

# **Queensland Council of Social Service (QCOSS) Submission on Queensland Competition Authority's Issues Paper: "Review of Small Customer Gas Pricing and Competition in Queensland"**

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## **Scope of QCOSS Interests**

QCOSS is the peak body for over 700 welfare and community sector organisations in Queensland. For 50 years QCOSS has worked to promote social justice and exists to provide a voice for and with Queenslanders affected by poverty and inequality.

We act as a Statewide Council that leads on issues of significance to the social, community, and health sectors. We work for a Fair Queensland and develop and advocate socially, economically and environmentally responsible public policy and action by community, government and business.

On 30 May 2008 the Minister for Mines and Energy, Mr Geoff Wilson announced funding for an energy consumer advocate project based at QCOSS. The purpose of this project will be to advocate on behalf of Queensland consumers and particularly vulnerable and low income households in relation to energy and gas services. While we will not be able to take up individual cases, we will use such cases to identify systemic issues affecting all consumers and to advocate for fair and inclusive policies that ensure consumers are protected. The funding for this position will commence on 1 July 2008, so we are only at the very early stages of development of this project. Given this, QCOSS is currently not in a position to submit a comprehensive and detailed submission on this very important topic, however, we will endeavour to address the following issues:

1. the extent of current small customer gas market activity, including switching behaviour and impediments to small customers exercising informed choices.; and
2. Issues likely to impact on the cost of supply.

We are also committed to providing ongoing input into this review and support the proposal by the Queensland Consumers Association to contribute through a stakeholder workshop at a later date.

The present response seeks to ensure that the interests and needs of people on low incomes and who experience other disadvantages are considered in the review of small customer gas pricing and competition in the Queensland retail gas market.

The provision of gas to households reliant on gas as one of their energy sources should be considered an essential service which supports fundamental human needs. Gas is essential for good hygiene and health practices, heating, cooking and social participation. As an essential service, it is necessary that consumer rights are protected. Consumers have a right to:

- Accessible, affordable and sustainable supply;
- Have their interests heard in policy and regulatory decisions on energy;
- Not be disconnected from services due solely to an inability to pay; and
- Information about energy services that empowers them to make informed choices and to negotiate their interests with service providers.

Disadvantaged people in Queensland are particularly vulnerable to adverse effects from failure to protect and maintain these rights. QCOSS defines disadvantaged Queenslanders as those who lack what most Australians would regard as the essentials for a decent life or are excluded from participation in important areas of economic and social life, such as

employment, decent housing, basic services and social support. Generally this coincides with being a low income earner, but disadvantage can arise from other factors such as chronic illness, disability, homelessness, episodic mental health conditions, living in remote areas, and areas affected by drought. In relation to energy services, disadvantaged populations may:

- Have a lower than average individual and household income/s that result in a lower capacity to afford and adapt to increased energy costs. Low income households are particularly vulnerable to price increases. These households have limited disposable income to absorb price shocks, limited discretionary energy consumption and limited capacity to purchase new energy saving appliances to offset cost increases.
- Experience fuel poverty. Fuel poverty has been defined as: *Inability to meet...basic needs for energy and the problems that arise as a result, including under-consumption that is inadequate to support a reasonable standard of living and good health, disconnection from supply, prioritisation of utility payments over other essentials and the accumulation of debt*<sup>1</sup>
- Experience financial stress as a result of being unable to pay electricity, gas or telephone bills on time. In 2002 the ABS General Social Survey found that 14.2% of all Queensland households experienced this kind of financial stress<sup>2</sup>. Inability to pay for consumption of energy when bills are due, either due to temporary or permanent financial hardship was found to be the principal reason why certain customers are unable to participate effectively in the competitive energy retail market in the recent AEMC review of competition and pricing in Victoria.<sup>3</sup>
- Spend a higher proportion of their total household expenditure on energy costs while consuming less energy. For example, pensioner households consume energy at a rate below the average household, but as a portion of their weekly expenditure, spend almost double the average amount.<sup>4</sup>
- Live in poor quality housing; without insulation and which is inadequately designed resulting in greater consumption of energy and therefore higher ongoing household costs. Many disadvantaged households in Queensland are reliant on inadequate housing in the private rental market.
- Own outdated appliances that increase energy consumption particularly in households dependent on the low cost private rental housing market.
- Be more vulnerable through lower incomes, age or disability, to being confined to home resulting in higher household costs for utilities.
- Be socially isolated and less likely to have access to information, services and support to deal with the impacts of rising prices.
- Have challenges with comprehension and understanding of material due to linguistic, social, physical or intellectual inhibitors.

