FAR NORTH QUEENSLAND
ELECTRICITY USERS NETWORK

"Advocating on behalf of peak FNQ industry and social organisations
for competitively priced and reliable electricity in FNQ"

Queensland Competition Authority Submission

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DISCLAIMER

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The views expressed in this document do not necessarily reflect the views of the Consumer Advocacy Panel or the Australian Energy Market Commission."

Introduction

The Far North Queensland Electricity Users Network (FNQEUN) advocates on behalf of 20 peak industry and social organisations in Far North Queensland (see Appendix 1). Our aim is to ensure Far North Queensland has access to competitively priced and reliable electricity.

Further to our submission to the Queensland Competition Authority (QCA) in February 2015 we believe it is critically important that we stress that businesses, industries and households in Far North Queensland will be adversely affected by QCA's draft regulated retail prices for 2015-16.

The FNQ Electricity Users Network is not advocating for a single industry, it is advocating for an entire region as the region's businesses, industries and residents recognise affordable and reliable electricity is one of the key drivers for the region's jobs and economy. It is also a necessity for resident's health and well-being particularly during summer.

The financial and emotional stress caused by the current electricity prices has our region, and all of regional Queensland, advocating for a reduction to current prices across all customer classes and tariffs.

As the Queensland Minister for Energy and Water Supply has provided a delegation to the Queensland Competition Authority to set 2015-16 regulated retail prices, it is with dismay that we listened to the Queensland Competition Authority state that they are not concerned with the affordability of electricity. Affordability is heart of the problem for households, businesses and industries across Queensland.

Electricity pricing is a simple demand and supply equation

In 2006/07 electricity pricing was estimated using the Benchmark Retail Cost Index (BRCI). Each year the three components of the retail electricity price; network (poles and wires), energy and retail costs were estimated together with the National Electricity Market load for Queensland ie the combined usage/consumption of Queensland customers. The BRCI involved escalating all tariffs by a single rate; there was no need to calculate energy costs by tariff or settlement class. However in 2012-13, the electricity pricing formula (methodology) changed to a new cost build up approach where the N (networks) component was treated as a pass through and the R (energy and retail) component were combined and determined by the Queensland Competition Authority.

Under the original formula QCA's final 2007-08 decision consisted of 9 pages whilst the final 2014-15 decision totalled 121 pages. As per Table 1 below, the BRCI methodology allowed consumers to understand the percentage increase each year and know that each tariff would reflect the total increase in the cost to supply electricity.

Table 1: Components of Benchmark Retail Cost Index

Components of the Benchmark Retail Cost Index ($ millions)	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	% Change since Full Retail Competition in 2007/08	2012/13
Network costs	1725	1980	2131	2382	2871	3109	57.0%	Freeze on Tariff 11 residential tariff
Cost of energy	1985	1778	2025	2255	2466	2395	34.7%	
Retail costs	323	365	437	473	549	573	56.9%	
Total	4033	4123	4593	5110	5886	6077	47.3%	
NEM load of Qld (GWh)	35515	36263	37040	36851	37832	37027	2.1%	
Final Decision - Benchmark Retail Cost Index (cents/kWh)								
Network costs	4.86	5.46	5.75	6.46	7.59	8.40	53.8%	Freeze on Tariff 11 residential tariff
Cost of energy	5.59	4.90	5.47	6.12	6.36	6.47	32.0%	
Retail costs	0.91	1.01	1.18	1.28	1.44	1.55	53.4%	
Total	11.36	11.37	12.4	13.86	15.39	16.42	44.4%	

Note 1: Totals may not add up due to rounding
Note 2: Full retail competition introduced on 1st July 2007
Source: Compiled from QCA Final Decisions

The same year the methodology/formula changed coincided with the Queensland Government freezing the main residential tariff (Tariff 11). The price freeze was in response to the massive outcry over the ever increasing electricity prices. One year later the residential price freeze was lifted and the price jumped 22 percent.

The regulation of electricity prices may have become more convoluted but the basic principle of supply and demand still applies; the higher the electricity price, the lower the electricity demand. Eventually residential consumers have no other alternative but to reduce or live without necessities such as heating, cooling or lighting or invest in solar PV and batteries and go off grid.

Businesses cannot operate without electricity therefore cuts occur in other areas eg staff employed or insurance. One local café owner is working longer hours herself and considering dropping her house insurance. She has carried out all her energy efficiency measures and cannot reduce her electricity demand any further. If she still cannot make ends meet she intends to go on the dole with her three kids and disabled husband.

This café owner is not alone. She is typical of many small businesses struggling to make ends meet.

