

QPC ELECTRICITY INQUIRY – ISSUES PAPER

My name is David Warner and I am putting forward this submission as a private citizen.

I have had the opportunity to participate in the Energex Tariff Reform Program dealing with the probable introduction of a demand tariff and, through this process, have had the opportunity to learn a lot about how the distribution and retail electricity system works.

I have also read the QPC Issues Paper on this subject. I acknowledge that there will be other individuals and organisations who are better placed to offer opinions and advice on most of the questions related to Section 2 (Productivity in the Supply Chain), Section 3 (Deregulation in South East Qld) and Section 4 (Regional Queensland).

My main interest lies in protecting the interests of consumers, particularly vulnerable, older Queenslanders who are on fixed incomes or otherwise disadvantaged through illness, old age, ethnic background etc. For this reason I will be restricting my submission to the questions that I believe directly relate to my area of interest, principally the questions in Section 5.

I now submit my answers to the following questions in the Electricity Inquiry Issues Paper:

2.9 What is the best way to recover the network costs associated with demand from electricity customers more efficiently and equitably? I acknowledge the need to change consumer behaviour in relation to peak use of the network through the introduction of a demand charge component. My concern with this change is that it will have the largest negative impact on low use / low income consumers who, in the main, are the most vulnerable members of our community. I believe that electricity is an essential service, the continuous supply of which to vulnerable consumers should not be compromised by the introduction of cost-reflective pricing.

2.12 What are the potential benefits and risks of emerging technologies for the electricity networks in terms of electricity prices and supply chain productivity? There will no doubt be many benefits of emerging technologies, some of which are probably not even well known at this time, including reducing the overall costs of power generation and distribution and making consumers more self sustainable in the generation and storage of electricity. One of, if not the key, risks of emerging technologies is that vulnerable, low income members of our community will not be able to afford to invest in the new technologies, either at an early stage or at all. I believe that late and non-adopters need to be protected and should not cross-subsidise others who are able to take advantage of changes that reduce their electricity usage and costs.

2.13 What is the role of economic regulation of networks in the face of increasing competition from non-network services and products? I believe that any business that has a monopoly position must be subject to effective regulation to ensure this position is not exploited to the detriment of consumers. This is even more important where the business supplies an essential service. I do not believe that non-network

services and products will have a major impact on the existing networks in the foreseeable future and effective regulation to protect consumers will continue to be required.

2.16 What are the barriers to improving consumer interest and participation in the electricity market? The major barrier to improving consumer interest and participation in the electricity market is a lack of education and knowledge. The electricity market is very complex, there are a mass of regulations, both federal and state, that affect the market and the economics of the market are beyond the scope of most consumers knowledge. Whilst most consumers are obviously interested in minimizing their electricity costs, the majority of consumers look at the complexity of the business and maintain the status quo. There would need to be a very effective education campaign delivered to the community to improve their knowledge and give them the confidence to become engaged with and participate in the electricity market.

2.18 What issues should be considered to ensure the customer protection framework supports new business models and innovation? I believe the key issues to be considered would need to include Access, Education, Equity, Affordability, No Cross-subsidisation, Complaints Handling / Dispute Resolution, Concession Protection and a Safety Net for the Vulnerable.

2.20 What would be a better alternative for funding the Solar Bonus Scheme? The current system whereby electricity customers who are unable to afford or choose not to invest in solar PV are forced to pay the feed in tariff (FIT) of those that can afford to install solar is plainly inequitable and unfair. Those who can least afford to are subsidising the benefits of those who are least in need. The cost of the SBS, including the FIT, should immediately be removed from the consumers electricity accounts and be funded through the Governments' Renewable Energy budget or some other more appropriate source that spreads the costs across the community. This would reduce consumers electricity accounts by an estimated \$316m based on 2015-16 Energex and Ergon Pricing Proposals.

3.3 What risks might consumers face in a deregulated SEQ market, and how might these risks be mitigated? I refer to my previous comments about the lack of education and knowledge the average electricity consumer has about the electricity industry in general. It is this lack of knowledge the poses the most significant risk to consumers if prices were to be deregulated. Without educated consumers there could not be a fair and balanced market and market power would therefore continue to reside with the same parties that it does today.

I would submit that if deregulation was to occur it would need to be accompanied with an appropriate and robust set of reporting and monitoring requirements to ensure there was no exploitation, significant penalties for misuse of market power, adequate complaints handling procedures, concessions protection and a safety net for vulnerable consumers.

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? I refer to my comments in 3.3 above.

