QEUN Queensland Electricity Users Network

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15 May 2020

Mr Charles Millsteed
Chief Executive Officer
Queensland Competition Authority

Via QCA website and via email: charles.millsteed@qca.org.au

Dear Mr Millsteed

RE: Submission – Draft 2020-21 regulated retail electricity prices for regional Queensland

The Queensland Electricity Users Network (QEUN) appreciates the opportunity to provide the Queensland Competition Authority with recommendations that if adopted:

- will lower power bills to over 710,000 business and residential consumers in regional Queensland captive to Ergon Retail's regulated retail electricity tariffs and
- be a key driver for a strong post COVID19 recovery in regional Queensland.

The QEUN is a consumer advocate representing small business and residential consumers with a particular emphasis on regional consumers. We advocate for affordable and reliable electricity from a resilient national electricity system where the pace of the transition to a renewable energy future is not at the expense of the economy, jobs or reasonable living standards.

Limited input from consumers due to inadequate support for consumer advocacy

The 2020-21 regulated retail electricity prices set by the Queensland Competition Authority (QCA) will directly affect over 710,000 business and residential consumers in regional Queensland captive to Ergon Retail – the 100 % Queensland Government owned electricity retailer that commands a near monopoly in regional Queensland.

It is therefore critically important to businesses and households in regional Queensland that consumer advocates, including regionally based consumer advocates such as the QEUN, have the financial and subsequently the human resources to be able to bring evidence based recommendations to the Queensland Competition Authority and the Queensland Government.

In the letter accompanying the Queensland Energy Minister's Delegation to the QCA it states ***"public consultation is a vital part of the QCA's process for determining retail electricity prices"***.

The Queensland Energy Minister represents the Queensland Government at the Council of Australian Governments (COAG) Energy Council. COAG Energy Council is the peak body in Australia for energy policy and is responsible for approving the budget of Energy Consumers Australia.

Energy Consumers Australia (ECA) promotes itself as "*the national voice for residential and small business energy consumers*". COAG Energy Council agreed to establish ECA as a national energy consumer advocacy body on 13 December 2013. ECA is a company limited by guarantee and incorporated in Australia on 29 January 2015. ECA assumed the responsibilities of the former Consumer Advocacy Panel which closed on ECA's establishment. On 28 March 2019 Energy Consumers Australia was advised it was registered as a charity from 16 February 2015.

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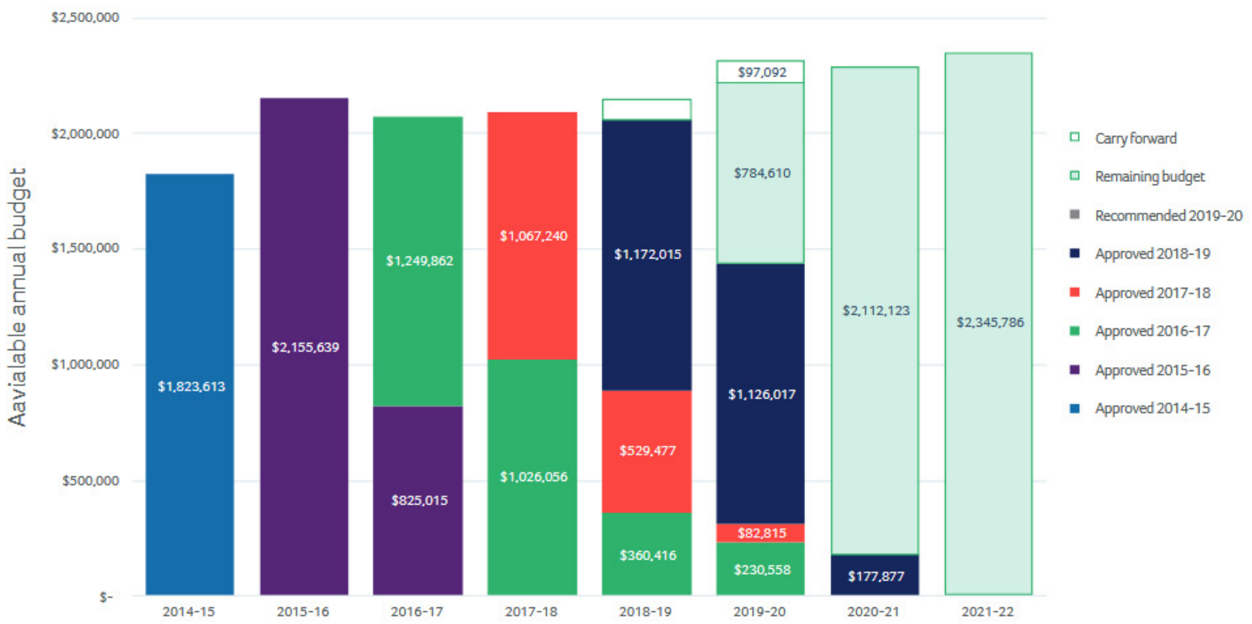
ECA receives most of its funding from electricity and gas consumers, not governments. However, its funding is approved by COAG Energy Council. Each electricity consumer in the National Electricity Market (NEM) pays $0.01082 per connection point per week or **$0.56 PER CONNECTION POINT *PER YEAR***. The funds are collected by the Australian Energy Market Operator (AEMO) on behalf of ECA from over 10 million electricity connection points in the NEM. ECA will receive about $5.707 million from electricity consumers in 2019-20. AEMO also collects $0.03556 per gas customer supply point per month.

In total ECA will receive about $7.6 million from electricity and gas consumers in 2019-20 ($7.3 million in 2018-19). In addition to consumer funding ECA also receives other funding eg the Federal Government's $1.8 million three year grant for the Power Shift program (a program assisting low income residential consumers) and AEMO's $300,000 grant for a special project.

Crippling resourcing issues have plagued energy consumer advocates across the NEM for years, particularly advocates representing small business and regional consumers. The paucity of resources has directly impacted on the ability of consumer advocates to be the consumers' voice at state and national energy policy tables. More importantly, it has impeded consumer advocates from bringing evidence based solutions to governments on how to grow the economy and jobs while at the same time keeping power bills affordable.

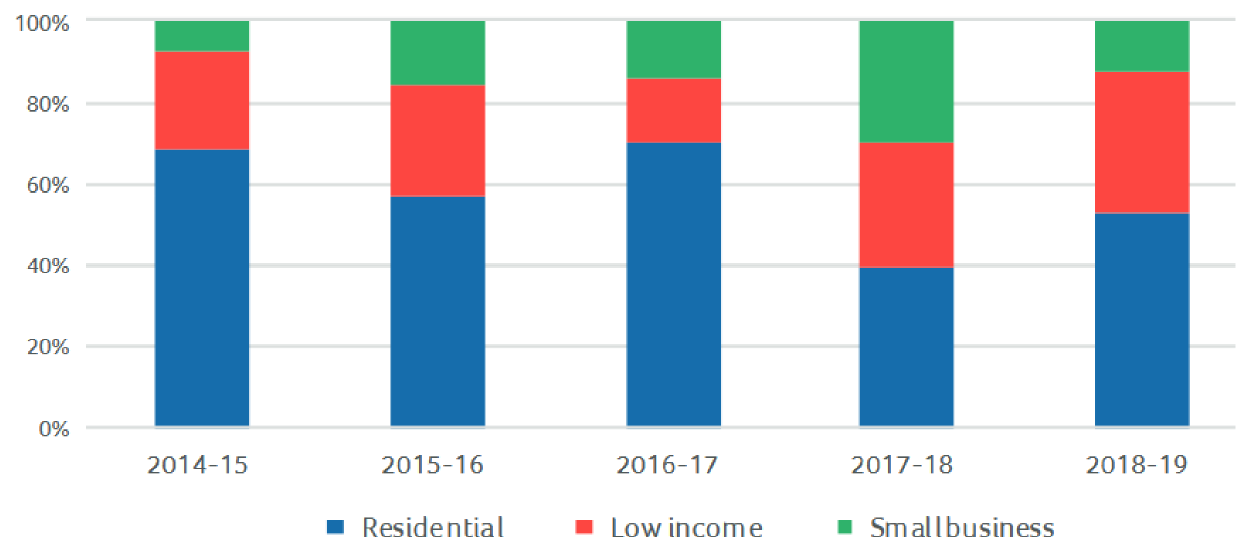
In 2018-19 ECA allocated about $2.1 million of its $7.3 million budget to advocacy and research grants for consumer advocates (Figure 1). A paltry amount of about $250,000, or about 10% of ECA's advocacy and research grants, was allocated to the largest consumer of NEM supplied electricity and the engine room of the Queensland and Australian economy – small business consumers (Figure 2).

Figure 1: Energy Consumers Australia annual financial commitments to advocacy and research grants



Source: Energy Consumers Australia 2018-19 Annual Report

Figure 2: ECA Grants Program trends – households, including low income households and small business



Source: Energy Consumers Australia 2018-19 Annual Report

On 2 April 2020 the Queensland Electricity Users Network applied to ECA for a $15,000 CEO Grant to provide submissions to:

- QCA on the 2020-21 regulated retail electricity prices for regional Queensland and
- Australian Energy Regulator (AER) on the impact of COVID19 on the 2020-21 Default Market Offer (the DMO *directly* affects about 728,000 residential and small business consumers in the National Electricity Market including about 200,000 in South East Queensland)

QEUN were verbally informed by ECA that the QCA submission did not qualify for a 'CEO' Grant as the setting of regulated retail prices in regional Queensland is a regular process on a known timeline and as such QEUN should have applied for an ECA 'advocacy' grant for the QCA submission in October 2019.

