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Queensland Productivity Commission's Electricity Pricing Inquiry – Draft Report

The Australian Energy Council (the Energy Council) welcomes the opportunity to make a submission to the Queensland Productivity Commission's (QPC) Draft Report for its Electricity Pricing Inquiry.

The Energy Council is the industry body representing 22 electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. These businesses collectively generate the overwhelming majority of electricity in Australia and sell gas and electricity to over 10 million homes and businesses.

The Australian Energy Council[1] supports those draft recommendations from the QPC's Draft report which encourage open, competitive energy markets free from distortions, which in turn ultimately benefits Queensland electricity consumers. In particular, we strongly support the following draft recommendations:

- the development of an efficient electricity market which does not favour any technology over another, and allows the market to evolve to meet consumer demand;
- that the QLD Government should not merge CS Energy and Stanwell; and
- that deregulation of South East QLD (SEQ) electricity prices should commence as planned on 1 July 2016.

Full implementation of these draft recommendations by the QLD Government is expected to set the path to a competitive, sustainable and consumer focused electricity supply sector in Queensland. Despite the Energy Council supporting many of the draft recommendations, there are still a number of recommendations where we seek further clarification.

Answers to specific draft recommendations in the QPC's Draft report have been provided in Attachment 1. The attached submission responds only to those draft recommendations where the Australian Energy Council has particular views. The Energy Council would welcome the opportunity to discuss any of the issues raised in this submission with the QPC along with any other matters as they arise.

Any questions about our submission should be addressed to Panos Priftakis, Policy Adviser by email to panos.priftakis@energycouncil.com.au or by telephone on (03) 9205 3115.

Yours sincerely,

Kieran Donoghue

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[1] Ergon Energy Queensland is unable to take a position regarding this submission.

Attachment 1

Supply chain productivity - A sector in transformation

1 To ensure the development of an efficient electricity market, the Queensland Government should not favour any technology over another, and allow the market to evolve to meet consumer demand.

The Energy Council is a fuel and technology neutral organisation. As such we agree with the QPC that it is appropriate to implement policies and regulations that do not favour one or a group of technologies over others.

2 To ensure the development of an efficient electricity market, government intervention should be limited to circumstances of clear market failure, and all government intervention should only occur after there is a clear demonstration that the benefits outweigh the costs.

The Government should consider approaches that can return Australia's wholesale electricity markets to a sustainable supply-demand balance that will support the required level of investment. The implication of Government intervention in stationary energy markets would significantly undermine investment signals in the National Electricity Market (NEM), particularly where the subsidisation is not tied to the wholesale price in some way.

The Energy Council therefore agrees with the QPC that government intervention should be limited to circumstances of clear market failure, and any Government intervention should only occur after there is a clear demonstration that the benefits outweigh the costs.

3 The Government should implement an ongoing review program, in conjunction with the network businesses, to monitor the impacts of emerging technology, and to identify the potential need for an early response to be made, based on an assessment of the costs and benefits.

The Australian Energy Council observes that the most constructive way to review emerging technologies would be to include a wider group of stakeholders in the review process.

Generation

4 The Queensland Government should not merge CS Energy and Stanwell, given the likely reduction in competition in Queensland's already concentrated wholesale electricity market and the likely consequence of higher wholesale electricity prices.

CS Energy and Stanwell shouldn't be merged. It is important that competitive markets are maintained in order to deliver efficiently priced energy, reliability and environmental outcomes. Given the combined market share of these government-owned generators in Queensland, a merger would increase their wholesale price-setting power.

Consolidation in these Queensland generators could in principle have an impact on the electricity retail market, as retailers manage spot market volatility through financial hedge contracts with generators and other counterparties, either directly through over the counter contracts or indirectly through exchange trade contracts. If a retailer could not obtain hedge contracts, they would be exposed to the volatility of the wholesale price, a design feature of the NEM. This could ultimately lead to increased retail electricity prices, materially outweighing any economic efficiency benefits that Government as owner may have realised.

6 To reduce the combined market concentration of CS Energy and Stanwell, the Queensland Government should confirm that it does not intend to increase the size of the existing Government owned corporation (GOC) generation capacity.

