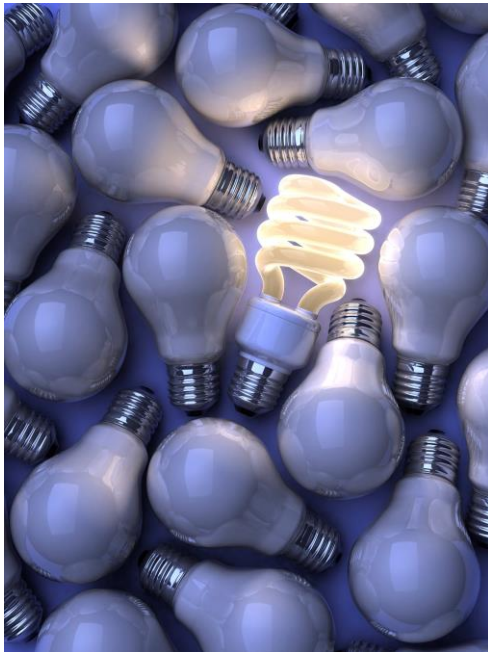


QCOSS

Queensland Council
of Social Service

Regulated Retail Electricity Prices 2017-18

*Submission to Queensland Competition
Authority Interim Consultation Paper*



7 December 2016

About QCOSS

The Queensland Council of Social Service (QCOSS) is the state-wide peak body representing the interests of individuals experiencing or at risk of experiencing poverty and disadvantage, and organisations working in the social and community service sector.

For more than 50 years, QCOSS has been a leading force for social change to build social and economic wellbeing for all. With members across the state, QCOSS supports a strong community service sector.

QCOSS, together with our members continues to play a crucial lobbying and advocacy role in a broad number of areas including:

- sector capacity building and support
- homelessness and housing issues
- early intervention and prevention
- cost of living pressures including low income energy concessions and improved consumer protections in the electricity, gas and water markets

QCOSS is part of the national network of Councils of Social Service lending support and gaining essential insight to national and other state issues.

QCOSS is supported by the vice-regal patronage of His Excellency the Honourable Paul de Jersey AC, Governor of Queensland.

Lend your voice and your organisation's voice to this vision by joining QCOSS. To join visit [the QCOSS website](http://www.QCOSS.org.au) (www.QCOSS.org.au).

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1. Introduction

This submission comments on the Interim Consultation Paper on Regulated Retail Electricity Prices for 2017-18 which was published by the Queensland Competition Authority (QCA) on 16 November 2016. The QCA invited submissions to the Interim Consultation Paper to be received by 7 December 2016.

As stated in Chapter 1 of the Interim Consultation Paper, the QCA has received a delegation under the Electricity Act from the Queensland Minister for Energy, Biofuels and Water Supply (the Minister) to determine regulated retail electricity prices (notified prices) that will apply to non-market customers from 1 July 2017 to 30 June 2018. Non-market customers are customers on a standard retail contract with terms and conditions specified by the National Energy Retail Rules. Retail price regulation in the Energex distribution area was removed on 1 July 2016. Consequently, notified prices only apply to 'non-market customers' in Ergon Energy Corporation Limited's (Ergon Distribution's) distribution area.

1.1. Context in regional Queensland

Since the introduction of price deregulation in South East Queensland (SEQ) from 1 July 2016, the retail prices set by the QCA in this process only apply to customers in regional Queensland. While electricity prices have increased across the state in recent years, regional Queensland households are among the most vulnerable to impacts of declining energy affordability.

On average, people in regional Queensland experience greater socio-economic disadvantage compared to SEQ.¹ A comparison of the index of relative socio-economic disadvantage in 2011 shows that the Greater Brisbane area had 16.2 per cent of people in the most disadvantaged quintile (lowest quintile), while the rest of Queensland had 23.5 per cent.

Regional Queensland also has higher unemployment rates than in SEQ. For the September quarter 2016, the unemployment rate for the Greater Brisbane area was 5.7 per cent while it was 6.6 per cent for the rest of Queensland.² There are some regional areas where unemployment is now especially high, including Townsville (10.1 per cent), Wide Bay (9.0 per cent), Cairns (8.6 per cent) and as well as 13.3 per cent in Outback Queensland.

Such relative differences manifest in lower median total personal income in regional Queensland to that in the Greater Brisbane area. In 2011 the income for Greater Brisbane was \$633 per person while it was \$553 in the rest of Queensland. The relative lower incomes which people in regional Queensland experience is compounded by the higher cost of living in many regional locations.³

Many households in regional Queensland are struggling in the current environment due to the flow-on impacts of the mining downturn, and drought is affecting agriculture in many areas. With over 80 per cent of Queensland officially drought declared and expectations that El Nino will bring even drier and warmer weather, regional Queensland consumers are also especially vulnerable to natural disasters which can have devastating impacts on regional economies and put individuals and communities at greater risk of poverty and disadvantage.

