

Submission to QCA Interim Consultation Paper on Regulated Retail Electricity Prices 2015-16

About us

The Queensland Council of Social Service (QCOSS) is Queensland's leading force for social change, working to eliminate poverty and disadvantage. With more than 600 members, QCOSS undertakes informed advocacy and supports a strong community service sector in Queensland. QCOSS focuses on providing effective policy advice, working to strengthen responsive community services and having productive partnerships with government, private sector and the community sector. This work is done with a Queensland free of poverty and disadvantage front of mind.

QCOSS receives funding from the Department of Energy and Water Supply to represent low-income and vulnerable consumers in electricity market policy and reform, and to build the capacity of the community sector to assist low-income and vulnerable clients on energy-related matters. In conducting this work, we consult and collaborate with our members and other community sector and consumer organisations across the state.

While many of our members and stakeholders work with people experiencing poverty or disadvantage, QCOSS is aware that all Queensland consumers have experienced significant electricity price increases in recent years. For this reason, much of our feedback relating to the impact of electricity prices on low-income and disadvantaged customers is also relevant for residential consumers more broadly.

Introduction

Thank you for the opportunity to provide a submission to the Interim Consultation Paper on Regulated Retail Electricity Prices for 2015-16. This is an important consultation as, with the removal of electricity price regulation in south east Queensland (SEQ), it represents the first time the Queensland Competition Authority (QCA) will set regulated electricity prices for regional Queensland only. In providing this submission, QCOSS notes that network tariff prices for 2015-16 have not yet been finalised and the outcomes of the QCA's previous consultation on the review of the Uniform Tariff Policy (UTP) has not yet been publicly released. Given this, we have focused this short submission on a few key areas. We look forward to providing more comprehensive input to the QCA following the release of further details in the QCA's Draft Determination in December 2014.

Application of the UTP

QCOSS participated in the QCA's consultation process earlier this year to provide input into the review of the UTP and options for setting regulated electricity prices for regional Queensland¹. The Minister's delegation to the QCA states that the report arising from this consultation can be publicly released and that "*there may be benefit in releasing it concurrently with the QCA's Interim Consultation Paper*". We believe this report would provide useful context for stakeholders in providing input into this process and encourage the QCA to release the report as soon as possible.

¹ <http://www.qca.org.au/Electricity/Regional-consumers/Advice-on-Uniform-Tariff-Policy-and-Regional-Price/In-Progress/Advice-on-Uniform-Tariff-Policy-and-Regional-Price>

We welcome the confirmation in the Minister's Delegation to the QCA that the UTP be maintained, which means that small regional consumers will continue to have access to the same electricity prices as customers in SEQ. QCOSS notes there are a number of ways this could be interpreted and applied. We have concerns about some approaches which may result in unreasonable increases in electricity prices and bill shock for regional Queensland households. We consider that negative impacts on regional customers are likely to be minimised by setting regulated regional electricity prices based on the efficient costs of a SEQ retailer, rather than using the standing offer prices in SEQ as a benchmark. This is because there is a risk, based on experiences in other states where electricity prices have been deregulated, that retailers may set their standing offering prices at higher than efficient levels (which enables more generous 'discounts' to be offered on their market contracts).² We consider that it is an important priority for the QCA to take an approach that will minimise the risk of bill shock for regional customers.

