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18 November 2015

Mr Kim Wood
Commissioner
Queensland Productivity Commission
PO Box 12112
George Street
BRISBANE QLD 4003

Dear Mr Wood

ELECTRICITY PRICING IN QUEENSLAND – ISSUES PAPER

Ergon Energy Queensland Pty Ltd (EEQ) welcomes the opportunity to provide comment on the Queensland Productivity Commission's (QPC) Interim Issues Paper on Electricity Pricing in Queensland (Issues Paper).

Ergon Energy understands and acknowledges key Government commitments for the energy sector and customers, and our role in assisting in the delivery of them.

This submission is provided by EEQ, as a Queensland Government Owned Corporation and the largest electricity retailer in regional Queensland.

EEQ has provided an attachment outlining EEQ's general comments and response to individual questions posed by the QPC's Interim Issues Paper on Electricity Pricing in Queensland.

EEQ endorses this submission including the attachment to be made public.

If you have any additional questions on this submission, please do not hesitate to contact Mark Williamson, Ergon Energy Retail General Manager Wholesale Markets, on 07 3851 6388.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ian McLeod'.

Ian McLeod
CHIEF EXECUTIVE

enc *Attachment: Ergon Energy Queensland submission*

ERGON ENERGY QUEENSLAND (EEQ) RESPONSE TO QPC ISSUES PAPER QUESTIONS

Introduction

Grid supplied electricity in Queensland dates back more than 100 years and, like the sector nationally, is complex and highly sophisticated. Consumers for the most part take for granted their electricity supply which they use to support their lifestyles – to provide lighting, heating and cooling, cooking, and power for computers, phones and other devices.

Queensland's demands for electricity are anticipated to continue to increase significantly for the foreseeable future.

Electricity powers industry, hospitals and schools and provides important skills and valuable careers for thousands of Queenslanders in the sector.

The importance of energy is often most recognised in the efforts that utilities like Ergon Energy go to in restoring power after storms, cyclones and accidents when dedicated crews work day and night in almost all weather conditions and call centre staff respond to customer calls.

Over the past decade there has been growing public debate across Australia about electricity prices, regulatory frameworks, consumer protections, concessions and ownership structures. As with all sectors, Queensland's electricity industry is required to innovate, evolve and change to meet evolving technological innovation and customer demands.

Support for Queenslanders lifestyles and Queensland-based businesses

Although much of the focus over the past 10 years in Queensland has been on the price of electricity, little recognition is given to the significant improvements in reliability that Queenslanders have experienced in that time. Queenslanders have a robust, stable electricity system that provides the confidence for our businesses to invest, grow and expand, secure in the knowledge that they will have reliable supply.

In the future, it is likely that the grid will be an enabler of distributed energy technologies - a "smart grid" - that does more than simply transport energy from a small number of large generators to end users. This will allow investors in distributed energy resources to realise more than just a reduction in their electricity price but also improved reliability and productivity of the entire electricity supply chain.

Ergon Energy Queensland is the largest retailer to regional Queensland

EEQ supplies electricity to more than 720,000 customers across a vast operating area of more than one million square kilometers (around 97 per cent of the state of Queensland).

EEQ is the fifth largest energy retailer by customer numbers in the National Energy Market (NEM) behind private sector retailers, AGL, Origin, Energy Australia and the Government-owned Snowy Hydro (retail: Red Energy and Lumo Energy).

EEQ is predominantly a regionally based company which includes a team of about 350 people located at the Townsville Customer Solutions Centre and Head Office, Maryborough Billing office, Rockhampton Customer Solutions Centre and Brisbane office.

Ergon Energy Queensland (EEQ) supports regional Queenslanders as their electricity retailer and provides a range of customer services including local call centres to respond to customer enquiries. EEQ provides considerable resources to support vulnerable customers who are having difficulty paying their bills.

Ergon Energy Queensland's position on potential competition, regulation and structural reforms

In regulating the market, EEQ supports the application of the following principles:

1. Queensland consumers are EEQ's first priority.
2. Consideration of further competition in retailing electricity into regional Queensland and the impacts on regional Queenslanders, but only following appropriate consideration of the changes required to the CSO (and the resultant impacts on regional Queensland customers and the economy, and the costs to Government)
3. Where possible, a consistent national approach to regulation.
4. The opportunity to consider the deregulation of electricity pricing across Queensland and the impacts on regional Queenslanders.
5. Consideration of industry reform given that substantial change is occurring within the industry.
6. An efficient and effective energy supply chain, which benefits both the consumer and the economy.

Each of these is expanded on in the following section.

Queensland consumers are EEQ's first priority

EEQ's customers are *at the centre of everything we do*. Customer experience is EEQ's first priority. In this respect, EEQ continues ongoing engagement with its customers to understand their needs when it comes to their electricity requirements. The strong feedback that has been received is that customers want greater choice and control over their electricity supply. They want to have choice around their generation mix and technologies in order to manage their electricity needs and transition towards a 'smart' network.

A significant proportion of our customers feel they have done all they can to reduce their usage and save on their bill, and others are investing in technologies like solar and battery storage to address

costs. Some customers indicate they need more information to fully understand the benefits of new technologies ‘, but most see value in access to better information to help them manage energy use.

Consumers as the beneficiaries of further competition considerations

Considerations around competition must ensure that over the long-term customers are the beneficiaries. Customers must be paying an efficient price for electricity and offered products and services tailored to suit their needs.

