

	<p><b>A non-profit, volunteer organisation, advocating to advance the interests of consumers in Queensland</b></p> <p><i>Secretary: Max Howard PO Box 261 Corinda Q 4075</i></p>
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SUBMISSION ON QUEENSLAND PRODUCTIVITY  
COMMISSION ISSUES PAPER:  
ELECTRICITY PRICING IN QUEENSLAND

**BACKGROUND**

The Queensland Consumers' Association (the Association) is a non-profit organisation established in 1976 to advance the interests of Queensland consumers. The Association's members work in a voluntary capacity and specialise in particular policy areas, including energy.

The Association is a member of the Consumers' Federation of Australia, the peak body for Australian consumer groups. In relation to energy issues, the Association is represented on the Queensland Competition Authority's Consumer Consultative Committee and the Energy and Water Queensland Ombudsman's Advisory Council, and is a member of the Queensland Council of Social Service's (QCOSS) Essential Services Consultative Group.

For many years, and particularly since 2004, the Association has participated very actively in numerous consultations, and has also undertaken/commissioned research, on a range of national and Queensland energy policy issues.

Consequently, the Association has considerable knowledge of, and experience with, energy issues, including those involving electricity prices.

Therefore, the Association welcomes the opportunity to make this submission to this QPC inquiry. However, due to resource constraints the submission is brief and does not address all of the questions posed in the Paper.

Nevertheless, the Association would be happy to try to provide the QPC with further information on, or answer queries about, specific matters either verbally or in writing.

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**GENERAL COMMENTS**

The Association considers that in general the Issues Paper provides a useful overview of the main issues affecting electricity pricing in Queensland, given the inquiry's objectives and scope.

However, the Association considers that the Issues Paper does **not** sufficiently mention or recognise the critically important influences on electricity prices of:

- Consumer protections – which inter alia increases informed consumer engagement by reducing power and information asymmetry and increasing consumer trust and confidence, as well as in providing industry with a defined level playing field.

- The provision of sufficient resources for consumer organisations to undertake research, advocacy, and consumer education – which inter alia increases the efficiency and effectiveness of public, commercial and consumer decision-making.
- The current regulatory arrangements for setting network maximum revenues and capital and operation expenditures which have major impacts on retail electricity prices.
- The potentially very beneficial impacts on distribution costs and prices of demand side management (DSM) tools (including direct load control of air conditioners by distributors).

Therefore, the Association **recommends** that in the Draft Report the QPC include the relevance of these activities to electricity prices and make recommendations that will enhance their beneficial influence on prices.

## SPECIFIC COMMENTS

### **Consumer protections**

As indicated above, the Association considers that the Issues Paper does not sufficiently mention or recognise the critically important influences on electricity prices of consumer protections. These increase informed consumer engagement in the electricity market by the reducing power and information asymmetry between consumers and industry and by increasing consumer trust and confidence in the market. They also provide industry with a defined level playing field.

In this regard, the Association considers that Queensland should introduce a Wrongful Disconnection Compensation Scheme that requires electricity retailers to compensate customers wrongly disconnected due to the retailer making an error or failing to comply with the law<sup>1</sup>. Such a scheme has been operating in Victoria since 2004.

The Victorian scheme has been reviewed several times and is considered to be a significant deterrent to wrongful disconnection and an incentive for improved customer service, especially for customers experiencing difficulty paying their energy bills. It also recognises and provides some compensation for the significant consumer detriment caused by wrongful disconnection. In 2014, the compensation rate per day was increased from \$250 to \$500.

Currently, in Queensland consumers can normally only get compensation, of \$142 per day, if a wrongful disconnection was caused by the power distributor – Energex or Ergon Energy. This is very unfair because retailers are a major cause of wrongful disconnections but do not pay any compensation for most of them.

