Queensland Productivity Commission – Electricity Pricing Inquiry

Response to the Draft Report

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

I provided a submission to the QPC Electricity Pricing Inquiry on 15th November 2015 and, having now reviewed the draft report, I am taking up the invitation to make a submission on it.

As advised in my previous submission, my main interest lies in protecting the interests of electricity customers, particularly vulnerable, older Queenslanders who are on low and fixed incomes or otherwise disadvantaged through illness, old age, ethnic background etc. For this reason, I will be restricting my submission to the draft recommendations that I believe directly relate to my area of interest.

In general, I would advise that I am disappointed the draft report has not been more forthright, specific and robust in its recommendations related to the protection of the vulnerable and disadvantaged.

I understand that this is a pricing inquiry and that all the technical aspects of pricing are very important to review. It is, however, the customers who end up paying the ever increasing prices, as are clearly detailed in the reports draft findings, and I would contend that their views must be given more weight.

Unfortunately, all changes made with the aim of improving an overall position involve winners and losers and it is normally those who can least afford to carry more cost that end up as the losers. There is clear evidence that vulnerable and disadvantaged electricity customers have and continue to suffer "bill shock" with many of them sacrificing health, comfort and sustenance in an effort to stay on top of their bills or, worse still, being disconnected. If this inquiry is supportive of change, then it must also put forward strong and specific recommendations on how the vulnerable and disadvantaged are protected.

Using recent history as a guide, I would also caution against any excited expectation of prices falling in the future. I believe the best customers can hope for is for prices to stand still or only rise slightly over the 2017 – 2020 period and that assumes that the costs of capital and generation do not increase.

Perhaps it is beyond the Terms of Reference for the QPC to be specific but I believe the draft recommendations are so soft and non-specific as to be able to be interpreted in a way which might see the government, distributors and retailers claim the most minimal customer protection as being in compliance with the QPC recommendations.

I was hoping the QPC would nominate the safe and secure supply of electricity as an essential service and recommend protection measures for vulnerable and disadvantaged customers be framed on that basis.

I was also hoping that the QPC would issue a very strong condemnation of the lack of current financial impact modelling related to the proposed introduction of "time of use" or "demand" tariffs on vulnerable and disadvantaged customers and recommend against the introduction of the new tariff without a comprehensive financial impact statement on the impact of the change being released for public review and comment.

I note that the draft report supports “low income” as being the best proxy for identifying vulnerability. I am strongly opposed to this and would recommend that this matter be reconsidered and a definition such as that used by the Energy UK Safety Net which includes age, health and disability, as well as low income, resulting in an inability to safeguard the personal welfare of the household be recommended. I could also add, ethnic background and location to this list.

I now submit my feedback on the following draft recommendations:

Section 4 – Networks

The draft findings state that the Government’s network merger election commitment related a new network holding company “will not impact competition or increase the price of electricity”. As far as I am aware there has not been any report or modelling released for public review and comment related to this matter and I wonder how such a clear statement related to the impact of this change can be made.

I note that the 2015-16 MYFER included an estimated saving of $570m by 2019-20 as a result of the proposed merger and consolidation of functions etc and that draft recommendations 12, 13 and 14 set out some sensible courses of action however, I am always sceptical of estimates so far in the future and would still recommend that the underlying business case and associated modelling supporting this merger be released for public comment.

Section 5 – Solar Bonus Scheme

The draft findings confirm that “low income and disadvantaged households are disproportionately impacted by the SBS”. In other words, those who can least afford to are subsidizing the SBS benefits of those least in need. The findings also acknowledge the inequity of the cross-subsidisation and the positive financial impact on customers of lower power prices if the SBS is transferred to the State Budget.

The Government have established a Renewable Energy Fund and this is where the costs of the FiT should be met from. If not from there, then it should be met from the overall State Budget.

I note Draft recommendation 17 promotes the consideration of an earlier end to the SBS but I would recommend an additional recommendation should specifically recommend shifting the cost of the SBS from the electricity customers to the State Budget. Without this move, low income and disadvantaged households will continue to be punished.

Section 6 – Retail Markets and Consumers

The draft findings acknowledge “the important role of government in providing well targeted and integrated initiatives to address the needs of vulnerable consumer groups...” and the role “government-led communication programs have in assisting consumers to better understand and adapt to major market changes ...”.

Draft recommendation 18 - I am especially disappointed with the second dot point under Draft recommendation 18. Vulnerable customers don’t just require “support”, they require and are entitled to support and protection from any and all adverse consequences, whether intended or not, resulting from changes to both the distribution and retail markets. Changes to these markets, including deregulation as recommended under draft recommendation 22, should not be permitted to go ahead until such time as the consequences on the vulnerable and disadvantaged have been established through modelling and support and protection measures agreed and implemented.