We consider that this context is important and relevant to the extent that affordable and reliable electricity is essential to a robust economy and wellbeing in our communities. For these reasons it is critically important that prices for regional customers are minimised to the greatest extent possible in 2017-18.

¹ Queensland Government Statistician's Office (2016), *Queensland Regional Profiles: Resident Profile Greater Brisbane compared with rest of Queensland*.

² <https://training.qld.gov.au/site/docs-data/Documents/statistics/research/quarterly-qld-labour-market-review-sept16.pdf>

³ Queensland Government Statistician's Office (2016), *Ibid.*

1.2. The purpose of regulation of retail electricity prices

The delegation from the Minister sets out the mechanics of how retail prices should be regulated in the Ergon Energy Distribution Area for 2017-18.

The purpose of the regulation is set out in the cover letter to the delegation from the Minister, which states: “*The Government remains committed to ensuring regional customers have access to reliable electricity supply at affordable prices.*” It also states: “*To maintain consistency with the regulation of prices in previous years, the Government considers that regulated prices for small customers in regional Queensland should continue to broadly reflect the expected prices for small customers on standing offers in SEQ.*”

These are important principles on which the QCA should base its approach to how retail prices should be regulated in the Ergon Energy Distribution Area for 2017-18.

2. Potential pricing approaches

The Interim Consultation Paper section 2.1 states in regard to residential and small business customers: “*One possible pricing approach would be to maintain the approach we took in the 2016-17 price determination. This approach involves setting notified prices based on the costs of supply in south east Queensland (i.e. Energex costs), rather than regional Queensland (i.e. Ergon Distribution costs).*”

As stated above, the Government considers that regulated prices for small customers in regional Queensland should continue to broadly reflect the expected prices for small customers on standing offers in SEQ. Therefore, setting notified prices based on the costs of supply in SEQ (i.e. Energex costs), rather than regional Queensland (i.e. Ergon Distribution costs), is the *only* approach that will meet the purpose of regulation of retail electricity prices.

The other possible approaches to price regulation for residential and small business customers that are canvassed by the QCA are, as stated by the QCA, inconsistent with the Queensland Government’s Uniform Tariff Policy (UTP), and therefore should be dismissed.

The QCA must maintain the 2016-17 approach of basing notified prices on the costs of supply in SEQ, as that is the only approach that is consistent with the purpose of retail price regulation and the UTP.

3. Network costs

In regard to residential and small business customers, we concur with the QCA that in determining the network cost components of regulated retail tariffs it must set network charges at Energex cost levels to meet the objectives of regulated retail electricity prices.

For the 2016-17 price determination, the QCA used Energex’s network tariff structures as the basis for setting flat rate retail tariffs for residential, small business and unmetered supply (excluding street lighting) customers, as those structures reflected the costs of supply in SEQ. The QCA used Ergon Distribution’s network tariff structures as the basis for setting time-of-use and time-of-use demand retail tariffs for residential and small business customers, but adjusted them to reflect Energex cost levels to maintain consistency with the UTP.

QCOSS supports the QCA’s use of the existing Energex tariff structure for Tariff 11 for 2017-18 prices. Using the Ergon network tariff structure would be very confusing for customers and would constitute a major change of tariff structure. Any changes like this should be accompanied by an education and public awareness campaign. The need for proactive public communication of changes in tariff structure has been highlighted by the negative customer response to the transition of Tariff 11 to ‘cost reflectivity’ over the previous three years which was undertaken with no public awareness or education and has had significant financial impacts on many households.

4. Energy costs

In regards to energy (generation) costs, QCOSS is not aware of any new information which would suggest alternative approaches to those used in the 2016-17 price determination might be more appropriate. We therefore propose that the QCA estimate energy costs based on the application of the same methodology that was used in 2016-17.

Alternatively, if the QCA decides that it should estimate energy costs for 2017-18 based on a methodology that is materially different from that used in 2016-17, this would constitute a significant change from the QCA's position in the Interim Consultation Paper, and would in our view require stakeholder consultation before implementation.

5. Retail costs

5.1. Indexing of retail costs from 2016-17 to 2017-18

As part of the 2016-17 price determination process, the QCA conducted a comprehensive review of the retail cost components of retail tariffs. As part of that review, the QCA engaged ACIL Allen to provide advice on efficient retail costs. ACIL Allen used a combination of bottom-up and benchmarking methods to estimate retail costs for residential and small business customers, informed by analysis of publicly available data, observed market offers, and detailed confidential information provided by retailers.

The QCA now states that it considers that the retail cost allowances used for setting notified prices for 2016-17 are an appropriate starting point for setting notified prices for 2017-18. We concur with this view. There should not be a need to redo the calculations from 2016-17 for 2017-18.

