

Regulated Retail Electricity Prices 2012-13

Submission on Draft Determination

April 2012

The Queensland Competition Authority has published their draft Determination on regulated retail electricity prices for 2012/13. SunWater has many irrigation pumping stations on regulated retail tariffs and is concerned that the prices for these tariffs will increase unreasonably and do so in a manner that is not cost-reflective.

N component for Large Customers Incorrectly Based on Ergon's Network Charges

The biggest concern for SunWater is that the Authority has based the N (network cost) component of the regulated prices for large customers on Ergon Energy's network charges rather than Energex's network charges. This decision contravenes the Ministerial Delegation of 22 September 2011 in which it is clearly stated that:

“In determining the network cost component of each regulated retail tariff, the Authority must consider the network charges to be levied by Energex for each tariff for the relevant tariff year”

SunWater believes that the Delegation is clear and unambiguous. The Authority seemed to interpret the Delegation in this way when they wrote on page 3 of the draft Determination that there were two amendments that “provide more clarity regarding the Authority's task”, the first of these being that:

“the N (or network cost) component is treated as a pass through – in determining the N component, the Authority must consider the network charges to be levied by Energex for each tariff for the relevant tariff year”

While acknowledging that the Delegation provided more clarity to the Authority's task, the QCA then proceeded to base retail electricity prices for large customers on Ergon Energy's network charges, rather than Energex's network charges as was required by the Ministerial Delegation. This decision by the Authority will likely cost SunWater millions of dollars more on their electricity bills and these costs will be passed through to irrigators under the regulated irrigation pricing arrangements. The decision not to use Energex's network charges will penalise regional businesses and will discourage business investment in regional areas of the state, where it is most needed.

The intent of the Delegation is very clear and this clarity was acknowledged in the Authority's draft Determination. SunWater requests that the Authority follow the intent of the Delegation and base regulated retail electricity prices in the final Determination on Energex's network charges for 2012/13.

R Component is not Cost Reflective

The Authority is required to determine the cost of energy for the various retail tariffs as the major input to the R (retail cost) component of regulated retail prices. The most important factor determining a customer's energy pricing in the retail market is the time of use (ToU) of consumption. Inexplicably, the Authority has removed the differentiation of ToU pricing in determining the R component of retail prices. This decision was not flagged in the Authority's draft methodology or the issues paper, and is not adequately addressed in the draft Determination.

The majority of SunWater's sites are currently on tariffs 22 and 43, both of which offer peak and offpeak pricing. The differentiation of peak and offpeak pricing has been severely diminished for tariff 22 under the Authority's approach to determining R for this tariff. The

differentiation of peak and offpeak pricing has been eliminated for tariff 43. By not appropriately differentiating the impact of ToU in their determination of retail pricing for various tariffs the Authority has clearly made these tariffs less cost reflective.

Up until now, peak and offpeak rates offered in regulated retail tariffs have been broadly reflective of the underlying costs of supply. Typically, market contracts are offered with offpeak rates that are half to a third of the cost of peak electricity. Tariff 22 had an offpeak rate which was 35% of the peak rate, whereas tariff 43 had an offpeak rate of 40% of peak. Under the Authority's approach to retail pricing there will be a mere 10% saving for offpeak usage under tariff 22 and no reward (0%) for offpeak usage under tariff 43, or the other demand tariffs. These offpeak savings are clearly not cost reflective.

This decision by the Authority will likely cost SunWater more than \$1m and this increased cost will be passed through to irrigators under the regulated irrigation pricing arrangements.

With the pricing signals for offpeak usage being severely muted or eliminated, there is little or no incentive for customers to shift load into offpeak times. This will drive behaviour towards increased peak usage which will place more stress on the network at peak times and require the building of more peak generation capacity. This in turn will lead to a higher average cost of energy and also increased network charges due to the need to build greater network capacity. Both factors will ultimately lead to higher costs for all customers on regulated tariffs.

SunWater believes it was the intention of the tariff review to result in a suite of tariffs that is more cost reflective. In determining the R component of the various tariffs the Authority has averaged the ToU effect across time and across different tariffs. In doing so, an extremely important price signal has been lost making the regulated retail tariffs less cost reflective. SunWater requests that the Authority appropriately restore this pricing signal in the regulated retail electricity prices in the final Determination on Energex's network charges for 2012/13.