Back in October 2019, the QEUN's limited resources were fully engaged in the 2020-25 Ergon Network Determination – the cost of Ergon's network represents about one third of the regulated retail prices charged by Ergon Retail in regional Queensland and the regulatory process was in the final stage a reset for the next 5 years. An earlier application for an ECA 'advocacy' grant which included participation in the 2020-2025 Ergon Network determination was unsuccessful. With no funding to support QEUN's advocacy during the Ergon Network 2020-25 Determination, the QEUN was forced to participate for two years with no funding for input and submissions - this is the link to the QEUN submission to the Australian Energy Regulator (AER) on the Ergon Network 2020-25 Determination.

On 1 April 2020 the AER called for submissions on 'the impact of COVID19 on the Default Market Offer' with submissions due on 9 April 2020. QEUN applied for an ECA CEO Grant on 2 April and received an email on 6 April stating our application was not approved as "*it did not provide enough information to show that it satisfies the Grants Program criteria, in particular on what analysis would be undertaken through the grant funding*".

As the DMO directly affects around 728,000 small business and residential consumers in South East Queensland, NSW and South Australia and indirectly affects a further 710,000 small business and residential customers in regional Queensland, the QEUN decided it had to provide a submission to the Australian Energy Regulator on the impact of COVID19 on the DMO - link. ECA provided a one page submission to the AER – link.

This QEUN submission to the QCA on 2020-21 regulated retail prices for regional Queensland, like the submissions to the AER on the Ergon Network 2020-25 Determination and the 2020-21 Default Market Offer,

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have been provided for free by QEUN due to no funding from Energy Consumers Australia. This is clearly not sustainable and the loss of the QEUN would be the loss of a voice for energy consumers in Queensland and across the NEM, in particular a strong and knowledgeable voice for small business and regional consumers.

In accordance with ECA's Constitution, COAG Energy Council conducted an independent review into ECA's first three years of operation. KPMG was commissioned to conduct the ECA Review.

The preliminary stage of KPMG's ECA Review was completed in June 2018 and the final report in March 2019.

The Final KPMG report states:

> *"While ECA has not conducted analysis to assess the adequacy of grant funding,* ***senior management rejected the suggestion that the available funding be increased****, citing the cost to consumers of further increasing funding levies."*

KPMG did invite all grant applicants to participate in the ECA review. Only 35 of 87 applicants or 40% of grant applicants responded. This together with the high skew towards residential consumer advocates (particularly those representing vulnerable consumers) would have significantly contributed to the 'very good' rating from grant applicants and 'good to adequate' rating from consumer advocates. This is in stark contrast to the 'adequate' rating provided by government (See Table 1).

Table 1: Performance against stakeholder expectations – overall rating

Stakeholder Groups	Rating	Commentary
Market Bodies and Regulators	Excellent	Market Bodies and Regulators consistently stated, with evidence, that ECA effectively contributes to regulatory processes and produces informative outputs.
Government	Adequate	Commonwealth and State Government representatives felt that ECA had not sufficiently provided input into policy processes or engaged with operational levels of Government.
Consumer Advocates	Good – Adequate	While some consumer advocates were highly complementary of ECA's performance, others expressed frustration over ECA's decision to cease ongoing advocacy funding, and the concern that ECA is seen as a peak. These same groups also emphasised the need for greater internal transparency of functions.
Grant Recipients	Very Good	Survey results indicated that most grant recipients were satisfied with the grant distribution process, and to a lesser extent, the grant application process.

Source: KPMG Review of Energy Consumers Australia, Final Report – Effectiveness of Roles and Functions, March 2019

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In November 2018 ECA provided a grant to Uniting Communities to evaluate the current resourcing of consumer engagement. The list of stakeholders consulted is in Appendix 1 of the Uniting Communities Final Report (link). The stakeholder consultation had little input from small business and regional consumers.

In October 2019 the ECA provided COAG Energy Council with a Final Draft of their Review Implementation Plan which took into consideration the recommendations of both KPMG and Uniting Communities.

The ECA's Review Implementation Plan states:

> "*In terms of resources available to fund projects to support advocacy, in total* ***ECA has committed $11.9 million since its inception. The total amount of funding sought over that time was $24.3 million,*** *which includes projects that were revised and resubmitted."*

The statement clearly demonstrates that significantly more funding is sought by consumer advocates than is available from Energy Consumers Australia. This figure does not include many consumer advocates who have literally given up as they know there is not enough ECA grant money and therefore it's not worth their limited time and resources writing an ECA grant application.

According to ECA the Uniting Communities report recommended resourcing for consumer engagement be increased including:

- total annual funding of $3.4 million for consumer advocates in each jurisdiction to undertake engagement across energy and other essential services, modelled on the Energy + Water Consumers' Advocacy Program (EWCAP) within PIAC funded by the NSW Government
- an additional $50,000 annually to enable the National Consumer Roundtable on Energy (the Roundtable) to undertake greater co-ordination (noting that currently the Roundtable is funded through the Grants Program for three years from October 2018 ($419,000)
- an estimated $80,000 in sitting fees for consumer advocates to participate in engagement processes undertaken by the market bodies, the ESB and the Energy Council.

COAG Energy Council agreed at its meeting on 22 November 2019 to endorse the ECA's Review Implementation Plan.

The Terms of Reference set by COAG Energy Council for the ECA Review state "*unless specifically excluded, the preliminary and final reports will be published after they have been presented to the COAG Energy Council*". The KPMG report includes recommendations to improve ECA's transparency and to investigate resourcing. However, six months after the COAG Energy Council's meeting ECA is yet to circulate to consumer advocates or list on the ECA website the KPMG's Final Review Report or the ECA's Review Implementation Plan.

In July 2017 prior to the ECA Review, COAG Energy Council agreed to consult on options to improve consumer resourcing, in particular for consumer resourcing for the 'network' component of a consumer's power bill. In total 17 submissions were received by COAG Energy Council in November 2017 including a submission from QEUN – link. The QEUN submission strongly highlighted the inequity of funding for small business and regional consumers.

Consumer advocates representing both business and residential consumers are expected to actively participate in consultations and provide evidence based recommendations to COAG Energy Council, the three energy market bodies and other entities such as the Queensland Competition Authority.

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As per Figure 1 ECA's advocacy and research funding to consumer advocates has been static, barely exceeding $2 million *per year* since 2016-17.

In contrast over the last three years COAG Energy Council and the Federal Government have both significantly increased funding to the three energy market bodies to enable the market bodies to keep pace with their expanding work programs. However, no such consideration was given to increasing the resources of consumer advocates to input into the expanded work program.

As per Table 2 the three energy market bodies over 3 years have enjoyed:

- a 14% increase in total expenses to $910 million
- a 35% increase in employee and in house contractor expenses to $179 million
- a 12% increase in external consultant and lawyer expenses to $38 million
- a 56% increase in travel expenses to $5.6 million
- an ability to attract and retain employees by paying over $100,000 to over 50% of their workforce

COAG Energy Council also increased the workload of already struggling consumer advocates by creating the Energy Security Board, another entity that requires submissions from consumer advocates.

In short the voice of consumer advocates at both a state and national level has been severely diluted by the superior financial and human resources of the three energy bodies, government and the industry in general.

Table 2: Financial and human resources available to energy market bodies – 2016-17 to 2018-19

RESOURCES AVAILABLE TO ENERGY MARKET BODIES	AEMC			AER			AEMO			TOTAL ENERGY MARKET BODIES		
	2018-19	2017-18	2016-17	2018-19	2017-18	2016-17	2018-19	2017-18	2016-17	2018-19	2017-18	2016-17
HUMAN RESOURCES												
Staff and Board	95	94	88	253	205	149				348	299	237
In house contractors and secondment				33	31	44				33	31	44
Staff salaries over $150,000 AEMC and over $100,000 AER	42%	39%	31%	52%	59%	59%						
FINANCIAL RESOURCES												
Total Expenses	$26.9	$25.5	$23.1	$62.7	$48.2	$41.0	$821.0	$743.2	$735.8	$910.6	$816.9	$799.9
Employees and In house contractors	$18.0	$15.9	$13.8	$35.1	$22.0	$18.3	$126.8	$115.3	$100.6	$179.9	$153.2	$132.7
External consultants and lawyers	$2.5	$3.7	$5.7	$7.5	$5.3	$6.6	$28.9	$22.2	$22.4	$38.9	$31.2	$34.7
Travel	$0.8	$0.7	$0.6	$1.1	$0.9	$0.5	$3.7	$3.2	$2.5	$5.6	$4.8	$3.6

Note: AER staff are supplemented by legal, economic and corporate staff shared with the ACCC

Source: Compiled by QEUN from the Annual Reports of the AEMC, AER and AEMO

Effective energy policy is possible if consumer advocates are adequately resourced and small business and regional consumers are equitably resourced. This is particularly important for regional Queensland as small business is the engine room of the economy, employing almost half the private workforce. The industries of regional Queensland such as mining, agriculture and tourism are the businesses which bring in 'outside dollars' to the Queensland Treasury. The Queensland Government can choose to increase taxes or grow the economy by earning outside dollars. To earn more outside dollars businesses need cheaper electricity from a reliable and resilient electricity system. Adequately resourced small business and regional consumer advocates need to be able to bring evidence based recommendations to energy policy tables and the QCA.