In a report commissioned by QCOSS and undertaken by the University of Queensland Social Research Centre, poverty in Queensland was conservatively estimated to affect 10% of the

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<sup>1</sup> Quoted in VCOSS 2005:100.

<sup>2</sup> *Poverty in Queensland*, The University Queensland Social Research Centre, table 7, page 11.

<sup>3</sup> AEMC (2007) *Review of the Effectiveness of Competition in Gas and Electricity Retail Markets in Victoria: First Draft Report*, October 2007, Sydney (p140).

<sup>4</sup> Australian Bureau of Statistics (2004) Household Expenditure Survey

population which equates to 400,000 people. Poverty particularly impacts on the elderly – 39% of all single adults over 65 years of age in Queensland live in poverty. While we are an economically strong State with statistically low unemployment, there is considerable evidence that a large contingent of people are being left behind.

It is with these challenges in mind we would like to comment on a number of specific matters concerning small customer activity and costs of supply in the gas market which are raised in the Review of Small Customer Gas Pricing and Competition in Queensland Issues Paper.

## **1. Competition and the extent of current small customer gas market activity**

The terms of reference for the current review included an assessment of the level of competition in the reticulated natural gas market in Queensland. While we do not propose to comment on this in any detail, we are concerned with the presumption that an increase in the level of competition necessarily results in cost and other benefits to the residential consumer. Such benefits are yet to be demonstrated in the Queensland context nor are they borne out by the experience in other states where retail competition has been in operation for a longer period.

Decisions on investment and development of gas reserves and transmission and distribution networks should not be driven by attempts to foster greater levels of competition, but should occur in the context of a longer term sustainable energy policy connected to climate change mitigation. While gas is acknowledged as an important and greener alternative to electricity, it is still a finite fossil fuel, and therefore longer term development of this energy source needs to be balanced alongside investment in renewable energy sources.

The level of informed customer activity in the market to obtain energy products of choice is generally considered a core characteristic of effective competition. According to the Centre for Privatisation and Public Accountability for competition to be effective a combination of factors must be present:

- Knowledge of the market by both operators and consumers;
- Negligible transaction costs for consumers;
- Equal bargaining power for market participants;
- Access to the market;
- Freedom of choice; and
- Freedom to enter and exit the market<sup>5</sup>

Currently we would argue that there is limited evidence that these features of consumer participation and knowledge characterise the market in Queensland, and comment here on two aspects of consumer participation: the availability and accessibility of information, and the exercise of customer choice (or switching behaviour).

### *Availability and Accessibility of information*

Availability and accessibility of detailed and quality information is a critical enabler for consumers to make informed choices about energy products and providers.

Key sources of information available to customers in Queensland include:

- Retailers - Retailers currently provide detailed information on their websites concerning their customer charters, terms and conditions, regulated price tariffs, general information and useful links to their bill enquiries, options, rebates and

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<sup>5</sup> Centre for Privatisation and Public Accountability – Monash University (2004) Protecting Utility Consumers from Market Failure and Public Interest Advocacy Centre (2006) Submission to Energy Reform Implementation Group

frequently asked questions. Gas retailers are also mailing rebate information to customers with their bills and/or through special mail outs.

- The Energy Ombudsman Queensland provides a wide range of information to ensure consumers make an informed energy retail choice
- The Queensland Competition Authority's Price Comparator

The office of the EOQ also provides guidance on the type of information consumers need to consider in order to make an informed retailer choice<sup>6</sup>. Matters include pricing structures (fixed and variable), bill management and payment options, contract duration and termination; and any additional charges.

Using this benchmark, retailers appear to be providing appropriate information on their websites however we would argue that it is the accessibility of information, rather than the availability of information that presents an issue for particular groups of consumers. There is a need to ensure information is accessible to those customers who have:

- i. No internet access, due to a lack of financial means;
- ii. Linguistic barriers due to English being a second language;
- iii. Literacy issues; and
- iv. A disability that impairs their access to information in its current form.

We are particularly aware that there are a number of new and emerging communities in Queensland from culturally and linguistically diverse backgrounds who have had no previous experience of electricity and gas services and require special support and consumer education. We note that in Victoria a partnership project involving consumer advocates, an energy retailer and the ombudsman's office has developed a successful program to educate newly-arrived African communities about utilities provision in Victoria. From this partnership program, a model for community agencies was developed.<sup>7</sup> Such a model would provide a foundation for implementing such a partnership here in Queensland to ensure greater access, availability and comprehension to consumers.

