



Consultation Paper

**Regulated Retail Electricity Prices
2013-14**

Transitional Issues

October 2012

Level 19, 12 Creek Street Brisbane Queensland 4000
GPO Box 2257 Brisbane Qld 4001
Telephone (07) 3222 0555
Facsimile (07) 3222 0599

general.enquiries@qca.org.au
www.qca.org.au

SUBMISSIONS

Public involvement is an important element of the decision-making processes of the Queensland Competition Authority (the Authority). The Authority is releasing this Consultation Paper as part of its review of regulated retail electricity prices in Queensland for 2013-14, to seek stakeholders' views on possible transitional arrangements for customers on certain regulated retail electricity tariffs. The Authority will take account of all submissions received by the due date.

Written submissions should be sent to the address below. While the Authority does not necessarily require submissions in any particular format, it would be appreciated if two printed copies are provided together with an electronic version on disk (Microsoft Word format) or by e-mail. Submissions, comments or inquiries regarding this paper should be directed to:

Queensland Competition Authority
GPO Box 2257
Brisbane QLD 4001
Telephone: (07) 3222 0555
Fax: (07) 3222 0599
Email: electricity@qca.org.au

The **closing date** for submissions is 7 January 2013.

Confidentiality

In the interests of transparency and to promote informed discussion, the Authority would prefer submissions to be made publicly available wherever this is reasonable. However, if a person making a submission does not want that submission to be public, that person should claim confidentiality in respect of the document (or any part of the document). Claims for confidentiality should be clearly noted on the front page of the submission and the relevant sections of the submission should be marked as confidential, so that the remainder of the document can be made publicly available. It would also be appreciated if two copies of each version of these submissions (i.e. the complete version and another excising confidential information) could be provided. Again, it would be appreciated if each version could be provided on disk. Where it is unclear why a submission has been marked "confidential", the status of the submission will be discussed with the person making the submission.

While the Authority will endeavour to identify and protect material claimed as confidential as well as exempt information and information disclosure of which would be contrary to the public interest (within the meaning of the *Right to Information Act 2009 (RTI)*), it cannot guarantee that submissions will not be made publicly available. As stated in s239 of the *Queensland Competition Authority Act 1997* (the QCA Act), the Authority must take all reasonable steps to ensure the information is not disclosed without the person's consent, provided the Authority believes that disclosure of the information would be likely to damage the person's commercial activities and that the disclosure of the information would not be in the public interest. Notwithstanding this, there is a possibility that the Authority may be required to reveal confidential information as a result of a RTI request.

Public access to submissions

Subject to any confidentiality constraints, submissions will be available for public inspection at the Brisbane office of the Authority, or on its website at www.qca.org.au. If you experience any difficulty gaining access to documents please contact the office (07) 3222 0555.

Information about the role and current activities of the Authority, including copies of reports, papers and submissions can also be found on the Authority's website.

TABLE OF CONTENTS

	PAGE
SUBMISSIONS	I
1. BACKGROUND	1
1.1 Changes to the price setting methodology from 1 July 2012	1
1.2 Delegation to set regulated prices for 2013-14	2
1.3 Purpose of this Consultation Paper	2
1.4 Indicative timetable	3
2. TRANSITIONAL ARRANGEMENTS FOR TARIFF 11	5
2.1 Current Tariff 11 charges relative to cost-reflective charges	5
2.2 Options for transitioning to cost reflective charges	6
3. TRANSITIONAL ARRANGEMENTS FOR OBSOLETE TARIFFS	8
3.1 Background on existing obsolete tariffs	8
3.2 Options for transitioning to cost-reflective tariffs	9
4. ALLOWING NEW LARGE CUSTOMERS TO ACCESS OBSOLETE TARIFFS	11
APPENDIX A: MINISTERIAL DELEGATION AND COVERING LETTER	12

1. BACKGROUND

In Queensland, the relevant Minister (currently the Minister for Energy and Water Supply) has the power to determine regulated retail electricity prices (regulated prices). Since 2007, the Minister has delegated this function to the Authority. Most electricity customers can choose to be supplied under a standard contract and pay regulated prices,¹ or may accept a market contract offered by the retailer of their choice at an agreed price. A market contract will often include prices lower than the regulated price.

Small customers² who accept a market contract may revert to a standard contract with their current retailer at the regulated price on the expiry of their market contract, or as otherwise provided for in their market contract.

However, most customers in Ergon Energy's distribution area (the area outside of South East Queensland) are supplied by Ergon Energy Queensland (EEQ) at regulated prices and will not have an option to take up a market contract with an alternate retailer. This is because the Queensland Government provides a subsidy to EEQ to offset the higher costs of electricity for customers in regional and remote areas. As a result, other retailers are unable to offer an equivalent or a better deal to customers because their costs are not subsidised.

1.1 Changes to the price setting methodology from 1 July 2012

Legislative changes in late 2011 changed the way the Authority is required to determine regulated prices, starting with its determination of regulated prices for 2012-13. Instead of escalating all existing retail tariffs (most of which were introduced over 20 years ago) by the same percentage each year as it had previously been required to do, the Authority was required to establish a new set of retail tariffs which better reflected the costs of supply.