The mining boom may be over but without the royalties and taxes rolling in from existing mines the Queensland and Federal Budgets would be experiencing more problems. Australia wants to be more than a quarry. Mineral processing requires large amounts of energy and provides thousands of high paid jobs throughout regional Queensland and to Brisbane FIFO residents.

One of the bright lights on the Far North Queensland horizon is the potential greenlight for the $1 billion South of Embley Project at Weipa. The existing bauxite reserves will be exhausted in the next few years and Rio Tinto plans to relocate its mining activities to an area just south of Weipa. The Weipa bauxite is the supply source for the Gladstone alumina refineries. Rio Tinto's combined Queensland operations employ 3,000 people which each year contribute more than $300 million in salaries and wages, $10 million in royalties and $6.5 million in community investments. In 2012 they invested $2.5 *billion* in the expansion of their Yarwun alumina refinery at Gladstone.

All Australian mines and their dependent mineral processing operations need competitively priced and reliable electricity to remain viable. Their continued operation will provide much needed taxes and royalties for the State and Federal Governments and just as importantly provide desperately needed jobs in regional Queensland and FIFO workers based in Southeast Queensland.

Australia hopes to survive the mining downturn by embracing the dining boom.

As of last week 80 percent of Queensland is now drought declared. This is the largest drought area ever officially recorded. Even the usually wet areas of Far North Queensland are down 30 to 50 percent of their normal rainfall. Of more concern is the Bureau of Meteorology raising its El Nino predictions from alert to El Nino status. El Nino is often associated with below average rainfall across eastern Australia in winter and spring and also warmer than normal daytime temperatures.

One of the most vocal consumer groups calling for a reduction in electricity prices are farmers who need to irrigate. In Far North Queensland we risk losing 2 sugar mills and a dairy factory. This would be hundreds of direct jobs with no alternative for many of the retrenched workers.

Electricity prices have risen nearly 100 percent and water prices over 50 percent. If farmers can't afford to irrigate there will be less acreage grown and lower yields. Low supply will increase the cost of the weekly grocery bills in Brisbane and every supermarket throughout Queensland.

The Atherton Tableland dairy industry supplies milk from Mt Isa to Mackay to the Torres Strait. The cows need grass, hay and grain to produce milk. Already one Tableland hay farmer has decided not to irrigate and his decision could be replicated throughout the hay producing areas of Queensland. This reduces the supply of hay. For some it won't be whether you have the money to pay for the hay, there simply will be no hay available. Low milk supply will again increase the weekly grocery bill across Queensland.

For many beef cattle producers this is their third year of drought. They desperately need hay to feed their breeders ready for when the seasons eventually change for the better.

The affordability of electricity is clearly not just about whether you can pay your next power bill. It is very much about the cost of living, job security and the overall Queensland economy.

The latest statistics show 12,757 residential customers cannot pay their normal 90 day power bill and have been placed on a hardship program. The number on hardship programs has jumped a massive 36 percent in 6 months. In June Quarter 2014 the average debt was $593 and it was taking on average 232 days to exit a hardship program. The average debt 6 months later in December Quarter 2014 has climbed to $667. Payment difficulties are not confined to pension and concession card holders. Around 80 percent of disconnections due to non-payment are working families and individuals.

The Queensland Competition Authority cannot set the 2015-16 regulated retail prices by plugging numbers into a complex and non-transparent formula. The QCA must take into consideration the effect of retail electricity prices on the Queensland economy, jobs and cost of living for all Queenslanders.

Headroom (retail margin) charge has no justification and is a hidden tax on all consumers

Full retail competition was introduced to Queensland on 1st July 2007.

