Submission

6 April 2023

Queensland Competition Authority
Level 27, 145 Ann Street
Brisbane
QLD 4000

Submitted via [Website]

To Whom It May Concern

Re: Draft Determination: Regulated Retail Prices in Regional Queensland 2023-24 (March 2023)

The Waste and Recycling Industry of Queensland (WRIQ) is the unified voice of waste management and resource recovery in the State. Representing more than 90 Queensland-based organisations ranging from multi-nationals through to small family owned and operated businesses, WRIQ engages in a broad range of state-specific issues of strategic importance to the sustainability and development of the waste management and resource recovery sector.

WRIQ represents all aspects of the sector including major landfills, transfer stations, resource recovery facilities, firming power facilities and collection services. WRIQ's mission is to elevate the waste management and recycling industries through services, education and advocacy for members to achieve successful economic, social and environmental outcomes.

We welcome the opportunity to provide the following feedback on the Draft Determination for Regulated Retail prices in Regional Queensland 2023-24 (March 2023). WRIQ provides this feedback without prejudice to any submission from our members or other individual waste management and material recovery operators.

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The Consultation
On 15 December 2022, the Queensland Competition Authority (QCA) received two delegations from the Minister for Energy, Renewables and Hydrogen (the Minister) to set regulated electricity prices (notified prices) and two new retail tariffs to apply in regional Queensland in 2023-24.

The draft determination contains draft notified prices, presented as bundled prices appropriate to the retail tariff structure (except for site-specific tariffs). In making this draft determination, the QCA must have regard to relevant factors in the Electricity Act, matters in the delegations, stakeholder submissions on the interim consultation paper and the QCA's own analysis.

Subsequently, the QCA published the draft determination on 15 March 2023 and seeking review of the proposals and submissions (up to 14 April).

Background
Queensland's waste management, recycling and materials recovery sector is a utility, providing essential health and environmental services for the sustainable and safe management of wastes. The waste management sector is essential to the security and business continuity of all other sectors in the State.

Annually, the Queensland sector collectively turns over $2.2 billion and manages $1.5 billion of assets, employing over 8,500 direct employees and supporting a further 7,350 indirect jobs.

Small businesses are the predominant type of business actively trading in Queensland (97.4%), and as of June 2021, there were 448,822 small businesses actively trading in Queensland[1]. While the waste management, recycling and materials recovery sector has seen significant consolidation over the past decade of larger companies, SMEs still make up the majority of business types across the sector (of the 850 businesses operating in this sector, 832 are defined as small businesses). However, due to their primary activities, their electricity use may be defined in Queensland, as a large customer (over 100MWh threshold).

The sector, (as a critical utility essential for meeting carbon, environmental and circular economy objectives), continues to prosper with industry revenue forecast to grow at an annualised 4% over the five years through 2027-28. However, increasing input costs (including energy) are negatively impacting productivity and investment across the sector.

WRIQ outlines the following concerns with the draft determination and notes current circumstances impacting regional members.

[1] Small business in Queensland, June 2021 (qgso.qld.gov.au)

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Energy Debt

There is an increase in both residential and small business customers with large energy debt. Many small businesses are becoming increasingly vulnerable with rising costs, workforce shortages and disruptions to supply chains[2]. The hardship programs for small businesses seem to be inconsistent (or non-existent) across Australia and they are not well articulated by Ergon Retail.

The Australian Energy Regulator (AER) outlined financial assistance measures (including expectations) for small businesses (and households) struggling to pay their energy bills during the COVID-19 pandemic, but these provisions have been 'rolled back' by some retailers including Ergon Retail, thus reducing protections for electricity customers.

The Queensland Government is holding a significant amount of 'electricity debt' with no plan on how to recover these costs (of if they should write the debt off). Most small businesses could simply not afford to repay the historic debt and there needs to be guidance to the Minister on how this debt is effectively and equitably written-off for many regional customers.

The interaction of network tariffs and retail prices is emerging in several processes and is likely to take on greater importance with progress on more cost reflective network tariffs and the rollout of advanced metering. Data from the AER indicates that power bill stress is affecting Ergon Retail residential and business customers and is amongst the worst in the National Electricity Market[2].

However, despite rising cost of living and rising cost of business pressures, the Draft Determination shows that revised prices will increase Ergon Retail bills by between 4.2% to 13.6% from 1 July 2023, without providing strong evidence of the consideration of the impact on the economy and jobs of regional Queensland (or levels of vulnerability for households and small businesses).

