than 25%²; substantially greater than the other markets in the NEM which have not yet deregulated retail energy prices.³

¹ Essential Services Commission 2009, Energy Retailers – Comparative Performance Report 2008-09, Summary of Findings, December 2009.

² VaasaETT 2010, World Energy Retail Market Ranking Report – 5th Edition, VaasaETT Global Energy Think-Tank, December 2010.

- Most of the ERAA members that focus on consumers market actively participate in the Victorian market due to the deregulated nature of prices in that market.



The ERAA believes this is strong evidence that deregulating prices in Victoria has improved the competitiveness of the market compared to the case of remaining within a regulated pricing regime.

Understanding that the removal of price regulation is not a methodology that is being considered by the QCA in its review, the ERAA strongly recommends that in determining the appropriate methodology that is too apply to the setting of retail tariffs that appropriate weighting is provided to section 90 (5)(b) of the Electricity Act, where the Authority is required to have regard to *“the effect of the determination on competition in the Queensland retail electricity market, consistent with the Government’s policy objective that consumers. Wherever possible, have the opportunity to benefit from competition and efficiency in the marketplace”*.⁴ Setting regulated retail prices too low will effectively make the Queensland market unviable for competition to be effective.

In states where regulated retail tariffs exist, such as Queensland, market contracts offer consumers a discount off existing regulated retail tariffs⁵. As the QCA is effectively proposing to make wholesale changes to the methodology in which the regulated retail tariff is determined, QCA must consider, and appropriately ensure, that such wholesale changes do not result in new market offers, or existing market contracts, becoming financially unviable for retailers to sustain. Retailers that have engaged in the Qld market have done so based on a set of conditions and risk parameters that support market offers in Qld. These conditions do not only include the methodology previously used by the QCA to determine the regulated tariff to which discounts on market contracts are too apply, but also such things as the setting of appropriate wholesale positions to manage wholesale risks associated with customer loads. By changing the methodology to determine regulated retail prices for the 2012-13 year to a new methodology as reflected in the paper, then this will not only expose retailers to unnecessary financial risk, if retail costs and tariffs are not appropriately priced to reflect existing contractual and commercial obligations, but it will

³ AEMO Small Monthly Transfers Data Nov 2009 – Nov 2010.

⁴ Queensland Competition Authority, Draft Methodology Paper: Regulated Retail Electricity Prices 2012-12, November 2011

⁵ These market offers are usually offered as a discount off an existing tariff, with discounts of 5-10% applied to the whole tariff.



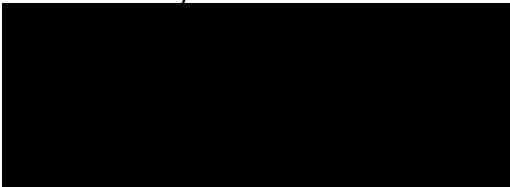
also create uncertainty in ascertaining the methodology that may be used in future determinations. As retailer's exposure to uncertainty and financial and commercial risk heightens then this will impact on competition, and ultimately customer choice, as retailers reassess their involvement in the Qld market. This clearly contradicts section 90(5) (b) of the Electricity Act, to which the Authority is required to have regard to.

The ERAA therefore recommends that in its review in determining the draft methodology for the setting of regulated retail electricity prices for 2012-13 that the QCA **commits** to ensuring that

- there is no impact to the effect of this determination on competition in the market, and
- that the setting of regulated tariffs under any new proposed methodology does not disadvantage retailers that have entered into existing market offers based on conditions determined in previous determinations.

Should you wish to discuss the details of this submission further, please contact me on (02) 9241 6556 and I will be happy to facilitate such discussions with my member companies.

Yours sincerely



Cameron O'Reilly
Chief Executive Officer
Energy Retailers Association of Australia