

Professor Roy Green
Chair
Queensland Competition Authority

Via email through the Queensland Competition Authority online submission form

7th December 2016

Dear Professor Roy Green

Re: Submission on the Interim Consultation Paper for Regulated Retail Electricity Prices for 2017-18

The price of electricity strongly influences the strength of Queensland's economy, the number of Queensland jobs, the cost of living for all Queenslanders and how many billions of dollars of outside income is earned by Queensland from export sales and tourism.

Electricity is either an economic driver and job creator or an economic and job destroyer.

A strong economy will abound with profitable and viable businesses especially small businesses. It is profitable and viable businesses that provide regional Queenslanders with valuable jobs. According to the Queensland Government small businesses make up nearly 97 percent of all Queensland businesses and employ around 43 % of the total private sector workforce. The viability of small business is critical to the strength of both the regional economy and the Queensland economy.

The Premier of Queensland in her media release dated 5th December 2016 proclaimed that Queensland is on track for a record \$50 billion in export sales this financial year. Export sales did increase by 2.3 % in 2015-16 but from June 2016 to September 2016 export sales have decreased. The industries driving Queensland's export sales such as agriculture and mining are located in regional Queensland and agricultural and mining businesses strongly believe unsustainable electricity prices are adversely affecting their profitability and viability. This has a flow on effect to the value of Queensland's export sales. Outside earnings have been boosted by increased international and domestic tourists. However, to remain competitive in a global market the tourism industry needs reduced electricity prices to continue its important contribution to Queensland's outside earnings.

Rising electricity prices are a concern to businesses throughout regional Queensland and regional jobs are being jeopardised.

Regulated retail electricity prices for all businesses in regional Queensland in 2017-18 must be reduced by 16 percent compared to the prices legislated by the Queensland Competition Authority/Queensland Government in 2016-17. The reduction will stimulate the economy, create jobs and assist businesses to remain profitable and viable in the short, medium and long term.

The Cost Build Up Methodology does not comply with the National Electricity Objective

In the submission by the Far North Queensland Electricity Users Network to the Queensland Competition Authority on regulated retail electricity prices for 2016-17 a critical flaw was highlighted. This flaw has not been corrected in the interim consultation paper for regulated retail prices for 2017-18.

Specifically we refer to the cost build up methodology nominated as the framework for regulated retail prices in the Queensland Government's delegation.

The delegation states that the Queensland Competition Authority must use the Network (N) plus Retail (R) cost build up methodology when working out the notified prices and making the price determination, where N (network cost) is treated as a pass-through and R (energy and retail cost) is determined by the Queensland Competition Authority.

The methodology allows the Queensland Competition Authority to ignore any concerns about affordability. Their task is to estimate the wholesale energy cost and retail cost and add those costs to the 'pass through' network cost. The sum of the components is the regulated retail price. The regulated retail price does not take into consideration the long term interests of consumers in regional Queensland nor the effect on the Queensland economy and regional jobs.

The Queensland Government signed the Australian Energy Market Agreement in 2004 and therefore agreed to the National Electricity Objective.

The National Electricity Objective, as stated in the National Electricity Law, is to promote efficient investment in, and efficient operation and use of, **electricity services for the long term interests of consumers** of electricity with respect to –

- (a) *price, quality, safety, reliability, and security of supply of electricity and;*
- (b) *the reliability, safety and security of the national electricity system.*

The regulated retail prices set by the Queensland Competition Authority/Queensland Government only apply to consumers in regional Queensland. Residential and small business consumers in regional Queensland effectively have one electricity retailer; the 100 % Queensland Government owned Ergon Energy. The Queensland Government is therefore the entity responsible for determining the methodology used in setting regulated retail prices in regional Queensland and at the same time is the sole beneficiary of profits/dividends generated by the only electricity retailer in regional Queensland. It also controls 100 % of the network costs and strongly influences the wholesale generation costs as it owns 65 % of the generation capacity in Queensland.

The Queensland Government needs to provide evidence that it is acting in the long term interest of both residential and business consumers in regional Queensland as opposed to acting in its own interest.

On 1st July 2016 the Queensland Competition Authority increased regulated retail electricity prices in regional Queensland by 2.8 % to 4.8 % for residential consumers and by 11.2 % to 15.8 % for business consumers. The impact of the rise in regulated retail prices is yet to be reflected in statistics as the Australian Energy Regulator has not released the statistics for September Quarter 2016. Despite the lack of statistical evidence the Queensland Government announced on 30th November 2016 that it will extend the electricity rebate to an additional 157,000 Queensland families. Clearly, energy poverty is increasing and this is not in the long term interest of consumers.

The decision by the Australian Competition Tribunal on the SA Power Networks on 28th October 2016 includes the following excerpt from paragraph 103:

“the consultation process and the submissions of consumers (and the Minister) may have become particularly significant (if error had been found in the Final Decision) in consideration of the materially preferable NEO decision.”

Consumers in other jurisdictions are challenging regulatory decisions and are clearly asking the Federal Court to ensure that decisions are in the long term interest of consumers and comply with the National Electricity Objective. We believe that the cost build up methodology framework fails to act in the long term interests of consumers and therefore the Queensland Government has failed to uphold the National Electricity Objective.

The compliance of the Queensland Competition Authority with its own Act

The Queensland Competition Authority needs to consider if the cost build up methodology framework complies with its own Queensland Competition Authority Act 1997, Division 3 – Investigations about monopoly business activities.

Section 26 states:

Matters to be considered by the authority for investigation

(1) In conducting an investigation under this division, the authority must have regard to the following matters –

(c) the protection of consumers from abuses of monopoly power

(i) social welfare and equity considerations including community service obligations, the availability of goods and services to consumers and the social impacts of pricing practices

(m) economic and regional development issues, including employment and investment growth

(n) if the monopoly business activity is a government business activity - any directions given by the government to the government agency by which the monopoly business activity is carried on"

The 'Tick the Box' consultation process

Consumers in regional Queensland do attend consultation workshops organised by the Queensland Competition Authority and do provide submissions to the Queensland Competition Authority. However, the long term interests of regional consumers are not reflected in the decisions of the Queensland Competition Authority; the glaring example being the exorbitant rises in regulated retail prices for business consumers in 2016-17. Consequently the consultation process is regarded by consumers as a tick the box exercise for the Queensland Competition Authority.

Consumers are weary of the once a year 2 hour workshops and are looking for hard evidence from the Queensland Competition Authority/Queensland Government that their long term interests are being taken into consideration together with the interests of the Queensland economy and Queensland jobs.

Yours faithfully

A handwritten signature in blue ink that reads 'J Brownie'.

Jennifer Brownie
Coordinator