#### *Switching behaviour as an indicator of competition*

The QCA issues paper has identified the prevalence of customer switching between retailers in response to competitive offerings as an indicator of the level of competition in the market.

While there is some evidence of customer switching behaviour in the Queensland electricity market (the number of small customers on market contracts increased from 3.1% in September 2007 to 11.7% or 223,000 customers in March 2008<sup>8</sup>), there is no information currently available on the number of customers who have changed retailers in the gas market since July 1 2007.

We would in any case question the usefulness of switching behaviour as an indicator of either competition or of an active and informed customer base. The experience of consumer advocates in Queensland and other jurisdictions is that switching behavior is often related to direct marketing activity and in order to get the marketer off the door, rather than because of informed and conscious decision making.

In order to gain a better understanding of the motivations of customers in switching providers, we would recommend that the QCA conduct an independent survey of consumers. This would assist to provide more detailed information on the factors influencing customer switching behaviour and the level and type of information used to inform these choices

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<sup>6</sup> EOQ Fact Sheet (2008), *Signing an Energy Contract? Read the Fine Print*, Brisbane.

<sup>7</sup> Frain Consulting, *Working Together: A Partnership Model for Community Agencies*. Developed for the Consumer Utilities Advocacy Centre, January 2008.

<sup>8</sup> QCA (2008) *Quarterly Report QCA - Market Customer Statistics for the March Quarter 2008 (June 08)*, Brisbane (p1-2).

Such a survey was recently commissioned as part of the AEMC Review of the Effectiveness of Retail Competition in Victoria, and the results are highly instructive.

Interestingly, around half of domestic customers who received offers did not understand them; 89% of customers who switched used one (most often the retailer they switched to) or no sources of information when making the decision; only 5% of customers compared a new offer with their existing contract; and 90% of domestic customers have not approached an electricity retail (96% for gas) in the last five years<sup>9</sup>.

These results clearly indicated that Victorian consumers were overwhelmingly uninformed and passive with regard to energy products and there is no evidence to indicate that Queensland consumers are any different in this regard.

We would also recommend that survey and other research instruments designed to investigate customer switching behaviour should include an assessment of the outcome of the choices made by consumers and the extent to which customers ultimately derived benefits from the decision to change retailers. This research should focus particularly on the outcomes for low income users.

Research in the UK found that between a fifth and a third of all customers who switched retailers seeking a lower price ended up paying more.<sup>10</sup> While some incidence of poor consumer decision-making is to be expected in even the most effective competitive market, this type of outcome is detrimental and concerning from a consumer perspective and challenges assumptions about the benefits of competition.

## **2. Issues Concerning Cost of Supply**

Natural gas prices have increased significantly since the deregulation of the gas market on 1 July 2007. Some smaller residential customers (for example those with a cook top only) experienced quite a significant price increase. The price changes had a greater impact on these small gas users because fixed charges (including network and retail costs) now make up a larger proportion of their total gas bill, as retailers move to reflect the structure of the costs they face in retail pricing. Also, because of the high proportion of fixed charges in their bills, there is little scope for small customers to mitigate the increase by lowering consumption.

We acknowledge the Minister for Mines and Energy is undertaking this review to consider the extent to which the full costs of supply are currently reflected in the price paid by the consumer. It is concerning that one year into FRC retailers have not provided any firm indication of the likely increases still required to achieve cost-reflectivity. While we are not able to respond specifically to the question of whether full cost reflectivity has been achieved, QCOSS would be highly concerned by the prospect of further price increases bearing in mind the essential nature of gas services and the fact that demand for gas is largely inelastic to price increases.

For the period 1 July 2007 to 31 May 2008, the Office of Energy Ombudsman Queensland (EOQ), received a total of 310 cases of consumers experiencing difficulty in making payment of their energy account, and 158 cases of consumers having energy supply disconnected

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<sup>9</sup> AEMC (2007) *Review of the Effectiveness of Competition in Gas and Electricity Retail Markets in Victoria: First Draft Report*, October 2007, Sydney (p95-1010).

<sup>10</sup> Chris Wilson & Catherine Waddams Price (2007), *Do Consumers Switch to the Best Supplier?* CCP Working Paper )7-6, Centre for Competition Policy, University of East Anglia, April 2007

and are seeking assistance to be reconnected.<sup>11</sup> This is likely to represent only a small proportion of the customers actually experiencing difficulties.

While we acknowledge the positive action of the Queensland government to introduce a gas rebate for Pensioners to mitigate the impact of price increases on vulnerable customers, we would argue that if cost reflectivity has not yet been achieved in the Queensland market, the Minister should use the reserved power under the Gas Supply Act to regulate and impose a gas residential retail tariff cap, similar to the Western Australia (WA) gas market. A cap would protect residential consumers from price increases and general price volatility.