The new set of retail tariffs were established by estimating the costs of supplying customers on each retail tariff. The three main cost components are:

- (a) **Network charges**, which recover the costs associated with transporting electricity through the transmission and distribution networks. The transmission and distribution businesses are regulated monopoly businesses and their charges are determined by the Australian Energy Regulator (AER);
- (b) **Energy costs**, which include the cost of purchasing electricity (including the impact of the carbon tax), environmental and renewable energy costs, energy losses and National Electricity Market (NEM) fees; and
- (c) **Retail costs**, which include:
 - (i) the cost of services provided by a retailer to its customers (for instance, customer service, billing and revenue collection); and
 - (ii) a retail margin to reflect the risks of providing retail electricity services.

In its 2012-13 Determination, the Authority also included an additional 'head room' allowance of 5% of cost-reflective prices to foster competition.

¹ Non-residential customers in Energex's distribution area that consume more than 100 MWh per annum can no longer access regulated prices.

² Small customers typically include residential customers and small business customers that consume less than 100 MWh per annum.

Given the change in methodology and some practical constraints on moving some customers immediately to new retail tariffs, the Authority implemented transitional measures in 2012-13 for certain customer groups. As a result, some customers continue to access old retail tariffs (known as ‘obsolete tariffs’) that are below cost-reflective levels.

In addition, following the change of Government in the first half of 2012, the new Government decided to freeze regulated prices for the standard residential tariff (Tariff 11) for 2012-13, subject to the inclusion of costs associated with the carbon tax. As a result, regulated prices for Tariff 11 were determined by the Minister in accordance with the Government’s policy, rather than by the Authority in a similar manner to all other tariffs.

1.2 Delegation to set regulated prices for 2013-14

On 5 September 2012, the Minister provided the Authority with its latest electricity pricing Delegation, requiring it to determine regulated prices (including for Tariff 11) for a three-year period from 1 July 2013 to 30 June 2016, rather than a one-year period as it had been required to do previously. While the task has been delegated to the Authority for a three-year period, the Authority is still required to set regulated prices on an annual basis, with the first determination to apply from 1 July 2013 to 30 June 2014 (the 2013-14 Determination).

In making its 2013-14 Determination, the Authority is required to consider the matters set out in the Delegation (see **Appendix A**) and the relevant legislation.³ As a first step in the process, the Authority released an Interim Consultation Paper on 21 September 2012 and invited submissions by 19 October 2012. The Authority received 18 submissions by the due date.

The Interim Consultation Paper and the submissions received can be accessed from the Authority’s website at (www.qca.org.au).

1.3 Purpose of this Consultation Paper

The Delegation requires the Authority to consider the need for transitional arrangements for:

- (a) the standard residential tariff (Tariff 11) to accommodate the rebalancing of the fixed and variable components to cost reflective levels by 1 July 2015;
- (b) the existing obsolete tariffs, should the Authority consider that customers would face significant price impacts if they were required to move to the alternative cost-reflective tariffs; and
- (c) large customers on Tariffs 44, 45, 46, 47 and 48 to allow them to access any transitional arrangements implemented for the obsolete large customer tariffs.

This Consultation Paper identifies the key issues in relation to the need for transitional arrangements on which the Authority particularly seeks comment from stakeholders. However, stakeholders should also take this opportunity to inform the Authority of any other matters they believe are relevant to the Authority’s consideration of transitional arrangements.

It is important to note that, in considering the need for transitional arrangements, the Authority is concerned with the gap between the 2012-13 non cost-reflective retail tariffs and the cost-reflective prices that should apply to these customers and how that gap might be closed.

³ Section 90(5)(a) of the *Electricity Act 1994*.

Submissions are invited in response to this Consultation Paper and are due no later than 7 January 2013. In preparing its Draft Determination, the Authority will consider all submissions received by the due date.

Advice on Ergon Energy's very large customers

On 4 September 2012, the Authority also received a Direction from the Minister⁴ seeking advice in relation to whether and how site specific network charges could be passed through in retail electricity prices paid by Ergon Energy's very large customers (which are generally those that consume more than 4 GWh per annum).

While the Authority recognises that there may be transitional issues that would need to be addressed if very large customers were moved to site-specific regulated prices, the Authority has not addressed these issues in this Consultation Paper. Submissions have already been sought from very large customers in Ergon Energy's distribution area to inform the Authority's advice to the Minister, which is due by 30 November 2012.

The Authority will rely on this same information when outlining its proposed approach to setting regulated prices for very large customers in its Draft Determination (including possible transitional arrangements) and will also take into account any decisions that the Minister might make in respect of these customers following receipt of the requested advice.

1.4 Indicative timetable

The Authority is required to publish its Draft Determination for 2013-14 no later than 15 February 2013 and its Final Determination (including gazetting the regulated prices) no later than 31 May 2013. An indicative timetable for the remainder of the review is provided below (though this may be subject to change as the process progresses).