There are ambiguities and tensions entailed in government ownership of participants in a competitive market, reflected in this draft recommendation. A privately owned generator portfolio would not seek to constrain its activities in this way, whether internally or publicly. Nor is such a commitment especially meaningful to other market participants, since government policy can simply be changed. To the extent that the Government is concerned about the perception of market concentration, then more significant action, such as divestment, would be required than simply foregoing any new investment.

7 The Queensland Government should require CS Energy and Stanwell to develop and adhere to a common voluntary Code of Conduct (the Code) in respect of their rebidding behaviour. The Code should be developed as part of a public consultation process and;

8 The Queensland Government should require CS Energy and Stanwell to report to the Government, on an annual basis, all late rebids submitted to the Australian Energy Market Operator. This report should be audited by an independent body, and the findings of the audit made available to the public.

There are currently rules that require generator bids be made with a genuine intent to honour them, and allows for bids to be updated as new information becomes available. In December 2015, the Australian Energy Market Commission (AEMC) published a final determination on a rule change which replaces these “good faith” provisions with an obligation “not to mislead” through action or omission. The bidding rule is specifically not intended to overcome structural and competition problems, instead it is intended to prevent misleading behaviour of participants, irrespective of ownership and size. These new rules are due to come into effect on 1 July 2016[i].

In the light of these changes in the national rules, there appears little to be gained by adding a duplicative layer of jurisdictional regulation as represented by these regulations. It is further indication that the rationale for ongoing state ownership of the Stanwell and CS Energy portfolios is lacking.

If the QPC considers there to be a structural problem, leading to an uncompetitive market, then it should prove this and identify a suitable measure (divestment, undertakings, allocation of vertical contracts). The QPC’s proposal places additional, costly regulatory burdens on Stanwell and CS Energy which could place these generators at a commercial disadvantage compared to competitors.

AEMC investigated the possibility of mandatory reporting in relation to “late rebids”, although, chose not to implement this as such reporting would have a significant cost which outweighs any potential benefit. The QPC is now proposing to require specific participants to incur this inefficient cost with no identified additional benefit. The Energy Council considers this to be poor regulatory practice.

9 The Queensland Government’s Renewable Energy Taskforce should consider: the cost and price impacts of a Queensland target; the merits of including small scale solar in a renewable energy target; and the benefits of an inter-jurisdictional approach to emissions reduction policy.

The QLD Government has appointed a Renewable Energy Expert Panel which will lead a public inquiry into establishing a 50 per cent renewable energy target by 2030.

The Energy Council has a preference for nationally consistent policy settings, especially those that impact the workings of the wholesale market. Any jurisdictional or inter-jurisdictional renewable energy or emissions reduction scheme must be well-designed, developed in close consultation with industry, and must have bipartisan, long term objectives. Understanding the resource cost of the target is critical, and the inputs and assumptions supporting any modelling of the policy options should be shared with industry and other key stakeholders.

A 50 per cent target by 2030 is significant and will necessarily damage the value of existing assets in the market. While the Government should have due regard for private investment, it should also be clear in its assessment of the policy how it will affect the value of Queensland's own generation holdings. In this respect, we note ACIL Allen's forecast that it is primarily gas-fired electricity generation that is likely to exit the market. Since it is less than a decade since Queensland had a government scheme to incentivise gas-fired electricity generation, today's government should carefully consider the signals it is sending to investors if it now strands the very generation that was being encouraged only a few years ago. Moreover, it is inevitable that the large coal baseload stations that currently provide the majority of Queensland's electricity will exit the market in due course. How soon depends on the nature and strength of emissions reduction policy adopted in Australia. As they do, gas-fired electricity plant may play a valuable role in maintaining reliability as the penetration of intermittent renewables grows. Stranding such plant would be a perverse outcome.

