**Energy Retailers Association of Australia**
Suite 3, Level 5, 189 Kent Street, SYDNEY NSW 2000
**T** (02) 8241 1800 **W** www.eraa.com.au

16 November 2015

Mr Kim Wood
Principal Commissioner
Queensland Productivity Commission
PO Box 12112
George St QLD 4003

Lodged online: www.qpc.qld.gov.au

Dear Mr Wood,

**RE: Electricity Pricing in Queensland Issues Paper**

The Energy Retailers Association of Australia (ERAA) welcomes the opportunity to provide comments in response to the Electricity Pricing in Queensland Issues Paper (the Issues Paper) released by the Queensland Productivity Commission (QPC).

The ERAA represents the organisations providing electricity and gas to over 10 million Australian households and businesses. Our member organisations are mostly privately owned, vary in size and operate in all areas within the National Electricity Market (NEM) and are the first point of contact for end use customers of both electricity and gas.

**Productivity in the electricity supply chain**
One of the key challenges for the future of the NEM is the effective and efficient integration of new products and services. The environment associated with the NEM and energy supply is changing relatively rapidly, and the risk is that the regulatory framework will not anticipate or keep pace with the changes occurring, leading to additional costs, missed opportunities and overall negative outcomes for consumers. The ERAA calls for the Queensland Government and other NEM Governments to ensure the ongoing reform program led by the Council of Australian Governments Energy Council (COAG Energy Council) is forward looking and seeks to facilitate a level playing field for all energy supply options and solutions.

**Generation**
The ERAA is concerned that the Queensland Government's proposal to merge the state-owned generators will create competition risks which could result in higher prices for Queensland consumers. A properly functioning and effective wholesale market for electricity is necessary to support market participants at the retail level. With the Government expressing support for retail price deregulation, having as many participants as possible at the wholesale level will assist new entrants to secure the necessary hedging and other instruments required to operate a retail business. If competition for these market instruments is reduced, then the barriers to entry will be higher, the Government's policy objective will be compromised and ultimately consumers will not be able to benefit from enhanced retail competition.

The ERAA supports a nationally-consistent approach to facilitating and encouraging renewable energy technologies, and asserts that the Renewable Energy Target (RET) is the primary tool for achieving this. The RET provides incentives and support for the development of both large-scale and small scale renewable technologies, and has received bi-partisan support from the Federal Government.

Any policy interventions by jurisdictional Governments should be subject to a full cost-benefit analysis to determine the impacts on consumers, industry, the wholesale market, and the starting point should be that any activity is consistent with the National Electricity Objective. As such, the consideration of renewable energy policy options by the Queensland Government requires a full cost-benefit analysis be undertaken for each option, ensuring all economic, social and environmental implications of each potential proposal are considered.

A renewable energy target for Queensland should seek to maximise the opportunities available under the RET for economic development in Queensland, but should not seek to impose targets or programs that are in addition to the RET. Wherever policies, programs or schemes that are complementary or additional to the RET are considered, it is important that harmonisation with existing approaches should be sought. This harmonisation approach should examine policies, programs and schemes that operate in other jurisdictions.

**Networks**

The ERAA notes the intention of cost-reflective network pricing as agreed by the Standing Council on Energy and Resources (now COAG Energy Council) is to send price signals to consumers so that the true or real cost impact of their energy consumption profile is understood, and changes in the pattern of consumption can occur in order to reduce the level of network impact and therefore network costs.

It is important to remember the intent is for the price signal to change behaviour over time, and therefore at the commencement of a cost-reflective network tariff regime some consumers will benefit while others will not. However it is not appropriate to judge or assess impact at commencement of cost-reflective pricing, rather it is only once there has been sufficient time for consumers to understand their consumption habits and respond accordingly can that assessment occur.

