



queensland council of social service inc
WORKING FOR A FAIR QUEENSLAND

17 July 2009

Mr Gary Henry
Queensland Competition Authority
GPO Box 2257
Brisbane QLD 4001

Dear Mr Henry,

RE: Request for Comments – Review of Electricity Pricing and Tariff Structures.

I write in relation to the recently released Queensland Competition Authority (QCA) Request for Comments on the Review of Electricity Pricing and Tariff Structures. The Queensland Council of Social Service (QCOSS) welcomes the opportunity to comment on this review and specific comments are included below.

The processes for estimating annual changes in electricity pricing including the flow on effect to other goods and services can have a major effect on household expenses, especially for low-income, disadvantaged and vulnerable households. There are also equity implications associated with certain pricing structures, and tariff design is important in the impact that prices have on various classes of consumers and household types. As such these processes are a matter of critical importance to QCOSS.

While QCOSS, along with other consumer organisations, has in the past advocated for a review of the BRCI approach, we do not believe that the timeframes for this review have allowed for adequate consumer input. While we appreciate the Authority is operating under time constraints dictated by the Minister's direction, we would suggest a six week public consultation period for matters of such weight should be considered a minimum.

In view of the limited time allowed to investigate and consider in detail the matters under consideration, we have not sought to provide specific comment on alternative methodologies to the BRCI and how specific cost components should be calculated, but have restricted our comments to a limited number of pricing principles that we believe should be applied in this review.

Effectiveness of the current BRCI methodology:

QCOSS is of the view that consumer interests should be given greater recognition and weighting in electricity regulatory and pricing arrangements than is currently the case in Queensland. Unlike other jurisdictions Queensland's energy policy, released in 2000 prior to the introduction of full retail competition in energy in Queensland, does not currently recognize the need to ensure access to a basic level of non-discretionary essential energy at an affordable price, particularly for vulnerable consumers. Similarly, in contrast to the specific recognition of the intent to maintain a reasonable retail margin in the calculation of adjustments to notified electricity prices, there does not appear to be scope within relevant legislation to consider the social impact of pricing arrangements and determinations. This is a major limitation of the current BRCI arrangements and of the policy context more broadly.

Without explicit acknowledgment of the need to protect vulnerable consumers and ensure access to a basic level of essential energy for all Queenslanders, policy responses to address Queensland's ongoing energy needs and combat climate change risk overlooking the essential nature of electricity and the

significant social and economic consequences of lack of access to basic levels of energy. Affordability and access to essential services for consumers must always be a prime consideration of policy makers.

Alternative pricing methodologies:

The QCA has requested advice on how prices should be calculated; the period prices should be set for, how prices should be escalated and under what circumstances prices can be reset between scheduled reviews, and how network costs should be treated.

Cost of Energy

Given the impact of price increases on consumers QCOSS believes that the methodology applied to calculate the cost of energy should be as accurate as possible to ensure that costs are no higher than absolutely necessary to obtain cost reflectivity. Where estimate data is used the methodology should have an inbuilt mechanism for correcting errors between review periods.

We also believe that the methodology for calculating costs should aim to minimise price shock for consumers. Use of data derived from longer forecasting periods ameliorate the impact of short-lived spikes and allow for smoother price paths. This reduces price shocks for consumers, particularly low-income and vulnerable consumers who may struggle to accommodate large increases in electricity costs.

Achieving Price Certainty

Adoption of a 3 year price path with annual resets may be the most effective way to balance the trade-off between the achievement of price certainty and price smoothing for consumers with the greater exposure to under and over estimates of costs derived from longer regulatory periods.

Network Costs

QCOSS is also of the view that greater overall price stability is likely to be achieved by maintaining the current position of including network pricing in the cost of energy to retailers, rather than by direct pass through to consumers. However, it is noted that it is desirable to achieve the greatest level of transparency regarding the costs that comprise the customer bill, and we would support a requirement for network charges to be identified as a separate component on customers' bills.

CPRS

In relation to the treatment of cost changes associated with environmental obligations such as the CPRS and the expanded RET, we believe that a separate and full review of this matter will be required once the final enabling legislation for the CPRS has been passed. There remains considerable uncertainty around the timing and specifics of the CPRS, including targets and initial carbon prices. While the release of the White Paper has provided greater certainty on some issues, the likely impact of the CPRS on electricity prices will not be clear until the legislation has been passed. Consequently any consideration of the price impacts of the CPRS and the manner in which carbon pass through is determined should be delayed until the final shape of the CPRS is bedded down. Additionally, extensive consultation with all stakeholders, including consumer representatives, should be undertaken prior to adoption of any model for carbon pass through in electricity pricing.

