



queensland council of social service inc  
WORKING FOR A FAIR QUEENSLAND

## **SUBMISSION ON QCA'S DRAFT REPORT – REVIEW OF ELECTRICITY PRICING AND TARIFF STRUCTURES STAGE 2.**

### **ABOUT QCOSS**

---

Queensland Council of Social Service (QCOSS) is the peak body for over 600 welfare and community sector organisations in Queensland. For over 50 years QCOSS has worked to promote social justice and exists to provide a voice for Queenslanders affected by poverty and inequality. We act as a State-wide 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.

The Department of Mines and Energy (DME) and the Department of Justice and Attorney-General (DJAG) has funded QCOSS for an energy consumer advocacy project in Queensland. The objective of the QCOSS Energy Consumer Advocacy Project is to examine and provide input into Queensland Government energy policies and where relevant the relationship to national energy policy, with a particular focus on the needs of low income and vulnerable households.

### **COMMENTS**

---

QCOSS welcomes the opportunity to provide comment on the Draft Report on Stage Two of the Review of Electricity Pricing and Tariff Structures. However, as we have noted previously in other public consultation processes associated with this review, we are again extremely disappointed with the timeframe that has been provided. Given the significant changes to pricing and tariff arrangements that are being contemplated and the potentially long lasting impacts that the review has the potential to affect, we believe the two week timeframe provided to respond to the draft paper was insufficient.

While we understand that the QCA is operating under time constraints imposed by the requirement to report back to government by the 30<sup>th</sup> of November, we nonetheless believe that there is a need for agreement, supported by the relevant legislation, on the minimum timeframes that should be allowed for such public consultation. Without adequate time to read and analyse the findings, or where necessary to undertake or contract relevant research or expert opinion, consumer advocates are unable to adequately represent the interests and concerns of their constituents.

For these reasons we are unable at this stage to provide detailed comment on the draft report, and we confine ourselves to broad observations about the approach taken by the QCA, the likely impacts on consumers and the measures that may be necessary in response. We note also that a consultant report on which the QCA appears to substantially rely has also been provided with the draft report. Again because of limited resources and the short time frame we are unable to scrutinise or respond specifically to this report.

QCOSS has provided written responses to the discussion papers released by the QCA for both stages of the current review. In relation to stage two of the review, we made several recommendations that we wish to reiterate, specifically that:

- additional consultation on and analysis of the impact of any changes to the regulated tariffs for residential consumers is required. This analysis should take into account consumption and income levels and the consumer protection mechanisms and responses that are necessary to protect vulnerable consumers.
- the introduction of an inclining block tariff has merit (accompanied by corresponding measures to ensure that low income high volume consumers are protected from the associated price impacts) in terms of ensuring access for low income households to a basic supply of affordable energy and in encouraging efficient use of energy by high volume consumers. It is disappointing that the QCA appears to have rejected exploring this option further.
- a time of use (TOU) tariff should not be introduced in advance of reliable evidence to establish the costs and benefits through the forthcoming smart meter trials in Queensland, and;
- if a TOU tariff is provided for in the notified tariffs, the voluntary nature of this tariff and the capacity to revert to a flat rate tariff on request must be ensured, and accompanying consumer protections must be included in the electricity code. We believe that further work is required to analyse the risks associated with the introduction of such a tariff and to develop recommendations to address those risks.

We appreciate the QCA's acknowledgement that some of the recommendations in the draft report may impact adversely on low consumption (and low income) customers and that this may affect their capacity to pay their electricity bills. We also note the QCA view that issues associated with vulnerable customers are better addressed via specific support arrangements rather than by creating distortions in the electricity tariff structure or pricing regime. While we agree that specific support arrangements are necessary to protect vulnerable customers, we nonetheless would argue that the setting of regulated tariffs involves a balancing of different public policy issues (for example ensuring market effectiveness, managing peak demand and environment concerns, and ensuring equity and access), and pricing principles should take into account the full range of policy concerns.

Instead the approach taken by the QCA tends in practice to prioritise the achievement of cost reflectivity over all other policy considerations. While we accept that the QCA were not required to review tariffs in view of equity or welfare concerns, the terms of reference did require the QCA to assess tariffs options to encourage price signals to consumers to encourage more efficient use of energy. In our view, the QCA has also prioritised the achievement of cost reflectivity over this objective.

The QCA paper states that better price signals and better demand management will flow from the achievement of cost reflectivity. QCOSS does not believe that a solid argument for this assertion is made out in the paper. In fact, the achievement of better price signals may require a deviation from cost reflectivity. For example, the cost of supplying energy reduces with volume, but a signal to discourage high levels of consumption requires that prices increase with volume. Similarly, higher

fixed charges may better reflect the costs of energy supply for retailers, but they will tend to mute other price signals to consumers to encourage energy efficiency or conservation as the usage component of the bill will be lower. We also note that the QCA have proposed to maintain a flat rate tariff for the purpose of simplicity, despite the fact that this is not a cost reflective pricing approach since the costs of supplying electricity decrease with volume.

We are concerned about the impact on consumers of the two main proposals put forward by the QCA – namely, increasing the fixed charge component of tariffs to better align with the fixed cost component of network tariffs and introducing a voluntary time of use tariff. Although these proposals achieve partial cost reflectivity, we are not convinced that there has been a sufficient balancing of all the policy objectives that are impacted by tariff design. Higher fixed charges will disadvantage those who consume small amounts of energy relative to those who consume large amounts. Such consumers will be unable to reduce their bills significantly although they might attempt to reduce energy use. Low-income consumers (who on average use less) are also more likely to find these charges onerous. There is also a risk that those who initially adopt and benefit from time of use tariffs will subsequently find themselves worse off but be unable to revert to a fixed rate tariff due to the underlying network tariff, or that families that move to a home with a time of use meter will not be offered the alternative flat rate tariff by retailers. These issues must be addressed in planning for implementation if a time of use tariff is to remain “voluntary”.

Finally, QCOSS notes and agrees with the QCA’s acknowledgment that transitional arrangements must be in place to assist customers to adjust and understand changes to tariff structures prior to implementation. We also support the acknowledgement that vulnerable customers must be adequately protected, and we are committed to working with the QCA and the Queensland government on appropriate measures to achieve that objective.