The ERAA does not have a preference for one form of cost-reflective network tariff structure over another. The ERAA however does support the adoption of a consistent approach to and methodology for cost-reflective network tariffs among different distribution businesses wherever possible. Lack of consistency results in having to build, implement and maintain different billing system requirements, and this is an additional cost that is ultimately borne by all consumers. There should also be a robust cost-benefit analysis undertaken of the preferred cost-reflective network tariff option chosen and how it impacts consumers and retailers as well as networks. For example, the model of a seasonal peak demand tariff will see a higher level of complexity than an annual peak demand model, and this will have system and operational impacts for retailers while also being potentially cumbersome and confusing for consumers to understand without appropriate supporting education and information.

Ring-fencing guidelines which addresses emerging technologies including advanced metering, generation and storage activities contemplated by network distributors are necessary to prevent significant damage to the market and the success of the Power of Choice reforms being progressed. The ERAA supports development of a NEM-wide distribution ring-fencing guideline that would enable the Australian Energy Regulator (AER) to address the issues arising from emerging technologies in a consistent manner. There is a sense of urgency in the development and the application of the guidelines due to the rapid proliferation of emerging technologies and indications by networks to pursue opportunities to provide contestable services enabled by technological advancements. Should the AER delay development or application of new ring-fencing guidelines, or jurisdictions not agree to a national framework for ring-fencing, there is a significant risk of risk of vertical integration of monopoly businesses and entrenchment of the competitive advantages arising from access to the information and other aspects of the regulated DNSP. To ensure that competitive neutrality is maintained guidelines should be developed and enacted as an industry priority.


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**Environment**
The QPC has asked if there are better alternatives for funding the Solar Bonus Scheme. The ERAA does not support the subsidisation of feed-in tariffs through retailers under the existing but closed Solar Bonus Scheme, such as occurs in New South Wales. The result of such schemes is in effect a subsidy paid for by non-solar households to help cover generous payments to solar households for putting electricity into the grid. Only last year it was estimated by AGL (W*orking Paper 45: Network tariffs: resolving rate instability and hidden subsidies*) that the cost of solar subsidies paid in South East Queensland (SEQ) alone was $70.3 million. This finding was reinforced in the Queensland Competition Authority's *Final Determination: Regulated Retail Electricity Prices 2015-16* that found the costs of the Solar Bonus Scheme make up a significant portion of the overall network costs in Queensland.

Mandating a retailer contribution will result in increased complexity and therefore cost associated with billing and other IT systems, costs that will ultimately need to be passed through to consumers. In addition, where retailers currently pay the 44 cent feed-in tariff plus an additional voluntary feed-in tariff amount reflecting the benefit associated with localised generation the result, as witnessed in NSW, is that the additional payment will be withdrawn as it will have been 'captured' by the co-contribution requirement. This means consumers who receive 44 cents plus X cents will see a reduced benefit from their solar systems.

Should the Queensland Government seek to alter the current funding model for the Solar Bonus Scheme, each alternative should be subject to full cost-benefit analysis in order to determine the impact on all consumers and the market to ensure the solution is a more appropriate and efficient outcome than the current approach.

**Regulation and Governance**
The ERAA supports a single consistent national regulatory and governance framework. Any jurisdictional derogations that impose different or additional requirements results in additional systems, IT, compliance and reporting costs that are passed through to consumers. Harmonisation of regulatory frameworks provides the most effective and efficient outcome for consumers, and the focus of Government needs to be on maintaining that framework as fit for purpose as the electricity market evolves and develops.

Regulatory settings should primarily be about supporting and facilitating customer choice in relation to generation types as well as innovative product and service offerings being introduced into the market. Deregulating electricity prices and facilitating the market-led deployment of advanced technologies are critical steps to supporting the development and adoption of renewable technology solutions, energy efficiency initiatives and demand response mechanisms.

The emergence of new products and services will be a major factor in the future of electricity markets and offers significant opportunity for consumers. The ERAA supports a level playing field in terms of the regulatory framework in operation so consumers can be assured of a common set of protections and market participants have clear knowledge of the requirements they need to meet for the services they offer.