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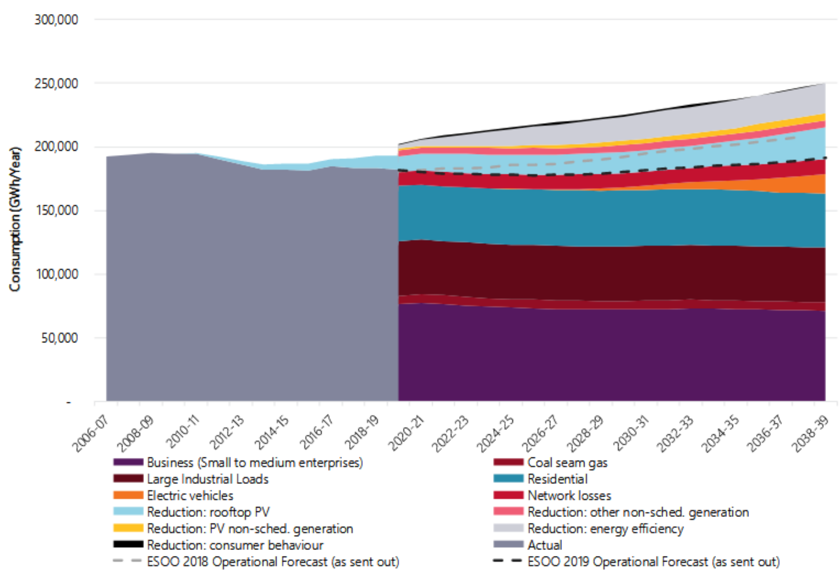
This can be achieved with COAG Energy Council's support for:

- an increase in the electricity point of connection revenue from $0.56 cents per year to $1.12 *per year* (about 2 cents per week per connection) and
- a equitable allocation to small business and regional consumers that recognises that small business is the largest consumer of NEM supplied electricity (Figure 3, 4 and 5), is critical to the overall financial and operational viability of the electricity supply chain and will be a key driver of a strong post COVID19 recovery

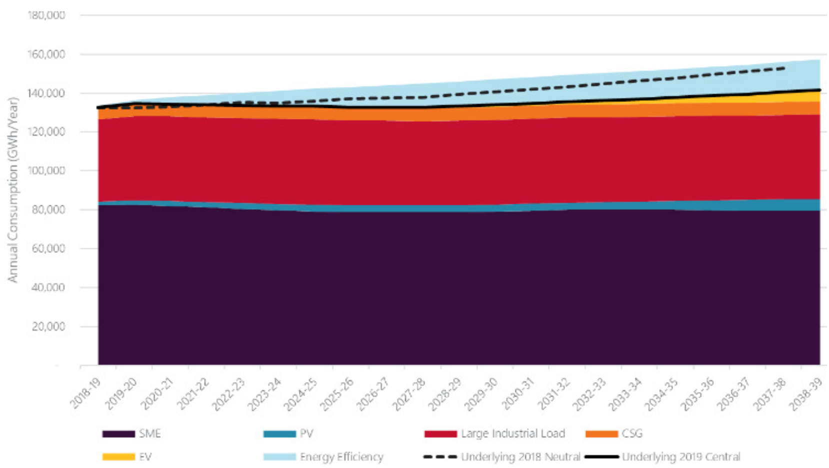
The extra one cent per week amounts to an extra $5.7 million. If allocated to advocacy and research the extra funding would boost consumer resources from around $2 million per year to nearly $8 million per year. This pales into insignificance compared to $224 million COAG Energy Council believes needed to be spent by the three energy market bodies in 2018-19 on staff, consultants and travel to carry out their work programs. The same work programs that consumer advocates are encouraged and expected to participate in to ensure effective energy policy.

Figure 3: NEM electricity consumption, actual and forecast, 2006-07 to 2038-39, Central Scenario



Source: Australian Energy Market Operator, 2019 Electricity Statement of Opportunities

Figure 4: NEM underlying business electricity consumption forecast, Central scenario, 2018-19 to 2038-39



Source: Australian Energy Market Operator, 2019 Electricity Statement of Opportunities

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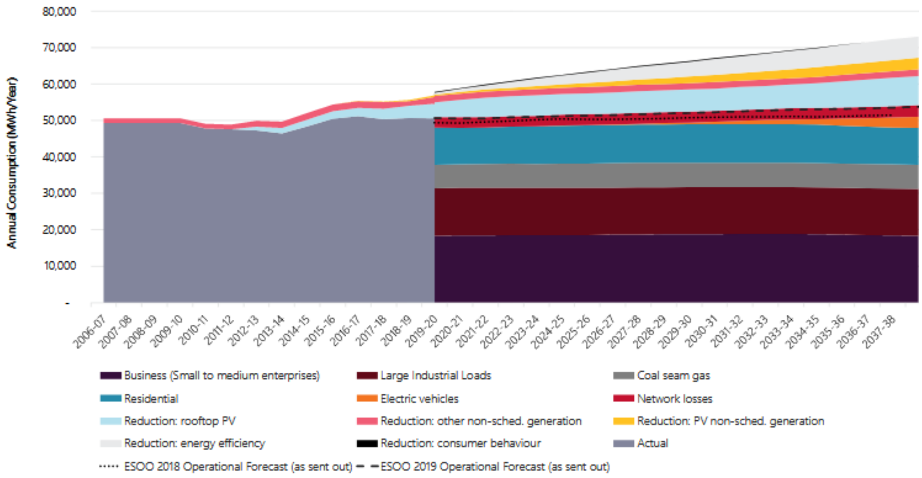
Figure 5: Queensland operational consumption in MWh, actual and forecast, 2006-07 to 2038-39



Source: Australian Energy Market Operator, 2019 Electricity Statement of Opportunities

Ineffective and limited stakeholder consultation by QCA

In the letter accompanying the Queensland Energy Minister's Delegation to the QCA it states ***"public consultation is a vital part of the QCA's process for determining retail electricity prices"***.

The QCA published the Draft 2020-21 Determination on 31 March 2020.

Despite the Energy Minister stating public consultation is 'vital' for determining retail electricity prices, the QCA offered the public either a 90 minute teleconference with 15 other people or a one on one consultation in the first week of May.

The delayed public consultation did allow the QCA to have clarity around the Ergon Network revenue cap for 2020-21 and whether the Australian Energy Regulator had approved Ergon Network's Tariff Structure Statement (TSS). However, we now believe the QCA is ignoring the clarity provided by the AER's indicative TSS and forging ahead with the indexation of existing network tariffs.

We understand the QCA has no plans for further public consultation should the QCA Board decide not to persist with the indexation of network tariffs. This means businesses and households will have no further input into the 2020-21 regulated retail tariffs and will be forced to wait until 26 June 2020 to find out what tariffs will suit their business and home ie whether there is a regulated retail tariff they can afford.

The lack of effective consultation is not acceptable as large swathes of business and residential consumers across regional Queensland could not afford their power bills prior to COVID19. Since the pandemic was declared on 12 March 2020 the pressure is mounting on home power bills due to the loss of jobs and the additional electricity consumption caused by working and/or schooling from home.

It is paramount that businesses and farmers know before 26 June what regulated retail tariffs will be available in regional Queensland in 2020-21. Businesses cannot price products and services and farmers cannot plan cropping programs without knowing what retail tariffs will be available in 2020-21.

Business and residential consumers in South East Queensland have a distinct advantage over regional Queensland consumers. South East Queensland consumers can already compare retail tariffs for 2020-21, including retail tariffs offered by the Queensland Government's joint venture retail partner - Alinta Energy. The Alinta Joint Venture is now the third largest electricity retailer in South East Queensland.

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The parlous state of the regional Queensland economy pre-COVID19

The Queensland Government is constantly broadcasting the message that Queensland has the cheapest power prices in the National Electricity Market. What matters is not whether you are the cheapest in the NEM but whether Queensland households and businesses can afford their power bills.

Survey after survey has found power bills are increasingly not affordable in regional Queensland. This is backed up with the AER's latest retail statistics which state that the number of households in regional Queensland on payment plans have increased by 12% from 13,039 in Q2 2018-19 to 14,669 in Q2 2019-20. Of utmost concern is that in Q3 2018-19 the number of regional Queensland households on an Ergon Retail payment plan reached a staggering 18,757 households - this was before the COVID19 pandemic was declared on 12 March 2020 ie Q3 2019-20 will be much greater than the 18,757 in Q3 2018-19.

The AER does not collect retail statistics on the number of businesses on payment plans. This needs to be urgently addressed as it is a key indicator of the health of businesses.

In 2019-20 Ergon Retail had 5,460 households on a hardship program, this is similar to 2016-17 when 5,469 households agreed to a hardship program. Hardship programs assist households with chronic debt issues. There are no hardship programs for small business.

It is distressing to note households in regional Queensland account for 52% of Queensland household disconnections yet only represent 30% of Queensland households. The parlous state of the regional Queensland economy is highlighted by Ergon Retail having 4.86 % of residential consumers on Centrepay - the highest percentage of any electricity retailer in the National Electricity Market. The AER does not collate Victorian retail statistics.