EEQ recognises the main objective of the Uniform Tariff Policy (UTP) is to ensure that electricity prices are broadly equivalent in regional Queensland compared with south east Queensland, ensuring electricity prices do not disadvantage the regional Queensland economy. Whilst EEQ is supportive of expanding competition, it also acknowledges the complexities of delivering effective competition into regional Queensland. These complexities include the construct of the UTP and the CSO. For example, before making any advances towards competition in regional Queensland, further detailed analysis is recommended to assess any requisite changes to the UTP and CSO, and the resultant impact on regional Queensland customers and the costs to Government. EEQ believes that if regional competition was extended further, there are opportunities to further refine the UTP and improve the targeting of the Community Service Obligation (CSO), which could include incentives for efficient consumption and investment decision making.

There are other Government-owned entities operating within the National Electricity Market that the Queensland Government could look at when making a decision around competition and the offering of market contracts, including:

- Government owned competitive Retailers: Aurora, Momentum, Red Energy, Lumo Energy, ActewAGL, Synergy
- Government owned competitive Generators: CS Energy, Stanwell, Snowy Hydro and Hydro Tasmania.

In the interim, consideration could be given to allowing EEQ to offer terms and conditions such as *pay-on-time discounts* to its customers like other retailers and utility companies.

It is important to note that EEQ is not a pure monopoly as, legally, competition exists for EEQ’s National Electricity Market (NEM) connected customers. Other (competitive) retailers have acquired a material number of EEQ’s large customers over recent years but EEQ under current legislation is only able to offer regulated prices and is unable to compete or win back customers who have previously churned to other retailers.

Consistent national regulation

The COAG Energy Council and the NEM have slowly replaced jurisdictional approaches with national frameworks. The Queensland Government introduced the National Energy Customer Framework (NECF) on 1 July 2015 in Queensland, which is aligned with this approach.

Opportunity to consider the deregulation of electricity pricing across Queensland

The supply side of the electricity market continues to undergo a period of profound transformation as non-grid alternatives approach parity and traditional energy supply chain models are disrupted. EEQ considers the deregulation of electricity pricing across Queensland as a potential opportunity to provide more competitive choices for Queensland consumers while preserving value in the business.

Tariff and industry reform in Queensland – the journey continues

In the past year, the Queensland Competition Authority (QCA) gazetted three new demand tariffs reflecting the movement by networks across the country to transition to demand based tariffs.

EEQ recognises the importance of price signals in achieving long-term savings in network investment and supports the transition to demand based tariffs for all customers on the basis they are:

- Efficient to minimise cross subsidisation so that customers are paying no more than their fair share.
- Cost reflective so that the community is paying the appropriate amount and that customers are paying the appropriate amount for their use of the network.
- Equitable, recognising that there will be customer classes that will need to be transitioned to cost reflectivity.
- Provide choice for the customer to select the tariff that suits their lifestyle and usage patterns that allows the customer (should they wish to do so) to reduce their costs by taking the appropriate action.
- Critical to improving the productivity of the electricity supply chain.

An efficient and effective electricity supply chain

As previously described, Queensland's (and Australia's) electricity supply chain continues to transform as a result of developments in new and evolving technologies including the rapidly declining costs of solar systems and battery storage. Queensland's legislative framework restricts the services and contracts EEQ can offer customers. At this stage, EEQ is a non-competing retailer.

The Queensland Government's reversion policy prevents EEQ from winning back customers who have previously churned away but want to return to EEQ as a retailer.

EEQ is also unable to charge its customers for advanced ('smart') meters because advanced meters are classified as an unregulated / competitive service offering. This has an impact on innovation and the ability for regional Queenslanders to access additional products and services in a manner which is consistent with their counterparts in other states and territories across Australia.

In conclusion

The positions supported in this section of EEQ's response are further explored in responses to individual questions posed by the QPC in its *Electricity Pricing in Queensland Issues Paper*.

Ergon Energy Queensland (EEQ) Responses to QPC questions

The following section provides specific responses detailing EEQ's position on the questions posed by the QPC. While EEQ has not responded to all questions, it has provided a position on those questions of most relevance to EEQ and our regional Queensland customers.

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EEQ Response to QPC Issues Paper Section 2

Productivity in the Electricity Supply Chain

Question 2.1

Are there changes to the structure of the electricity supply chain and its regulation that might improve the efficient delivery of a reliable supply of electricity to customers?

The electricity market is a highly regulated and controlled market. In part this is because, in some parts of the market, players are monopoly providers (distributors and transmission entities) that require economic regulation to ensure that investment is both prudent and efficient. While generator sector investment is not regulated, there are strict rules around market settlements given the magnitude of financial transactions occurring in this sector.

The timing of retail price deregulation has been variable and dependent on the readiness of each jurisdiction however, in general, those states that are deregulated have the most active competition.

In the retail sector, consumer protections are very strong and delivered (in Queensland) via the National Energy Customer Framework (NECF) (national and derogations) and other legislation such as the Privacy Act and the Australian Consumer Law (ACL). Other market participants, such as those companies that sell products which generate or store electricity (and who hold a Retail Exemption from the Australian Energy Regulator (AER)), are subject only to the ACL and Privacy Act. EEQ remains of the view that regulatory frameworks should be nationally consistent across the board to ensure the fairest outcomes for customers.

Consumer sentiment continues to move rapidly towards the need for greater decentralisation of energy, with individual customers engaging strongly in this sector of the market. These decentralised energy technologies are becoming a more viable alternative to grid-sourced electricity over time, particularly for some customer segments (and some locations).

Increasing consumer choice around decentralised energy technologies can be complementary to traditional forms of electricity production, but in many cases these technologies are impacting on the economics of existing infrastructure, in part, because of:

- The existence of historical cross-subsidies.
- More recently introduced cross-subsidies in the, which may impact by the lack of cost reflective network and retail pricing signals.
- Conflicting economic and environmental policies.