I do agree that partnerships with the community sector are very important. These must include a broad range of community groups, not the current narrow group that are so often relied upon today.

Section 8 - Deregulation in SEQ

The draft findings acknowledge the need for "targeted information and support for NGO's (including funding if required) to assist vulnerable customers ..."

We are now in early March and an introduction of deregulation effective from 1 July 2016 would appear to be rushing things. As far as I am aware, there has not been any action taken to assess the possible negative impacts on vulnerable and disadvantaged customers or proposals to protect them.

Draft recommendation 24 - I agree with and support draft recommendation 24 but would like to see it extended to incorporate some action to address "those customers not benefitting from increased competition, particularly those who remain on the higher priced standing offers or are unable to access information online" as identified in the draft findings.

Draft recommendation 27 – Unless the QPC has information not available publicly, I do not believe all the possible negative consequences of deregulation on the vulnerable and disadvantaged have been established and it is therefore not possible to guarantee that "adequate consumer protections exist". I would recommend that this recommendation be amended to promote surveillance of the consequences of change and flexibility to respond to unexpected or unintended adverse consequences, some of which are included in Draft recommendation 28.

Section 12 – Electricity Concessions Framework

The draft findings generally make the case that electricity concessions should be restricted to means tested card holders. They also note the need for eligible customers in on-supply arrangements to be able to access concessions and that more assistance is required for vulnerable customers.

Draft recommendation 44 – whilst I generally agree with this recommendation, I do not agree with the outcomes being drawn from comments under 12.3.2. As I have previously said, I think it is very dangerous to limit the proxy for vulnerability to low income and I would recommend that something akin to the Energy UK Safety Net wording (as included in your report) be adopted.

Draft recommendation 45 - I understand that political events have somewhat overtaken part of recommendation 45. I would recommend that this recommendation be amended to include the Commonwealth Seniors Health Card (which is means tested) and to grandfather the electricity concession to those Queensland Seniors Card holders who currently qualify for it. This would then provide an acceptable pathway to restrict future concessions to means tested cards as originally envisaged.

I generally agree with the other draft recommendations included under this Section.

13 – Impacts of Network Tariff Reform

The draft findings acknowledge the difficulty in providing a reliable understanding of the impact of a move to demand-based tariffs, especially on those customers who are unable to afford to move to the advanced or smart meters. This group would of course generally be vulnerable and disadvantaged customers.

The findings further acknowledge that "distribution businesses will assess customer impacts associated with new demand tariffs during 2015–20. The data acquisition proposed by distributors will be biased towards early adopters of demand charging, and therefore representative only of likely beneficiaries. These processes are **unlikely to improve understanding of how demand charges impact some vulnerable customers**" (my highlight)**.**

The findings also acknowledge that "many vulnerable households may be willing to adapt and take up demand-side response tools, but lack the ability to do so. Income and housing tenure are the two most frequently cited barriers to uptake of demand management. These barriers may make any benefits offered by more cost reflective tariffs inaccessible to some households."

The truth of it is that no-one has any reliable data upon which to assess the increase in electricity costs that will be caused by the introduction of the demand tariffs. Under dot point 4, the argument is put that "to the extent new network tariffs affect customers who are traditionally regarded as vulnerable, the best solution for managing impacts lies in reforms to eligibility for concessions. The reforms we have recommended would ensure these subsidies are targeted at those most in need of support."

From the limited Energex sponsored CSIRO studies of vulnerable customers I have seen, I believe there is a fundamental flaw in the draft findings. It is assumed that the vulnerable will be protected by concessions but I have seen calculations related to cohorts which generally contain vulnerable customers with low use, low income profiles, where up to 58% of the cohort are predicted to be worse off. Of those predicted to be worse off, between 24% and 48% of them are predicted to be worse off by more than 10%. These are very large numbers and such an increase would far outstrip an increase in concession contemplated by the government which would result in a further decrease in the standard of living for the vulnerable and disadvantaged customers.

I note Energex have proposed a Bill Cap mechanism to try and limit bill shock but a review of this has highlighted that they have set the cap too high and the vulnerable customers will probably not benefit from it.

The Draft Report also does not touch on the "single peak" method of peak measurement proposed by Energex. This is the sharpest method of measurement available and will, in my opinion, result in distorted and unexpectedly high peak measurements being used to calculate electricity bills.

Everything I have seen on the demand tariffs leads me to believe that they will lead to the largest percentage increases falling on those that can least afford them. Once again, those that can least afford to will be subsidising the overall electricity costs of those that least need it.

In light of the forgoing, I do not think that Draft recommendation 51 can be supported before Draft recommendations 52, 53 and 54 have been fully implemented and the results collected and analysed.

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

1st March 2016