⁴ The Minister's Direction Notice can be accessed from the Authority's web site at: www.qca.org.au/electricity-retail/DirUnderElecAct/AdviceEE-VLC.php.

Table 1.1: Indicative Timetable

<i>Task</i>	<i>Indicative Dates</i>
Interim Consultation Paper released	21 September 2012
Consultation Paper on Transitional Issues released	2 November 2012
Workshops for consumers on Transitional Issues (Ayr, Bundaberg, Cairns, Emerald, Gatton, Mackay, Mareeba, Townsville)	Last two weeks of November 2012
Consultation Paper on Energy & Retail Costs released	December 2012
Workshop in Brisbane on Transitional Issues and Energy & Retail Costs	December 2012
Submissions following workshops due	7 January 2013
Release of Draft Determination	15 February 2013
Regional and Brisbane workshops on Draft Determination	Late February 2013
Submissions on Draft Determination due	15 March 2013
Release of Final Determination	31 May 2013

2. TRANSITIONAL ARRANGEMENTS FOR TARIFF 11

For the standard residential tariff (Tariff 11), the Delegation requires the Authority to consider implementing transitional arrangements when rebalancing the fixed and variable price components to cost-reflective levels by 1 July 2015.

For 2012-13, the Government decided to freeze the Tariff 11 charges at 2011-12 levels (with an addition to the variable charge to account for the impact of the carbon tax), rather than setting charges at the cost-reflective levels established by the Authority.

This chapter discusses possible options for transitioning customers to the cost-reflective Tariff 11 charges.

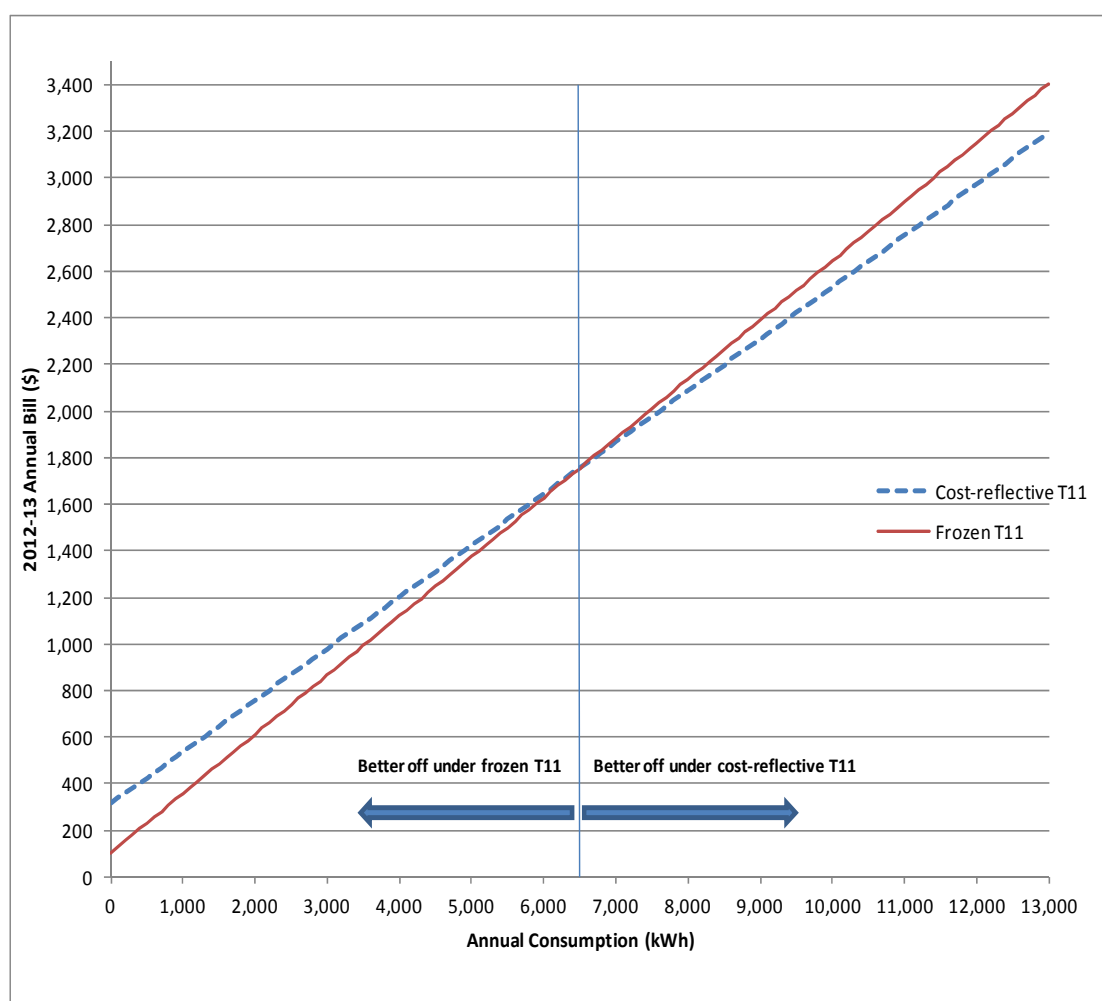
2.1 Current Tariff 11 charges relative to cost-reflective charges

The fixed charge under Tariff 11 is currently 26.17c/day, which is significantly lower than the cost reflective level of 78.578c/day. In contrast, the variable charge under Tariff 11 is currently 23.071c/kWh, which is higher than the cost reflective level of 20.134c/kWh⁵.