EEQ supports continuing the economic reform process in the electricity sector in Queensland to support a more equitable approach to electricity prices for different customers.

Given the significance of discussions and commitments of energy Ministers at the COAG Energy Council over the past 10 years, issues relating to supply chain efficiencies are consulted on nationally. It should be noted that many of the issues raised by this question are currently being considered by the Australian Energy Market Commission (AEMC) in its considerations of the governance structures for each of the energy market bodies, including the Council of Australian Governments (COAG) Energy Council, AEMC, AER and Australian Energy Market Operator (AEMO). In addition, regulatory frameworks relating to energy storage are also being considered as part of a current AEMC consultation.

Question 2.2

What are the key areas for productivity improvement across the electricity sector, and how could these influence Queensland's overall economic productivity?

One of the key areas for productivity improvement would be the removal of the remaining cross-subsidies (excluding the Uniform Tariff Policy) in electricity tariffs and ensuring that prices are cost reflective. Consideration should be made to the deregulation of pricing in Queensland and its effect on delivering economically efficient outcomes.

Question 2.3

What are the potential benefits and risks in the Queensland Government's renewable energy plans, including solar targets, for electricity sector productivity and electricity prices in the longer term?

A major challenge for the Queensland electricity sector, particularly with the growth of utility scale and household solar PV, is the reduction on centralised generation requirements in the middle of the day. As afternoon demand increases and solar PV production decreases the potential volatility in electricity spot price increases markedly. This was evidenced in Quarter 1 2015 from 3:30pm – 5:00pm.

Queensland electricity demand has already been impacted by solar PV generation. As solar PV penetration continues to increase, net demand for electricity in the middle of the day will tend towards off-peak demand and off-peak prices which could slow PV penetration and inhibit large scale solar. The emergence of low cost storage solutions will be a critical ingredient in achieving the solar generation objectives of the Queensland Government.

Given the demand increases very quickly, traditional generation is not able to respond as quickly as needed and spot price volatility is a common result. This is particularly the case in summer months.

A result of this volatility is that the forward price curve for electricity reflects this spot volatility which then has the potential to result in higher electricity prices for consumers.

A broader mix of technologies, i.e. wind and biomass-based generation may assist.

Further information will be provided by EEQ in its submission to the QPC on its *Solar Feed-In Pricing in Queensland Issues Paper*.

Question 2.4

What objectives do these plans and targets best support, and are there alternative levers or methods that might be considered?

As the costs of alternative energy solutions such as solar PV continue to decline, the argument for new or additional subsidies for the sector in Queensland also declines. Economic incentives to encourage the market (or market segments) to further invest in specific technologies needs careful consideration.

The new Commonwealth Renewable Energy Target (RET) has effectively required a doubling of investment in renewables across Australia. EEQ recently sought expressions of interest for renewable projects in regional Queensland for up to 150MW of capacity in total. This process generated significant interest and a large number of applications which EEQ is currently in the process of evaluating these submissions.

Question 2.5

What factors are influencing higher wholesale prices in Queensland and do these represent systemic or transient market issues?

The onset of fully commissioned and operating LNG facilities on Curtis Island may result in less gas being available for gas fired power stations to assist in mitigating spot electricity price volatility/elevation.

It has been seen that gas fired generators will only operate when the spot price for gas is above the export price for gas on a netback basis. Should electricity market price volatility exist, it is expected gas-fired generation will seek to be dispatched and this intermittent operation may result in uplift in the average electricity spot price. Consequently this could translate in a higher forward market price for electricity.

Given not all of the LNG facilities are fully operational on Curtis Island, it is difficult to ascertain with any certainty at this stage the full impact on the electricity market. The impact on any wholesale market volatility may become clearer during this year's summer if there are periods of extreme demand (for example because of extended high temperatures).

Question 2.9

What is the best way to recover the network costs associated with demand from electricity consumers more efficiently and equitably?

As outlined in EEQ's response to EECL's Tariff Structure Statement in September 2015, EEQ recognises the importance of price signals in achieving long-term savings in network investment.

EEQ is supportive of the work undertaken by EECL to date in highlighting the cost of no action being taken and, through consultation with stakeholders, reforming its tariffs. EEQ also supports the transition to demand based tariffs for all customers. In broad terms EEQ encourages EECL to develop tariffs that are:

- Efficient to minimise cross subsidisation so that customers are paying no more than their fair share.
- Cost reflective so that the community is paying the appropriate amount and that customers are paying the appropriate amount for their use of the network.
- Equitable, recognising that there will be customer classes that will need to be transitioned to cost reflectivity.
- Provide choice for the customer to select tariff (s) that suits their lifestyle and usage patterns that allow the customer (should they wish to do so) to reduce their costs by taking the appropriate action.
- Simple, so that customers can clearly identify the reason for the cost of their bill and invest in more energy efficient products or change behaviour to reduce the cost of the bill.

Question 2.14

How should the costs associated with implementing new technologies be shared between the businesses and consumers?

EEQ proposes that consideration be given for the costs associated with new technologies to be paid for on a user-pays basis.

If consumers choose to adopt new technologies, consideration needs to be given to the costs being paid by those consumers. For example, if consumers install solar PV and wish to access feed-in-tariffs associated with the technology, these customers could pay the associated distribution use of system (DUOS) charges. Similarly, if the distribution network needs to make additional infrastructure investments to manage the two-way flow of electricity safely in the system, these costs should be borne by customers with solar PV, rather than these costs being smeared across all customers. From a social policy perspective, this is important in managing future electricity price increases for the most vulnerable in our communities.

Importantly, all costs need to be provided to customers so that they can make informed decisions about their adoption / investment in new technologies.