We consider that the Queensland should not take too much comfort from the price impact of the 50 per cent policy forecast by ACIL Allen. The low price impact is predicated on the so-called "merit order effect" of the additional supply persisting through to 2030. Should the market conditions induced by the policy cause a material level of coal exit, especially if this occurs in conjunction with further national emissions reduction policy, the merit order effect will rebound and wholesale prices could rise above historical levels. This is similar to the outcomes observable in South Australia today, with the imminent exit of both the coal plants at Port Augusta. Over the course of a few months last year, 2016 futures prices virtually doubled to over $85/MWh. Notably, the new renewable generators in South Australia (utility scale wind and rooftop PV) are not well placed to offer hedges to the large customers seeking to manage their energy costs.

10 In order to achieve least-cost carbon abatement, the Queensland Government should work with the COAG Energy Council to find opportunities for collaboration on carbon policy, as an alternative to pursuing independent action.

The Australian Energy Council supports collaboration with other jurisdictions to develop a consistent policy approach to carbon reduction.

National approaches are inherently more efficient than a variety of state-based approaches to reducing greenhouse gas emissions from the stationary energy sector and/or deploying low or zero emissions technologies. State-based schemes are likely to distort investment incentives between different regions of the NEM resulting in sub-optimal outcomes economy wide.

11 The Queensland Government should not intervene in the solar PV market to achieve a 3000 MW capacity target for solar PV uptake in Queensland by 2020.

The Energy Council supports the draft recommendation that the Queensland Government shouldn't intervene in the solar PV market to achieve the 3,000MW target, which in any case is likely to be met by 2020.

Networks

14 Where network businesses are engaged in potentially competitive functions, the holding company should: ensure priority is given to the core activities of the businesses being the provision of electricity network services; ensure there is robust ring-fencing between the competitive and monopoly functions; undertake market testing of any commercial interactions between the functions; and consider a longer-term strategy of full structural separation of the energy services business and the natural monopoly distribution businesses.

The Australian Energy Council wants competitive neutrality to be maintained by ensuring that regulated network businesses cannot compete with contestable parties for competitive services. Where this is allowed, contestable providers are likely to find themselves at a disadvantage, and the price and service quality benefits of competition are likely to be compromised. This is particularly important as the market transitions from one focused on energy supply to meet a broader range of customers' energy management needs through distributed generation, storage and other demand-side solutions.

The Energy Council supports the draft recommendation to ensure robust ring-fencing exists between monopoly and contestable functions of network businesses. The Australian Energy Regulator will soon be consulting on a review of its Electricity Ring-fencing Guideline. Realistically, a robust national ring fencing guideline will provide more comfort to market participants than the network holding company internal policy proposed.

15 To ensure that the national regulatory frameworks effectively respond to the development of new technologies and business models, the Queensland Government should work proactively with the COAG Energy Council on reforms in this area.

The Australian Energy Council agrees that the Queensland Government should work proactively with the COAG Energy Council to ensure the national regulatory frameworks effectively respond to the development of new technologies and business models. The Energy Council strongly advocates that in a competitive market environment, investors should be able to select from the widest practical range of new technologies. Any necessary reforms should be national (at least NEM-wide) in scope.

16 Distribution businesses should continue to minimise or defer network capital expenditure by pursuing both tariff and non-tariff demand management programs (including discounts or rebates) for customers who shift their load to off-peak periods or are subject to interruptability of supply.

Distribution businesses should continue to minimise network capital expenditure by pursuing both tariff and non-tariff demand management programs. We note that this is the intent of the national network regulatory framework as it stands. Should any further direction of this sort be imposed on the Queensland networks by government, it raises the question as to the suitability of the framework for state-owned businesses.

Solar bonus scheme

17 The Queensland Government should consider the merits of an earlier end to the Solar Bonus Scheme than the planned 2028 scheme closure.

The QPC suggests there is a case for the SBS to be funded via the State Budget rather than through electricity prices but stops short of making this recommendation, given it is a matter for the Queensland Government. The Energy Council believes that the level of the SBS and the way it is currently recovered distorts choices in the energy market and pushes bills up unnecessarily. Customers make legitimate choices on their own terms between distributed energy resources and grid-supplied electricity. Nevertheless, imposing policy costs on only the latter of those choices sends them a poor signal as to how their choice contributes to overall system costs.