Energex also supports retailers being required to pay compensation for retailer caused wrongful disconnections. For example its 2013 submission<sup>2</sup> on the Queensland Competition Authority's Discussion Paper on Minimum Service Standards and Guaranteed Service Levels said:

*Energex recommends that the application of guaranteed service levels (GSLs) in the Code be modified to differentiate between GSLs for distribution entities and those for retail entities. This modification would place the responsibility for the investigation, management, payment and reporting of GSL events with the entity responsible for the GSL event.*

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<sup>1</sup> Many types of errors/non-compliance by retailers can lead to wrongful disconnections including:

- Not providing the distributor with correct information;
- Not following the procedures required by legislation before arranging disconnection;
- Not offering the customer an affordable payment plan; and
- Not providing the customer with information, or inaccurate information, about the availability of concessions, rebates, grants and financial counselling.

<sup>2</sup> <http://www.qca.org.au/getattachment/28fd8b9a-81bd-4c38-a163-745723332922/Energex.aspx>

*Whilst the Code currently includes provisions for a distribution entity to make a GSL payment on the retailer's behalf and the distribution entity is entitled to recover the GSL payment from the relevant retailer (per the Coordination Agreement), the current process requires the distributor to investigate, confirm and recover these costs, which results in an inefficient and costly outcome. Furthermore, reimbursement provisions included in the Coordination Agreement are expected to be removed when NECF is introduced in Queensland. Currently Energex processes approximately \$15,000 in retailer related GSL payments per annum. The removal of the ability to recover these costs will place undue financial burden on Energex in the future should the current application be maintained.*

*The present aggregation of GSL payments regardless of the entity responsible for the GSL event is also considered unnecessarily confusing and burdensome for customers. Energex is aware of frequent circumstances (e.g. wrongful disconnections) where a customer first contacts their retailer regarding the GSL event. Despite the retailer acknowledging responsibility for the error, the customer is then required to contact the distributor to arrange for the GSL payment. It would also be reasonable to assume that there would be instances where the customer would be unaware of their eligibility for a GSL payment unless advised by the retailer at the time of their complaint.*

*Energex recognises that customers are entitled to a guaranteed level of service from both entities. However, it is proposed that the application of separate GSL standards, payment and reporting responsibilities to each entity would limit the financial responsibility placed on distribution entities and reduce customer inconvenience and confusion.*

The number of Queensland households disconnected for non-payment of the electricity bill reached a record high of 29, 692 last year, 17% more than in 2013-14.

The Association **recommends** that the QPC recommend that the Queensland government introduce a Wrongful Disconnection Compensation Scheme that requires electricity retailers to compensate customers wrongly disconnected due to retailer error or failing to comply with the law.

## **Chapter 2 - Productivity**

The Association notes in 2.1 that that assessment by the QPC of some policies has been "limited by the absence of supporting evidence or monitoring of the costs and benefits of the policy".

The Association agrees that this has been, and continues to be, a significant problem with energy policy development and review in Queensland.

However, the QPC should also recognise that a major associated problem has been lack of or inadequate assessment of the consumer impacts, and unrealistic expectations that such information should and could be provided by consumer organisations.

Consumer organisations can do not do this, especially when time lines are short and they lack their own, or do not have quick and easy access to external, funding.

In this regard the Association draws attention to the very small amount of amount of funding provided by Queensland government to consumer/community organisations for energy research, advocacy and education compared to that provided by the Victorian and NSW governments.

The Association also considers that the governments, regulators and industry should undertake far more analysis and monitoring of consumer impacts of policies pre and post implementation.

Therefore, the Association **recommends** the QPC to make recommendations that reflect the above views.

## **Chapter 3 – Deregulation in South East Queensland**

### *3.1 Why Competition is important*

The Association considers that the QPC has not sufficiently recognised the importance and impacts on competition and consumer behaviours/decisions of quality of customer service (as distinct from the types of contracts and benefits on offer) and the generally low price elasticity of demand for electricity.