EEQ is supportive of the development of new markets and technologies but is an advocate for timely policy decisions to be made by Regulators so that new and existing industries can be developed with certainty allowing businesses and consumers to invest with confidence.

Question 2.16

What are the barriers to improving consumer interest and participation in the electricity market?

More work is required in relation to customer engagement. Customer research shows customers are not engaged and feel they have a lack of choice in regards to meeting their individual electricity needs. The general lack of customer engagement in energy markets is also reflected across other retailers.

EEQ respects the feedback from customers and has responded by undertaking renewable energy trials in order to provide customers with simple innovative solutions. However, legislative changes would be required for EEQ to be able to offer these on a widespread economically sound basis.

EEQ acknowledges that rules/regulations should not be created for those that do not wish to participate in the market that diminishes the ability of those who do participate to benefit from the market.

Question 2.17

What are the costs to industry participants and risks to consumers of being regulated under the Australian Consumer Law or the National Energy Retail Law?

Question 2.18

What issues should be considered to ensure the customer protection framework supports new business models and innovation?

One of the greatest risks to industry participants is a lack of certainty in the regulatory environment. This lack of certainty manifests in a lack of willingness of retailers to participate in the market (or certain segments of the market) and, in its worst forms, may lead higher prices for consumers.

Similarly, consumers may perceive too many changes in the market as being too confusing, risky or conversely, 'not worth the effort'. These perceptions can lead to restrained market participation, exacerbating the issues for industry participants.

Rightly, Regulators are focussed on ensuring protections for the most vulnerable customers.

NECF applies to energy retailers who sell grid-sourced electricity (and/or gas). However, at this stage, companies selling products which produce (distributed) electricity can apply for a retail-exemption from the Regulator and are only required to meet Australian Consumer Law (ACL) provisions relating to products they sell being 'fit for purpose' as warranted. EEQ believes there should be national consistency across the board.

In addition, electricity retailers are also required to participate in state energy ombudsman schemes which also increase costs. Companies which hold a retailer exemption are not required to participate, and as a consequence, consumers are not afforded the same protections.

Many of the protections offered by NECF relate to protections for customers experiencing financial difficulty or hardship. Companies with Retail Exemptions are not required to provide any hardship programs.

EEQ believes that regulation should be fair and equitable across the board. In this respect, consideration should be given to increasing customer protections for technologies, such as batteries and solar, as these technologies in the future make up greater proportions of an energy customer's total consumption. This may mean that companies with a Retail Exemption need to be a part of the Energy Ombudsman Scheme and contribute to these costs accordingly (as retailers do currently).

Additional regulation should only be considered if there is a market failure. EEQ does not believe that there are market failures relating to electricity retailing in Queensland.

In relation to companies with Retail Exemptions, the lack of monitoring and reporting makes it difficult to ascertain whether there are currently issues within this sector. However, the Office of Fair Trade currently investigates complaints relating to ACL and this organisation would be best placed to respond.

It should be noted that these issues are being considered by the Council of Australian Governments (COAG) Energy Council and the Australian Energy Market Commission and will be consulted on nationally.

Question 2.19

What are the implications of uncertainty over climate change policy on productivity in the generation sector and electricity prices?

This is an issue which should relate to a national policy position rather than jurisdictional policies. We would note however, that the finalisation of the new RET target has provided a degree of certainty that was missing while the new target was negotiated. EEQ's request for tender of up to 150 MW of renewable energy capacity is evidence of this.

Question 2.20

What would be a better alternative for funding the Solar Bonus Scheme?

A potential option that may be worth exploring would be the application of the solar bonus scheme and any alternative mechanism that may result in customer benefits. This is taking into consideration the recipients of the Solar Bonus Scheme versus those that do not have solar PV on their roof.

Question 2.21

What are the likely or potential impacts of new technology on the productivity of the electricity supply sector and its component parts, and electricity prices?

It is likely that distributed energy solutions (battery and solar) will reach grid parity in the short to medium-term depending on a customer's location in the grid. When this is likely to occur is a matter of conjecture, but reputable sources indicate that it will occur within the next 5-10 years.

At this stage, it is unlikely that the majority of customers would choose to entirely depart from the grid given the advantages of reliability and certainty of supply.

Battery storage significantly increases the in-house utilisation rates of solar (from 30 per cent up to as much as 70 per cent) which will further reduce throughput on the network and, in the short-term, place upward pressure on volume-based network pricing. It is important that distribution businesses continue to develop tariffs that ensure all customers are charged equitably for network access.

Battery storage does have the potential to reduce peak demand and this should lead to lower prices in the longer-term for all customers through reduced capital expenditure. Storage also has the potential to reduce volatility in the wholesale market in the long-term for the same reason.

Question 2.22

How could existing regulatory and institutional arrangements in the Queensland electricity sector support the efficient adoption of emerging technology across the electricity supply chain?

Question 2.23

What are the potential costs and benefits to Queensland as a result of national harmonisation of energy policy and laws in terms of electricity prices or supply chain productivity?

Question 2.24

What are the risks and costs to customers and industry in Queensland arising from failure to harmonise regulation underpinning the NEM?

Question 2.25

What are the key opportunities remaining for national harmonisation in regulation and governance of the NEM, and benefits from these reforms for productivity and prices?

A number of recent reviews of the electricity sector in Queensland have identified a range of structural reforms which could enable the efficient adoption of competition into regional Queensland and enhance existing competition in south east Queensland.

Recommendations from these reviews should be considered by the QPC in formulating its decisions on its Terms of Reference. In addition, a national approach would further benefit both consumers and industry in terms of policy certainty across jurisdictions.

Successive Queensland Governments have supported the national harmonisation agenda at the COAG Energy Council for many years because of the potential benefits for Queenslanders that can be generated from an active and efficient market for energy.