Affordability of electricity in regional Queensland

As specified in the delegation, the QCA can have regard to any matters it considers relevant when setting electricity prices. QCOSS is pleased that the QCA has stated that it will have regard to the impact rising electricity prices are having on households. QCOSS considers that in this instance it is highly relevant for the QCA to also consider the specific characteristics of regional Queensland when setting prices that will apply only to regional customers. Regional Queensland is characterised by higher incidence of poverty and disadvantage than SEQ, including higher rates of unemployment, lower wages and a higher overall cost of living. This is evidenced in the recent Australian Council of Social Service (ACOSS) report showing the balance of state poverty is 15.4 per cent in regional Queensland versus 13.9 per cent in Brisbane.³

QCOSS requests the QCA to specifically consider the range of recent statistics that provide an indication of the adverse impact that rising electricity prices are having on the poverty and disadvantage faced by households in regional Queensland. These include:

- In 2013-14, a record 12,454 households in regional Queensland were disconnected from electricity for not paying a bill. This is an 87 per cent increase on the previous financial year. Despite there being significantly less households in regional Queensland than SEQ, this figure represents 49 per cent of the Queensland total.⁴ Trends in disconnections for non-payment are often used as a proxy to highlight trends in households who are unable to afford their bills.
- A recent national report revealed that regional households across the country are more likely to pay a bill late due to financial difficulties than households in metropolitan areas. The research found that 78 per cent of regional households that paid an electricity bill after the due date did so because they could not afford it (compared to 49 per cent in metropolitan areas).⁵

² St Vincent de Paul Society, 2014. The National Energy Market: Wrong Way Go Back.

http://www.vinnies.org.au/icms_docs/195912_2014_September_-_Wrong_Way_Go_Back.pdf

³ ACOSS, 2014. Poverty in Australia.

http://www.acoss.org.au/images/uploads/ACOSS_Poverty_in_Australia_2014.pdf

⁴ QCA, 2014. Small Customer Disconnections, Hardship and Complaints.

<http://www.qca.org.au/Electricity/Reviews/Market-reports-and-statistics/Small-Customer-Disconnections,-Hardship-and-Compla/Final-Report/Q-report#finalpos>

⁵ Ernst & Young, 2014. Voice of the customer is getting louder: Customer Experience Series - Utilities (Wave 3). [http://www.ey.com/Publication/vwLUAssets/EY-CX-series-Utilities-Wave3/\\$FILE/EY-CX-series-Utilities-Wave3.pdf](http://www.ey.com/Publication/vwLUAssets/EY-CX-series-Utilities-Wave3/$FILE/EY-CX-series-Utilities-Wave3.pdf)

- Queensland's remote Aboriginal and Torres Strait Islander communities, which include some of the most disadvantaged and vulnerable communities in the country, are located in regional Queensland. QCOSS recent undertook research in remote Aboriginal and Torres Strait Islander communities and found that self-disconnection from electricity due to an inability to pay for electricity credit was quite common across the communities surveyed.⁶ There are also examples of grid-connected communities, such as Yarrabah, where electricity is affecting households to the extent that some are accumulating up to \$11,000 debt on their bills.⁷

QCOSS considers that this information is highly relevant to the decision making undertaken by the QCA and should be front of mind to ensure the electricity prices faced by regional households are minimised to the greatest extent possible.

Uncertainty regarding network tariffs

We acknowledge that the QCA has been delegated to complete the rebalancing of the fixed and variable components of Tariff 11 which began in 2013-14. Although this rebalancing is being introduced in a transitional way, we note it is having an impact on some low income and vulnerable consumers, in particular those with low consumption, and is reducing the level of control that consumers have over the size of their bills. As the network tariff structures for 2015-16 have not yet been publicly released by Ergon Energy or Energex, it is difficult to comment on the consumer impact of using Ergon Energy network tariffs structures for 2015-16 electricity prices. However, we note that the QCA has identified that Ergon Energy's tariff structures have previously been more heavily weighted to fixed charges. If this is the case for 2015-16, we would be concerned about the extent to which these further increases in fixed charges would result in bill shock for some regional households. We believe that any changes in tariff structure should be introduced in a transitional way with sufficient time and resources invested in preparing consumers for the changes and how they might best respond.

