

	<p>A non-profit, volunteer organisation, advocating to advance the interests of consumers in Queensland</p> <p><i>Secretary:</i> <i>Max Howard</i> <i>PO Box 261</i> <i>Corinda Q 4075</i> <i>Telephone: 0419 678 395</i></p>
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1 October 2009

**SUBMISSION ON QCA'S REQUEST FOR COMMENTS PAPER -
REVIEW OF ELECTRICITY PRICING AND TARIFF STRUCTURES
- STAGE 2, SEPTEMBER 2009**

BACKGROUND

The Queensland Consumers' Association (the Association) is the peak body for consumer groups in Queensland. The Association's members work in a voluntary capacity. The Association is a member of the Consumers' Federation of Australia, the peak body for Australian consumer groups.

The Association made a written submission on the draft report of stage 1 of the review and is pleased to make this submission on this phase of stage 2.

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COMMENTS

General

Consumer Objectives

The Association's comments and views on this and the previous stage of the review reflect primarily the following objectives:

- To ensure that regulated electricity prices are fair, relate closely to the cost of efficient provision, ensure adequate and reliable supplies, and contribute to the attainment of environmental goals.
- To ensure that price and tariff policies are complementary to other public energy policy objectives and instruments.
- To ensure that adequate transitional, adjustment and compensation/assistance measures accompany any major changes in policies likely to influence consumer prices and access to electricity.
- To ensure that there is adequate consultation with consumers on all policy and implementation issues and that consumers have sufficient resources to participate effectively in all consultation processes.

Terms of reference

The Association welcomes the government's decision to direct the QCA to undertake the review.

However, the terms of reference are should have required the QCA to report on the impact of changing tariffs structures not only on each customer class but also on various types of customers, for example low income consumers with low levels of electricity consumption.

The Association suggests that the QCA consider “customer class” to include customer types and address in its draft report the impacts on them. And, the Association would expect the government to also consider such impacts when considering the QCA’s final report.

Also, as stated in the previous submission, the Association is concerned that the set target date of 2010-11 is too ambitious for the start of any new price setting system and tariff structures. It will not allow sufficient time for adequate consideration of options and consultation with consumers and other stakeholders. As a result, there is a great risk that policies and procedures will be adopted which are not be in the best interests of consumers. It would be better to use the BRCI process and existing tariff structures and levels for another year than hastily introduce a flawed new system.

Timetable

The Association is concerned that the requirement to provide a final report by 30 November 2009 prevents the QCA from complying fully with the government’s requirement to undertake “an open and robust consultation process”.

Inadequate time for consultation discriminates heavily against consumer organisations which lack the massive resources available to industry stakeholders and gives them insufficient time to try to obtain funding to employ consultants, consider consultants’ reports, and consult with individual consumers.

The Association emphasises the need to allow adequate time for consultation on **all** matters covered by this review and subsequent policy and implementation decisions. As noted above, we consider that the target commencement date of 2010-11 is too ambitious and should be changed.

Many of the government’s recent energy policy decisions, for example to introduce Full Retail Competition, to sell EnergexRetail’s customers to the private sector, and to replace CPI based indexing of regulated tariffs with the BRCI, have been taken with no, very limited, or inadequate consultation with consumers and other stakeholders.

It is essential that there be effective consultation, including allowing sufficient time for consumers to participate effectively in consultations, on the topics covered by this review the results of which have the potential to have major impacts on the wellbeing of very Queenslanders.

Effective consultation is also required to ensure that future policy decisions which may arise from the QCA review are informed by the best available information and ideas and consumers must have adequate opportunities to participate. This is an immensely complex matter with many ramifications. Policy decisions must take account of the longer term as well as short term issues and all of the numerous components of the electricity industry.

The Association also recommends that the Queensland government provide more resources for the Queensland Council of Social Service (QCOSS) Consumers Energy Advocacy Project to participate fully and effectively in consultations during the next 2 years on options, policy proposals and implementation plans (including transitional, adjustment and compensation provisions for consumers) from this and subsequent consultations and reviews.

Public policy issues

The Association wishes to emphasise that when dealing with electricity all policy options, including tariff structures, levels, etc must be assessed against a variety of policy objectives because: it is an essential service with a low price elasticity of demand, it has substantial impacts on the environment, is a complex system involving many players (including government owned), and most investments are large and for the long term.

Accordingly, the inclusion in the terms of reference of consideration of management of peak demand and encouraging more efficient use of electricity is welcome. However, there are many other public policy issues relevant to this review including reductions in greenhouse gas emissions, and greater use of sustainable/renewable energy sources.

The Association also notes that it appears to be in the commercial interests of much of the industry for demand for electricity to increase. In part, this reflects the nature of the industry and its products, the approaches to regulation of distribution and network charges, etc. As a result, increased demand generally results in increased revenue and profits and more commercial opportunities for all sectors of the industry. Accordingly, public policy should not be driven exclusively by the commercial objectives of industry. There is a clear need for decision makers take account of the public interest and the impact of many matters, including electricity tariff structures and levels, on a wide range of community objectives.

The Association also notes that although this review of tariff structures and levels is vitally important, it relates only to regulated tariffs. There is nothing to prevent retailers offering via market contracts tariff structures and levels unrelated to regulated tariffs.

In view of the above, and the fact that almost all the issues raised and questions asked in the paper are not unique¹ to Queensland and have been dealt with elsewhere, the QCA should undertake and release for public comment a review of relevant situations and experiences outside Queensland.

