

Regulated retail electricity prices for 2018–19: Interim Consultation Paper

About us

The Queensland Council of Social Service (QCOSS) is Queensland's leading force for social change, working to eliminate poverty and disadvantage. With nearly 600 members, QCOSS undertakes informed advocacy and supports a strong community service sector in Queensland. QCOSS focuses on providing effective policy advice, working to strengthen responsive community services and having productive partnerships with government, private sector and the community sector. This work is done with a Queensland free of poverty and disadvantage front of mind.

Introduction

Thank you for the opportunity to make a submission to the Interim Consultation Paper on Regulated Retail Electricity Prices for 2018-19 published on 22 December 2017.

This submission addresses the following consultation issues:

- Pricing approach
- Standing offer differential
- Tariff trial
- Metering charges

QCOSS intends to make a more extensive submission in response to the Draft Determination on key issues including potential pricing approaches, network tariff structures, and energy and retail costs. This submission is intended to provide some initial advice to you as you prepare the Draft Determination. It reflects issues that we believe must be considered early in your deliberations to ensure consumers who may be at risk of vulnerability in the energy market are front and centre of your deliberations.

Pricing approach

We support the comments by the Queensland Consumers Association in its submission to the 2018-19 Interim Consultation Paper on your proposals: (1) to retain for this year the pricing approach used in last year's (2017-18) Determination to set retail costs; and (2) to have a review of current retail allowances as part of the 2019-20 process. The Association rightly points out that the underlying retail costs structures are changing as more and more customers are opting for e-billing, direct debit and accessing information from website or via online chat. In addition, retailers are now facilitating switching to online services. These new practices are likely to lower retail costs, and these savings should be reflected in the retail allowances which would require their review for the 2019-20 determination.

Standing offer differential

The covering letter of the Queensland Government's delegation (18 December 2017) specifies that "*prices for small customers in regional Queensland should continue to broadly reflect the expected*

prices for customers on standing offers in south east Queensland. The Government is of the view that a Standing Offer adjustment continues to be an important component of notified prices”.

The letter adds that “Government considers that a Standing Offer contract provides additional value for consumers compared to a Market Offer, for example through additional protections to consumers contained in the terms and conditions in a Standing Offer contract, as well as providing a signal for retail competition in regional Queensland. As such the QCA should give consideration to maintaining the Standing Offer adjustment at the current level.”

QCOSS is disappointed that the Government has continued to direct you to use a notional standing offer price as the basis for setting regional electricity prices. As already pointed out in QCOSS’ submission to the 2017-18 Draft Determination, there is considerable evidence emerging from other National Energy Market (NEM) jurisdictions, such as Victoria, that in the longer term, after standing offer price regulation is removed, the standing offer prices no longer reflect efficient costs of supply. Retailers in SEQ compete primarily on the basis of market offers, not standing offers. Retailers are at liberty to raise their standing offer prices without having a detrimental effect on their competitive positioning in the market.

The growing disparity between the standing offers and market offers make it difficult to see how standing offer conditions offer greater value to customers. A notional standing offer price for SEQ no longer represents an appropriate benchmark on which to gauge efficient prices, competitive market prices, or the typical prices paid by electricity customers in SEQ.

We appreciate that you have to comply with the intent of the Minister’s delegation for 2018-19. However, as standing offers prices are likely to continue to deviate from market offers, it would advance the broader methodological question if you considered in your Draft Determination other approaches for setting notified prices in regional Queensland. Consultation on these approaches at this stage would also be informative to future Government decisions regarding an appropriate benchmark for regional prices.

Tariff trial

The delegation requires you to consider offering new voluntary trial retail tariffs, based on the structure of any new cost reflective network tariffs submitted by Ergon Distribution to the Australian Energy Regulator (AER).

It is understood that at the time of the publication of your consultation paper, Ergon Distribution had not submitted its 2018–19 pricing proposal to the Australian Energy Regulator (AER). It is expected that Ergon Distribution will submit its latest pricing proposal in time for consideration as part the 2018-19 Draft Determination process.