Retail markets and consumers

18 The Queensland Government's involvement in the retail market should be limited to: points of significant change in the market that require the trust and credibility governments have with consumers (e.g. deregulation in SEQ, tariff reform); and providing targeted support for vulnerable customers, including partnerships with the community sector.

The Australian Energy Council agrees that the Queensland Government's involvement in the retail market should be limited to providing targeted support for vulnerable customers and points of significant change in the market.

19 The Queensland Government should prepare for its review of the effectiveness of the National Energy Retail Law (NERL) in Queensland by determining: whether the information retailers are required to publish in the market is sufficient to encourage effective consumer choice; whether the

arrangements are sufficiently flexible to apply to new products and services, and do not unnecessarily stifle innovation or limit competition; whether the current retail market framework is applicable to new or alternative service providers and provides a level playing field for all participants while ensuring adequate consumer protections are retained; and options to improve the competitiveness of standing offers, including requiring retailers to publish their standing offer prices on the same day which is likely to have consumer benefits.

The Energy Council supports a level playing field in relation to a national regulatory framework as well as a consistent consumer protection framework which provides minimum protections deemed necessary in addition to the Australian Consumer Law (ACL) required to ensure energy consumers are adequately protected.

It is important that the energy regulatory framework that applies to new products and services in the market ensure clear, appropriate and proportionate consumer protection requirements that are in the long term interests of energy consumers and the industry as a whole. All participants in the energy industry should be required to demonstrate adherence to those consumer protection measures deemed mandatory for licensed retailers to protect the interests of energy consumers, not accommodated or sufficiently protected in the ACL.

Given the nature of the evolving energy market, the Australian Energy Council supports a review of the effectiveness of the National Energy Consumer Framework (NECF), noting that any resultant reforms should be implemented across all jurisidictions that have adopted NECF in order to maintain consistency.

Deregulation in SEQ

22 Deregulation of the SEQ retail electricity market should commence as planned on 1 July 2016.

The Energy Council supports the removal of retail price deregulation where retail markets are contestable. Open, competitive energy markets free from distortions such as retail price regulation naturally encourages prices to be efficient through the development of competitive market offers, just as in other markets. Victoria, South Australian and New South Wales (at least in part) have deregulated energy retail prices.

The Australian Energy Council therefore strongly supports this draft recommendation, noting the Minister's recent commitment for full implementation on 1 July 2016.

23 If the Queensland Government accepts draft recommendation 22, market participants should be advised of the timing of deregulation as soon as possible.

The Energy Council notes the advice of the Queensland Government that retail electricity prices will be de-regulated from 1 July 2016.

25 The currently proposed market monitoring arrangements, which include market comparison reports by the Australian Energy Market Commission (AEMC), AER and an annual report from the QCA on price and cost movements in SEQ, are adequate.

The Australian Energy Council believes that the current measures are adequate from the AEMC, AER and the annual report from the QCA on price and cost movements in SEQ.

26 Monitoring the efficiency and effectiveness of standing offers should form part of the Queensland Government's market monitoring arrangements for SEQ.

Comparing standing offer arrangements are not the best measure of competitiveness of the market. This does not show a true measure of effective competition in the market. Standing offers are a baseline to which retailers then offer additional products and services to customers to best suit their needs.

Market offers may include offers such as pay on time discounts, discount offers on partner organisations, subscriptions or additional service offerings for consumers around the home, such as energy audits.

The Australian Energy Council would caution that the costs of any monitoring role must not exceed its benefits.

27 Should retail price deregulation in SEQ proceed, adequate consumer protections exist, and we have therefore not recommended additional protections to those already developed.

The Energy Council believes that the consumer protections are adequate to support deregulation. Refer to question 22.

Options for increasing competition in regional Queensland

29 The Queensland Government should make the current UTP arrangements transparent by: reporting on how the UTP CSO is defined and calculated; and reporting annually on the distribution of the CSO including identifying CSO recipients by category (very large, large, small and residential customer), region, and industry sector and subsector (where possible) and reporting annually on the distribution of the CSO including identifying CSO recipients by category (very large, large, small and residential customer), region, and industry sector and subsector (where possible).