There have been some constructive efforts in this area including the introduction of competition into south east Queensland, deregulation of the gas market and adoption of NECF in mid-2015. Further opportunities exist to explore the benefits of deregulating the south-east Queensland electricity market and introducing competition (and deregulation) of electricity in regional Queensland. However as noted previously, moving towards competition in regional Queensland, would require further detailed analysis of the UTP and the CSO to ensure effective and efficient outcomes for customers and the Government.

Other jurisdictions have undertaken similar reviews in the past and have successfully moved to deregulating gas and electricity markets. The most recent jurisdiction to deregulate its energy markets is NSW.

Given it is generally the same retailers operating in each jurisdiction, there is a low risk that retailers will act in a manner which risks reputational damage or regulatory fines for their business. For effective deregulation in Queensland, the CSO and UTP will need to be reviewed, taking account of the impacts on customers and the cost to Government.

Where there is a difference in a jurisdiction, retailers must see the benefits of investing in system upgrades and training their staff to ensure compliance with the jurisdictional variation. Where there are ongoing new jurisdictional changes, retailers may also view this approach as a risk to their investment in that state or market segment and either withdraw or cease activity. For smaller retailers, these costs can be prohibitive in a market, and at the worst, lead to a Retailer of Last Resort (ROLR) event where a retailer is unable to respond to the jurisdictional changes rapidly or at a cost that cannot be borne by their business. The costs of the jurisdictional variations are inevitably borne by customers.

The risks to Queensland of failure to harmonise its regulations and to deliver on other commitments made at the COAG Energy Council is that the cost of doing business in Queensland will rise for retailers. In addition, if introduced, competition may suffer – either in general, or for the specific market segment where the jurisdictional variation exists.

The key opportunities in Queensland relating to national harmonisation include the following aspects:

- Exploring the benefits of competition in regional Queensland.
- Exploring the benefits of deregulation of pricing in all parts of Queensland.
- Removal of the existing reversion policy.

- (As part of the above points) Examining the benefits of EEQ offering competitive contracts, pay-on-time or similar discounts, and charging of smart meters where the business case exists and/or customers are willing to pay for these.

Question 2.26

What aspects of the Electricity Act should be considered for review in support of the longer-term provision of a more responsive and efficient electricity industry?

Question 2.27

What aspects of other Queensland laws and regulation potentially act as barriers to improving the efficiency of electricity supply in Queensland?

Question 2.28

What should be the focus for state regulation (Electricity Act and other legislation) to complement harmonised inter-jurisdictional energy laws?

EEQ would support changes to the Electricity Act and the NERL (Qld) Act and Regulation that supported the following:

- Consideration of the removal of the requirement for a Minister to set tariff prices each year
- Consideration of EEQ being able to offer competitive market contracts
- Enabling EEQ to pass the charges for unregulated (smart) meters through to customers who are willing to pay for them or where there is an economic benefit.
- Consideration of the removal of the non-reversion policy for customers in regional Queensland.

EEQ Response to QPC Issues Paper Section 3

Deregulation in south east Queensland

Question 3.1

What are the potential costs and risks of maintaining retail price regulation in a competitive market?

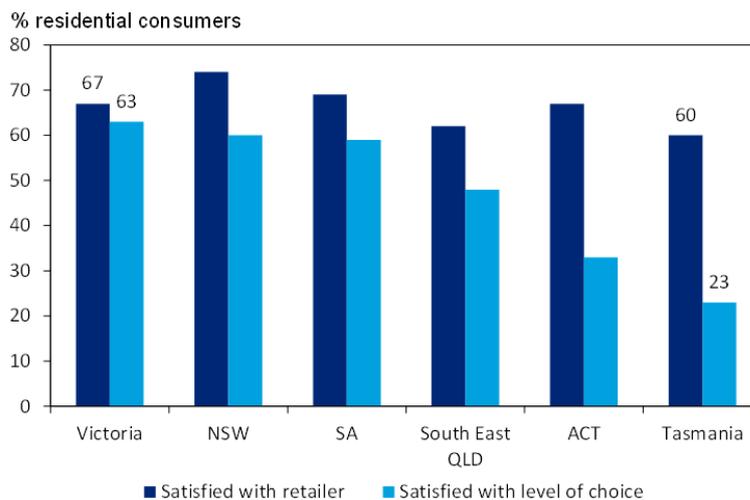
Perceptions of price, service and brand are key drivers of consumer satisfaction and can be measured as a lead indicator for churn (and hence competition).

Research conducted by the Australian Energy Market Commission (AEMC) to gauge customer satisfaction throughout Australia was published in June 2015 and provided the responses to a survey asking, amongst other questions:

- When it comes to energy companies and energy plans, how satisfied are you with the level of choice available to consumers in your state or territory?
- And how satisfied are you with your current electricity company?

The results showed a marked difference in satisfaction with choice between mature, competitive energy markets (Victoria and New South Wales), developing competitive markets (South East Queensland and South Australia) and non-competitive markets (Tasmania and the Australian Capital Territory). Customers in regional Queensland were not surveyed.

Figure 3 Consumer satisfaction with choice in products and current retailer



Source: AEMC, 2015

Question 3.2

What are the potential costs of deregulation? How should they be assessed?

Question 3.3

What risks might consumers face in a deregulated SEQ market, and how might these risks be mitigated?

Question 3.4

Is the AEMC's approach to assessing retail competition in the NEM appropriate, or are there other factors that should be considered?

Question 3.5

What are the lessons to be learned from deregulation in other jurisdictions that could be applied to the SEQ market?