We are aware that the costs of energy, including gas, are likely to increase with the introduction of the 2010 national emissions trading scheme (ETS) to tackle climate change. The consumption of energy in the residential sector is a significant contributor to Australia's stationary energy greenhouse gas emissions. Although it is unclear as to the extent an ETS will have an impact on the gas market, as a less carbon intensive product any price increase will be smaller than in relation to electricity making it important to promote as an alternative fuel sources (at least in a transition to greater reliance on renewable energy sources).

Since 1990 the average energy consumption per Australian household has remained relatively constant apart from the influence of year-to-year climatic and weather variations that impact significantly on space conditioning energy demand<sup>12</sup>. Projecting forward to 2020 there is expected to be about a 6% decline in energy consumption per household compared to 1990 levels.<sup>13</sup> The decline in energy consumption per household is being driven by existing and planned energy programs, initiatives and strategies designed to improve energy efficiency of appliances and use.

It is in these planned energy programs, initiatives and strategies at the residential level that the opportunity for the promotion of the uptake of gas as a more greenhouse friendly alternative to coal fired electricity, and to assist disadvantaged households including low income earners and renters to participate in greater energy efficiency measures.

Assisting low income households to improve energy efficiency is critical to ensure that the costs of climate change are not borne disproportionately by this group. An indication of the possible impact of carbon pricing was revealed in recent research prepared by the National Institute of Economic and Industry Analysis (NIEIR) for the Brotherhood of St Laurence.<sup>14</sup> This research had a focus on Victoria and found that without any energy efficiency programs around 600,000 low income households would experience an imposed cost of approximately \$400 million per annum for a \$25/tonne carbon price and \$800 million for a \$50/tonne carbon price: an increase ranging from \$12 to \$25 per household/per week, or 2.3% – 4.6% increase.<sup>15</sup>

Positive progress has been made so far through the Sustainable Housing Code, Queensland Residential Gas Installation Rebate Scheme and the phase-out of electric hot water systems. A gas residential strategy for Queensland is likely to will prove to be beneficial for consumers by decreasing emissions and spreading distribution costs for gas over a growing customer thereby alleviate some of the costs. The Queensland Government anticipates that as customer numbers grow and the utilization of the system improves, the average cost to the

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<sup>11</sup> <http://www.eoq.com.au/statistics.cfm>

<sup>12</sup> Department of the Environment, Water, Heritage and the Arts, Energy Use in the Australian Residential Sector, Canberra, 2008.

<sup>13</sup> Department of the Environment, Water, Heritage and the Arts, Energy Use in the Australian Residential Sector, Canberra, 2008

<sup>14</sup> National Institute of Economic and Industry Research: The impact of carbon prices on Victorian selected household types — A preliminary analysis. Report for Brotherhood of St Lawrence, Clifton Hill, 2007.

<sup>15</sup> ACOSS, Australian Conservation Foundation and Choice, Energy and Equity, Preparing households for climate change: efficiency, equity, immediacy.

consumer will reduce over time; while growth in the residential market may attract additional retailers and increase competition.

There are a number of initiatives that could be considered as a means to expand the size of the gas customer market base, improve energy efficiency for households by addressing awareness and behaviour, home modifications, standards for buildings and appliances, and upgrades for equipment and appliances. Initiatives could be addressed further in the Queensland Government's proposed gas residential strategy. However we stress the need to ensure these strategies are coordinated across government and are consistent with planning in relation to climate change mitigation and the adoption of a longer term approach to energy sustainability that includes a movement towards renewal energy sources. Strategies may include:

- i) Expansion of subsidies for purchase of gas appliances
- ii) Wider applicability of the residential gas installation rebate scheme
- iii) Incentives and subsidies to landlords to encourage a retrofitting of rental properties with gas appliances, without increasing immediate rental prices
- iv) Development of new technology - The Queensland electricity market is the dominant participant in the residential fuel mix. By developing new technology in appliances, there is an opportunity to increase customer base and availability.

Increasing the customer base will spread distribution costs and alleviate the costs passed on to consumers, as well as contribute to greater uptake of gas as an energy source and a reduction in our carbon footprint.

We would like to thank the QCA for the opportunity to comment on their issues paper. For any questions with regards to our submission please do not hesitate in contacting Linda Parmenter, Manager, Policy and Communications on (07) 3004 6918 or alternatively at [lindap@qcooss.org.au](mailto:lindap@qcooss.org.au).