The mismatch between the current (frozen) charges in Tariff 11 and the cost-reflective levels means that customers who consume less than around 6,500 kWh per year are better off on the existing Tariff 11 than they would be on a cost-reflective Tariff 11, because the amount they save on the fixed charge outweighs the cost of the higher variable charge at their level of consumption. The extent of this saving increases the lower the customer's level of consumption (see Figure 2.1).

In contrast, customers who consume more than around 6,500 kWh per year are worse off on the existing Tariff 11 than they would be on a cost-reflective Tariff 11 because the amount they save on the fixed charge is outweighed by the higher cost of the variable charge at their level of consumption. The extent of this detriment increases the higher the customer's level of consumption.

⁵ 2012-13 Tariff 11 charges in the *Queensland Government Gazette*, Vol. 360, No. 43, 29 June 2012, available at: <http://www.bookshop.qld.gov.au/documents/06.07.12Combined.pdf>; cost-reflective Tariff 11 charges as per the Authority's advice to the Minister for Energy and Water Supply, 5 June 2012, available at <http://www.qca.org.au/files/ER-QCA-NEP1213-AdviseTariff11-0612.PDF>.

Figure 2.1: 2012-13 Annual Electricity Bills - Cost-reflective and Frozen T11

Note: A typical customer on Tariff 11 consumes around 5,370 kWh/annum.

To implement its freeze on Tariff 11 charges for 2012-13, the Government directed Energex to lower its fixed network charge to retailers for residential customers on Tariff 11 in order to compensate retailers for the Government's decision to freeze Tariff 11 at last year's rates. In this way, Energex is currently subsidising the cost of the frozen Tariff 11. The Authority understands that the Government freeze on Tariff 11 will only apply for one year (2012-13).

2.2 Options for transitioning to cost reflective charges

Given the cross-subsidies inherent in the current Tariff 11 charges and the potential this has to distort the retail market for electricity in Queensland, while denying the benefits to some customers of moving to more cost-reflective prices, a move to cost-reflective tariffs in one step in 2013-14 would seem the most appropriate approach, with any perceived adjustment or social welfare implications best dealt with separately. However, the requirement in the Delegation for transitioning to be completed by 1 July 2015 seems to suggest a stepped approach is considered more desirable, with at least some rebalancing achieved in each intervening year.

Given that the current fixed charge is below cost, while the current variable charge is above cost, any transitional arrangement must involve a gradual increase to the fixed cost component as well as a gradual reduction in the variable cost component in order to ensure revenue adequacy for retailers.

Any staged approach to rebalancing the fixed and variable charges necessarily implies that customers with higher annual consumption will continue to cover the shortfall in revenue retailers incur from supplying customers with lower annual consumption. This cross subsidy will continue until the charges in Tariff 11 are fully rebalanced to cost-reflective levels.

To achieve cost-reflectivity over a three-year period, one option would be to transition in three equal steps (that is, equal changes in each of 2013-14, 2014-15 and 2015-16). An alternative might be to make a smaller initial adjustment followed by larger adjustments in each subsequent year, in order to allow those customers who will become worse off as a result of the rebalancing to consider whatever options might be available to them to reduce the impact of potentially higher electricity bills. Some may argue that customers with lower levels of consumption are more likely to be financially vulnerable and therefore a slower initial pace of change should be preferred. There may be other options and supporting reasoning to suggest that different approaches should be preferred.

The Authority seeks stakeholders' views on the following:

- (a) Should there be a transition to cost reflective charges for Tariff 11 or should Tariff 11 prices be made cost reflective from 2013-14?**
- (b) If some form of transitioning is preferred, how might this best be achieved and why should this particular approach be adopted?**
- (c) What other issues should the Authority consider regarding the transition to cost reflective charges for Tariff 11?**

3. TRANSITIONAL ARRANGEMENTS FOR OBSOLETE TARIFFS

The Delegation requires that the Authority consider implementing appropriate transitional arrangements for the existing group of obsolete tariffs, should it consider customers would face significant price impacts if they were required to move to the alternative cost-reflective tariffs immediately.

3.1 Background on existing obsolete tariffs

In determining regulated retail prices and tariffs to apply in 2012-13, the Authority was required to consider whether transitional arrangements should be implemented for customers on obsolete, declining block, farming and irrigation tariffs, which were not cost-reflective. The Authority decided that the 2011-12 retail tariffs shown in Table 3.1 should be retained for 2012-13 but made obsolete (unavailable to new customers) from 1 July 2012.