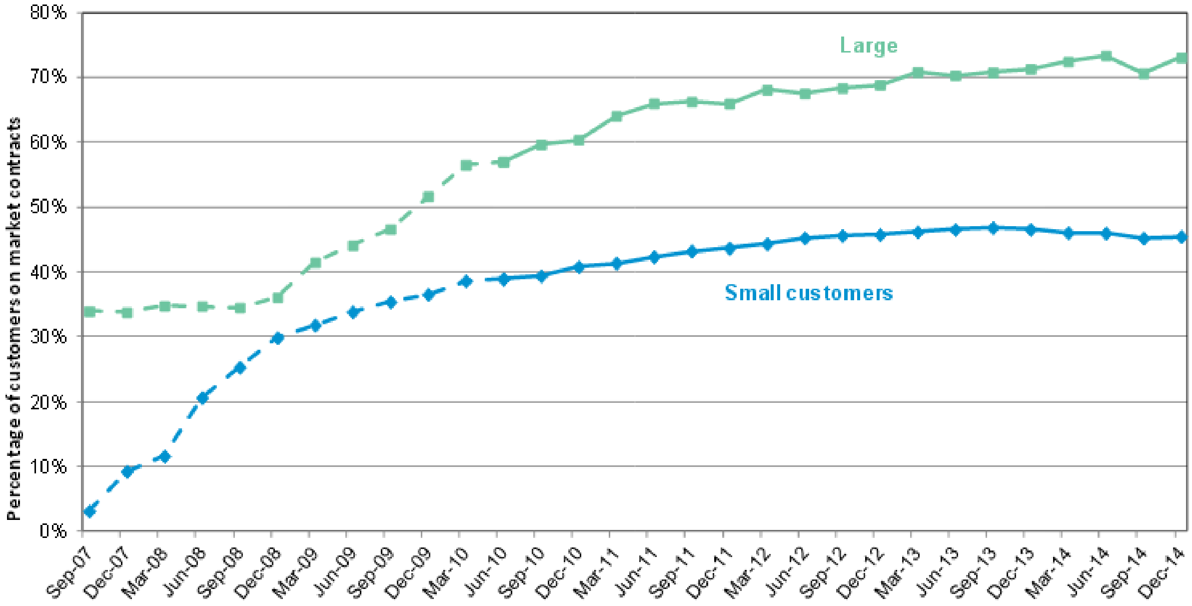
Despite the 2007 introduction of retail competition to Southeast Queensland the number of small customers (ie residential and small customers) on market contracts has continued to hover around 40 to 45 percent since September 2010.

The justification for the 5 percent headroom charge is that the higher regulated retail price will promote more retail competition and this will ultimately benefit consumers through reduced electricity prices.

As per the graph in Table 2 customers have not embraced competition which means retailers are retaining the headroom charge in the form of higher profits. An alternative approach would be to focus on improving customer engagement in the competitive market and to remove the 5 percent headroom (retail margin) from all fixed and variable components of every electricity bill.

This would provide an immediate 5 percent price reduction for all Queensland consumers.

Table 2: Proportion of large and small customers on market contracts, Queensland



Source: QCA, Market and Non-Market Customers – Time Series, December Quarter 2014

The justification for a retail margin in regional Queensland is particularly nonsensical as there is only one retailer in all of regional Queensland; Ergon Energy which is owned by the Queensland Government. Hence, the headroom charge is acting like a hidden tax on all Queensland electricity consumers.

Change in policy and legislation will impact on the network & energy cost of the electricity price

The draft 2015-16 regulated retail prices were released in December 2014 under the former LNP Queensland Government. The new Queensland Government has a policy of 1 million solar PVs by 2020. This target far exceeds previous numbers and is not accounted for in the operational and capital expenditure of the poles and wires networks currently being considered by the Australian Energy Regulator. This will result in adverse implications for the network component of the electricity price which will be finalised by the Australian Energy Regulator in October 2015. The QCA plans to set the 2015-16 retail price on 12 June 2015.

One million solar PVs will also adversely affect the wholesale cost of energy. Solar PVs have already impacted on energy costs causing off peak tariffs to rise. The effect modelled in the draft prices could be substantially underestimated if the target of one million solar PVs occurs quickly.

Solar PV installation will be incentivised by the Queensland Government passing legislation which commits Queensland to the National Energy Customer Framework. The Customer Framework will result in a rapid uptake of solar PVs which will remove the demand from the poles and wires network and from existing coal and gas fired generation.

An immediate review of Queensland's commitment to the National Energy Customer Framework must be undertaken if Queensland is to transition smoothly to a renewable energy future. A smooth transition will minimise severe jolts in the retail electricity price, particularly in relation to the fixed charge component. The QCA in its draft prices have already proposed up to a 49 percent increase in fixed charges. This means that even if a customer does not consume any electricity it will cost over $1 per day to be connected to the poles and wires network. Many customers continue to make the point that although they have reduced consumption their power bill has increased. This is due to the increasing fixed charge component. If the multi-billion dollar Queensland Government owned poles and wires network loses customers due to solar PVs then it must still pay for the same network with less customers. The one million solar PVs represent the major customer base for the poles and wires network and hence their reduction in demand will severely affect the revenue for the poles and wires network. All customers connected to the poles and wires will need to pay for the poles and wires this means once again fixed charges will need to rise. To avoid the exorbitant fixed charges some customers may elect to go off grid, this will further reduce demand and cause the death spiral to accelerate.

Time of Use Tariffs

The push by Ergon Energy to introduce voluntary Time Of Use Tariffs in 2015-16, when the national metering rule regarding advanced (interval) meters is yet to be established, is premature. Advanced meters should be installed for Ergon Energy trials in consultation with regional and peak industry organisations.