It is understood that the network businesses will soon commence consumer consultation on their pricing proposals to the Australian Energy Regulator (AER) on their network tariffs for 2015-16. QCOSS understands that there could be some changes to network tariff structures following the release of a rule change by the Australian Energy Market Commission (AEMC) in November 2014.⁸ QCOSS requests the QCA in its Draft Determination to set out the implications for retail electricity prices and the impact on consumers of networks adopting different tariff structures in accordance with this rule change.

As part of the AER Network Determination process for 2015-2020, it is likely that Ergon Energy and Energex's metering services will be reclassified as alternative supply services. This means that metering may not be included in the regulated revenue recovered by Energex and therefore may not be included in the "N" component of retail prices. It would be helpful if the QCA could address this issue in the Draft Determination and provide some indication of the implications of this for retail prices and metering service charges in regional Queensland.

⁶ QCOSS, 2014. Empowering remote communities.

https://www.qcoss.org.au/sites/default/files/20140819_QCOSS%20Report%20on%20Remote%20PPM%20Customers%20Final.pdf

⁷ Indigenous Consumer Assistance Network, 2014. Get Back on Track. <http://ican.org.au/get-back-on-track/>

⁸ AEMC 2014. Rule Change on Distribution Network Pricing Arrangements. <http://www.aemc.gov.au/Rule-Changes/Distribution-Network-Pricing-Arrangements#>

Lack of competition in regional Queensland

QCOSS agrees with the QCA's statement that competition is "extremely limited" in regional Queensland, and we are therefore pleased that the QCA is considering the appropriateness of continuing to include an allowance for costs to promote competition (such as Customer Acquisition and Retention Costs (CARC)) in notified prices for small regional customers. The barriers to competition in the regions are entrenched to an extent that competition cannot develop in regional Queensland under the current arrangements. Therefore, it would be unfair and unreasonable for the QCA to include an allowance for CARC (which is intended to encourage competition by allowing for marketing expenses associated with attracting customers) in the 2015-16 notified prices for small customers in regional Queensland.

We have a similar view in regards to the inclusion of 'headroom' in the regulated electricity prices for regional consumers. The intent of including an allowance for 'headroom' is that this cost will be 'competed away' over time as customers move from notified prices onto more competitively priced market contracts. However, as the QCA acknowledges, the vast majority of residential customers in regional Queensland cannot move onto a market contract as there is no competition. Therefore, not only would the inclusion of an allowance for these costs have no impact on the development of competition in regional areas, but it would result in higher prices with no resulting benefit to consumers. Given the QCA has acknowledged the significant price increases experienced by regional Queensland customers in recent years, we encourage the QCA to consider that the detriment to consumers of higher prices outweighs any perceived benefits of including these costs in the prices for regional consumers in 2015-16. Should these costs be included, however, we recommend the percentage allowed be reduced from the 5 per cent in 2014-15, in light of the unique situation in regional Queensland in terms of both the lack of competition and the higher levels of poverty and disadvantage demonstrated across regional Queensland.

Information and education for regional customers

With the introduction of price deregulation in SEQ from 1 July 2015, there is a lot of attention being focused on the electricity market in SEQ. QCOSS believes it is critical that the interests of regional consumers are being highlighted and considered at a time when large scale change that will significantly affect regional households is imminent. As such, QCOSS welcomes the QCA's commitment to consult widely with customers and hold workshops in regional towns across the state as part of this consultation process. While electricity pricing can be complex, QCOSS believes it is important to provide consumers and their representatives with the opportunity to provide input into the QCA's decision making, and that regional customers are able to have a voice in this process. We encourage the QCA to take a strategic approach to this consultation, and work with stakeholders to incrementally improve the quality and depth of consultation that is possible over time.

We also consider that there is an opportunity for the QCA to make it easier for consumers to participate by clearly communicating the impacts of complex decisions on consumers. This could include identifying the outcomes that different household demographics will experience as a result of decisions around prices and tariff structures, including low income households, and making recommendations for possible changes to government policy and customer assistance measures that could alleviate their impact of electricity prices on those identified as most impacted.