Table 3.1: 2011-12 Regulated Retail Tariffs Retained for 2012-13

<i>2011-12 retail tariff retained for 2012-13</i>	<i>Level of transitional price increase 2012-13</i>
Obsolete and declining block tariffs – small and Ergon Energy large customers	
Tariffs 21, 37, 63 and 64	20%
Tariff 62	10%
Farming and irrigation tariffs – small and Ergon Energy large customers	
Tariffs 65 and 66	10%
Large customers in Ergon Energy's network area	
Tariff 20(large)	10%
Tariff 22(large), 41(large), 43 and 53	20%

Source: Queensland Competition Authority, Regulated Retail Electricity Prices 2012-13, Final Determination, May 2012.

Because the cost of setting a tariff below cost (or retaining a tariff that was priced below cost) would have to be borne by retailers, the Government and/or other customers, the Authority was reluctant to implement transitional arrangements. However, there were some practical constraints identified by the distributors, primarily related to metering and systems changes that would need to be resolved before many customers could be moved to the new tariffs. Furthermore, an assessment by Ergon Energy of the impacts some customers could expect in moving to the new tariffs indicated that there could be significant price increases for some customers and price decreases for others, depending on their consumption characteristics.

In recognition of these issues, the Authority opted to retain the obsolete tariffs identified in Table 3.1 but escalate the associated charges as a transitional step towards the prices that would apply under the new tariffs. As shown in Table 3.1, the amount of the price increase was set at either 10% or 20% depending on the size of the gap between the existing prices under the retained tariffs and the prices that would apply under the new tariffs. In all cases, the size of the transitional increase was substantially less than would otherwise have been required for many customers on those affected tariffs.

3.2 Options for transitioning to cost-reflective tariffs

At the time of making its 2012-13 Pricing Determination, the Authority envisaged that the transitional provisions outlined above for the obsolete tariffs would cease from 1 July 2013. However, the Authority noted that it would review the state of play as part of its 2013-14 Determination.

In order to determine whether customers will face significant price impacts, the Authority will again need to rely on Ergon Energy for customer impact assessments. Customers that consider they will be significantly impacted by moving to cost-reflective tariffs could also demonstrate a sound financial case for requiring some further transitional arrangements and suggest an appropriate transitional path.

The Authority anticipates that most of the practical constraints previously identified by the distributors will have been addressed by the start of 2013-14. However, if that is not the case, the distributors will no doubt advise the Authority of any remaining constraints and this may influence the options available to the Authority.

If the Authority finds that price impacts are not significant and there are no remaining practical constraints, there would be a strong case for removing the obsolete tariffs and moving customers onto the relevant cost-reflective tariffs from 1 July 2013. However, the Authority will also consider whether there may be other reasons why the obsolete tariffs might need to be retained or other transitional arrangements put in place. For example, in its 2012-13 Determination, the Authority noted that an issue for commercial or farming customers adjusting their operations to the reality of the new tariff structures may be more about the time needed to make appropriate changes than about their welfare needs.

The Authority also notes that the extent to which such changes are required may diminish depending upon how the distributors adjust their network tariffs for 2013-14, for example, in order to provide stronger time of use signals to customers. Unfortunately, any changes to the distributors' proposed network charges for 2013-14 are not yet available.

As noted previously, the Delegation requires that the Authority consider completing the transitional path for Tariff 11 by 1 July 2015. However, no timeframe has been suggested for transitioning the obsolete tariffs. One option would be to adopt the same timeframe proposed for Tariff 11, although there may be reason for a shorter or longer timeframe for some tariffs.

If considered necessary, a number of approaches could be adopted to transition currently subsidised prices to more cost-reflective levels. For 2012-13, the Authority opted to make some progress toward more cost reflective prices by escalating the existing charges by either 10% or 20%. Consistent with this approach, one option for 2013-14 may be to cap the escalation of charges to an amount considered to be the upper limit that customers should have to endure in any given year. This would allow customers time to modify their electricity consumption or otherwise prepare for higher costs as they are steadily moved towards cost reflective prices. It also means that customers that would be better off on the new tariffs, but who can't move due to a lack of metering or other distribution-related constraints, aren't exposed to excessive price increases while held on their obsolete tariff.

However, this approach would require a potentially much bigger jump in costs in the transition to fully cost reflective prices at the end of the transitional period and also leaves retailers, the Government and/or other customers providing a larger subsidy for the below-cost tariffs than if the pace of transitioning were more rapid.

An alternative approach to address these problems might involve annual price increases of equal size that would be required to get to full cost by the last year of the transitional period. However, as the extent to which the current charges leave individual customers below cost varies with each customer according to their consumption characteristics, implementing such an approach could be problematic. Either the annual increments would have to be based on some average level of gap to be closed, meaning that the financial impact would vary according to individual customer consumption characteristics, or a personal price path would have to be developed for each individual customer, which would clearly not be feasible.

