



QCROSS Energy Consumer Advocacy Project

QCROSS Submission to the QCA
Consultation Paper on Transitional
Issues

7 January 2013

About us

The Queensland Council of Social Service (QCOSS) is Queensland's peak representative body for the community services industry. QCOSS represents approximately 600 member organisations working across Queensland in a broad range of portfolios. We support organisations and work to address the causes of poverty and disadvantage. A key part of this role is our engagement with the State Government to secure the best outcomes for QCOSS members and support the needs of vulnerable Queenslanders.

QCOSS is funded by the Department of Energy and Water Supply and Department of Justice and the Attorney-General for an energy consumer advocacy project in Queensland. The purpose of this project is to advocate on behalf of Queensland consumers and particularly vulnerable and low income households in relation to energy and pricing. This work is supported by an advisory group involving other key consumer groups in Queensland.

Introduction

QCOSS welcomes the opportunity to provide a submission to the Queensland Competition Authority's (QCA) Consultation Paper on Transitional Issues for Regulated Retail Electricity Prices for 2013-14. We commend the QCA for providing consumers with an opportunity to be involved in the consultation process by holding public workshops throughout regional Queensland following the release of the Transitional Issues Consultation Paper. We made efforts to ensure consumer representation by publicising these events to our regional constituency in our weekly e-newsletter, through our Energy Reference Group and at a number of community sector events.

We note that the Brisbane workshop was held at less than a week's notice on the 19 December 2012. While we understand there were extenuating circumstances contributing to the timing, the late notice combined with holding the workshop in the week before the Christmas public holiday period made it difficult for interested parties to attend – particularly consumers and consumer representatives who are less directly engaged in the process than industry representatives. We found the workshop beneficial and suggest that greater consumer participation in this event would have been good both for consumers (through enhanced representation in the decision making process) and the QCA (by improving the quality of informed submissions into the process). We would strongly recommend providing more public notice and consideration to the timing of these events to improve consumer participation in the future.

Given our focus is on residential electricity consumers – and particularly those that are vulnerable or disadvantaged – we have restricted our response to comments relating to the transitional arrangements for Tariff 11 as covered in pages 5-7 of the Consultation Paper on Transitional Issues.

Should there be a transition to cost-reflective charges for Tariff 11, or should Tariff 11 prices be made cost-reflective from 2013-14?

QCOSS supports the implementation of transitional arrangements for any changes to tariff structures that will have a significant impact on some consumers' costs. As outlined by the QCA, the proposal to rebalance the fixed and variable components of Tariff 11 to cost-reflective pricing will have an adverse impact on the lowest consuming households. Many low-consuming households are vulnerable consumers who are least likely to be able to adapt to significant price increases. We therefore support a staged approach to minimise the immediate bill shock for consumers.

The Transitional Issues Paper suggests that a move to cost-reflective tariffs in one step in 2013-14 would seem the most appropriate approach, with any perceived adjustment or social welfare implications best dealt with separately. However, the QCA itself dismisses that suggestion, due to the requirement in the Delegation for transitioning to be completed by 1 July 2015. We support the QCA's interpretation of the Minister's Delegation as requiring the QCA to implement a stepped approach. We also note that the covering letter to the Delegation recommends the QCA "...fully utilise the three-year delegation period..." and that this approach is suggested so the QCA can "...take into account the impacts of price increases on struggling Queensland households and businesses" and "ensure that Queensland households experience a smooth transition from the freeze".

QCOSS also supports the view put forward in the Queensland Government's submission to the Interim Consultation Paper which states: "*It is considered that a move straight to cost-reflective levels for the standard residential tariff (Tariff 11) would result in unacceptable price shocks for many customers, largely due to the significant increase in the fixed (or daily service) charge. The impact would be greatest for low consumption users who would not benefit by any commensurate reduction in the variable charge... It is for this reason that the Delegation directs the QCA to consider a three-year transitional arrangement for customers on Tariff 11, to rebalance the fixed and variable components so that Tariff 11 is cost-reflective in 2015. This transitional measure has been implemented so that customers do not feel the price shock that would be associated with a move straight to cost-reflectivity.*"