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? I refer to my comments in 3.3 above.

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? As I have previously set out, I believe consumer education is the key issue. There should be no deregulation of the retail electricity price until a community wide, effective education program has been delivered using every possible media channel and the Government is satisfied that consumers have the required level of knowledge and access to all the appropriate tools to provide them with the power to drive competition to achieve its desired outcome, a reduction in individual electricity prices. Government would need to initiate and oversee the education program which should be jointly funded by Government and retailers and consumer groups should be engaged and appropriately funded to deliver the education program.

Government would also need to ensure that the retailers implement a timely complaints handling system and associated external disputes resolution service for unresolved complaints which must be available at no cost to consumers.

Government would also need to deliver appropriate price protection / concessions and a safety net for vulnerable consumers.

5.1 What are the barriers to improving consumer participation in the electricity market? I refer to my comments provided in 2.16 above.

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? Consumers may not know much about how the electricity market works but they are the only ones who know what they want from the electricity market. The electricity market has never established an effective customer engagement program designed to educate and empower customers and provide them with the ability to become central to the market. The market still engages with its customers in a way which is not really different from the days when the whole process was monopoly controlled.

A truly effective customer engagement program would, for the first time, allow the market to understand customer's expectations, understand and influence customer's behaviour, improve future planning and budgeting, generate business improvement initiatives, reduce costs, improve brand and reputation and prepare for future change. Each of these benefits would be easy to measure in terms of dollars, key performance indicators, feedback measurement etc.

5.3 What is the existing level of consumer knowledge and understanding of new electricity sector business models, products and services, and technologies? I believe that the existing level of consumer knowledge about all parts of the electricity sector is generally very low with the exception of solar PV where, as a result of extensive advertising and knowledge sharing using every possible sales and information channel, a reasonable and growing proportion of consumers understand what it is and how it can benefit them.

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? This will depend on how much is invested by the electricity markets in educating consumers about the future developments. I refer to previous comments I have made about the importance of education and customer engagement.

5.5 What are the key information gaps in consumer knowledge and understanding of electricity markets? I refer to my comments made in 2.16 above.

5.6 What have industry or consumer groups done to address existing information and behavioural barriers, and how effective have these strategies been? Energex have undertaken an extensive engagement program with consumers, consumer groups and retailers in relation to their proposed Tariff Reform Program. This has involved a very open and transparent education and information sharing program where many options have been put forward for consideration. I am not aware of any other similar programs that have been initiated by the electricity sector. Consumer groups are always interacting with their membership, the community in general, the Government and electricity companies about matters of mutual interest but this is largely a piecemeal approach undertaken on an as needs basis.

5.7 What are the potential benefits and risks in the transition to cost-reflective pricing, in terms of electricity prices and supply chain productivity? The major benefits relate to consumers who are able to move to cost reflective pricing and change their behaviour to reduce their overall power costs. A reduction in peak use would also benefit the generators and distributors by reducing the amount of capital required to further expand the generation and distribution of electricity. The most significant risk to consumers is that cost-reflective tariffs may apply price pressure to those least able to respond. I am concerned that there is no credible data that has been produced to identify vulnerable consumers and to model the financial impact of cost reflective pricing on them. Without credible modelling I believe the risks of change are unacceptably high and any such change should be delayed until the financial impact on vulnerable consumers is properly assessed and associated issues dealt with.

5.8 In what ways could customers be better supported and equipped to understand and accept more cost-reflective tariff structures? I believe the same comments I made in 3.10 above regarding deregulations also apply to this 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? I generally support the move to make the introduction of a demand tariff voluntary. It is not necessary for all consumers to shift to demand pricing to realise network wide benefits. Mandating that all consumers move to a demand tariff by 2020 would require that all consumers have the financial resources to purchase smart meters; an understanding of their electricity use and the implications of this use on electricity bills; and the capacity to change behaviour. Clearly, many vulnerable consumers will not be able to meet these three criteria without significant support. A voluntary system ensures that only those consumers with the resources, knowledge and capacity to change will adopt the new demand tariff. The benefit of having a voluntary system is that it places the onus on the electricity sector to ensure that

consumers are capable and willing participants. Obviously much work must be done to ensure that consumers fully understand the implications of shifting to a demand tariff. Distributors will need to engage with the Queensland government to implement both widespread and targeted education programs so that all consumers, no matter their background, can be confident they can make appropriate decisions. This will require a range of delivery methods that respond to the needs of different consumers with more intensive education programs for certain types of consumers, such as older Queenslanders. If consumers do not have the knowledge to inform their behaviour the result will be higher electricity prices.