In Q2 2019-20 Ergon Retail disconnected 899 households for a debt of less than $500. In Q2 2019-20 Ergon Retail referred 5,605 residential customers to an external credit collection agency for debt recovery; 36% of those referred owed less than $500 and 44% owed between $500 but less than $1,500.

In 2015-16 Ergon Retail disconnected 384 small businesses and in 2018-19 this increased by 55% to 595 small businesses. Prior to COVID19 (ie 12 March 2020), in Q1 and Q2 2019-20 Ergon Retail had already disconnected 194 small businesses. Every small business employs regional Queenslanders and every regional Queensland job is valuable, particularly in an economy battling to stay out of a deep recession.

The Queensland Government is aware of these distressing retail statistics because it owns Ergon Retail. The Queensland Government is also legally responsible for setting the retail prices charged by Ergon Retail.

In response to COVID19 the Queensland Government and their wholly owned Ergon Retail have committed to:

- not disconnecting consumers or turning power off and
- to providing a $200 rebate for households and a $500 rebate for small businesses consuming less than 100,000 kWh per year (100 MWh per year)

The reality is a large percentage of households will pay at least half the $200 household rebate back to Ergon Retail/Queensland Government due to higher than normal household consumption. The peak industry organisation Energy Networks Australia has estimated working and/or schooling from home costs about $2.78 per day. With most Queensland students home schooling for at least 5 weeks this could increase the annual household power bill by at least $97.

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The devastating impact of COVID19 on the Queensland economy and Queensland jobs means it's time for the Queensland Government to stop using Queensland energy consumers as cash cows. One of the key drivers for a strong post COVID19 recovery is cheaper power bills from a reliable, secure and resilient electricity system.

Cheaper power bills will make our outside earning industries of mining, agriculture and tourism more competitive in a global market facing and encourage households to spend their disposable income in their local towns, communities and suburbs. This will create regional Queensland jobs.

What is at risk if the QEUN recommendations are not adopted by the QCA?

Population growth is a key indicator of the strength of the economy and jobs prospects.

It's been over a decade and population growth in regional Queensland is yet to recover to its pre-GFC levels of 2008 (Figure 6 and 7).

Some areas such as Central Queensland and Mackay/Isaac/Whitsunday are only now escaping a negative population growth rate with positive growth rates of 0.6% and 0.3% respectively (Table 3). These areas support mining, agriculture and tourism industries; the same industries that bring in outside dollars to Queensland and grow the Queensland economy. The continued growth of these regional areas is critical if Queenslanders prescribe to the plan that the massive and growing multi-billion dollar state and federal government debt will be paid back by growing the economy rather than growing taxes.

From all reports the 2008 GFC is a dry run for the economic impact of COVID19. Most economists tip the COVID19 recession will be deeper and longer than the GFC. The COVID19 recession brings an added dimension to regional Queensland not experienced during the GFC. Regional Queensland is highly reliant on the tourism industry and agriculture is highly reliant on tourism, either as farm labour or to supply products to restaurants and hotels. The closure of international aviation will have a deep and lasting impact on the jobs and the economy of regional Queensland.

Cheaper electricity prices are one of the key drivers that can pull regional Queensland out of the expected recession sooner rather than later.

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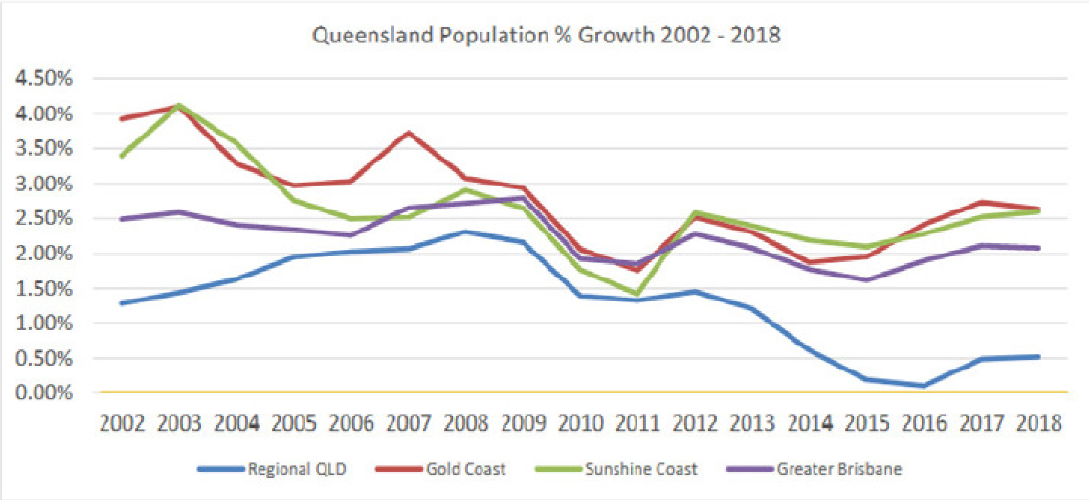
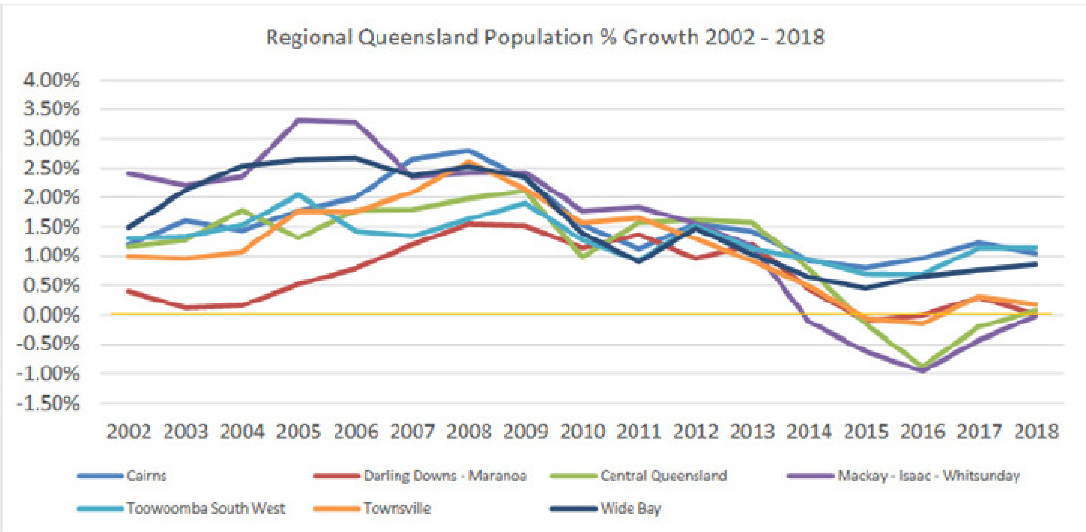
Figure 6: Queensland population % growth 2001-02 to 2017-18



Source: Australian Bureau Statistics Cat. No. 3218.0 – Regional Population Growth, Australia

Figure 7: Regional Queensland population % growth 2001-02 to 2017-18



Source: Australian Bureau Statistics Cat. No. 3218.0 – Regional Population Growth, Australia

Table 3: Residential population growth in major northern regions, 2018-19

Major northern regions	Population 2018-19 No.	Growth 2018-19 No.	*Growth 2018-19 %*
Cairns TNQ Region	295,346	2570	*0.9%*
Cairns City LGA	166,862	1400	*0.8%*
Townsville/ North West Region	261,840	416	*0.2%*
Townsville City LGA	195,032	1013	*0.5%*
Northern Territory	245,929	(-1129)	*(-0.5%)*
Darwin City LGA	82,886	(-1614)	*(-1.9%)*
Central Qld Region	226,811	1306	*0.6%*
Rockhampton LGA	81,512	461	*0.6%*
Mackay Region	173,066	525	*0.3%*
Mackay City LGA	116,763	249	*0.2%*

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Recommendations that will lower regional power bills and drive a strong post COVID19 recovery

In the QCA teleconference/workshop last week the QEUN asked the question put to the QCA workshop in Cairns last year – name one consumer recommendation that the QCA has implemented as a result of public consultation. No example was given by the QCA. We look forward to asking the same question next year.

The following recommendations will lower power bills and will be a key driver to a strong post COVID19 recovery in regional Queensland:

1. The Queensland Government lists as a motion for the next COAG Energy Council meeting an increase in the electricity point of connection levy collected by AEMO to $1.12 PER YEAR and supports a mechanism that provides equitable resourcing for business, residential and regional energy consumers that allows consumers to bring evidence based recommendations to state and national energy policy tables and to the Queensland Competition Authority
2. The Queensland Government caps wholesale electricity prices at $70/MWh and due to the unprecedented and unknown impacts of COVID19 engages two consultants (or a different consultant to the AER's Default Market Offer) to estimate the total cost of energy to be included in regulated retail prices for regional Queensland
3. Urgently consult with consumer advocates on the network tariffs and the regulated retail tariffs that will be offered in 2020-21, specifically we urge the QCA to consider the financial impact on consumers of QCA using the indexation methodology for network tariffs
4. Permanently remove the Solar Bonus Scheme from all regulated retail tariffs in Queensland
5. Permanently remove the nonsensical 5% 'standing offer adjustment' and 'headroom' charge from all of Ergon Retail's residential, business and street-lighting power bills in regional Queensland
6. Quantify the so called 'benefits' of Ergon Retail's standing offers compared to market contracts
7. Make the Uniform Tariff Policy arrangements transparent by;
    - Reporting on how the Uniform Tariff Policy/Community Service Obligation is defined and calculated and
    - Disclosing annually the distribution of the Community Service Obligation by customer category, region and industry sector & subsector
8. Extend the removal of the Non-Reversion Policy to include customers up to 160 MWh per year
9. Introduce a dedicated Food, Fibre and Manufacturing Tariff in 2020-21
10. Introduce the Traffic Light System of demand response to lower power bills and maintain reliability standards as the Queensland Government implements its 50% Renewable Energy Target by 2030
11. Maintain the national reliability standard at 0.002 % to prevent an increase in power bills
12. Public acknowledgement that under the Australian Constitution it is the responsibility of the Queensland Government, not the Queensland Competition Authority, to set regulated retail electricity prices/tariffs for regional Queensland.