### *3.2 Reform in retail price regulation*

The Association considers that a benefit, not mentioned by the QPC, of having regulated prices set at efficient levels is that they are used by most retailers as the base prices from which all market offer discounts, especially percentage discounts, are advertised and calculated. This makes a very complex market simpler for many consumers to engage with. In states where there is no retail price regulation the market is much more complex because each retailer has its own set of base prices which may also vary between contract types.

Therefore, the Association **recommends** that in the Draft Report the QPC include, and take account of, this price regulation benefit.

### *3.3.2 AEMC reviews of retail competition*

As indicated to the AEMC in written submissions and verbally, the Association considers that the AEMC's assessments of the effectiveness of retail competition in SEQ have **not** clearly demonstrated that competition is effective. This is for several reasons including:

- The AEMC measures consumer outcomes mainly by asking those who have switched retailer or offer about their level of satisfaction with their decision. The Association considers this is an inadequate and potentially biased measure of the impacts on consumers. A much more meaningful and credible measure is to find out the type of contract consumers are on and how this compares to other offers that might suit their needs. The Association considers that such measures will show that, for a variety of reasons, many consumers on market contracts are only very marginally better off than standing offer customers and that some are worse off.
- Attaching excessive importance to the potential saving that a consumer might make by switching contract and or retailer without recognising that the low cost contracts may be benefiting considerably from cross subsidies paid for by consumers on higher priced contracts and could be expected to be greatly reduced by more effective consumer engagement in the market.
- Not looking in sufficient detail at retailer margins, subsidisation of market contract customers by standing offer customers, or the overall cost of electricity to all consumers in SEQ.

**For the above, and other reasons<sup>3</sup>, the Association is not yet convinced that competition in SEQ is effective enough to justify the removal of price regulation.**

### *3.3.3 Price deregulation in other jurisdictions*

QPC mentions and quotes from several reports, for example by the AEMC and IPART which conclude that price deregulation has been effective in Victoria, South Australia and NSW. However, several other reputable reports<sup>4</sup> question that conclusion yet only a 2013 ESCV report is mentioned.

Therefore, the Association **recommends** that in its Draft Report the QPC take account of, and mention, more reports and research on price deregulation in other jurisdictions.

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<sup>3</sup> For example, the increased complexity likely to result from the tariff reform process and the very high cost to consumers of late payment of bills, especially of large ones, associated with many market contracts.

<sup>4</sup> For example several reports by the St Vincent de Paul Society of Victoria and the 2015 paper by the chair of the by the ESCV "If the retail energy market is competitive then is Lara Bingle is a Russian cosmonaut." <http://www.esc.vic.gov.au/getattachment/fc947897-7d4f-4772-97c9-959e3baad0db/If-the-retail-energy-market-is-competitive-then-is.pdf>

## **Chapter 4 - Regional Queensland**

### *4.1.3 Options for increasing competition in regional Queensland*

The Association supports the continuation of a UTP or a similar policy that ensures that consumers in regional Queensland do not pay significantly more for electricity at retail level than consumers in SEQ.

The Association considers there are advantages in paying any UTP subsidies to Ergon's distribution business, not its retail arm.

The Association also has major concerns about the practicality, efficiency and fairness of a policy that attempted to ensure that subsidies went only to customers identified as being in need of support. Of particular concern are the difficulties of ensuring that:

- eligibility criteria cover all people in need of support
- most eligible people receive support
- people who become ineligible no longer receive support
- eligibility criteria are revised frequently to take account of changes in inflation and other economic conditions, community expectations and needs, etc.

### *4.1.4 Role of EEQ in a competitive market*

The Association's aim on this issue is to ensure that if any or all of EEQ's retail customers are sold prior to or following changes that enable other retailers to enter the market, the EEQ customers be sold to a minimum of three other retailers and that the number sold to a retailer takes account of the retailer's total customer base in Australia.

In taking this position the Association considers that in SEQ the 2007 sale of Energex's retail customers to only two large retailers substantially retarded competition and the development of an effective retail market. It also contributed substantially to the great loss of consumer confidence and trust in the market as a result of the unacceptable and often misleading and deceptive door to door and phone marketing activities of some retailers. This was a major policy failure that should not be repeated in regional Queensland.