Assuming this recommendation can be implemented without imposing onerous costs on Ergon Retail, we support it, since it will inform debate over the appropriateness of the UTP and whether government CSOs can be better targeted.

30 To facilitate retail competition in regional Queensland, the Queensland Government should implement a network CSO, although changes to the UTP arrangements should be considered to offset some of the additional costs to the State Budget.

The Australian Energy Council strongly supports this draft recommendation. We believe the implementation of a network CSO in regional QLD will facilitate the development of a competitive retail market, increasing consumer choice of electricity products and services.

32 A date of no later than 1 July 2019 should be considered for the implementation of a network CSO and retail competition for regional Queensland.

The Australian Energy Council encourages the implementation of a network CSO at the earliest opportunity. Delaying this reform only prolongs the consumer benefits of retail competition, and risks increased implementation costs. We note that there is significant work to effectively implement these changes and a “backstop” date may assist in focusing the Government on achieving implementation in a timely fashion.

35 The ‘non-reversion’ policy should be removed from the Electricity Act 1994 and the restriction on Ergon Energy (Retail) competing to retain existing customers should be removed.

The Australian Energy Council supports the draft recommendation that the non-reversion policy should be removed as it not cost effective and is a further impediment to competition in regional Queensland.

The policy requires that a small customer who has transferred away from Ergon Energy Retail cannot return. The policy was intended to encourage competition to evolve but in a one-way direction. In effect, it has given customers only one choice of retailer and creates a lot of additional costs for other retailers to acquire small customers in regional Queensland. .

Rural and Regional industries

37 The Queensland Government should ensure meters capable of measuring charges for the relevant tariff options are in place for customers on transitional and obsolete tariffs.

The Energy Council supports the contestable provision of advanced metering to small customers. Advanced metering empowers customers to make informed choices about their electricity products and services by providing data that illustrates how usage fluctuates during the day. This is important when considering a transition to more cost-reflective tariff structures, and the suitability of energy management solutions such as generation, storage, and other demand-side measures. In regional QLD, there is the particular issue of transitional and obsolete tariffs, which further justifies the case for advanced metering to those premises.

Role of local service providers

42 The Queensland Government should await the outcome of the AEMC's determination on a proposed national rule change to enable local generation network credits, rather than consider any state-specific arrangement.

The Queensland Government should await the outcome of the AEMC's determination. The Energy Council considers if the outcome is that the AEMC does not make a rule, then that should be a signal to Queensland not to pursue a local version.

Electricity concessions framework

Question 44-47 are answered together.

44 The Queensland Government should determine a clear policy intent for its concessions framework and assess the design of the framework against the principles of adequacy, equity, adaptability and transparency; and

45 The Queensland Government should: extend eligibility for the general Electricity Rebate to recipients of the Commonwealth Government, extend eligibility for the general Electricity Rebate to recipients of the Commonwealth Government Health Care Card as soon as practicable; and remove access to the general Electricity Rebate for Queensland Seniors Card holders. Consideration could be given to grandfathering eligibility for existing Queensland Seniors Card holders; and

47 Subject to the State's fiscal constraints, the Queensland Government should consider if there is a case for providing additional support for households with dependent children, as consumption increases with the number of people in a household.

The Australian Energy Council 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.

Energy retailers and community organisations engage with customers experiencing financial difficulties on a daily basis, offering a range of support measures. Energy concessions offered by state governments play an important role, along with income support payments, in enhancing the capacity to pay of vulnerable customers.

In an evolving marketplace with new technologies and product offerings entering the market, ensuring a robust energy concessions framework is in place will greatly assist in supporting vulnerable customers against any potential re-distribution of system-wide energy costs across the customer base.

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 respond to feedback received from community organisations, policymakers and regulators regarding areas for improvement in supporting customers with financial difficulties.