The challenge is to ensure Queensland does not exacerbate energy, economic, regulatory and other costs pressures on consumers, industry and the economy by developing policies, programs and initiatives that are not harmonised.

**Deregulation**
The ERAA has consistently advocated for the deregulation of retail energy prices. Retail price regulation is inefficient, stifles product innovation and impedes competition. Additionally, price regulation creates high levels of risk for retailers as the regulated price can be adjusted substantially on short notice which cannot be mitigated effectively by retailers as evidenced by the freezing of Tariff 11 in 2012-2013.


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The ERAA calls on the Queensland Government to honour its commitment to deregulate electricity prices in SEQ from 1 July 2016. The experience of deregulation in other jurisdictions, first Victoria, then South Australia and most recently New South Wales clearly demonstrates that deregulation increases choice for consumers and puts downward pressure on prices, resulting in an overall positive outcome for consumers and the electricity market compared to a business as usual approach.

Open, competitive energy markets free from distortions such as retail price regulation naturally encourage prices to be efficient through the development of market offers. Competition in retail energy markets, as in other sectors of the Australian economy, incentivises businesses to improve service, develop products that meet consumer needs and find ways to lower their costs and to pass these savings on to consumers.

Price regulation is not an effective mechanism to protect consumers from payment difficulties or deterring hardship. Targeted and transparent social welfare policies which provide direct assistance to consumers facing payment difficulties is the only viable long term approach to assisting consumers in need. Assistance should be provided through budget-funded purposely designed measures to facilitate cost reflective pricing and promote competition in the market.

The ERAA believes competition in SEQ is effective, which was evidenced by the Australian Energy Market Commission's (AEMC) 2014 Retail Competition Review where it found that 70 percent of residential households are on market contracts. There is a growing share of non-incumbent retailers in Queensland, and an increasing number of customers on market contracts. Removing price regulation will provide increased incentive for more retailers to enter and expand activities in the market. Along with the recent introduction of the National Energy Customer Framework (NECF) in Queensland, consumers should have additional confidence that they can switch away from regulated retail contracts and secure a better deal.

**Uniform Tariff Policy**

As the QPC has identified, the Uniform Tariff Policy (UTP) and the way it is implemented is critical to whether retail competition is effective in regional Queensland. Based on the previous work undertaken by the Queensland Competition Authority, the ERAA supports the UTP being applied at the network level as the simplest and most efficient mechanism to allow retail competition to develop. This approach would ensure the fixed costs associated with electricity supply to regional consumers are balanced, and allow retailers to compete to offer improved wholesale and retail products and services to consumers.

**Concessions**

The ERAA recognises that energy affordability remains a key issue for all stakeholders. Rising energy prices have impacted the ability of some consumers to pay their energy bills, however it is also true that energy affordability is a complex issue that requires a shared approach.

Consumer engagement remains a key priority to effectively managing affordability challenges. The energy market is constantly developing and evolving, and retailers are at the forefront of managing consumer responses to this changing market. Retailers responded to feedback received from community organisations, policymakers and regulators regarding areas for improvement in supporting customers with financial difficulties.

In August 2014 the ERAA facilitated a workshop addressing issues of energy affordability. The purpose of the workshop was to clarify and agree on key issues associated with energy affordability, define areas that can be actioned/controlled and by whom and discuss brokering solutions and associated actions. Following the workshop, the ERAA established five working groups to further explore specific short and medium term ideas identified by workshop participants. One of the working groups focussed on concessions reform, and it has reviewed the current concessions frameworks across the NEM jurisdictions to identify


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adequacy and best practice operation and suggest reform improvements. The findings of this group will be shared with the QPC.

Should you wish to discuss the details of this submission, please contact me on (02) 8241 1800 and I will be happy to facilitate such discussions with my member companies.

Yours sincerely,

Alex Fraser
Interim CEO
Energy Retailers Association of Australia



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