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Recommendation 1

The Queensland Government lists as a motion for the next COAG Energy Council meeting an increase in the electricity point of connection levy collected by AEMO to $1.12 PER YEAR and supports a mechanism that provides equitable resourcing for business, residential and regional energy consumers that allows consumers to bring evidence based recommendations to state and national energy policy tables and to the Queensland Competition Authority.

Reason for Recommendation 1

Effective energy policy cannot be developed without input from a diverse range of informed business, residential and regional consumer advocates who have sufficient resources to bring evidence based recommendations to COAG Energy Council, energy market bodies, the energy industry and consumers in general.

The current imbalance of funding between residential and business consumers needs to be corrected to recognise small business is the largest consumer of NEM supplied electricity (Figure 3, 4 and 5). As such small business is critical to the overall financial and operational viability of the whole electricity supply chain and will be a key driver to a strong post COVID19 recovery.

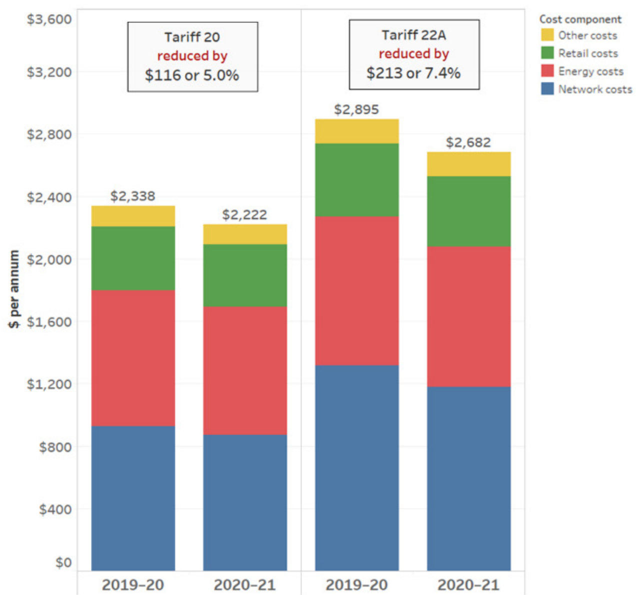
Recommendation 2

The Queensland Government caps wholesale electricity prices at $70/MWh and due to the unprecedented and unknown impacts of COVID19 engages two consultants (or a different consultant to the Australian Energy Regulator's Default Market Offer) to estimate the total cost of energy to be included in regulated retail prices for regional Queensland.

Reason for Recommendation 2

In the past the cost of energy was the second largest component of a power bill. Energy costs are now on par with network costs for both residential and small business consumers and have surpassed the network costs for large business consumers (Figure 8, 9 and 10). This is because the AER has reined in network costs.

Figure 8: Residential power bills in regional Queensland based on QCA's Draft 2020-21 regulated retail prices

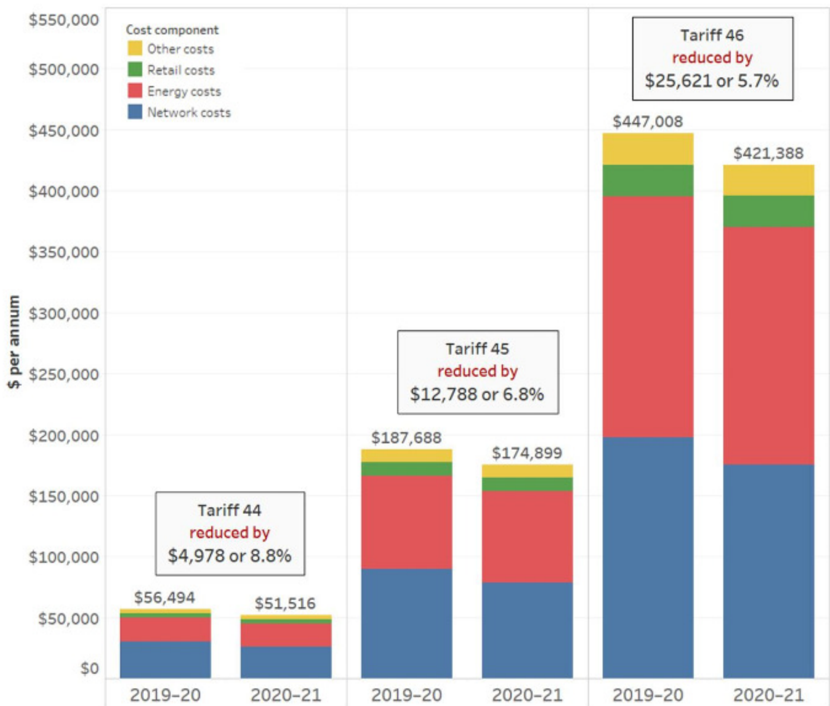


Source: Queensland Competition Authority 2020-21 Draft Determination, 31 March 2020

Figure 9: Small business power bills in regional Queensland based on QCA's Draft 2020-21 regulated retail prices

Source: Queensland Competition Authority 2020-21 Draft Determination, 31 March 2020

Figure 10: Large business power bills in regional Queensland based on QCA's Draft 2020-21 regulated retail prices



Source: Queensland Competition Authority 2020-21 Draft Determination, 31 March 2020

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In recent years the Queensland Government has increasingly relied on revenue generated by its wholly owned generator assets to offset the falling revenue from its network assets (Table 4 and 5). This increased reliance on generator revenue has come at a significant cost to business and residential electricity consumers throughout Queensland but in particular energy consumers in regional Queensland on regulated retail prices set by the QCA. The substantial rise in the Queensland Government generator revenue was achieved despite surplus generation capacity in Queensland.

Table 4: Revenue to the Queensland Government from publicly owned network assets

2016-17	Budget ($ millions)	Estimated Actual ($millions)	Actual ($millions)
Dividends	1,000	1,068	1,083
Tax Equivalent Payments	463	541	556
Competitive Neutrality Fee	94	48	48
TOTAL NETWORK REVENUE TO QUEENSLAND GOVERNMENT	1,557	1,657	1,687
2017-18			
Dividends	716	948	976
Tax Equivalent Payments	324	417	442
Competitive Neutrality Fee	59	69	67
TOTAL NETWORK REVENUE TO QUEENSLAND GOVERNMENT	1,099	1,434	1,485
2018-19			
Dividends	618	695	
Tax Equivalent Payments	290	331	
Competitive Neutrality Fee	67	89	
TOTAL NETWORK REVENUE TO QUEENSLAND GOVERNMENT	975	1,115	
2019-20			
Dividends	596		
Tax Equivalent Payments	371		
Competitive Neutrality Fee	106		
TOTAL NETWORK REVENUE TO QUEENSLAND GOVERNMENT	1,073		

Source: Compiled by QEUN from Queensland Budget Papers

Table 5: Queensland Government generation revenue 2014-15 to 2019-20

QUEENSLAND GOVERNMENT ELECTRICITY GENERATION REVENUE	2014-15 Qld Budget			2015-16 Qld Budget			2016-17 Qld Budget			2017-18 Qld Budget			2018-19 Qld Budget			Info from 2018-19 Annual Reports	2019-20 Qld Budget		
	Budget	Estimated Actual	Actual	Budget	Estimated Actual	Actual	Budget	Estimated Actual	Actual	Budget	Estimated Actual	Actual	Budget	Estimated Actual	Actual		Budget	Estimated Actual	Actual
Earnings before interest and tax	296	200	731	320	372	382	482	892	1,241	1,070	1,230	1,194	1,009	1,422		1,344	830		
Dividends	98	56	90	125	160	175	216	378	383	463	645	620	535	657		715	519		
Tax Equivalent Payment:	56	27	29	84	66	86	91	152	190	154	249	321	236	421			234		
Competitive Neutrality Fee Payments	32	30	28	30	26	23	21	21	21	22	20	20	17	17			17		
Revenue to Qld Governn	186	113	147	239	252	284	328	551	594	639	914	961	788	1095			770		
Borrowings	1,588	2,117	1,869	1,914	1,879	2,262	1,700	3,681	2,593	1,580	1,864	1,761	1,602	1,941			1,831		

Note: 2014-15 and 2016-17 EBIT includes Stanwell coal revenue sharing arrangements

Source: Compiled by QEUN from Queensland Budget Papers and CS Energy and Stanwell 2018-19 Annual Reports

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In 2014-15 the Queensland Government received $147 million in revenue from its wholly owned generation assets. In the same year Queensland's average annual wholesale electricity price traded on the National Electricity Market was $53.42/MWh (Table 6). The wholesale electricity price included in QCA's regulated retail prices for regional Queensland was $68.41/MWh.