A further option might be to move customers on obsolete tariffs to the new cost-reflective tariffs and discount the charges for all customers on those new tariffs by progressively smaller amounts each year. This would immediately reduce the complexity of the tariff schedule (by deleting the current obsolete tariffs) but would expand the number of customers on subsidised rates as those currently on the new tariffs (and currently meeting their costs of consumption) would gain access to the lower transitional prices. An alternative might be to re-structure the obsolete tariffs so that they mirror the structure of the cost-reflective tariffs and then to discount the charges.

The Authority seeks stakeholders' views on the following:

- (a) **How should the Authority determine whether transitional arrangements are necessary for each obsolete tariff? What would be considered a "significant" price impact?**
- (b) **Are there any non-financial reasons why obsolete tariffs should be retained or other transitional arrangements put in place?**
- (c) **If transitional arrangements are necessary:**
 - (i) **Should the obsolete tariffs be retained and escalated or should other transitional arrangements be put in place?**
 - (ii) **What would be a reasonable level of annual price increase and over what time period should transitioning occur?**
- (d) **Any other suggestions on how customers might be transitioned from below cost prices to prices that more closely reflect the cost of consumption?**

The Authority seeks the following information from Ergon Energy and Energex:

- (a) **Are there any remaining practical constraints that would prevent customers on obsolete tariffs from moving to cost reflective tariffs in 2013-14?**
- (b) **If so, what period of time is needed to address these constraints?**

4. ALLOWING NEW LARGE CUSTOMERS TO ACCESS OBSOLETE TARIFFS

In its 2012-13 Price Determination, the Authority introduced new regulated retail tariffs for large customers in Ergon Energy's network area consuming between 100 MWh and 4 GWh per year (Tariffs 44, 45, 46 and 47) and those consuming more than 4 GWh per year (Tariff 48). These new tariffs were intended to better reflect the costs of supplying these large customers.

The current Delegation requires the Authority to consider whether those large customers that have been placed on these new tariffs should be able to access the transitional arrangements (if any) available to similar customers that have been allowed to remain on obsolete tariffs (as shown in Table 3.1).

For 2012-13, large customers that were supplied under one or more of the obsolete tariffs (as at 30 June 2012) could continue to access those tariffs but, from 1 July 2012, no new customers could access the obsolete tariffs and no existing customer that had moved to a new tariff could revert to the obsolete tariffs. No decision was made about whether the obsolete tariffs would be retained beyond 30 June 2013.

While allowing new large customers to access the obsolete tariffs may mean that some of these large customers would face lower costs, this would re-open the door for customers to be placed on inappropriate tariffs that do not reflect their actual supply requirements and create a larger group of customers who would eventually need to be transitioned to more appropriate, cost-reflective tariffs.

The Authority seeks stakeholders' views on whether large customers on Tariffs 44, 45, 46, 47 and 48 should be able to access any transitional arrangements that are put in place for large customers on obsolete tariffs.

APPENDIX A: MINISTERIAL DELEGATION AND COVERING LETTER**Office of the Minister for Energy and Water Supply**

Ref: EWS/001799
MBN6648

4 September 2012

Level 13 Mineral House
41 George Street Brisbane 4000
PO Box 15456 City East
Queensland 4002 Australia
Telephone +61 7 3896 3691
Facsimile +61 7 3012 9115

Mr Brian Parmenter
Chairman
Queensland Competition Authority
GPO Box 2257
Brisbane Qld 4001

Dear Mr Parmenter

I attach a Delegation and Terms of Reference (ToR) to the Queensland Competition Authority (QCA) to determine regulated retail electricity prices for the next three years (with annual determinations published each year), as authorised under Section 90AA(1) of the *Electricity Act 1994* (the Act).

The Queensland Government has taken action to address cost of living pressures. In relation to regulated retail electricity prices in 2012-13, the Government froze the standard residential tariff (Tariff 11) (plus the cost of carbon) as a short-term cost of living relief measure.

The Delegation and ToR contains a number of important measures designed to assist Queenslanders in dealing with changes to electricity prices. More information on these measures is provided below.

1. Three year Delegation and ToR

This is the first Delegation on regulated retail electricity prices from this Government, and in order to provide a degree of certainty to consumers and industry, a move from an annual price determination to a three year delegation period will apply. For consumers, the Government is committed to an approach that will assist in managing short-term price shocks, and for industry an approach that may assist in the longer term investment in the sector.

The Government is seeking from the QCA a strong consultation process with a clear focus on key issues, with regard to the objectives of the Act as set out in this Delegation and ToR.

/2

-2-

2. Consideration of customer impacts and 'transitional arrangements'

The Government is committed to tariff reform and addressing the cost drivers of electricity prices. However, this reform needs to be carefully managed and it is important that the QCA take into account the impacts of price increases on struggling Queensland households and businesses. To assist with this, the QCA is directed to consider transitional pricing arrangements over a number of years for a range of customers accessing the following tariffs:

- Tariff 11 (the standard residential tariff);
- Transitional and obsolete tariffs, including farming and irrigation tariffs; and
- Large business tariffs in Ergon Energy's distribution area.

