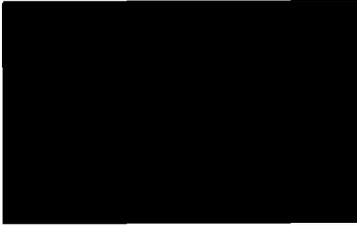


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29 December 2009



Dear Queensland Competition Authority,

Power price rises- Feedback and suggestions

There have been many press reports about 14% price rises for electricity recently. I don't have a lot of money and can't install solar panels etc as I rent. Naturally I was a bit concerned as our bills are already on their way up, so I did a bit of research and came across some inquiry documents on your website which helped me understand the issues better.

Attached is my feedback/suggestions. I know that the QCA often publishes feedback on the Internet. For privacy, I don't want my name or contact details to be published.

Regards,



Feedback and suggestions

The inquiry documents seemed rather complex to someone who is not familiar to this area. There also didn't seem to be any responses from university academics (economists) or individual residential/business customers..

Nevertheless, there seems to be the following issues:

An information problem between retailers and customers

Electricity retailers don't have enough information about *when* electricity usage occurs because the meters are old and only a few people have smart meters. This facilitates people to waste electricity during peak times.

Key information appears to be missing

The Minister for Energy (Hon. Stephen Robertson MP) has reportedly pointed out that the QCA had failed to resolve the key question of whether higher prices would reduce electricity usage.¹ Crucially, there also seems to be no empirical data presented about the long or short term price elasticity of electricity usage in Queensland.

Despite this, it seems sensible that people would reduce unnecessary electricity waste as the price of electricity increased, as consistent with Economics 101- the law of demand. However, it wasn't clear how 'sensitive' usage is to any rise.

Community expectations

Price rises are very unpopular, and there seems to be talk of vetoing the price rises.² I note that elsewhere that privatisation of the retailers has

¹ "Queenslanders might avoid charges for peak power usage" by Stephen Wardill, The Courier Mail, 15 December 2009, <http://www.news.com.au/couriermail/story/0,,26486920-3102,00.html>

² "Power price plan shocks minister" by Andrew Fraser, The Australian, 19 December 2009, <http://www.theaustralian.com.au/news/nation/power-price-plan-shocks-minister/story-e6frg6nf-1225811906247>

been blamed (although many generators and the distribution network is State-owned). A counter-argument from the press is that the retailers are finding that they are being heaped with all sorts of costs and aren't making that much profit. This seems to have some credibility, as I note that Jackgreen has shut up shop recently, which is a deep shame as they specialised in affordable green power.

Many people also genuinely find themselves unable to or potentially unable to pay ever increasing bills (like myself). Balanced against this, the use of the veto might send the wrong signal to the retailers and power generators who might find it unworthwhile to generate, sell or transmit power at a loss.³ If these parties were to pull out of Queensland, the QLD Government would have no choice but to subsidise or buy back these parties' assets (bailout). This would be a needless, costly catastrophe.

³ "Using less power is key to beat price rises" anonymous, Courier Mail, 18 December 2009, <http://www.news.com.au/couriermail/story/0,23739,26504390-13360,00.html>

Suggestions

Here are some humble suggestions.

1. **Everyone should get a smart meter** and this should be mandatory for new housing estates etc. People could be given incentives to get a smart meter installed (hypothetical examples: flat-fee green levy imposed on those without one, cheaper tariffs for those with a smart meter etc). A cost/benefit case would have to be made.
2. **Key information should be sought and published publically.** This specifically relates to the price elasticity of electricity. This could be done through commissioned research, literature reviews, or an experiment where a test group is put on a cheaper electricity tariff and their usage is compared with a control group. How to handle seasonal variation and other confounding variables would have to be dealt with at the design stage. Or if the QCA already has this information on hand, it should appear in its publications next time the tariffs come under review.
3. **Introduce a tiered domestic electricity tariff as soon as practicable** (inclining block tariff). Community expectations and financial sustainability do not necessarily have to be played off against each other. Modifying the tariff scheme appropriately can satisfy both goals.

I note that the “ideal tariff” would be one where the price of electricity moved in step with demand. In the absence of this (due to the smart meter problem), the “second best” option would appear to be inclining block tariffs. Indeed this is already used on my gas bill, so it should not be such a big issue to transition to.

The effect of an inclining block tariff (differential pricing) would be to separate those residences that use excessive amounts of electricity from those who do use more modest amounts (pensioners etc). I

would think that people who do not have a lot of money also don't have money to buy energy guzzling appliances like plasma TVs, three air conditioners etc. I certainly don't!

It would be fairer, and indeed could reward modest users with a lower or the same rate of electricity as they pay now while penalising those who use excessive amounts of electricity with the higher rate to recoup the costs of upgrading the system.

4. Better communication

People are annoyed that prices are going up and feel (rightly or wrongly) that the electricity retailers (post-privatisation) are profiteering. However there seems to be a counter-argument that there is a massive increase in demand for electricity as more people come to Queensland and use their increasing wealth to buy electricity hungry goods and larger houses that use more electricity. On top of all this, the price rises have been politicised which might give the incorrect impression to the community that electricity can be supplied at a loss, or that privatisation directly caused the price rises. These expectations may or may not have been helped by previous information about competition keeping prices down⁴

Basically the record needs to be set straight about why prices are increasing and the information put out there in an honest and easy to understand way.

⁴ "Competition helps ensure Queensland's electricity remains affordable, Queensland Government Media Release, 19 June 2007
http://www.dme.qld.gov.au/media_centre.cfm?item=296.00

An example (Figure 1) appears on the relevant Department's website, however websites are ephemeral; this would be much better incorporated into the relevant QCA publication(s) which are released when prices are reviewed. The QCA is also independent; people would trust the information that it published, and it would be free from "spin".

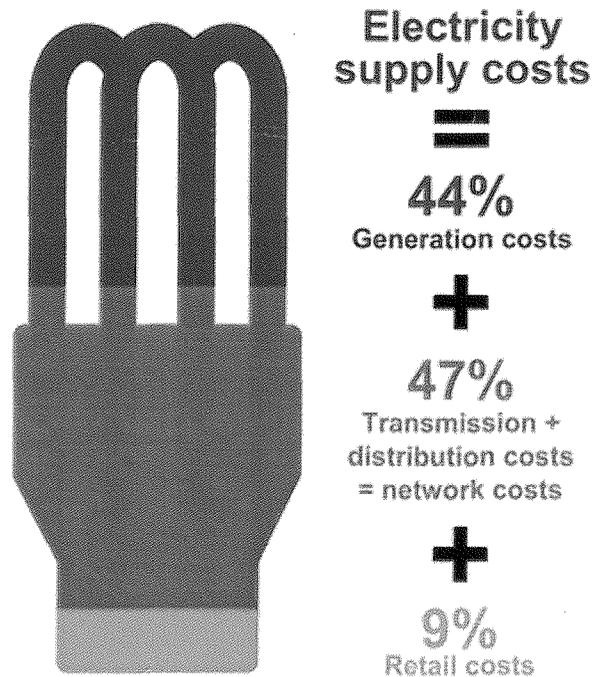


Figure 1: Image which appears on the Department's Website.

However it does not show the breakdown for the price increase.

http://www.dme.qld.gov.au/Energy/electricity_costs_affect_prices.cfm

-End of submission-