I firmly believe that late and non-adopters must not subsidise those consumers who can afford to move to and use cost reflective pricing to reduce their electricity usage and costs. Any move to cost reflective pricing must incorporate a solution to the issue of the need for new smart meters to be purchased and installed. The cost of such meters may be beyond those on fixed incomes or who are vulnerable in some other way and some form of subsidised meter supply for this sector of our community must be implemented when cost reflective pricing is introduced.

Another issue that needs to be considered relates to the fact that many on fixed and low incomes are not in a position to buy modern, energy efficient appliances and, as a result, they will always be at a disadvantage to those who have the latest appliances.

5.10 What are the benefits and risks of cost-reflective pricing? I believe the benefits are well set out in other comments I have made above. I am more concerned about the risks and, in addition to the risks I have set out in other comments above, I would also like to draw attention to two issues that need urgent attention.

The first of these relates to how the peak is measured under cost reflective pricing. I believe there is a move towards a single peak measurement within the billing period and I would argue that this is not in the best interests of consumers. There are a range of family activity, weather, appliance malfunction etc reasons why an abnormal peak could be established within a billing period. The solution to this is to measure peak usage over multiple peaks, say three or four as a minimum. There needs to be a balanced approach and a single peak does not meet this requirement. I believe the retailers have claimed operational difficulties preclude the measurement of multiple peaks. The financial interests of the retailers and their shareholders are being placed above consumers interests in relation to this matter and this is not acceptable.

The other issue relates to consumer protection. I believe there may be a move to introduce “bill protection” to try and avoid consumer bill shock as a result of the change to cost reflective pricing. The issue I have with this proposal is that any bill protection mechanism that is introduced must aim to protect all consumers, especially low income / low use consumers who I believe will be those most disadvantaged by a move to cost reflective pricing. Of course the most vulnerable in our community must be provided with a safety net to ensure they are able to have ongoing access to this essential service without the threat of being sued for outstanding electricity charges or being disconnected.

5.11 What strategies or safeguards could support low-income and vulnerable consumers in the transition to new tariff structures? I refer to other comments I have made about this subject, particularly in 5.10 above.

5.12 What is the role of retailers in the transition to new tariff structures? I believe the main role for retailers related to the move to cost reflective pricing is

education. The retailers must also commit, and be compelled by regulation, to pass on in full to consumers the benefits of the move to new tariffs. There must be no opportunity for profiteering as a result of these changes. The retailers should also continue to be responsible for pro-active, early hardship identification and management.

5.13 In what ways do the benefits of energy efficiency and demand management programs help consumers offset price risks? I believe I have covered this question in other comments made elsewhere in this submission.

5.14 What types of incentives would be the most effective in balancing benefits and costs to achieve better outcomes in terms of electricity pricing and supply chain productivity? I believe this question will only be adequately answered from a consumer's perspective following an effective education program when properly informed options can be developed and considered.

5.15 What are the benefits and risks in the Queensland Government providing incentives for households, businesses and industries to become more energy efficient or manage their peak levels of demand, including implementing energy efficiency standards for sectors within its jurisdictional authority? The most immediate major benefit to be gained from a change in consumer behaviour relating to energy usage and efficiency is economic, i.e. a reduction in the capital needing to be invested in generation and distribution infrastructure for the future and a consequent reduction in electricity costs to consumers. Another consequential benefit achieved over time would likely be a reduction in fossil fuel powered electricity generation with associated climate change benefits.

The major risks I foresee could be reductions in usage leading to inefficient use of infrastructure and/or such infrastructure becoming redundant before its normal expected lifespan. This could increase consumer costs or at least reduce the economic benefits mentioned above. One other risk I would be concerned about is the possible subsidisation that could occur if substantial numbers of consumers adopt new technologies and leave the network leaving those who are unable or unwilling to invest in new technology to pay for the total network costs. This would impact on the vulnerable consumers the worst.

5.16 What barriers and costs does a voluntary uptake of advanced metering present for energy efficiency and demand management tools? I refer to other comments I have made regarding voluntary uptake and smart meters in this submission, particularly under 5.9 above.

5.17 Are the principles outlined above useful for assessing the Queensland energy concession framework and identifying improvements? I agree that the QCOSS principles of a clear objective, adequacy, equity, adaptability and transparency would be an appropriate base for assessing the Queensland energy concession framework and identifying improvements.