Whilst the Government's freeze to Tariff 11 in 2012-13 provided households with immediate relief from cost of living increases, this was a short-term measure only. However, the Government expects the QCA to ensure that Queensland households experience a smooth transition from the freeze and to fully utilise the three-year delegation period to order to achieve this.

The other tariffs noted above have been chosen for transitional measures based on the unacceptable impacts for some customers accessing these tariffs, as identified by the QCA in their Draft and Final Determinations for 2012-13. Transitional arrangements over the three-year delegation period should be designed to assist in mitigating these potential impacts.

3. Extensive Consultation with Stakeholders and the Community

The QCA is required to undertake a rigorous consultation process with all relevant parties and consider all submissions received. The QCA is not limited by the consultation schedule outlined in the Delegation and ToR and, should undertake additional consultation on key issues, and as appropriate, publish the results of this consultation.

An important aspect of the consultation process will be the publication of a consultation timetable within two weeks after submissions on the interim consultation paper are due, detailing any proposed additional public papers (other than those required by the Delegation and ToR). It is critical that all stakeholders, including retailers, customers and consumer advocacy groups understand the intent and timing of this crucial process.

Furthermore, given the three-year period of this delegation (compared to one-year delegations issued in the past) it is important that continuity in decision making is maintained in regard to key cost components. Therefore, the QCA must conduct a public workshop prior to the release of the 2013-14 Draft Determination on how the energy and retail cost components of regulated retail tariffs should be determined.

/3

-3-

4. Public Communication of QCA Decisions/Determinations

Every Queenslanders is impacted by electricity price increases, so there will be significant public interest in the QCA's determination of regulated tariffs. Because of this, the Queensland Government expects the QCA to fully explain its decisions and encourages the QCA to, at a minimum, publish and communicate the outcomes of its reports in a clear and concise fashion using consumer oriented fact sheets and media releases. Access to this additional material should be easily accessible on the QCA website and be obvious to any new visitor to the QCA site.

5. Other matters in the Delegation and ToR

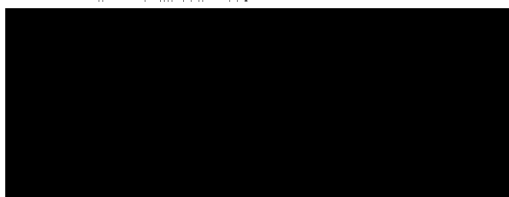
Time-of-Use Tariffs

Queensland customers should be rewarded for shifting their consumption of electricity from peak periods to off-peak periods, which has material benefits for network and generation infrastructure. The QCA should determine whether its approach to determining the rates for time-of-use tariffs can strengthen or enhance the underlying network price signals and encourage customers to switch to time-of-use tariffs and reduce their energy consumption during peak times.

Finally, I would like to point out the Queensland Government has established longer-term reform processes to address unsustainable electricity price increases. This includes establishing an Inter-departmental Committee (IDC) on Electricity Sector Reform. In recognising the key role that the cost of poles and wires (transmission and distribution networks) has on electricity prices, an Independent Review Panel (IRP) is examining the cost of these networks. These reform processes are currently underway and scheduled to report back to Government in late January 2013.

I look forward to following the QCA process for determining regulated retail electricity prices and will be encouraging stakeholders to actively participate in the consultation process, and to assist the QCA at every turn in understanding the potential impacts arising from the determination of regulated retail electricity prices.

Yours sincerely



Mark McArdle MP
Minister for Energy and Water Supply

Att

DELEGATION TO QCA

ELECTRICITY ACT 1994**Section 90AA(1)****DELEGATION**

I, Mark McArdle, the Minister for Energy and Water Supply, in accordance with the power of delegation in section 90AA(1) of the *Electricity Act 1994* (the Act), delegate to the Queensland Competition Authority (QCA) the function under section 90(1) of the Act of deciding the prices that a retail entity may charge its non-market customers for customer retail services for the tariff years from 1 July 2013 to 30 June 2016.

The following are the Terms of Reference of the price determination:

Terms of Reference

1. These Terms of Reference apply for each of the tariff years in the delegation period.
2. In each tariff year of the delegation period, QCA is to calculate the notified prices and publish an annual price determination, in the form of a tariff schedule, in accordance with these Terms of Reference.
3. In accordance with section 90(5)(a) of the Act, in making a price determination for each tariff year QCA must have regard to all of the following:
 - (a) the actual costs of making, producing or supplying the goods or services;
 - (b) the effect of the price determination on competition in the Queensland retail electricity market; and
 - (c) the matters set out in paragraph 5 of these Terms of Reference.
4. In accordance with section 90(5)(b) of the Act, QCA may have regard to any other matter that QCA considers relevant.
5. The matters that QCA is required by this delegation to consider are:
 - (a) Uniform Tariff Policy - QCA must consider the Government's Uniform Tariff Policy, which provides that, wherever possible, non-market customers of the same class should have access to uniform retail tariffs and pay the same notified price for their electricity supply, regardless of their geographic location;
 - (b) Time of Use Pricing - QCA must consider whether its approach to calculating time-of-use tariffs can strengthen or enhance the underlying network price