Between 2014-15 and 2016-17 the Queensland Government quadrupled its generator revenue from $147 million to $594 million. Queensland's average annual wholesale electricity price traded on the National Electricity Market rose by 74% to $93.12/MWh – the second highest in the National Electricity Market after South Australia.

In 2017-18 generator revenue again jumped increasing 62% to $961 million. The wholesale electricity price included in regulated retail tariffs for regional Queensland soared to $103.11/MWh, about $30/MWh above the Queensland average annual wholesale electricity price in the NEM.

In 2018-19 generator revenue is estimated at $1.095 billion (Table 5). The wholesale electricity price included in 2018-19 regulated retail tariffs for regional Queensland is $99.10/MWh, nearly $20/MWh above the Queensland average annual wholesale electricity price in the NEM.

Table 6: Average annual wholesale electricity prices by NEM region 2014-15 to 2019-20

NEM AVERAGE ANNUAL WHOLESALE ELECTRICITY PRICE $/MWh	2014-15	2015-16	2016-17	2017-18	2018-19	YTD 2019-2020 (2/10/2019)	YTD 2019-2020 (12/04/2020)	YTD 2019-2020 (14/04/2020)	YTD 2019-2020 (13/05/2020)
Queensland	53.42	59.99	93.12	72.87	80.29	62.29	59.08	58.97	56.24
NSW	34.58	51.60	81.22	82.27	88.56	84.35	80.00	79.77	75.76
Victoria	29.71	46.14	66.58	92.33	109.81	98.78	83.16	82.91	77.86
SA	41.15	61.67	108.66	98.10	109.80	74.37	68.00	67.88	64.27
Tasmania	35.22	102.70	75.40	86.98	90.01	68.21	61.70	61.44	57.75

Source: Compiled by QEUN from AEMO Data Dashboard

The Queensland Government is able to manipulate exorbitant increases in the Queensland wholesale electricity price traded in the NEM as it controls about two thirds of the electricity generation in Queensland. Their ability to dictate the wholesale market in Queensland is demonstrated by their ability to manipulate higher wholesale prices despite surplus generation capacity in Queensland.

The Australian Energy Regulator's 2017-18 Wholesale Electricity Market Performance Report stated:

> *"In Queensland, participants have previously taken advantage of the concentrated market and rebid large volumes of capacity from low to very high prices late in the trading interval, spiking prices."*

The Australian Energy Regulator's further states:

> *"Since the Queensland Government direction to Stanwell in July 2017, price volatility due to generator rebidding has declined and there have been very few high prices despite record demand."*

The Queensland Government's direction to Stanwell took effect on 1 July 2017 and did reduce 2017-18 wholesale prices in the NEM by about $20/MWh to $72.87/MWh. However, despite lower wholesale electricity prices in 2017-18, generator revenue received by the Queensland Government in 2017-18 actually increased to $961 million compared to $594 million in 2016-17.

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It must be noted that on 31 May 2017 (only 6 days prior to the Queensland Government's direction to Stanwell), the Queensland Government was able to lock in a wholesale electricity price of $103.11/MWh for 2017-18 regulated retail electricity prices for *regional* Queensland consumers. The inflated wholesale electricity price was paid by over 710,000 homes and businesses in *regional* Queensland for the entire 12 month period of 2017-18. The inflated wholesale electricity price would have significantly contributed to the Queensland Government's increased generator revenue of $961 million in 2017-18.

The legislative power of the Australian Constitution provides the Queensland Government with the responsibility for setting regulated retail electricity prices for regional Queensland. The Queensland Competition Authority has no role in setting regulated retail electricity prices for regional Queensland unless it receives a Delegation from the Queensland Government.

It appears the Queensland Government used its market dominance and constitutional power to make regional Queenslanders pay $103.11/MWh in 2017-18; a substantial premium to the Queensland wholesale price of $72.87/MWh traded in the NEM.

The Queensland Government's power to direct its 100% owned generators (Stanwell, CS Energy and CleanCo) to lower or cap the wholesale electricity price is clearly demonstrated in its direction to Stanwell.

The 5 June 2017 letter that accompanied the Queensland Government's direction to Stanwell states (link):

> *"The Queensland Government is very concerned about the impact of increasing wholesale and retail electricity prices following record price events experienced during summer 2017.* ***The Government has decided to take a number of steps to place downward pressure on prices****.*
>
> ***This includes the enclosed direction, which requires Stanwell to take certain steps to bid generation during peak periods from 1 July 2017 to 31 December 2017.***
>
> *We recognise that this may impact the short-term financial interests of Stanwell. In this respect,* ***the Government is prepared to forgo higher commercial returns potentially available from maximisation of generation profits in order to take actions that contribute to greater electricity price stability, which is fundamental to maximising economic and social benefits for the Queensland Government****."*

The Direction itself states:

> *"The objective of this direction is to ensure that Stanwell's generation bidding strategy more closely reflects the underlying cost of generation. In this respect,* ***the maximum price threshold selected (commercial/MWh)*** *is consistent with more recent bidding practices by Stanwell.* ***Bidding generation dispatch at this level should be commercially viable for Stanwell, as well as putting downward pressure on forward contract prices.****"*

The QCA's wholesale and total energy/electricity costs have been estimated by the same consultant since 2010-11.

The QCA's Draft 2020-21 regulated retail prices are based on the consultant's estimate of a wholesale electricity price (WEC) of $85.21/MWh. This is only $3.95/MWh lower than last year's WEC of $89.16/MWh.

The QCA engages the same consultant as the Australian Energy Regulator engages for the Default Market Offer (DMO). Since the consultant provided a report to the QCA and AER in February 2020 using modelling up to 6 January, the WEC is the same for the AER's Draft 2020-21 DMO and the QCA's Draft 2020-21 regulated retail prices for regional Queensland.

Due to Federal Government legislation the AER's Final 2020-21 DMO had to be published on 30 April 2020. The AER's Final 2020-21 DMO is based on a WEC of $82.45/MWh and utilises modelling up to 25 March 2020. We are not aware of when, or if, the QCA has engaged the consultant to update the WEC estimate for the Final 2020-21 regulated retail prices for regional Queensland.

Prior to COVID19 being declared on 12 March 2020 the monthly average Queensland wholesale electricity price in the NEM traded between $53.81/MWh and $74.16/MWh for 2019-20. In October 2019, prior to COVID19, the Queensland year-to-date average annual wholesale electricity price was $62.29/MWh.

One month after the COVID19 pandemic was declared the year-to-date average annual wholesale electricity price had fallen to $59.08/MWh (Table 6). The wholesale electricity price has continued to fall in Queensland (and across the NEM) but regional Queensland energy consumers are not experiencing the benefit (Table 7).

Table 7: NEM wholesale electricity costs compared with the AER's DMO wholesale electricity costs

NEM region	NEM annual average WEC 2017-18	NEM annual average WEC 2018-19	2019-20 NEM Monthly average Wholesale Electricity Cost (WEC) Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	COVID-19 Pandemic Declared 12 Mch Mar	Apr	MTD May	NEM annual average WEC YTD 2019-20	QCA/DMO Draft WEC 2020-21	QCA/DMO Final WEC 2019-20
NSW	$82.27	$88.56	$71.57	$84.04	$95.62	$101.77	$69.90	$52.09	$152.30	$57.50	$46.16	$40.37	$35.39	$75.76		
QLD	$72.87	$80.29	$66.17	$61.73	$58.52	$74.16	$61.08	$54.83	$66.79	$53.81	$41.27	$36.99	$21.28	$56.24	$85.21	$89.16
SA	$98.10	$109.80	$73.93	$78.78	$72.95	$67.34	$50.86	$84.03	$83.20	$64.18	$46.95	$33.50	$27.56	$64.27		
TAS	$86.98	$90.01	$74.77	$70.04	$57.62	$107.68	$68.29	$52.18	$56.84	$39.10	$37.37	$23.37	$27.40	$57.75		
VIC	$92.33	$109.81	$85.92	$104.95	$104.76	$100.70	$67.98	$61.39	$142.95	$48.31	$43.30	$34.83	$28.19	$77.86		

Note: Month To Date (MTD) May is 13 May 2020

Source: Compiled by QEUN from AEMO Data Dashboard and AER's 2019-20 and 2020-21 Default Market Offer Determinations

The consultant's modelling assumes a prudent and efficient retailer will use the ASX to hedge over a period of two to three years. Figure 11 shows Queensland contracts for the week 1-7 March 2020 trading as low as about $50/MWh in Q3 2020 and as high as about $65/MWh in Q1 2021.

Retailers riskiest time for an unhedged position is over summer ie primarily Quarter 1. In light of the dire predictions for supply shortages last summer, it is interesting to note that Q1 2020 base contracts traded at an average of about $70/MWh in Q1 2018 and about $88/MWh in Q1 2019. In the 10 weeks since 29 December 2019, Q1 2020 base contracts have hovered around $60/MWh (Figure 12).