Alternatively, if the QCA decides that it considers that the retail cost allowances used for setting notified prices for 2016-17 are not an appropriate starting point for setting notified prices for 2017-18, this would constitute a significant change from the QCA's position in the Interim Consultation Paper, and would in our view require stakeholder consultation before implementation.

The retail costs from 2016-17 should not be indexed unless there is evidence that they have increased. We are not aware of any such evidence. There should not be an automatic assumption that costs increase year-on-year by CPI. Alternatively, we consider retail costs might suitably be indexed downwards to reflect increased efficiencies.

5.2. Transparency of the retail costs methodology

QCOSS noted in regard to the regulation of retail electricity prices in 2016-17 that there was a lack of full information in the retail costs methodology which made it difficult for stakeholders to:

- understand the methodology and its application;
- comment effectively on all aspects of the methodology and its application, and
- propose improvements in the methodology.

As a general rule, QCOSS seeks full disclosure to provide the greatest transparency and give stakeholders the opportunity to participate fully in the QCA's consultation on the regulatory process.

If significant modelling is being undertaken to determine the retail costs for 2017-18, then we ask the QCA to refer to our submission on the Draft Determination of regulated retail prices for 2016-17 in regard to the detail that we believe should be provided in support of the application of the methodology.

6. Other issues

6.1. Standing offer differential – residential and small business customers

The Queensland Government's definition of the UTP requires the QCA to set 2017-18 notified prices for residential and small business customers that broadly reflect the expected level of standing offer prices in SEQ. Consequently, it is necessary to add an amount that represents a reasonable expectation of the difference between the expected efficient market offer prices and the expected standing offer prices (the standing offer differential).

For the 2017-18 price determination, the QCA proposes to consider the following matters to form a view on the expected price differential between market offers and standing offers:

- the experience in other deregulated jurisdictions; and
- the observed price differentials in the newly deregulated SEQ retail market.

We propose that the QCA should be concentrating on consideration of the observed price differentials in the newly deregulated SEQ retail market. There are other factors that have affected the experience in other jurisdictions that are not necessarily applicable to Queensland.

In the past, the QCA has simply added a percentage to all tariff components that represents a reasonable expectation of the difference between the expected efficient market offer prices and the expected standing offer prices. However, we are now seeing divergence in the different tariff components in Queensland between market offers and standing offers. In many cases, the market offers show relatively higher fixed charges and lower unit charges as compared to standing offers. This suggests that the standing offer differential should no longer be a single percentage figure. Indeed, it is possible that the standing offer fixed charges might be lower than the market offer fixed charges.

6.2. Analysis of customer impacts

QCOSS has previously commended the QCA on its efforts to set out prices in its Draft and Final Determinations in a way that clearly identifies the estimated bill impacts for different types of households. In the past, this has been complimented with factsheets to provide snapshots of the information in table and graphs formats that present complex information in a way that is accessible and transparent.

Given fluctuations in how costs are allocated between the fixed and variable charges, prices set by the QCA have a different impact on the overall bill for households depending on their household consumption, and they are increasingly affected by differences driven by the uptake of technologies such as solar generation or controlled load tariffs.

Consumers with combinations of tariffs, in particular T11+T31 or T11+T33, for a range of usage levels, are important and common combinations, particularly given the high proportion of residential customers in Queensland who have a hot water system or a pool filtration system connected to a controlled load tariff.

It is important for the QCA to present clearly the bill impacts for a wide range of consumer usage levels on each tariff, and on common combinations of tariffs. This will help QCOSS and other stakeholders, including end consumers, to better understand the impact of the prices in the QCA's Draft and Final Determinations on actual bills.

QCOSS therefore requests the QCA to provide a wide range of effects in its future publications. These publications should include Draft and Final Determinations, as well as fact sheets.

6.3. Reporting of metering services charges

While they are not part of the QCA's Determination, metering services charges also form part of customers' electricity bills, and should therefore be included in Draft and Final Determinations and fact sheets, as part of the illustration and presentation of effects on consumers' overall bills.

The QCA responded as follows to our previous request for metering services charges to be shown in the QCA's publications: "*The QCA provides information to show the impact on customer bills of the QCA's determination on notified prices. As metering charges do not form part of our determination on notified prices, and are not determined by the QCA, we do not consider it appropriate to include them in our customer impact analysis.*"

We understand that metering charges do not form part of the QCA's determination on notified prices, and are not determined by the QCA. However, the QCA's determinations and fact sheets refer to **customers' electricity bills**, and not just to those parts of the customer bills that are determined by the QCA. For example, the QCA's Final Determination and factsheet for residential customers for 2016-17 both state that in 2016-17, **the annual bill** for a typical customer on tariff 11 will increase by 2.8 per cent from \$1,457 to \$1,498. The customer's **annual bill** includes metering services charges. It is misleading to give customers and other stakeholders information regarding the customers' annual bill which is based on only some of the components of the annual bill. This is something that the QCA should address for 2017-18.