Despite the information contained in Box 1, page 11 of the Draft Determination, WRIQ does not believe that adequate payment measures and protections are being offered to support electricity customers in regional Queensland, small business users in particular. From AER data[2], in Quarter 2 2021-22 Ergon Retail credit defaulted 4,200 customers. Ergon with a 30% share of the residential market in Queensland was responsible for 91% of the customers credit defaulted in Queensland. Correspondingly, Ergon with a 9% share of the National Market (excluding Victoria) was responsible for 59% of the customers credit defaulted in the National Market (excluding Victoria).

The latest AER data shows that Ergon Retail continues to credit default more customers (residential and small businesses) than any other retailer in Australia[3].

[2] See Performance reporting | Retail markets | AER
[3] See Schedule 3, Q2 – 2022-2023 Retail Performance Data.

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This situation will get worse as more households and business start to experience increasing levels of energy debt (amongst other debt). Business and households in regional Queensland are experiencing the worst affordability and bill stress in the country.

WRIQ asks the QCA to provide guidance to the Minister if there needs to be consideration of further guidance to Ergon Retail regarding credit defaults and a furtherance of the moratoriums on disconnections. As prices remain elevated and continue to rise in the medium term, the QCA and Queensland Government should be particularly focussed on ensuring Ergon Retail are undertaking all necessary measures (and all required measures) to prevent financial difficulty and debt accumulation as well as unnecessary arrears.

Being credit defaulted by an energy retailer affects more than a customer's ability to find another electricity retailer. It could affect a family's ability to secure a rental house or the ability of a business to secure a working capital loan.

It also appears that only a relatively minor number of customers who reach out to Ergon Retail are able access hardship programs. WRIQ has some concerns relating to compliance with National Energy Customer Framework obligations, and customers being diverted and placed on payment plans rather than hardship supports. Section 50 National Energy Retail Law (NERL) distinguishes between hardship customers and those 'experiencing payment difficulties'. Those who meet the hardship requirement are provided additional supports and information under s44 NERL. Hardship is also narrowly defined and indicators of hardship also require multiple instances of missed payments and would in theory contribute to late(r) application of support rather than facilitating trust and early intervention. This likely contributes to more customers (residential and business) falling into entrenched hardship.

Calculation of SOA based on the DMO

WRIQ notes that Chapter 5 of the Draft Determination sets out the QCA's views on other costs and pricing matters, including adjustments when setting notified prices for 2023-2024, including the standing offer adjustment (SOA). The Ministers delegation called for consideration of the costs and benefits associated with standing offers in South East Queensland (SEQ) as well as the AER's DMO for SEQ, given the Queensland Government's Uniform Tariff Policy (UTP). From this, WRIQ notes that it is QCA's intention (as outlined on pages 34-35), to undertake a 'DMO comparison' as part of the price determination.

WRIQ does note that the AER's 2023–24 draft DMO reference bill for SEQ was published contemporaneously with the QCA's draft determination and, as such, the QCA has not yet undertaken the DMO comparison as part of this draft determination.

WRIQ notes caution for informing the SOA based on the DMO as such an approach may not be adequately providing pricing protections for regional Queensland electricity users, even though

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superficially, the DMO was designed to protect customers from high price increases. WRIQ notes that a reasonable proportion of advertised market offers are currently below the DMO for residential customers, and slightly less for small business customers. Overall, the DMO still assumes that electricity customers 'shop around' which in the monopoly circumstances of regional Queensland is impractical and unreasonable (even with the Non-Reversion Policy for residential and small electricity users up to 100MW being removed).

WRIQ notes, that even for SEQ, there is insufficient clarity on retail competition and affordability on how the (DMO) offers breakdown between electricity retailers, noting that some retailers do not want new customers (and are not accepting new customers), particularly SME's or those with large loads.

Furthermore, customers do not know to ask for the 'standing offer' and most retailers do not advertise the standing offer or refer to it using this terminology. It is WRIQ's experience that such language around the DMO is unrecognisable to customers, (including businesses of all sizes) and WRIQ has further identified gaps between advertised and accessible offers for SEQ electricity customers.

Additionally, the DMO is based on a flat tariff structure which makes its application to some of the tariffs inappropriate and it is becoming less suitable over time. With regards to the DMO, WRIQ believes that the DMO must move forward to a calculation based on the retailer operating costs (as this is the proportion of costs that retailers can control), not as a percentage of all costs as is currently the case. The retail allowance under the DMO needs to be driving efficiency/ productivity improvements for retailers over time. A retail allowance goes to the objective of what the DMO is trying to achieve. Setting separate retail allowances of 10% for residential and 15% for small business DMO prices seems arbitrary – particularly when small businesses are already under significant cost and supply chain pressures before considering electricity cost increases.

The DMO is also based on a consumption number. This approach allows for distortions around reference price/annual usage amount that is not present in tariff-based caps (i.e. separate caps on the individual c/kWh and $/day price components). WRIQ notes that some SEQ retailers are 'loading up' fixed charges as part of recent price rises – a practice which reduces the impact of the DMO (and its accuracy), and reduces the ability of customers to mitigate their costs. It is also not reflective of the cost increases for retailers (which have largely been related to energy costs, not fixed costs).