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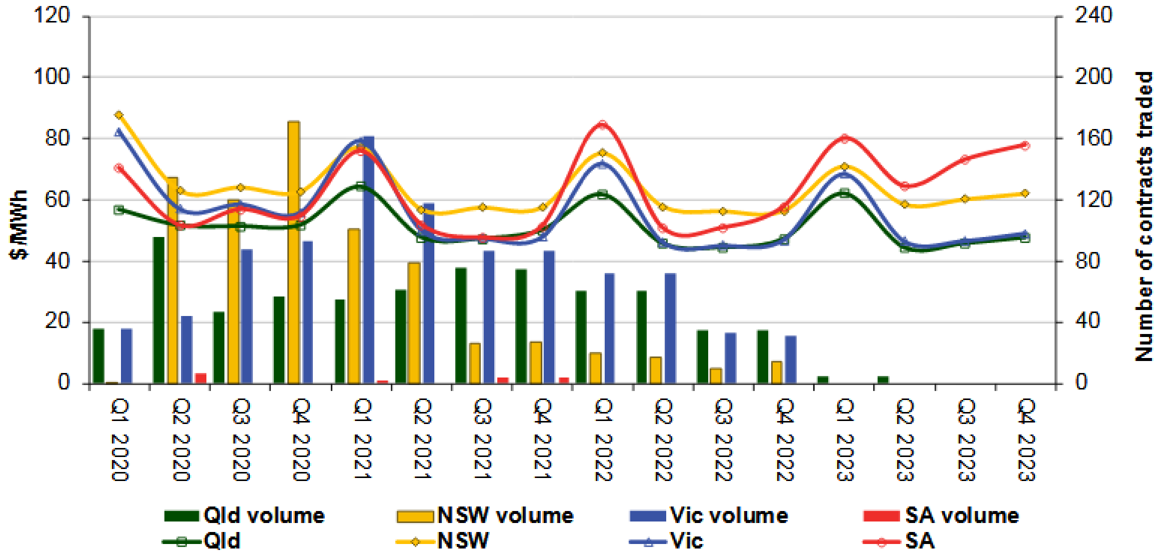
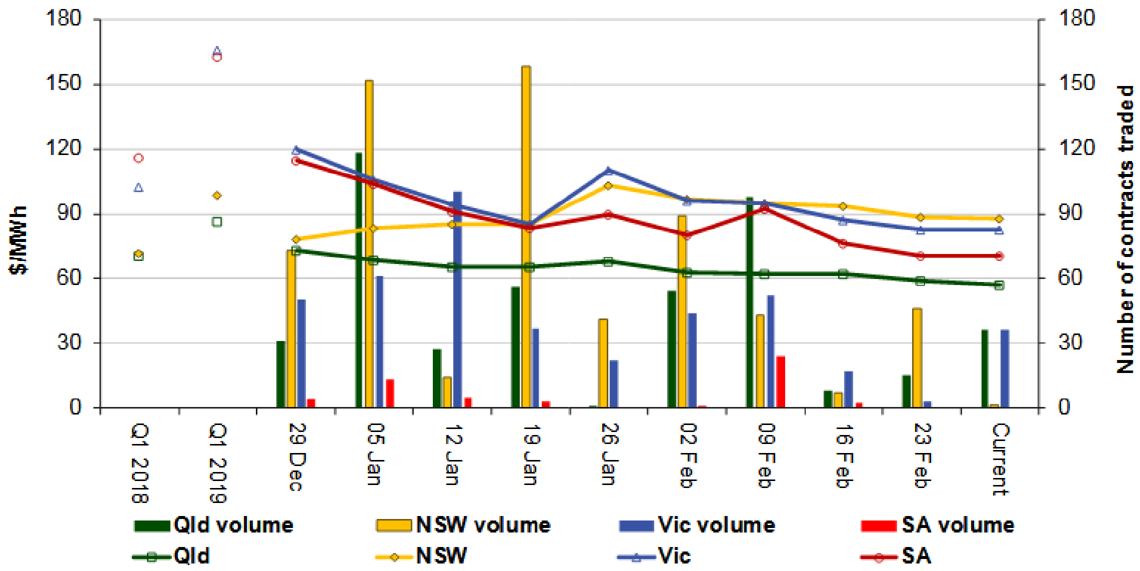
Figure 11: Quarterly base future prices Q1 2020 – Q4 2023



Source: AER Weekly Electricity Report 1-7 March 2020

Figure 12: Price of Q1 2020 base contracts over the past 10 weeks (and the past 2 years)



Note. Base contract prices are shown for each of the current week and the previous 9 weeks, with average prices shown for periods 1 and 2 years prior to the current year.

Source: AER Weekly Electricity Report 1-7 March 2020

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As well as the wholesale electricity prices in the NEM and the ASX electricity futures prices we believe it is useful to back cast using the wholesale electricity prices stated in annual reports of generators. The concentrated generation market in Queensland in 2017-18 and 2018-19 was dominated by two wholly owned Queensland Government generators; CS Energy and Stanwell Corporation.

CS Energy supplies approximately one third of Queensland's electricity generation and therefore is a reasonable indicator of the book build of a generator in Queensland. The CS Energy annual reports state:

> *2017- 18 Annual Report:*
>
> *"Despite a decline in pool prices with Queensland recording a Time Weighted Pool Price for 2018 of $72.87/MWh (2017: $93.12/MWh), CS Energy increased revenue from sales of electricity. CS Energy entered into forward electricity contracts in prior years for 2018 to reduce the exposure to pool price volatility, therefore achieved a higher realised price on the generation and contract portfolio in 2018 of $74.17/MWh (2017: $67.66/MWh)."*
>
> *2018-19 Annual Report:*
>
> *"CS Energy increased revenue from sales of electricity due to an increase in pool prices with Queensland recording a Time Weighted Pool Price for 2019 of $80.29/MWh (2018: $72.87/MWh). CS Energy entered into forward electricity contracts in prior years for 2019 to reduce the exposure to pool price volatility, therefore achieved a higher realised price on the generation and contract portfolio in 2019 of $86.77/MWh (2018: $74.17/MWh)."*

Table 9: Comparison of wholesale electricity prices in Queensland

Queensland WEC $/MWh	WEC for QCA regulated retail prices for regional Queensland	NEM Average Annual WEC	CS Energy Contract Portfolio
2017-18	$103.11	$72.87	$74.17
2018-19	$99.10	$80.29	$86.77

Source: Compiled by QEUN from QCA regulated retail price determinations for regional Queensland and CS Energy Annual Reports

Prior to COVID-19 it's possible the average annual 2019-20 wholesale electricity price for Queensland would be less than $60/MWh and the average price for the riskiest and therefore highest priced quarter on the ASX (Quarter 1 2020) would not exceed $80/MWh. However, the QCA utilised a single consultant's estimate and locked in on 31 May 2019 a WEC of $89.16/MWh for 2019-20 regulated retail prices for regional Queensland.

The timing of a consultant's cost of energy report, and in particular the date to which the modelling refers to, is critical in any year but even more so in year heavily impacted by the unprecedented and unknown effect of COVID-19 on the wholesale electricity market and other factors such as the cost of large-scale generation certificates.

We therefore recommend that the QCA engage a second consultant to estimate the 2020-21 wholesale and total energy cost and that the modelling date is as late as possible eg 30 May. We further recommend that the Queensland Government instruct the QCA to use $70/MWh as the cap for wholesale electricity prices included in 2020-21 regulated retail prices for regional Queensland.

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Recommendation 3

Urgently consult with consumer advocates on the network tariffs and the regulated retail tariffs that will be offered in 2020-21, specifically we urge the QCA to consider the financial impact on consumers of the QCA using the indexation methodology for network tariffs

Reason for Recommendation 3

Businesses and households across regional Queensland are desperately trying to get their budgets under control since the COVID19 pandemic was declared on 12 March. Yet businesses cannot price their products and services and farmers cannot plan their cropping programs as they don't know what regulated retail electricity tariffs will be available in 2020-21.

Similarly household budgets are under severe stress with many experiencing higher power bills due to having to work and/or school from home. Again, they need to know what regulated retail electricity tariffs will be available in 2020-21.

We understand the Australian Energy Regulator has already provided Energy Queensland/Queensland Government with sufficient information to enable Ergon Network to submit to the AER their indicative 2020-21 network pricing proposal by 22 May 2020. This will allow the AER to publish the approved 2020-21 network tariffs by mid-June at the latest.

We believe the certainty provided by the AER negates 2 (e)(vi) of the Ministerial Delegation that states:

(vi) In the event of significant uncertainty of both the prices and price structures of network tariffs to apply during the tariff year, and the QCA determines that there is insufficient time for the determination of the N component as set out in (e)(i), (ii) and (iii) above, use of a price indexation methodology to determine the N component for all existing Standard tariffs as set out in Part 2 of the current Tariff Schedule;

In addition we believe the later date of 26 June 2020 to the gazette the final 2020-21 regulated retail tariffs (compared to a date of 31 May in previous determinations), allows sufficient time for QCA to not use the indexation methodology for network tariffs.

Due to the impact of new network tariffs on the available regulated retail tariffs offered in 2020-21, we urge the QCA to convene another public workshop as soon as the QCA Board has made a decision on whether or not to use the indexation methodology for network tariffs.

Recommendation 4

Permanently remove the Solar Bonus Scheme from all regulated retail tariffs in Queensland.