While QCOSS generally supports trials as an approach to the development of fair and equitable tariffs, we can’t support the introduction of voluntary tariff trials at this stage as we don’t know what the proposed tariff structure is. We also did not support the current cost reflective tariff that is in notified prices – namely Tariff 12A – a seasonal, time of use, demand based tariff developed during the Tariff Structure Statement process for 2017-2020.

As a general statement, QCOSS’ position is that while information from such trials will be valuable, QCOSS believes that, to avoid bias, the trials must be extended to include a broader group than the early adopters. Early adopters are likely to be households who have a high level of understanding of the trial. They will be aware either that their energy use profile is flat and that the tariff will benefit them, or that they are able to make the required behaviour changes to reduce their peak demand on the network. It is unlikely to include consumers who have low income or are at risk of vulnerability. It is important that a trial includes a broad cross section of the community to ensure that findings reflect

the impact that may be felt across the community, particularly for those who are most at risk of experiencing vulnerability in the energy market.

QCOSS also encourages network businesses to share the results of trials so that there is effective and efficient learning across Australia.

Further considerations in designing a trial are: (1) that participants should not be worse off and should be compensated for any detriment. This includes compensation for any new meter costs that may have to be paid upfront due to a tariff change; and (2) that the trial should extend for at least a year to take seasonal effects into account. Trials also should address consumer specific criteria such as bill stability, and simplicity / ease of understanding.

Ergon should consult on how its trial is to be designed, and on how it intends to recruit customers to participate in the trial.

QCOSS has developed an excellent network of community organisations that support their clients on energy matters through its work in regional Queensland with projects such as Energy Savvy Families and energy literacy and efficiency workshops. QCOSS is willing to assist Ergon in identifying and obtaining the relevant customer segments that should be included in a trial, for example low-income, aged, disability, Indigenous, and culturally and linguistically diverse (CALD) communities.

Metering charges

QCOSS agrees that digital metering costs should be included in notified prices. Because there is no retail competition in regional Queensland and it is unlikely that metering contestability will develop in the near future, there is a need for a transparent and open process to set efficient meter charges. Further, the objective of the Uniform Tariff Policy (UTP) to equalise pricing between regional Queensland and SEQ should extend to all elements of customers' energy bills, including metering charges.

We understand that from 1 July 2018 you can set these metering charges, rather than by agreement between the Government and Ergon Retail. As part of a more open and transparent process, we are seeking your clarification of these arrangements including advice and guidance on the current legal and administrative basis for Ergon to charge for metering services (in respect of both smart meters and standard meters).

It is likely that over time, as more smart meters are rolled out, Ergon (in its capacity as the incumbent retailer) will benefit significantly from being able to remotely read and connect / disconnect meters. The cost of the initial supply and installation will however be relatively high given the higher cost of service provision in regional Queensland. Consequently, in keeping with the intent of the UTP, QCOSS' view is that you should base meter charges on relevant costs in SEQ to help ensure that consumers in regional Queensland are not disadvantaged.

If you base metering charges on SEQ costs, then you should use the costs incurred by retailers, and not the costs passed on to standard contract customers. We have already stated our concerns about the continued use of a notional SEQ standing offer price as the benchmark to set regional prices. The Australian Energy Markets Commission in its annual review of retail competition in SEQ has found that standing offer customers are more likely to live in the more regional and remote areas of SEQ. This would add in an extra bias to the analysis.

Finally, in providing its advice in the Draft Determination, and with reference to paragraph 90(5)(b) of the *Electricity Act 1994*, we ask that you also have regard to principles of equity and fairness when charging for new digital meters. Currently, to acquire a new digital meter for a new connection or a change of tariff, customers must pay upfront for the supply and installation of a meter. This is also likely to cover other situations such as if a new meter is installed if solar PV is installed.

Such charging arrangements are likely to act as barriers for the uptake of new (cost reflective tariffs) and/or solar PV especially by low-income households. In addition, if at some stage in the future there is a decision for a larger “market” rollout by Ergon, charging upfront for the meter and installation has the potential to cause confusion about why they are being charged upfront and elicit consumer backlash. More equitable alternative payment arrangements such as the recovery of the meter costs over the economic life of the meter should be considered and encouraged.