We also believe a transition period is essential in order to assess the impact of the changes on different customer groups and for this information to influence improvements to government policy. In particular, the shift to greater cost reflectively will necessitate changes to government concessions to ensure they are adequate and well-targeted alongside the new tariff structure. Further, the transitional timeframe provides an opportunity for consumer education to be rolled out over time to assist consumers understand and adjust to the new pricing structures. Consumer education will be critical in ensuring a smooth transition to new pricing arrangements over time and reducing bill shock for consumers. A sustained campaign of consumer education over time is likely to be more successful than quickly rolling out consumer education ahead of significant change prior to 1 July 2013. We believe that consumers should be given time to adjust and understand the implications of the reforms.

If some form of transitioning is preferred, how might this best be achieved, and why should this particular approach be adopted?

QCOSS prefers a smooth transition to cost reflective pricing in order to minimise bill shock for consumers who may be adversely affected. We believe the affect on consumers should be a key consideration when determining the form of transitioning – whether that is via three equal increments or whether the smoothest path is through a smaller initial adjustment in 2013-14 followed by larger adjustments in the two subsequent years. The QCA's assessment of the impact on customers will be important for determining the best approach.

We also refer to the Minister for Energy and Water Supply's statement that "*the Government expects the QCA to ensure that Queensland households experience a smooth transition from the freeze*". As was pointed out by our consultant Etrog Consulting at the workshop held in Brisbane on 19 December 2012, the QCA does not control the underlying network charges that are taken as costs that are to be reflected in "cost-reflective" tariffs. Non-smooth changes in network costs outside the QCA's control could materially undermine the QCA's best efforts to put in place smooth transition of retail tariffs. The level of the Energex fixed network charge to retailers for residential customers on Tariff 11 has a material impact on the mismatch for low usage customers between the current (frozen) charges in Tariff 11 and the cost-reflective levels. It will therefore be necessary for the QCA to have close regard to changes in the structure and level of the underlying network charges in designing the particular form of transitioning of retail tariffs that the QCA implements.

The Queensland Government's submission to the Interim Consultation Paper noted that "*...2015-16 (the final year of the QCA Delegation period) represents the first year of a new network revenue determination from the Australian Energy Regulator (AER). The Government acknowledges that this will make the forecasting of the N component of retail tariffs challenging.*" Clearly this makes smooth transition to the 2015-16 level and structure of Tariff 11 particularly challenging.

What other issues should the Authority consider regarding the transition to cost reflective charges for Tariff 11?

QCOSS maintains that access to electricity is crucial to enable consumers to maintain an adequate standard of living, support health and well-being, and participate in social and economic life. For this reason, we believe issues such as affordability and equity are relevant to the regulation of electricity prices.

The Minister for Energy and Water Supply's covering letter to the Delegation states that "*it is important that the QCA take into account the impacts of price increases on struggling Queensland households and businesses*". To meet this expectation, we believe the QCA should undertake substantial analysis to provide an assessment to identify the expected impacts of tariff arrangements on a range of consumer groups with varying consumption patterns, including pensioners, large working families, low-income tenants and other vulnerable households. We also believe this analysis

should take into the account the existing electricity concessions available in Queensland. While we appreciate that the QCA has no jurisdiction over government policy, the QCA must consider the impact of regulated retail tariffs as a *whole* to effectively assess the impact of price increases on consumers. Using information from other jurisdictions to inform calculations without considering the different concession arrangements provides a skewed snapshot of what is really going on in households struggling with energy affordability in Queensland. It is our strong view that significant changes to tariff arrangements will necessitate changes to the existing energy concessions and support arrangements to ensure they are well-targeted and equitable for Queensland consumers. The QCA's analysis of the impact of price increases on consumers will be important in providing the Queensland Government with information to make these adjustments.

QCOSS appreciates the opportunity to provide comments on the QCA Consultation Paper on Transitional Issues, and we thank you for you providing us with the opportunity to attend the public workshop on 19 December 2012. We look forward to continuing to work productively with the QCA to represent the interests of Queensland consumers throughout the determination process.