



Ref: EWS/000287
MBN6007

8 May 2012

Mr B Parmenter
Chairman
Queensland Competition Authority
GPO Box 2257
BRISBANE QLD 4001

Dear Mr Parmenter

I refer to the Queensland Competition Authority's (QCA) Draft Price Determination of regulated retail electricity prices released on 30 March 2012 in accordance with the current Certificate of Delegation.

As required by the current Delegation, the QCA has based its calculation of notified prices on a cost-reflective Network (N) plus Retail (R) approach, where N is essentially a pass-through of the actual network costs for each tariff and R is the combined total of the energy and retail costs for each tariff.

The move to a cost-reflective price-setting approach, where the actual cost of supplying electricity to customers on each tariff is calculated separately, represents a significant shift from the previous flawed Benchmark Retail Cost Index (BRCI) approach, where all tariffs were escalated annually using the same percentage increase. Unlike the BRCI, the new methodology represents a more accurate and transparent approach to determining notified prices.

However, the Government is concerned that a move straight to cost-reflective prices will impact adversely on some customer groups, particularly residential customers on the standard residential tariff (Tariff 11).

Determination of notified prices for 2012-13

The Queensland Government remains committed to tariff reform and the need to move towards a more cost-reflective price-setting methodology, however it is deeply concerned about the pressure that increases in the cost of living, including rising electricity costs, are placing on household budgets. As a result, the Government has acted to mitigate these price impacts in the short term by freezing Tariff 11 prices for the 2012-13 tariff year. To achieve this, the Government will freeze the existing prices at 2011-12 levels but with an escalation for the cost of the Commonwealth Government's carbon tax to be added.

/2

Whilst shielding households from significant price rises in 2012-13, this decision will also allow Government time to consider options for addressing the key drivers of energy cost increases and retail price-setting arrangements over the coming year.

To implement a price freeze approach, in accordance with the current legislation, it will be necessary for the Minister for Energy and Water Supply, rather than the QCA, to set the Tariff 11 prices for 2012-13. Accordingly, the current Delegation to the QCA for the determination of 2012-13 notified prices for has been amended to remove the requirement for the QCA to set Tariff 11 prices for 2012-13.

It should also be noted that the Government is currently considering customer impacts and implementation issues for all large customers in Queensland.

I attach my amended Delegation to the QCA, as the pricing entity, to determine the notified prices that retail entities may charge non-market customers in the 2012-13 tariff year (refer **Attachment 1**). The amended Delegation is authorised under section 90AA(1) of the *Electricity Act 1994* (the Act) and replaces the previous Delegation issued to the QCA on 22 September 2011.

In accordance with the amended Delegation, the QCA is required to publish its Final Price Determination for 2012-13 by 31 May 2012.

Request for advice from QCA

Whilst the Queensland Government is committed to implementing a price freeze on Tariff 11 for 2012-13 commencing 1 July 2012, Queensland households will still experience increased electricity bills as a direct result of the introduction of the Commonwealth Government's carbon tax. Whilst the Commonwealth Government will be compensating households separately for the impact of the carbon tax, the Queensland Government will ensure that the estimated costs of the carbon tax will be detailed on household electricity bills. This will provide openness and transparency to residential electricity customers in Queensland.

To enable this calculation, I am issuing a separate direction to the QCA, under section 253AA of the Act, requiring it to provide Government with a final estimate of the total cost impact of the carbon tax on retail electricity costs (Tariff 11) for residential customers in 2012-13 and what the per kWh price of Tariff 11 would have been in 2012-13 (inclusive of the cost of the Commonwealth's carbon tax) without the Government's decision to freeze the tariff. In this regard, the QCA should assume that Tariff 11 will have a flat price structure (as in 2011-12) not an inclining block tariff structure as required under the previous Delegation.

I would appreciate the requested advice being provided to me as close to 31 May 2012 as is practicable.

To support the Government's commitment to reforming electricity pricing in Queensland and addressing the long term cost pressures, an Inter-departmental Committee will be established as a priority, to consider and report on future residential pricing options, and strategies to address cost pressures (such as network costs). The Government will also reconsider the benefits of inclining block tariff structures.

If you have any questions about my advice to you, Mr Benn Barr, Acting Deputy Director-General, Energy Division of the Department of Energy and Water Supply will be pleased to assist you and can be contacted on telephone 3239 0039.

Sincerely



Mark McArdle MP
Minister for Energy and Water Supply

Att

ELECTRICITY ACT 1994
Section 90AA(1)

DELEGATION

As the Minister for Energy and Water Supply, pursuant to section 90AA(1) of the *Electricity Act 1994*, I hereby refer to the Queensland Competition Authority (the Authority) the determination of regulated retail electricity tariffs (notified prices) for Queensland, excluding the general supply residential tariff (Tariff 11), to apply from 1 July 2012 to 30 June 2013, in accordance with the requirements set out in the following Terms of Reference.