Without realistic trials the outcome of the new Seasonal Time of Use tariffs is too risky for all customer groups, particularly as the Time Of Use tariff targets summer consumption. The current drought and El Nino will be particularly sensitive this summer.

The times currently proposed as peak times eg 10 am to 8 pm Monday to Friday for business customers is not acceptable to business customers in Far North Queensland.

The Ergon tariff consultation only began in earnest in February 2015. Any move to introduce Time of Use Tariffs on 1st July 2015 would be viewed as an unwelcome imposition.

Ergon is still scrabbling for consumption data evidenced by its letter to 5000 consumers informing randomly selected customers that they would be reading the data stored in their meters between March and May and again between August and September. The letter was sent the week before the Easter and school holidays and gave customers 48 hours to contact Ergon if they did not want to be involved in the exercise.

Whilst the manner of the letter was heavy handed we do believe the data collected will enable the introduction of Time of Use Tariffs post 2015-16.

Poor consultation with consumer organisations

We strongly disagree that the Queensland Competition Authority has carried out an "extensive" public consultation process as stated in the Energy Minister's letter dated 22nd April 2015. "Robust public consultation" is not a cornerstone of QCA's price setting process.

The consultation process for 2015-16 retail prices has consisted of:

- The release of an Interim Consultation Paper on 30 September 2014 resulting in only 6 submissions from consumer organisations across Queensland
- The release of the 2015-16 Draft Determination on 10 December 2014
- A 2 hour Draft Determination Workshop in February 2015 in regional locations

- 12 submissions from consumer organisations by 27 February 2015
- No further contact or feedback until the State Government unexpectedly postponed deregulation of the southeast Queensland retail market for twelve months

Electricity pricing is one of the top three issues facing households and businesses. One workshop and no feedback is not robust public consultation. The lack of robust public consultation is the reason the Queensland Competition Authority is out of touch and not concerned about the affordability of electricity to Queensland consumers.

Conclusion

The ability to afford your power bill goes much further than paying an electricity bill.

It affects cost of living (eg grocery items), jobs and the Queensland economy.

If the Queensland economy thrives the Queensland Government will receive more revenue from healthy businesses and industries than from returns gained from a high retail electricity price.

The QCA needs to:

- Consider the full impact of the draft 2015-16 retail prices on cost of living pressures, Queensland jobs and the Queensland economy. The current methodology needs to be updated as the setting of retail prices cannot be in isolation to the long term interests of consumers. Failure to meet the long term interests of consumers puts the QCA in violation of the National Electricity Objective.
- Immediately remove the headroom charge from all fixed and variable components of tariffs.
- Fully inform the Energy Minister of the cost implications of a rapid uptake of one million solar PVs on the network and energy components of the 2015-16 retail price as this was not part of the cost calculations in the draft 2015-16 retail prices
- Fully inform the Energy Minister on the cost implications of the National Energy Customer Framework on the network and energy components of the 2015-16 retail price as this was not part of the cost calculations in the draft 2015-16 retail prices
- Not introduce Time of Use Tariffs in regional Queensland in 2015-16
- Follow the example of the Australian Energy Regulator and fully engage with consumer groups

The Queensland Productivity Commission is a welcome initiative as it will enable all sectors of the electricity industry; networks, generators and retailers to engage with consumer groups to find a way forward to ensure a smooth transition to a renewable energy future. The Queensland Productivity Commission is about the short to medium term future of electricity pricing and supply.

The retail prices to be announced by the Queensland Competition Authority on 12 June 2015 will have an immediate and adverse effect if the fixed and variable components of every tariff do not show a reduction.

Appendix 1

The following is a list of organisations involved in the FNQ Electricity Users Network:

1. Cairns Regional Council
2. Tablelands Regional Council
3. Cook Shire Council
4. Far North Queensland Regional Organisation of Councils
5. Advance Cairns
6. Tourism Tropical North Queensland
7. Regional Development Australia FNQ & Torres Strait
8. Cairns Chamber of Commerce
9. Mareeba Chamber of Commerce
10. Atherton Tableland Chamber of Commerce
11. Innisfail District Chamber of Commerce
12. Urban Development Institute of Australia
13. Consolidated Tin Mines Ltd
14. Snow Peak Mining Pty Ltd
15. Tableland Canegrowers
16. Queensland Dairyfarmers Organisation
17. Australians in Retirement (Cairns branch)
18. Mareeba & District Fruit and Vegetable Association
19. North Queensland Miners' Association Inc
20. Mareeba Shire Council