5.18 What other key criteria or principles should be used to assess the energy concessions framework? The QCOSS principles are quite high level and, in my opinion, need to be underpinned by more specific criteria. Having identified the objective of the concessions, which I assume would be to ensure that everyone is able

to afford a safe and reliable supply of electricity, consideration must then be given to identifying those members of the community that fall outside the objective. These people are, in the main, likely to be unable to afford to pay the full price for their electricity due to their age, income, disability or some other special needs.

In the main, these people are identifiable due to them already being in receipt of cards / concessions from federal, state or local government or some other organisations with such cards / concessions normally being asset and/or income tested. I believe that all such card / concession holders should be eligible to access energy concessions.

In summary, those in need should have ready access to an affordable, safe and reliable supply of electricity and they should not be exposed to funding or cross subsidising benefits to other more affluent consumers. Any existing concession holder who may be excluded under new concession rules must have a right of appeal and there must also be a safety net for those in our community who, even with concessions, are unable to afford a safe and reliable supply of electricity.

There should also be an effective education program undertaken to ensure all those who may qualify for a concession are aware of this and what they need to do to access this concession.

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?

NO, income is not the only defining feature of who may be a vulnerable consumer. In fact it is not even the first criteria to be considered. A vulnerable consumer is any person who is in need of special care, support, or protection because of age, disability, or other special risk factors. Other special risk factors could include ethnic background, location, dependants etc.

To identify vulnerable consumers, requires us to understand if they meet any of the criteria set out above and then overlay their income. As has been publicised recently, you can have an age pensioner who owns their own home with a household income of \$35,000 and receiving an electricity concession doing relatively better on a net weekly income basis than a family of four, including a working wife and two children going to school, with a substantial mortgage and a household income of \$100,000 which precludes them from obtaining an electricity concession.

Attempting to define a vulnerable consumer by their income would produce some horrendous, and no doubt unintended, results. Income should always be a secondary measure after the basic vulnerability criteria has been measured.

5.20 How could electricity concessions be better targeted to assist customers most in need? I would argue that before any changes to electricity concessions are considered, there needs to be some comprehensive financial impact modelling undertaken to assess the impact on those consumers who may lose access to a concession following any change.

I note this question has moved from “vulnerable consumers” as canvassed above to “customers most in need”. Is this deliberate and, if so, why? This question can be read as though it is asking us to take the vulnerable consumers as a group and then pick which of these vulnerable consumers is most in need, an almost impossible task surely.

I would repeat what I have set out above and that is that electricity concessions should be targeted to assist those consumers identified as requiring special care, support, or protection because of age, disability, or other special risk factors.

In the main, these consumers will already be holding a federal, state or local government card or concession

5.21 What alternatives to the flat rebate structure would better assist vulnerable customers? I am not in possession of sufficient information to provide a properly informed answer to this question. I am sure there would be alternatives to the flat rebate structure but these alternatives would need to be identified and then subjected to comprehensive financial impact modelling to ensure that they did not generate any unintended negative impacts on vulnerable consumers / current concessional holders.

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? Given the rapid increase in electricity prices over the past few years (71% in real terms from 2007-08 to 2015-16 according to the QPC Issues Paper) has not been matched with equivalent rises in concessions, the relative position of those receiving concessions has obviously significantly deteriorated. I would therefore argue that current concession levels are not sufficient to provide meaningful support to vulnerable consumers and should be reviewed, or at least a commitment made for the concessions to keep pace with increasing prices in the future. Current concessions also need to be underpinned by a robust safety net.

5.23 In a finite public funding environment, which consumers should be targeted for financial support in relation to electricity affordability? I refer to the information I have supplied above regarding this matter, particularly in 5.18, 5.19 and 5.20. In general, consumers on pensions, holding government health cards or receiving other forms of welfare support should be targeted for support. In a finite public funding environment it is incumbent on the government to protect its most vulnerable citizens first. These members of our community must not be targeted for savings which can quite plainly be made from reducing government waste and red tape, improving productivity and reducing unemployment.

5.24 What should the Queensland Government advocate for in a national review of concessions and rebates? This is a very difficult question given that each state and territory has its own set of concessions and rebates with associated qualifiers. Given the frequency of use of the words vulnerable and disadvantaged, it would probably be useful to at least agree a national definition of a vulnerable person and whether this is different from a disadvantaged person. For example there may be people who are not pensioners but are reliant on and high users of electricity due to a medical condition. These people may not be generally vulnerable but could be disadvantaged by electricity pricing or supply changes.

Thank you for permitting me the opportunity to provide this submission. I would be pleased to answer any questions that may arise from this submission.

David Warner
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