EEQ supports deregulation of electricity prices in SEQ. EEQ considers that deregulation will allow retailers greater freedom to innovate and offer their customers greater choice both with traditional electricity supply from the grid and from alternative distributed generation and energy storage solutions.

Question 3.6

In the event retail prices in SEQ were deregulated, are the market monitoring and reporting arrangements adequate, or are there changes or improvements that could be made?

Question 3.7

In the event retail prices in SEQ were deregulated, would the customer protection arrangements provide adequate support and protection for SEQ consumers, particularly those who are most vulnerable?

Question 3.8

Are there any additional protections required, and what is the evidence that these would improve consumer outcomes?

As discussed in EEQ's response to Questions 2.23 to 2.25, EEQ believes that there is no need for further customer protections to be introduced into the market.

EEQ is also of the view that the market monitoring and reporting arrangements of the AEMC are adequate.

Question 3.9

In what ways could the tools, information and support available to assist residential and small business customers in SEQ to participate in the retail electricity market be improved better targeted?

Question 3.10

What is the role for government, retailers and consumer groups in promoting greater customer participation should retail electricity price deregulation in SEQ eventuate?

In jurisdictions where competition is prevalent, retailers actively undertake advertising campaigns to raise awareness of their brands and choice available to them. EEQ however agrees with the QPC that customers need to be aware of their rights and options in participating in the market.

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EEQ Response to QPC Issues Paper Section 4

Regional Queensland

Question 4.1

What objective(s) should the UTP be designed to achieve and how effective is the current UTP at achieving the objective(s)?

Question 4.2

Could the UTP be targeted more effectively to better achieve these objectives?

Question 4.3

Can stakeholders point to examples of how the UTP has delivered benefits to their region in terms of economic growth and development?

Uniform tariff policies (UTP) were in place around Australia prior to the COAG reforms, and remain in place in some jurisdictions such as Queensland, Tasmania and the Northern Territory. The UTP is also in place for electricity network services in South Australia. The UTP in Queensland was designed to achieve the policy objectives of:

- Ensuring prices were equitable across Queensland.
- That consumers in regional areas were not disadvantaged.
- That economic development in regional Queensland was stimulated.

In broad terms, the UTP has historically been designed to equalise (from a customer's perspective) the total cost of electricity supply, irrespective of a customer's location in the State. Ergon Energy understands the UTP was achieved in 1986 after decades of price adjustments. That is, uniform tariffs applicable to the same customer class, but independent of geographical location or load shape within that customer class.

At the time there was no effective means of targeting the different elements of the costs of supply – the network (transportation) costs, the cost of energy, and the retailer costs, in the original policy development. Therefore, the UTP was understandably focussed on achieving retail tariff price consistency.

In Queensland the funding of the UTP through a Community Service Obligation (CSO) payment from consolidated revenue commenced with the corporatisation of the Queensland Government's electricity assets. Since 1998, the Queensland Government, similar to other State and Territory Governments, has as part of the National Energy Reform Agenda, gradually introduced competition to the jurisdictional electricity market, with the introduction of full retail competition for domestic and small business customers in Queensland from 1 July 2007.

Given the unique geographical challenges involved in supplying electricity to sparsely populated areas in Queensland, there will likely always be a requirement to subsidise some regional customers. This has been a fundamental driver of the UTP since its inception and Ergon Energy expects that this issue will remain.

In 2014 the Queensland Competition Authority (QCA) released its final advice on the *Review of Regional Electricity Price Regulation* and in it stated: “We have identified significant problems with the current UTP arrangements. In particular, the UTP lacks a clear objective, provides poor incentives for efficient consumption and investment decision-making, ensures that Ergon Retail has an effective monopoly in regional areas, and is expensive for taxpayers (estimated at \$615 million in 2013-14).”

EEQ contends the main objective of the UTP is to ensure that electricity prices are affordable to regional consumers and thereby ensuring electricity pricing does not disadvantage the regional Queensland economy. While this is an important objective, EEQ believes that given the size and expense of the CSO payment, that it is critical the objectives of the UTP are further refined and that there is improved targeting of the CSO. Further, EEQ also agrees that the CSO is an impediment to efficient investment decision-making and therefore will need to be reformed before competition in regional Queensland could be considered. It is important to note that EEQ is not a pure monopoly as legally competition exists for EEQ’s NEM customers and other competitive NEM retailers have acquired a material number of EEQ’s large customers over the last several years. EEQ like other retailers is impacted by the increasing penetration of distributed generation technologies.

EEQ contends that the UTP objective and definition has been constantly varying since the commencement of competition in Queensland and EEQ contends that this should continue. EEQ contends the objective of the UTP should now evolve over time to refine the original objective.

Question 4.4

What should retail electricity competition in regional Queensland be designed to achieve, and how can this be delivered in an environment of subsidised electricity prices?

Question 4.5

To the extent they are incompatible, which of subsidy or competition is the more important objective and why?

Competition in the National Electricity Market promotes the long-term interests of electricity customers with retailers responding to customer demands and placing downward pressure on prices. However, EEQ believes that any consideration should be made in the best interests of customers in the long-term and the overall economy.

EEQ notes that while subsidies, such as the CSO, may be required to ensure economic supply consideration should be given to the true economic cost of customer decisions, price signals and efficiency opportunities for customers.

EEQ believes the UTP supports economic activity in the regions and should be supported. The CSO is not available for non-grid alternatives and therefore delays the point at which these alternatives reach grid parity. Given that the prices are falling fast for non-grid alternatives and that regional Queensland is not relevant in driving those costs down (it will happen anyway), and that the UTP is so important to regional Queensland people and businesses, EEQ contends that a delay in grid parity is a worthwhile trade off.

Question 4.6

How important are barriers listed above and how should they be addressed?