The current DMO consumption amounts are also based on average consumption data that includes solar households. Solar households distort/lower the overall average, which means the DMO average usage is underestimating typical household usage. This is an issue as it provides retailers with an opportunity to structure their prices so that they look competitive at the assumed DMO usage amount but may not represent good value for customers that consume the 'actual' average household amount (i.e. the average, exclusive of solar households). This could disproportionately impact households experiencing vulnerability or those unable to take advantage of the energy transition.

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WRIQ notes the requests to the AER (and the Department of Climate Change, Energy, Environment and Water who administer the relevant regulation) to review the DMO and its role, given that the scheme is already out of date for many customer types; there has been a significant increase in mandatory demand and time of use tariffs throughout Australia (including assigning mandatory demand tariffs to selected customers in SEQ), an increasingly blurred line between SME's and micro-businesses operating from residential premises and home working (and the growing inequality between these groups).

The fast pace of change with the energy transition and rising costs of infrastructure and wholesale electricity, means that the objectives for the DMO need to be reviewed to determine if it is now achieving what electricity customers and their advocates need it to. The energy sector has also greatly expanded its understanding and mapping of customer vulnerability which needs to be included in any review.

Outstanding Compensation Costs
The methodology applied for calculating compensation costs is not transparent in the Draft Determination.

WRIQ notes that AEMOs costs (for compensation for market events, namely the activation of the Reliability and Emergency Reserve Trader in June and July 2022) are now known and have been included in the Draft Determination. However, that the costs from the AEMC for these events are still outstanding.

WRIQ submits that any additional costs for the outstanding AEMC compensation are not added to electricity costs (either this year nor carried over to next year) and instead, if required, funded through consolidated revenue given their relatively small materiality. It is WRIQ's concern that networks may experience another event similar to that experienced in June 2022 and a longer-term strategy for dealing with these deviations and associated compensation charges must be determined, particularly for customers in regional Queensland whose treatment should be different from SEQ customers.

Solar Soaker Tariff
WRIQ strongly supports the addition of the two new retail tariffs (to be identified as tariffs 12C and 22C in the Draft Determination and draft gazette notice) and their accessibility to all customers (residential and small business; and not just EV and battery storage customers). It is WRIQ's understanding that the intent of the two new retail tariffs is to provide stronger price signals than the existing TOU tariffs, which could encourage customers to use electricity during daytime periods, when network utilisation is typically low.

Such a tariff would support processing and other recovery activities undertaken by the waste management and recycling sector – falling within normalised working hours and assist to support the

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circular economy objectives specified by the Queensland Government. Considering this, WRIQ suggests that the *non-peak (day) usage* is adjusted from 9 am to 4 pm; to 8am to 5pm.

WRIQ further suggests that SAC large customers be provided access to tariff 22c and that a sharper price signal would positively support the uptake of the (22c) tariff.

Other Matters

WRIQ notes that metering costs are included from this year in the retail costs – previously, metering costs were a separate line item (for residential and small business). WRIQ questions the transparency of this change particularly into the future where the costs for large scale smart meter installations will simply be averaged.

Presently, the Community Service Obligation (CSO) is paid to Ergon Retail. WRIQ suggests that the CSO is paid to Ergon Network into the future to facilitate retail competition for regional Queensland. WRIQ acknowledges that this is outside the scope of the current delegation but strongly believe it is another matter the QCA should consider and seek broad customer consultation on.

Section 4.1 of the Draft Determination notes that the N component includes the costs of jurisdictional scheme charges, notably AEMC charges and the Solar Bonus Scheme (SBS). WRIQ does not support the SBS being added to the N component - instead it should be funded from consolidated revenue (as was the case between June 2017 to June 2020). In 2019–20 alone, Energy Queensland paid customers $277 million for the power that they contributed to the energy grid through their rooftop solar[4]. It is simply inequitable that these costs continue to be borne by all customers through the N component.

WRIQ attended the public briefing in Brisbane on the Draft Determination on 3 April. At the meeting a query was raised on the treatment of the Global Settlement Charges applied to the network fee charged by AEMO. The QCA took the question on notice as this charge has not been considered by the QCA in its Draft Determination. WRIQ requests feedback on this matter so that its impact to regional Queensland customers (and WRIQ members) can be determined and communicated.

[4] Queensland Audit Office. Energy 2020, Report 11. (February 2021). Energy 2020 (Report 11: 2020–21) (qao.qld.gov.au)

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Please do not hesitate to contact me at georgina@wriq.com.au if you have any questions regarding this submission.

Yours faithfully

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