

# Regulated retail electricity prices for 2019-20: 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 2019-20 published on 20 December 2018.

This submission addresses the following consultation issues:

- Pricing approach
- Standing offer differential
- Default Market Offer
- Network Tariffs

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 reflects issues that we believe must be considered early in your deliberations to ensure the interests of consumers who may be at risk of vulnerability in the energy market are represented in this consultation process.

## Pricing approach

QCOSS strongly supports the continued application of the uniform tariff policy (UTP) in setting notified prices in regional Queensland. As noted in the Queensland Productivity Commission's Final Report, QCOSS views on the UTP are as follows:

*The UTP creates a level playing field between the electricity costs paid by customers in SEQ compared to those in regional areas, thereby addressing disparities in the cost of living and promoting regional development ... ..*

*.... households could be indirectly disadvantaged should a change to the UTP diminish regional development, employment opportunities or cost of living outcomes in regional Queensland.*

QCOSS also supports basing notified prices on the costs of supply in South east Queensland (SEQ). In our view these should be the costs relating to efficient supply in SEQ. As consistently stated in our previous submissions to the QCA's regional pricing determinations we do not support the inclusion of the standard offer differential to set notified prices in regional Queensland. There is considerable

evidence emerging from other National Energy Market (NEM) jurisdictions, such as Victoria, that standing offer prices no longer reflect efficient costs of supply. Retailers in SEQ compete primarily on the basis of market offers, not standing offers.

We were therefore pleased that the covering letter of the Queensland Government's delegation (17 December 2018) specifies that "*standing offer prices in the SEQ market no longer provide an appropriate reference point for setting prices in regional Queensland*". This is also in keeping with the Australian Consumer and Competition Commission's (ACCC) finding and recommendation

### **Standard offer differential**

The covering letter of the Queensland Government's delegation (17 December 2018) specifies that "*standing offer prices in the SEQ market no longer provide an appropriate reference point for setting prices in regional Queensland*", but that the "*Government holds the view that standard contracts provide additional value to customers compared to market contracts, for example, through additional protections contained in the terms and conditions of standard contracts*".

The letter adds that the "*QCA should give consideration to including an adjustment in notified prices that appropriately reflects the additional value of the terms and conditions of standard retail contracts*", that the "*standing offer adjustment made...in previous determinations appropriately reflects the additional value*", and that the "*QCA should consider including an adjustment of a similar magnitude in notified prices for 2019-20.*"

With regards to the additional value of standard contracts, ACCC in the afore mentioned retail price inquiry report, found that consumer protections (such as access to paper billing, minimum periods before bill payment is due, a set period for reminder notices, and no more than one price change every six months) do not justify the higher price (page 242), especially if loyal and disengaged customers are staying on the higher standard contracts. While the price gap between standing offers and market offers is increasing, the advantageous conditions gap is decreasing. The St Vincent de Paul Society's latest Queensland Tariff Tracker report<sup>1</sup> (Table 2<sup>2</sup>, page 8) for example, demonstrates that similar to standing offers, none of the market offers compared have exit fees, and only half of those compared have late payment fees. As such, it is questionable what is the value of terms and conditions of standing offers? We therefore support the comments by the Queensland Consumers Association in its submission to the 2018-19 Interim Consultation Paper that any differential applied by the QCA should not be greater than the 5% applied for 2018-19 and in fact should be considerably lower.

We appreciate that you have to comply with the intent of the Minister's delegation for 2019-20. However, as standing offers prices 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

### **Default Market Offer (DMO)**

We recognise that the AER process for determining the DMO is a different process to that of the QCA in regional Queensland and may produce different outcomes. We note that aligning the methodological approach between notified prices and the DMO would reduce the likelihood of the

---

<sup>1</sup> Queensland Energy Prices July 2018 An Update report on the Queensland Tariff-Tracking Project, [https://www.vinnies.org.au/icms\\_docs/292205\\_QLD\\_Energy\\_Report\\_July\\_2018.pdf](https://www.vinnies.org.au/icms_docs/292205_QLD_Energy_Report_July_2018.pdf)

<sup>2</sup> QCOSS notes there is a wide range of offers, some would make standing offer customers significantly better off, others significantly worse off, and that not all offers are listed.

regulated price in SEQ being significantly different to that in regional Queensland. This is not likely to happen for the 2019-20 DMO however may do so for subsequent years.

Our understanding is that the draft determination by the AER will be out before the draft notified prices which will be available in March 2019. The final notified prices will be released at the end of May 2019 which is after the final DMO in 30 April 2019. The DMO prices takes effect from 1 July 2019.

While QCOSS supports the intent of the DMO, its impact on the market and consumers, and the appropriateness of its size (value) remain untested. How the 2019-20 DMO aligns with the UTP and how notified prices sit alongside it remains to be seen. As such, at this stage QCOSS does not support using the DMO for calculating regional Queensland prices for 2019-20, however QCOSS will consult with Queensland Government and the regulators on these matters and will raise any concerns that may become apparent at the time.

## **Network Tariffs**

The delegation requires that you consider basing the N component for tariff 15 (the 'lifestyle' tariff) on the network charges to be levied by Energex, and the network tariff structures of Ergon Distribution (as for tariffs 12A, 14, 22A and 24), as approved the Australian Energy Regulator (AER).

QCOSS generally supports trials as an approach to the development of fair and equitable tariffs. However, we do 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.

In its current form, the Lifestyle Package is still quite complex and is likely to lead to bill shock. For example, households are expected to know what their usage is during 4pm to 9pm on any day during the Summer (5 months) in order to select a band (zero, 5, 10, 15, or 20 kWhs). Once on a band, households are then expected to know how much they are using so that they can adjust their energy use accordingly. The consequence of going over the network access allowance (band) leads to additional charges, which could result in bill shock. There is a need for more flexibility and visibility in the current package design to assist customers to avoid breaching the band and paying top-up charges.

In line with our submission to Energy Queensland's Tariff Structure Statement (Round 2)<sup>3</sup>, QCOSS recommends several changes to the tariff structure to safeguard low-income and vulnerable customers. This includes reducing the window from 4pm to 8pm (in line with other states), as the current window of 4pm to 9pm does not allow enough time to shift load and it is likely impractical for many households to move load to later than 9pm.

We would also suggest that a period of three months is more appropriate than five months for the Summer peak window. The Endgame analysis conducted for EQ suggests that “the majority of aggregated peak falls in January and February, though outcomes vary greatly by year”. November and March are school months and it would be more difficult to move load for households with children given school hours and activities.

### *Tariff 15 Trial*

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

---

<sup>3</sup> [https://www.qcoss.org.au/sites/default/files/20180727\\_SUB\\_Tariff\\_Structure\\_Statement\\_Round\\_2\\_0.pdf](https://www.qcoss.org.au/sites/default/files/20180727_SUB_Tariff_Structure_Statement_Round_2_0.pdf)

the network. It is unlikely to include consumers who have low income or are at risk of social 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 sees the need for Tariff 15 to be notified for trial purposes and that we encourage and support trials of this tariff (assuming that it is the proposed network tariff to the AER).

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`.