DELEGATION TO QCA

signals and encourage customers to switch to time-of-use tariffs and reduce their energy consumption during peak times;

- (c) Framework - QCA 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 QCA;
- (d) When determining the N components for each regulated retail tariff for each tariff year, QCA must consider the following:
 - (i) for residential and small business customers, that is, those who consume less than 100 megawatt hours (MWh) per annum - basing the network cost component on the network charges to be levied by Energex;
 - (ii) for large business customers in the Ergon Energy distribution region who consume 100MWh or more per annum - basing the network cost component on the network charges to be levied by Ergon Energy given that, from 1 July 2012, large business customers in the Energex distribution region no longer have access to notified prices;
- (e) Transitional Arrangements - QCA must consider:
 - (i) for the standard regulated residential tariff (Tariff 11), implementing a three-year transitional arrangement to rebalance the fixed and variable components of Tariff 11, so that each component (fixed and variable) of Tariff 11 is cost-reflective by 1 July 2015;
 - (ii) for the existing obsolete tariffs (i.e. farming, irrigation, declining block, non-domestic heating and large business customer tariffs), implementing an appropriate transitional arrangement should QCA consider there would be significant price impacts for customers on these tariffs if required to move to the alternative cost-reflective tariffs; and
 - (iii) for the large business customer tariffs introduced in 2012-13 (i.e. Tariffs 44, 45, 46, 47 and 48), whether customers on these tariffs should be able to access the transitional arrangements for the obsolete large business customer tariffs should QCA consider that a transitional arrangement for the obsolete tariffs is necessary.

Interim Consultation Paper

6. As part of each annual price determination, QCA must publish an interim consultation paper identifying key issues to be considered when calculating the N
-

DELEGATION TO QCA

and R components of each regulated retail electricity tariff and transitioning relevant retail tariffs over the three-year delegation period.

7. QCA must publish a written notice inviting submissions about the interim consultation paper. The notice must state a period during which anyone can make written submissions to QCA about issues relevant to the price determination.
8. QCA must consider any submissions received within the consultation period and make them available to the public, subject to normal confidentiality considerations.

Consultation Timetable

9. As part of each annual price determination, QCA must publish an annual consultation timetable within two weeks after submissions on the interim consultation paper are due, which can be revised at the discretion of QCA, detailing any proposed additional public papers and workshops that QCA considers would assist the consultation process.

Workshops and additional consultation

10. As part of the Interim Consultation Paper and in consideration of submissions in response to the Interim Consultation Paper the QCA must consider the merits of additional public consultation (workshops and papers) on identified key issues.
11. Specifically, given the three-year period of the delegation the QCA must conduct a public workshop on the energy and retail cost components used to determine regulated retail tariffs prior to the release of the 2013-14 Draft Determination.

Draft Price Determination

10. As part of each annual price determination, QCA must investigate and publish an annual report of its draft price determination on regulated retail electricity tariffs, with each tariff to be presented as a bundled price, for the relevant tariff year. The draft price determination must also specify the carbon cost allowances for the relevant tariff year.
11. QCA must publish a written notice inviting submissions about the draft price determination. The notice must state a period during which anyone can make written submissions to QCA about issues relevant to the draft price determination.
12. QCA must consider any submissions received within the consultation period and make them available to the public, subject to normal confidentiality considerations.

DELEGATION TO QCA

Final Price Determination

13. As part of each annual price determination, QCA must investigate and publish an annual report of its final price determination on regulated retail electricity tariffs, with each tariff to be presented as a bundled price, for the relevant tariff year, and gazette the bundled retail tariffs. The final price determination must also specify the carbon cost allowances for the relevant tariff year.

Timing

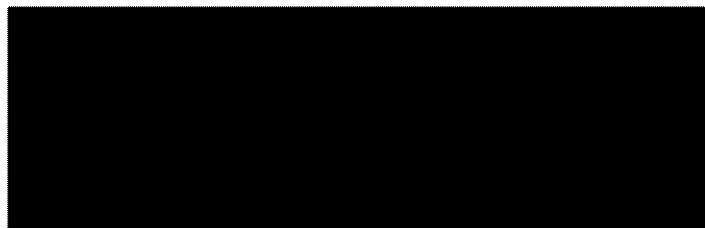
14. QCA must make its reports available to the public and, at a minimum, publicly release for each tariff year the papers and price determinations listed in paragraphs 6 to 13.
15. QCA must publish the interim consultation paper for the 2013-14 tariff year no later than one month after the date of this Delegation and no later than 30 August before the commencement of the subsequent tariff years.
16. QCA must publish the draft price determination on regulated retail electricity tariffs no later than 15 February 2013 for the 2013-14 tariff year and no later than 13 December before the commencement of the subsequent tariff years.
17. QCA must publish the final price determination on regulated retail electricity tariffs for each relevant tariff year, and have the bundled retail tariffs gazetted, no later than 31 May each year.

DATED this

5th

day of September 2012.

SIGNED by the Honourable
Mark McArdle,
Minister for Energy and Water Supply



(signature)