Therefore, the Association **recommends** that in its Draft Report the QPC make a recommendation in support of the Association's position.

### *4.1.5 Options for setting notified prices while maintaining a UTP*

The Association does not have a firm position on this matter. However, as indicated above, the Association supports the continuation of a UTP or a similar policy that ensures that consumers in regional Queensland do not pay significantly more for electricity at retail level than consumers in SEQ and considers there are advantages in paying any subsidies to Ergon's distribution business, not its retail arm.

## **Chapter 5 – Customer participation and support in the electricity market**

### *5.1.2 Consumer behaviour and capacity for adaptation*

The Association welcomes the QPC's use of recent CSIRO information on the barriers to consumer uptake of cost reflective tariffs.

The Association also considers that to overcome some of these barriers there needs to be a major increase in the availability of independent experts able to not only advise consumers about the advantages and disadvantages of the tariffs and other options available to them but also to assist them to go the next step and implement beneficial changes to contracts, prices, retailers, etc.

The Association considers that NFP organisations can and should play a much greater role in this area and that there should be more public funding for consumer and community organisations to undertake consumer education on energy matters.

Therefore, the Association **recommends** that the QPC's recommendations reflect the above views.

### *5.3.2 Transition to cost reflective pricing*

The Association has major concerns and reservations about the extent to which a “demand” (ie charge based on peak use in a 30 minute period) component should be included at the start of the transition process to more cost reflective tariffs. As indicated in submissions to Ergon and Energex, the Association considers that the demand component of tariffs will be very difficult for most consumers to understand and use, and the option of initially introducing time of use tariffs without a demand component should be further considered.

The Association also considers that:

- Much more work is required on the impacts of cost reflective tariffs on different types of consumers including any resulting changes in the level and timing of demand for electricity.
- Any cost reflective tariffs should not be mandatory and consumers should have the right to revert back to their previous tariff.
- Further consideration is needed of the extent to which cost reflective distribution tariffs will or can be reflected in retail tariffs and to the possible need for the distributor tariff to be a separate component of the retail bill.
- More consideration should be given to how the many<sup>5</sup> interval meters currently installed in households in SEQ can be used by customers wanting to try more cost reflective tariffs

The Association **recommends** that the QPC’s recommendations reflect the above views.

### *5.3.6 Energy efficiency*

The Association welcomes the inclusion of energy efficiency because it has had, and will continue to have, substantial impacts on electricity prices and consumer bills. Consequently, it is essential to include it in consideration of policies, etc. that influence prices.

In this regard, the Association notes the reference to the Queensland government’s now closed ClimateSmart Home Service which aimed at helping residents save money on energy and water bills. The Association considers that for many consumers face to face contact with experts is a very effective way to obtain and act on information. An example is the Home Energy Saver Scheme terminated by the Federal government in 2014.

Therefore, the Association **recommends** the QPC to investigate the benefits and costs of such face to face services for energy efficiency, perhaps combined with education about how the retail electricity market works (including the choices available), and to consider recommending the establishment of such a service.

### *5.3.7 Demand management*

As indicated earlier, the Association supports the use of cost effective Demand Side Management (DSM) tools to reduce network costs and has been a strong supporter of Energex’s PeakSmart voluntary program for air conditioners which allows Energex to remotely switch the appliance to economy mode (without significant effects on consumer comfort) during periods of peak demand. The many advantages of this type of DSM include:

- Provides predictable and reliable load reduction
- Can be used without changes to metering
- Is not tariff dependent
- Is set and forget for consumers

The QPC appears to consider that advanced metering is needed for consumers to monitor their demand for electricity. The Association disagrees and considers that there are many other simple

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<sup>5</sup> Thought to be over 600, 000

cheap and effective ways for consumers to obtain this information, including in home displays independent of metering.