Terms of Reference

1. Matters to be considered

In calculating the delegated regulated retail electricity tariffs for the relevant tariff year, the Authority should ensure its price determination has regard to:

- the actual costs of supplying electricity;
- 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;
- the Queensland Government's Uniform Tariff Policy, which ensures customers of the same class have access to uniform retail tariffs and pay the same notified price for their electricity supply, regardless of their geographic location; and
- the information contained in the Attachment.

Methodology for calculating regulated retail tariff prices

Retail electricity tariffs comprise three main cost components:

- network costs;
- energy costs; and
- retail costs.

In calculating the delegated regulated retail tariffs for the relevant tariff year, the Authority should, to the extent possible, base its determination on a Network (N) plus Retail (R) cost build-up approach to setting notified prices, where N (network cost) is treated as a pass-through and R (energy and retail cost) is determined by the Authority.

Network Costs

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.

Energy Costs

The energy cost component of each regulated retail tariff should include the cost of purchasing energy, environmental and renewable energy costs, energy losses and National Electricity Market fees.

In calculating the energy cost component, the Authority must consider:

- the cost of energy,
- fees, including charges for market and ancillary services, imposed by Australian Energy Market Operator (AEMO) under the National Electricity Rules;
- energy losses as published by the AEMO;
- the likely impact resulting from Commonwealth legislation to put a price on carbon dioxide emissions;
- the efficient costs of meeting any obligations under environmental and energy efficiency schemes (including present and future State and Commonwealth schemes); and
- a mechanism to address any new compulsory scheme that imposes material costs on the retailer.

Retail Costs

Retail costs relate to the services provided by a retailer to its customers.

In determining the retail cost component of each regulated retail tariff, the Authority must consider the retail costs that would reasonably be incurred by an efficient, representative retailer, the characteristics of which should be determined by the Authority. The Authority is also required to determine an appropriate retail margin giving consideration to any risks not compensated for elsewhere.

2. Consultation

The Authority should consult with stakeholders, conduct workshops and consider submissions, within the timetable for making the price determination and publishing the draft and final reports. The Authority must make its reports available to the public.

3. Timing

(a) Draft Methodology Paper

The Authority must publish a paper outlining its draft methodology for calculating the R component of regulated retail electricity prices no later than December 2011.

(b) Draft Price Determination

The Authority must publish a report on its draft price determination of regulated retail electricity tariffs (with each tariff to be presented as a bundled price) for the period 1 July 2012 to 30 June 2013, on 30 March 2012.

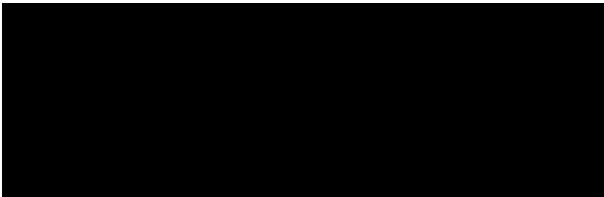
The Authority must publish a written notice inviting submissions about the draft determination. The notice must state a period (the *consultation period*) during which anyone can make written submissions to the Authority about issues relevant to the draft determination.

The Authority must consider any submissions received within the consultation period and make them available to the public, subject to normal confidentiality considerations.

(c) Final Price Determination

The Authority must publish a report of its final price determination on the delegated regulated retail electricity tariffs (with each tariff to be presented as a bundled price) for the period 1 July 2012 to 30 June 2013, and gazette the (bundled) retail tariffs, no later than 31 May 2012.

MARK McARDLE



The Hon. Mark McArdle MP

Level 13, 41 George Street, Brisbane

GPO Box 15456, Brisbane

City East QLD 4002 Australia

Telephone +617 3896 3691

Facsimile +617 3012 9115

*Determination of regulated retail electricity tariffs
for the period 1 July 2012 to 30 June 2013*

In making its price determination on the delegated regulated retail electricity tariffs for the period 1 July 2012 to 30 June 2013, the Queensland Competition Authority (the Authority) must have regard to the following:

- a new voluntary time-of-use tariff is to be established for residential customers;
- for farming and irrigation tariffs, targeted consultation should be undertaken with relevant stakeholders and industry groups, and consideration given to the impact on customers and whether any transitional arrangements are needed for customers who may be required to move from one tariff to another;
- an appropriate tariff is to be established for customers who are supplied under the Rural Subsidy Scheme, or are located in a drought declared area;
- an appropriate tariff for street lighting customers in Ergon Energy's network area is to be established, and consideration given to whether any transitional arrangements are needed for customers on the existing tariff (Tariff 71); and
- consideration should be given to transitional arrangements for customers who are on obsolete and declining block tariffs.

In making its price determination, the Authority should note the following:

- From 1 July 2012, all existing and new non-residential customers in ENERGEX's network area, who consume more than 100MWh per annum, will be unable to access regulated retail electricity tariffs, and must be on a market contract;
- As at 1 July 2012, any customer who is on an obsolete or declining block tariff will be required to move to, or be transitioned to, an alternative regulated retail tariff;
- In relation to the establishment of a voluntary time-of-use tariff for residential customers, any customer who opts to transfer to this tariff, providing they have the appropriate metering, will be permitted to revert to the standard regulated tariff for residential customers in accordance with the requirements set out in the regulated retail tariff schedule.