Question 4.7

What are the material barriers to competition in regional Queensland, and how should these barriers be addressed?

EEQ supports the barriers identified by the QPC in its Issues Paper and consider these can be addressed by:

- Removing the non-reversion policy.
- Ensuring all the elements required in developing a competitive market in regional Queensland, if pursued, are addressed so that competitive retailers are willing participants.
- Regional customers located in isolated communities should continue to be excluded from choosing their retailer as all the elements that would be required to allow effective regional competition do not exist. Around 20,000 customers (i.e. NMIs) in regional Queensland would be impacted.

Question 4.8

What evidence is there of the characteristics of competition beginning to develop in regional Queensland?

Question 4.9

What are the potential benefits and costs of competition in regional Queensland?

EEQ is being materially impacted from competitor activities in regional Queensland through:

- Loss of mainly large business customers (termed *customer competition*).
- Loss of customer load from distributed generation alternatives, principally being solar PV (termed *load competition*).

Both these forms of competition are negatively impacting EEQ with its current legislative restrictions, while at the same time the required characteristics of a strong competitive market are also not present.

While competition in regional Queensland for NEM connected customers is legislatively available for NEM-connected customers, it is only economically effective for a small number of customers.

EEQ is unaware how effective competition for those customers that are no longer customers of EEQ, however, from discussions with customers and industry bodies we are aware that it is problematic for at least some regional Queensland consumers.

Regional Queensland is a large market serving many residential and business customers that could potentially benefit from competition. Regional Queensland is home to a significant number of customers, with Ergon Energy Retail providing power to 106,000 business and 625,000 residential customers.

Question 4.10

Why would a network-based CSO be the most effective way of supporting the UTP and promoting competition in regional Queensland?

Question 4.11

Are there any other options that would increase competition in regional Queensland and maintain a UTP, or deliver the same objectives as a UTP?

Currently, the CSO sits with EEQ however there are a number of options that could be explored including:

- Exploring other avenues for the CSO.
- Delivering the CSO directly to individual customers.

The complexity and administrative costs associated with each option would need to be weighed up and carefully considered.

EEQ believes that the QCA's 2014 final advice on "*Uniform Tariff Policy & Regional Retail Electricity Price Regulation*" adequately canvassed the breadth of issues and future options.

Question 4.12

What issues would need to be addressed to allow EEQ to compete effectively, and on an even footing?

Question 4.13

What kind of timeframe is a transition to a competitive market, including for EEQ, likely to require?

A potential case study worth examining is AGL's experience in South Australia when retail competition was implemented in 2003. AGL was the incumbent retailer who supplied 100 per cent of the 650,000 residential customers in South Australia. When competition was implemented AGL lost its small customers at a rate between seven and 10 per cent per annum in the first 5 years of competition. About 30% of AGL's residential customers elected to move off the tariff in the first year of competition. Around half of those customers churned to competing retailers while the other half elected to move to an AGL market contract.

The AGL experience in South Australia highlights the risks facing EEQ without adequate preparation and a measured policy framework to respond to the competitive pressures created by retail competition, if it was to be introduced.

EEQ like other retailers face load competition from non-traditional sources such as solar and battery companies and other (competing) retailers.

EEQ today is a profitable and valuable asset to the state.

The Issues Paper has correctly identified that EEQ has limited practical ability to compete. EEQ is not competition ready; it would need to invest further in systems, people, brand and process in order to be ready. EEQ submits that if it was allowed to compete, it should be undertaken through a transition process so that issues such as timing, potential mergers within the portfolio of GOC's, any technology investments required, adequate retail competitive protections and any necessary legislative changes can be considered.

Question 4.14

What is the most efficient approach to setting Notified Prices in regional Queensland that will support a UTP and why?

Question 4.15

What are the benefits and impacts of using Ergon Energy's network charges and tariff structures to form the basis of regulated prices in regional Queensland?

If competition was to be introduced, EEQ would support an effective transition involving the continued evolution to using the Ergon network tariff structures and the relevant terms and conditions for those network tariffs. If the Queensland Government continues to set the UTP based on south east Queensland's standing offer prices, then for the network component of the notified price, Ergon's network tariff prices should be adjusted to an equivalent underlying Energex tariff rate.

EEQ believes there should be a one-to-one relationship between a network and the corresponding retail tariff (notified price) which will allow effective competition.

Currently under the UTP, energy losses are also subsidised through the CSO. If the Queensland Government wishes to continue to subsidise energy losses under the UTP then energy losses must be adjusted for in any new CSO methodology.

Question 4.17

What approaches should be considered to help customers on transitional tariffs?

Energy market reform in Queensland is likely to continue and, combined with potential advanced metering availability, could result in additional transitional tariffs being created from current cost reflective tariffs.

Given the number of regional Queensland business customers impacted by the existing transitional retail tariffs, it is critical that the QCA takes a customer perspective and considers the financial and overall impact on the regional Queensland economy and the time period and conditions to transition customers to alternative tariffs if that was further proposed.

There is also further complexity for some customers because the tariff which is most suitable for them may require advanced metering and at this stage, EEQ is unable to pass the costs of advanced meters onto customers on standard retail contracts.

Question 4.19

In what ways could the existing arrangements for supplying local communities be more effective?

EEQ reiterates its belief that regional customers located in isolated communities should continue to be excluded from competition, if it is introduced, as all the elements that would be required to allow effective regional competition do not exist. Around 20,000 customers (i.e. NMIs) in regional Queensland would be impacted.

EEQ Response to QPC Issues Paper Section 5
Customer participation and support in the electricity market

Question 5.1

What are the barriers to improving consumer participation in the electricity market?

Question 5.2

What are the benefits to the productivity of the electricity market and broader supply chain in increasing customer participation, and how can these benefits be measured?