Specific

Due to lack of time and resources we confine our comments to only a few of the detailed issues in the draft report.

Network charges

The Association considers that network charges are a vital part of this review. They account for a large proportion of the total costs incurred by consumers. Also, most of the questions in the paper are relevant to network charges.

Therefore the Association recommends that the QCA provide more information about how it expects the AER process for the determination of network charges for the next regulatory period, including requirements for more cost reflective charging, might affect any proposals for changes to regulated tariff structures and levels.

Fixed charges

The Association recognises that many industry costs are fixed, especially in the transmission and distribution sectors..

This raises the important issue of the extent to which these fixed costs can/should be reflected in charges for consumers. The Association notes that from economic and accounting perspectives a large proportion of the network and distribution charges should be fixed i.e. independent of level and time of consumption. However from a public interest perspective it is essential to recognise the resultant disadvantages for consumers with low income levels and low electricity use, and the greatly reduced ability to use price per unit of electricity consumed to influence consumption levels and times.

Accordingly, the Association considers that a public interest approach is required to the relationship between fixed charges and charges directly related to the amount (and time) of electricity consumption.

¹ An exception may be the uniform tariff policy

Tariff types

The Association notes the QCA's comments, questions, etc on this matter and will consider carefully any information and proposals in the QCA's draft report.

However, at this stage it is far too early to be considering complex time of use charging for small consumers, especially since trials are planned on many aspects of this approach which would have enormous implications for consumers and industry.

This is also our position on inclined and declining block tariffs. On the latter we emphasise the crucial need for steps and prices which are easy for consumers to understand and use, and which do not place large new cost and adjustment burdens on consumers. We also consider that the adoption of any such tariffs by household consumers should be on a voluntary basis only.

Also, the Association is supportive of tariffs linked to load reduction activities undertaken by distributors, for example off peak hot water heating and considers there is considerable potential to extend this approach to other appliances and to develop appropriate tariff structures and levels. In this regard we recommend that the QCA ensure that future off peak tariffs are cost reflective so that consumers can obtain the full benefits for participation.

We also note that the government guaranteed solar feed in tariff scheme does not appear to be mentioned in the QCA paper. Given the links to existing tariffs and increasing consumer interest in solar power generation, we suggest that the QCA include this in its draft report.

Alignment of network and retail tariffs

We noted earlier that retailers can offer any type of market contract they wish and do not have to link these closely the regulated tariffs. However, so far they have not done so the extent to which network and regulated retail tariffs can be aligned could have significant effects on the price signals sent to consumers.

We also noted earlier that the AER decisions on the distribution charges for the next regulators period could have significant effects on the structure and level of network charges.

Also, in the previous submission we noted the desirability of making changes to distribution areas and/or charges to enable retailers to offer market contracts to consumers in places like Toowoomba. In this connection, we note that the QCA paper does not appear to mention geographic location as a factor which can influence costs and therefore the translation of cost reflectivity principles into tariff structures and levels. Given the importance and comprehensiveness of this review, we suggest that that the QCA address this matter in its draft report.

The Association will consider carefully the information on these matters and any recommendations in the QCA's draft report. However, at this stage we wish to emphasise that if there is a need for better alignment of network and retail tariff structures this is a public policy issue. The industry alone should not be responsible for such decisions.

Determination of prices necessary to promote competition for customers

We opposed the creation of "headroom" in regulated tariffs to promote competition. Tariffs should be set only at the level required to ensure reasonable profitability for efficient retailers. Retailers wishing to increase market share or enter the market should fund this from their own resources.

Time of use metering

We do not support the provision of time of use metering until all trials have been completed and we have been able to study an independent benefit cost assessment of time of use metering and associated changes to tariffs.

Interruptible tariffs

As indicated earlier, we see many advantages in this approach to demand management and consider that the development and introduction of appropriate systems should, subject to benefit cost analysis, be given high priority.

However, we note that an expansion of this approach to demand management has significant implications for retailer controlled approaches to demand management, regulated and market contract tariffs, and net system load profiles.

We also consider that expansion in the use of signals to switch loads on and off should be accompanied by mandatory minimum community set standards for distributor performance regarding frequency and voltage, etc. At present standards are set only by the distributors. In addition, initiatives are required to ensure that manufacturers are required to build immunity into potentially susceptible electrical appliances.

Access to regulated tariffs

The present policy of allowing small household customers to revert back to regulated tariffs from market contracts should not be changed.

Also, we do not support introducing any sunset clause for very small business customers having access to regulated tariffs and being required to move to market based contracts in the Energex or the Ergon distribution areas. Many such businesses are equivalent to large households in their energy consumption and ability/willingness to incur the transaction costs associated with assessing, adopting and monitoring the competitiveness of market contracts.

Transitional arrangements

We welcome the QCA's interest in transitional arrangements to allow affected customers to respond to changes to tariff structures and levels.

As noted earlier, we consider that decision-making on tariff structures and levels should take account of possible impacts on various types of consumers, especially those likely to experience the greatest impacts. This is likely to be a wide range of consumer types, not only the disadvantaged and vulnerable. All consumers are likely to be significantly affected by changes, especially any which are mandatory and for which there are no alternative tariffs or products.

Regarding transitional arrangements for any new structures and levels, we consider it essential that these be phased in over time and be accompanied by adequate public education and assistance programs.