Retail costs and the retail margin

QCOSS believes the current retail margin of 5% is sufficient for an efficient retailer to operate in Queensland, noting that this is consistent with the margin applied in other jurisdictions. QCOSS does not support the inflation of prices to encourage competition, particularly given the lack of evidence that competition has produced any demonstrable benefits for Queensland consumers. Additionally the inability to access information regarding levels of and changes in headroom significantly affects the capacity of QCOSS and other consumer organisations to evaluate and comment on claims made by retailers. QCOSS is of the view that consumers should not be penalized because energy entities are unwilling to provide information regarding headroom. As such QCOSS does not support any change to

the existing methodology which would have long term implications without appropriate open and transparent consultation.

QCOSS remains to be convinced that retailers are unable to offer tariffs at a discount to notified prices without undermining their profitability. The 2008 World Energy Retail Market Ranking Report identifies Queensland as the 7th most active market in over 50 competitive energy retail markets worldwide. Given that switching behaviour is primarily driven by retailer marketing practices, this suggests that Queensland consumers remain attractive customers for retailers.

Assessment of existing tariff structures:

Do current tariff structures send appropriate price signals?

While QCOSS does not propose to offer comment on whether specific tariff structures are either obsolete or capable of sending appropriate price signals, we are concerned with the use of price as the panacea to achieve the public policy objective of reduced demand for energy and reduction in green house gas emissions.

Queensland consumers have already been subject to rising energy prices in the past two years, placing additional strain on household budgets. Increasing electricity prices contribute to many more consumers being unable to pay their bills on time, risking late penalties and/or disconnection. Higher electricity prices also increase levels of consumer debt, at a time when debt is at record high levels.

Income levels and costs of electricity undoubtedly have an impact on the consumption levels of low income households. For example, a survey undertaken in Victoria by the Department of Human Services found that concession card households used 15% less electricity than non concession households. While usage increases with household size, concession card holders consistently consumed less than non-concession card holders across all household sizes. (DHS, *Response to the Review of Effectiveness of Retail Competition and the Consumer Safety net for Electricity and Gas*, 2003: 4)

At the same time, access to electricity for all households is essential and much of each household's consumption is non discretionary. The non-discretionary load will constrain the ability of households to reduce demand in response to price increases. What constitutes non-discretionary consumption is likely to be determined by demographic or lifestyle factors relating to employment status, household composition, leisure time and household activities. Consumption levels are also dependent on the availability of substitute fuels, the quantity and efficiency of appliances used, and the thermal efficiency and design of dwellings.

There is considerable empirical evidence to suggest that demand for electricity is inelastic both in the short and the long run, meaning that the change in the quantity of electricity demanded does not alter proportionately to the percentage change in price. For example, research by Langmore and Dufty into household demand responses found that a 30-40% price increase was required to effect a 4% consumption reduction if relying on price alone. (Langmore M & Dufty G, *Domestic Electricity Demand Elasticities: Issues for the Victorian Energy Market*, 2004: 11)

There is also evidence to suggest that cross price demand elasticity - for example shifting from peak to off peak load times – is also minimal. The responsiveness of the demand for electricity to changes in price by time of use was reported in studies conducted as part of the Victorian regulator's report into the costs and benefits of interval metering. Such evidence suggests that the variables such as dwelling size and thermal efficiency and household characteristics such as income, size, appliance holdings and lifestyle, are more determinate of demand than is price.

QCOSS is concerned that under-consumption of energy is already common in many low income and vulnerable households and that there is limited capacity to reduce usage further without further decreasing standards of living and increasing social exclusion. We therefore believe that a focus on equity needs to be included alongside cost reflectivity and price signals as a key factor in any tariff redesign in Queensland. Different price structures can result in significantly different price impacts for classes of consumers, and we believe that a key objective must be to ensure that low income households

are not further disadvantaged (for example through higher fixed charge components) and that a basic level of consumption of electricity and gas is affordable for all Queenslanders.

To this end we intend to give further consideration to a "life line or social tariff" for energy in our response to Part B of this review concerning alternative tariff structures.

We look forward to continuing to represent the interests of Queensland consumers in all energy related matters. If you would like any further information or to clarify any aspect of this submission, please feel free to contact me on 3004 6900.

Yours sincerely

Jill Lang
Director