At this stage, consumer participation in regional Queensland is limited because of the:

- Mechanism by which the CSO is paid to EEQ as the retailer.
- Non-Reversion Policy.
- Inability for EEQ to offer competitive market contracts.

This means that before consumer participation in regional Queensland can increase consideration would be required of:

- How the CSO would be treated.
- How load settlement shapes (net system load profiles) for small customers for market purposes would be treated.
- The development of appropriate notified prices (until full deregulation) that encourage retailers to enter and stay active in the market.
- Provision of a stable regulatory environment that delivers certainty for retailers and customers to invest in Queensland.

Question 5.3

What is the existing level of consumer knowledge and understanding of new electricity sector business models, products and services, and technologies?

Question 5.4

How will future developments, including changes in technology and the growth of new markets and business models, influence consumers' participation in electricity markets?

Question 5.5

What are the key information gaps in consumer knowledge and understanding of electricity markets?

Question 5.6

What have industry or consumer groups done to address existing information and behavioural barriers, and how effective have these strategies been?

As previously described in this submission, for EEQ to maintain its value, consideration needs to be applied to explore new business models.

As part of this consideration of current restrictions on EEQ and the removal of the current Non-Reversion Policy would be required.

Given the growth in new energy business models and contracts, there is merit in considering whether a standardised contract or terms and conditions should be developed for customers which would provide them with additional confidence to enter the market. This standardised and simplified contract would address terms and conditions such as:

- Cooling off periods.
- Novation of contracts between customers.
- Retention of assets by the supplier (where relevant).
- Contract periods.
- Responsibilities of customers and suppliers.

Question 5.9

What barriers and costs does a voluntary uptake of advanced metering present for the rate at which cost-reflective tariffs are able to be adopted?

Currently EEQ is unable to pass the costs of advanced (smart) meters through to its customers. This means for existing (predominantly large) customers with advanced metering, they are not paying for the cost of their metering.

The benefits of advanced meters for retailers and customers include the ability for:

- Customers to access more timely and detailed information on their consumption and demand profiles enabling them to change behaviour to make savings.
- Retailers to develop better market offers and products which will benefit individual customers.
- Networks to develop more cost reflective network tariffs and better understand demand on different parts of the network.

Advanced metering in Queensland represents an opportunity for tariff reform. It will become a greater opportunity as customers need to move from existing transitional tariffs onto newer tariff structures which require advanced metering features.

Question 5.17

Are the principles outlined above useful for assessing the Queensland energy concession framework and identifying improvements?

Question 5.18

What other key criteria or principles should be used to assess the energy concessions framework?

Question 5.19

Is it appropriate that the level of household income is used as a measure to define vulnerable consumers, or are there other measures that would more effectively identify vulnerable consumers?

Question 5.20

How could electricity concessions be better targeted to assist customers most in need?

Question 5.21

What alternatives to the flat rebate structure would better assist vulnerable customers?

Question 5.22

Are the current concession levels sufficient to provide meaningful support to vulnerable consumers and, if changes are to be made, what structures and levels of support should be implemented?

Question 5.23

In a finite public funding environment, which consumers should be targeted for financial support in relation to electricity affordability?

Question 5.24

What should the Queensland Government advocate for in a national review of concession and rebates?

EEQ has addressed the questions posed by the QPC on concessions in the following discussion.

Many organisations and forums have defined *hardship* and *vulnerability* – an example is the Energy Supply Association of Australia’s publication “Improving energy concessions and hardship payments policies Final Report February 2013” which defines vulnerable energy customers as *those that are at risk of experiencing genuine financial stress due to moderate increases in their energy bills*. Financial stress is further defined as: *the situation where basic cost of living expenses cannot be funded*.

While EEQ contends that household income is one measure to define vulnerable consumers, there are other measures that could be more effective in identifying vulnerability. These additional measures / considerations could include an assessment of:

- Home ownership.
- Housing rental conditions (government, private).
- Location based energy needs – consideration of vulnerable households located in hottest or coldest regions of the state who require high energy usage to maintain a liveable environment.
- Access to energy efficient structural improvements. This is important for consumers who are in private or Government rental accommodation who have no control over the age of the dwelling, energy efficiency of dwelling structure or fittings such as insulation and hot water systems.
- Access to energy efficient appliances.
- Family size and composition.
- Chronic medical conditions.
- Energy consumption, including low usage customers who are most impacted by the rebalancing of the fixed component of tariff 11.
- On grid/off grid connection.

These measures could be used to develop a more refined eligibility assessment framework to better target concessions for vulnerable Queenslanders. EEQ contends that the basis for the concession framework should be primarily driven by the level of consumer needs while being conscious of government funding constraints.

The current budget for concession is significant and consideration could be given as to how rebalancing the eligibility or level of support for the existing funding could achieve positive outcomes.

EEQ would support a review of the existing Queensland Government concessions framework in order to best target energy concessions in Queensland. This also may require reassessing eligibility for concessions for some customers and include the correlation between disconnection for non-payment and concession eligibility.

Greater consideration could also be given to complementary schemes to the concessional rebates which would facilitate financial assistance for replacement of energy inefficient appliances with updated energy efficient appliances. This could extend to a broader number of eligible Queenslanders who could (for example) afford to update inefficient appliances with the assistance of a longer-term interest free loan. This could be complemented by mandatory in-home energy efficiency assessments which could further educate customers on the energy intensity of appliances to assist them in managing their budgets.

EEQ supports the design principles for concessions frameworks outlined in the Issues Paper including:

- The need for a clear objective.
- Adequacy.
- Equity of benefits for applicants in similar situations.
- Adaptability.
- Transparency.