In August 2014 the Energy Retailers Association (ERAA) facilitated a workshop addressing issues of energy affordability. The Working Group undertook a comprehensive review of the current energy concessions frameworks in place. There are a range of short and medium-term recommendations for state governments to move towards a consistent approach in the design and delivery of concessions regimes. In most cases, this includes a shift towards a percentage-based approach to the primary concession, along with enhancements to emergency relief payments to simplify application processes and provide greater clarity for customers. Greater promotion of available support by all sectors is also considered. The principal recommendations for change are:

• Greater integration of jurisdictional concessions with Centrelink delivery.
• COAG Energy Council to develop a process by whereby upon the issuing of a concession card from Centrelink, there is automatic release of these details to energy providers for concessions to be applied;
• Annual energy budgets/costs should be considered at whole rather than individual fuels when developing primary concessions for each state;
• Payments are applied within the period for which the temporary difficulty is being experienced (i.e.: not being applied arbitrarily at the end of a financial year);
• Simplification of any forms relevant to support applicant’s completion, with complementary literacy age testing;
• With customer consent, retailer enabled pre-population of form-based systems for lodgment with government agencies. Systems to support submittal of a completed form on behalf of the customer (with a digital signature) – this simplifies the process, removes instances where forms are not being completed or completed incorrectly;
• Adequacy of the emergency relief payment should have regard to the average level of debt at reconnection of customers that have been disconnected for non-payment.

Specifically in Queensland, the recommendations of the working group included:

Short-term recommendations
• Extension of the eligibility criteria of the Electricity and Gas Rebate to Healthcare Card holders;
• Ensure eligibility for concessions are linked to a customers’ capacity to pay through appropriate means testing (i.e.: Seniors Card holders).

Medium-term recommendations
• Transition to a percentage-based concession for the Electricity and Gas Rebate applied to the total bill, which adopts the principle of adequate affordable amount of energy to vulnerable customers.
• Adoption of general recommendations above.

48 The Queensland Government should undertake a review of the Medical Cooling and Heating Electricity Concession Scheme and the Electricity Life Support Rebate to consider if the level and delivery of this support is appropriate, and to consider their application and certification processes.

The Australian Energy Council would support a review of the currently Medical Cooling and Heating Electricity Scheme and the Electricity Life Support Rebate to consider if the level and delivery of this support is appropriate, and to consider their application and certification processes.

49 The Queensland Government should: work to place a mandatory obligation on exempt sellers to apply for and administer electricity rebates and concessions for their customers — either through amended AER guidelines or changes to the Electricity Act; work with Ergon Energy (Retail) and local indigenous networks to engage with local family groups to increase awareness and uptake of electricity rebates for eligible consumers in remote communities; review the Home Energy Emergency Assistance Scheme to simplify application and lodgement, and undertake a communications campaign to increase awareness and uptake of the program; and transfer policy ownership and responsibility for medical concessions to Queensland Health, given it determines clinical eligibility.

The Energy Council supports the following enhancements to the HEEAS program:
•Simplification and testing of forms, to promote ease of reading
•Simplification of channels for the concession to be accessed and applied;
•Ability for energy retailers to apply the emergency concession directly to customer accounts once eligibility proven;
•Greater transparency from government around the value of crisis relief payments that can be expected for customers who might have applied. This certainty assists with budgeting in the interim whilst pending approval.

Impacts of network tariff reform and impediments to participation

52 The Queensland Government should improve the data set used to determine the impacts of network tariff reform on customers by ensuring: metering is in place to gather sufficient load profile data; representative samples of customers, including customers that are considered vulnerable, are included in Energex and Ergon Energy's upcoming tariff studies; and Government, customer representatives and distribution and retail businesses aggregate the necessary load profile and demographic data.

The Queensland Government should provide more clarity on what data is required and what this entails for the retail businesses. While better data can inform better policy, if it involves regulation it can be an onerous burden on those obliged to provide it.

53 The Queensland Government should establish a working group involving distribution and retail businesses and relevant customer representatives to: develop new tools to help customers understand the costs and benefits of demand tariffs; identify customers vulnerable to the impacts of tariff reform; and investigate the requirement for support.

The Australian Energy Council encourages a working group being established which includes both distribution and retail businesses along with relevant customer representatives.

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[i] AEMC 2015, Bidding in Good Faith, Final Rule Determination, 10 December 2015 , Sydney