



Association of Independent Retirees (AIR) Limited

Queensland Division

ACN 102 164 385

“Working for Australians in Retirement”

SUBMISSION

REGULATED RETAIL ELECTRICITY PRICES

2013 — 2014

TRANSITIONAL ISSUES

Queensland Competition Authority

Consultation Paper

January 2013

The Association of Independent Retirees (AIR) is a national not for profit, non-political organisation that works to advance and protect the interests and independent lifestyle of Australians in or approaching retirement.

PREAMBLE

The **Association of Independent Retirees (AIR) Limited** was formed in 1990 as a not-for-profit, non-party political, volunteer organisation that is focused on matters affecting and supporting the standard of living, health and welfare of fully or partly self-funded and retired and partly-retired people.

AIR is the peak body representing the interests of retirees who are wholly or partly self funded in retirement. There are AIR branches across Australia. The Queensland Division of AIR represents the 13 branches established within Queensland. Twelve of the Branches are located in cities and provincial towns. The remaining Branch has no geographical boundaries and can accommodate members from any part of Queensland.

AIR's members include fully self-funded retirees, part pensioners, and superannuants.

The primary objectives of the association are to:

- ♦ research and gather information that assists members to maximise their life opportunities; and
- ♦ educate and inform the wider community (including political parties at all levels of Government) regarding the views and concerns of self-funded retirees.

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INTRODUCTION

All AIR members are part or fully self-funded in their retirement.

Since the Global Financial Crisis, potentially all members have seen their retirement income decrease as a result of diminishing superannuation and / or investment asset values and consequently, are receiving diminished returns on their investments.

As a result, a large number of AIR members now receive a proportion of their retirement income as a part Government pension. The outcome is that they are now on fixed incomes and absorbing ever increasing cost of living expenses with few, if any, avenues to augment or improve their financial position.

Electricity costs are a major component of domestic household outgoings and these are going to continue increasing according to current forecasts over the next few years.

Some AIR members in Queensland have installed photovoltaic panels in an attempt to take advantage of the Government's solar rebate scheme. These members are shielded from price escalations while the rebate scheme continues to operate. However, there are also a large number of members who, for a variety of reasons, were not in a position to install photovoltaic panels and are now faced with escalating power bills which some could struggle to pay.

The intention of Government is to move from the current system to a cost reflective charging system for retail energy costs. The Consultation Paper at Section 2.1 demonstrates that consumers using more than about 6,500 KWh / year will actually have a lower relative bill under the cost reflective charging system.

What this means is that Queensland AIR members, who would definitely be classed as "small" power consumers, are going to face higher power charges under the cost reflective system. It is yet another case of those households least able to afford it being hit the hardest.

That being said, it seems that the Government is determined to transition to a cost reflective charging regime.

The Consultation Paper considers three separate customer types that will require transitioning. These being in summary:

- (a) Residential Tariff 11 users;
- (b) Existing "obsolete" tariffs; and
- (c) Large users on Tariffs 44 to 48.

Appropriately, this Submission will only address the transition arrangements for residential Tariff 11 users as this is the component that impacts on those AIR members in Queensland.

TRANSITIONING OF RETAIL ELECTRICITY COSTS (TARIFF 11)

The Consultation Paper advises that the Government has stipulated a requirement to have the transition to the cost reflective pricing scheme completed by 1 July 2015. There is no suggestion on how this must be achieved.

Options

It would seem that the options to transition to the new system are to introduce:

1. the full increase in retail electricity costs in one step from the commencement of the 2013 – 14 period;
2. the full increase from the commencement of either of the other periods of 2014 – 15 or 2015 – 16;
3. a staged increase in equal parts for each of the periods;
4. a staged increase but starting with a smaller increase (ie less than 1/3 of the full amount) in the first period and ramping up over successive periods; and
5. any other combination of option 4 above.

Preferred Option

AIR Queensland Division prefers a staged increase in the electricity price and does not support a transition to cost reflective pricing in one step as detailed in Options 1 & 2 above.

This is because many fixed income AIR members in Queensland, pensioners and other low income households could experience difficulty in absorbing another large increase in electricity costs in one go. Such increases have become the norm in recent times and are introduced with little consideration of the impact such power bills are having on households and particularly those with the least ability to absorb the costs.

AIR Queensland Division supports Option 4 as the preferred option.

A staged increase starting with a small increase (ie less than 1/3 of the full amount) in the first period and ramping up over successive periods allows some time for households to adjust to the price increases. This option also forestalls to some degree the “bill shock” that would likely occur if the full increase was passed on as a single amount.

It also provides time for Government to assess and introduce any necessary financial assistance packages made to low income households.

In addition, the Federal Government has the agreement of all States on energy market reforms which address the gold plating of the system and over-investment in network infrastructure. It is proposed that real savings will be seen for household electricity consumers. But, these savings will take some time to flow on to households.

By phasing in the transition to cost reflective charging, there is some scope for the increase in electricity cost as passed on in Queensland to be balanced against perceived saving as a consequence of the Commonwealth Government's initiative. As a result, low income households would be spared some of the increase in retail electricity cost.

Media Campaign

Whichever transition method is selected, AIR Queensland Division recommends that an extensive media explanation program be rolled out so that people are fully informed on what the price increases are likely to be (with justification) and why the price increases are occurring. Past electricity price increases have scarcely been justified and, as a consequence, there is much skepticism about unjustified "price gouging" occurring throughout the industry.

A proper media campaign will go some way towards overcoming such perceptions.

Contact

If further information is required on any matter, please contact either of the contact persons listed under the Preamble to this Submission.

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