Reason for Recommendation 4

On 21 February 2020 the QCA received advice from Energy Queensland of Ergon Network's intention to include the jurisdictional levy – the Solar Bonus Scheme (SBS) – in Ergon's *network* tariffs in 2020-21. As the SBS is a 'jurisdictional levy' or state tax, Energy Queensland can only include the SBS once directed to by the Queensland Government.

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The inclusion of the SBS in Ergon *network* tariffs significantly increases the regulated retail tariffs charged by Ergon Retail to every business and residential consumer in regional Queensland. The SBS will also be included in Energex network tariffs and passed onto business and residential consumers in South East Queensland via their electricity retailer.

The increase in annual power bills to cover the cost of the Solar Bonus Scheme depends on the consumption and tariff used by a consumer (Table 10).

Table 10: 2020-21 Draft jurisdictional scheme charges for small customers (GST exclusive)

Tariff class	*Retail tariff*	*Fixed (c/day)*	*Usage (c/kWh)*
Residential	11, 12A, 14	1.100	0.920
Small business	20, 22A, 14, 41	1.100	1.010
Controlled load	31, 33	-	0.790
Unmetered	91	-	0.664
Large business	44, 45, 46 ,50	51.600	0.067
Very large business	51A—51D, 53	1052.300	0.051

Source: QCA Draft 2020-21 regulated retail prices for regional Queensland, Technical appendices – Appendix D

For a residential consumer in regional Queensland on the main residential tariff – Tariff 11 – and consuming 4,061 kWh per annum their annual power bill will rise by $41.38. A residential consumer on T11 plus controlled load Tariff 33 and using 5,086 kWh per annum will experience a rise of $49.48 in their annual power bill.

For a small business consumer in regional Queensland on the main small business tariff – Tariff 20 – and consuming 6,831 kWh per annum their annual power bill will rise by $73.01. The typical small business consumption is more likely to be 15,711 KWh per annum increasing their annual power bill by $162.70.

For large businesses on Tariff 44, 45 and 46 their annual power bills will rise by $123.61 (184,492 KWh/year), $481.31 (718,376 kWh/year) and $1,242.11 (1,853,889 kWh/year) respectively.

QEUN's Recommendation 2 requests the Queensland Government to cap the wholesale electricity price included in 2020-21 regulated retail electricity prices at $70/MWh. The SBS imposes a wholesale electricity price of $440/MWh on every residential and business consumer in Queensland to cover the cost of the Queensland Government's SBS Solar Feed-In Tariff of 44 cents/kWh.

On 31 May 2017 the Queensland Government announced it would remove the cost of the SBS from all Queensland power bills until 30 June 2020, transferring the cost of the SBS to the Queensland Government.

On 31 May 2017 the Queensland Government reacted within hours to the QCA's announcement that there would be a 7.1% rise in 2017-18 regulated retail prices for residential consumers in regional Queensland. Previously on 24 February 2017, QCA had published draft regulated retail prices estimating a 1.7% increase for residential consumers and a 1.5% increase for small business consumers. The Queensland Government's removal of the SBS cost from regulated retail prices in 2017-18 reduced *the increase* in power bills in regional Queensland from 7.1% to 3.3 % for residential consumers and from 8.2% to 4.1% for small business consumers. Even with the SBS cost removed it was *still an increase* in residential and business power bills.

On 31 May 2017 the Queensland Government committed to removing the SBS for Queensland power bills from 1 July 2017 to 30 June 2020, a period of 3 years.

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The Queensland Productivity Commission (QPC) estimated the total cost of the SBS from its commencement in 2008 to its close in 2028 at $4.1 Billion, with $2.8 Billion to be recovered between 2016-17 and 2027-28.

The speed and manner in which the cost of the Solar Bonus Scheme is recovered is at the sole discretion of the Queensland Government. The Queensland Government's direction to Energy Queensland in February 2020 to include the SBS in 2020-21 network tariffs demonstrates that the Queensland Government has chosen to pass the SBS cost of about $250 million per year onto Queensland household and business power bills.

In 2015-16 the Queensland Productivity Commission estimated the SBS added $89 to a typical residential power bill and pushed the cost of a typical small business power bill up by around 9%. The SBS is legislated to continue until 2028.

The Solar Bonus Scheme must be permanently removed from all power bills in Queensland.

Recommendation 5

> *Permanently remove the nonsensical 5% 'standing offer adjustment' and 'head room' charge from all Ergon Retail residential, business and street-lighting power bills in regional Queensland***.**

Reason for Recommendation 5

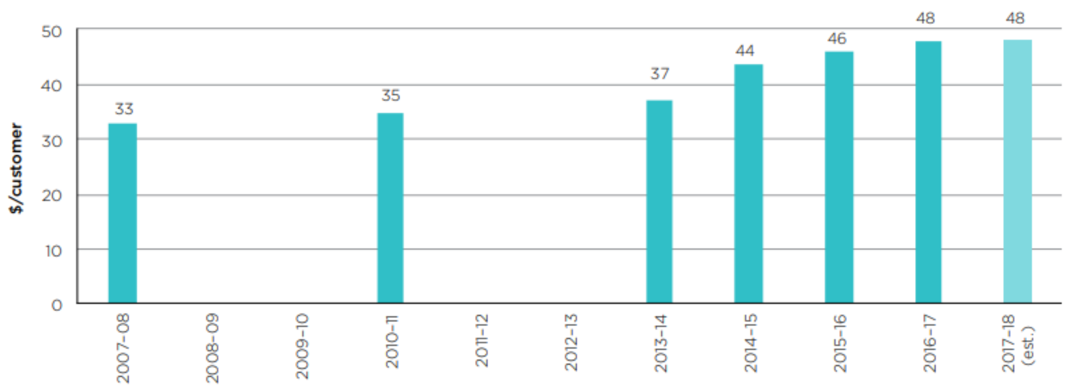
The Queensland Government's wholly owned electricity retailer Ergon Retail commands a near monopoly on over 620,000 residential consumers and over 90,000 business consumers in regional Queensland.

With its near monopoly in the retail market of regional Queensland, Ergon Retail does not have to compete with other retailers for customers ie it does not incur the Customer Acquisition and Retention Costs (CARC) of electricity retailers in South East Queensland. This means consumers in regional Queensland should not be paying for CARC. The Australian Competition and Consumer Commission estimated CARC at $48 per customer (Table 11).

The removal of CARC from 2020-21 regulated retail prices would reduce a typical household power bill in regional Queensland by about 4% and a typical small business power bill by about 2%.

Table 11:

National Electricity Market –wide Customer Acquisition& Retention Costs, $ per residential customer, excl GST



Source: ACCC Retail Electricity Pricing Inquiry – Final Report, June 2018

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The number of customers for Ergon Retail has risen by about 4 % since 2015-16 (Table 12). However, instead of the Queensland Competition Authority reducing power bills because of the continued lack of competition in regional Queensland, the Queensland Government has allowed the QCA to charge an extra 5% on all power bills to 'promote' retail competition that does not exist.

Table 12: Ergon Retail customer numbers by type, 2015-16 to Q2 2019-20

Ergon Retail Customer Numbers	2015-16	2016-17	2017-18	2018-19	Q2 2019-20
Residential	596,617	598,848	613,300	617,542	621,607
Small business	91,580	89,960	88,873	87,657	87,531
Large business	-	-	-	4,918	4,817
TOTAL CUSTOMERS	688,197	688,808	702,173	710,117	713,955

Source: Retail performance statistics, Australian Energy Regulator

To promote non-existent retail competition in regional Queensland the 'standing offer adjustment' charge and 'head room' charge is added to every retail tariff in regional Queensland (Table 13, 14, 15 and 16).

Table 13: *Standing offer adjustment charge* in Tariff 11 (main residential tariff for regional Queensland) – GST exclusive

Retail tariff	*Tariff component*	*Fixed[a] (c/day)*	*Off-peak/Flat usage (c/kWh)*	*Peak usage (c/kWh)*	*Off-peak/Flat demand ($/kW/mth)*	*Peak demand ($/kW/mth)*
Tariff 11—Residential (flat-rate)	Network (incl. JSC)	42.308	8.089			
	Energy		10.928			
	Fixed retail	37.938				
	Variable retail		2.143			
	Standing offer adjustment	4.012	1.058			
	SRES cost pass-through		0.3152			
	Total	**84.258**	**22.533**			

Source: QCA Draft 2020-21 regulated retail electricity prices for regional Queensland

Table 14: *Standing offer adjustment charge* in Tariff 20 (main small business tariff for regional Queensland) – GST exclusive

Retail tariff	*Tariff component*	*Fixed[a] (c/day)*	*Off-peak/Flat usage (c/kWh)*	*Peak usage (c/kWh)*	*Off-peak/Flat demand ($/kW/mth)*	*Peak demand ($/kW/mth)*
Tariff 20—Business (flat-rate)	Network (incl. JSC)	59.011	8.421			
	Energy		10.928			
	Fixed retail	53.774				
	Variable retail		2.477			
	Standing offer adjustment	5.639	1.091			
	SRES cost pass-through		0.3195			
	Total	**118.424**	**23.236**			

Source: QCA Draft 2020-21 regulated retail electricity prices for regional Queensland

Table 15: *Headroom charge* in Tariff 44 (large business tariff for regional Queensland- consumption over 100/MWh per year) – GST exclusive

Retail tariff	*Tariff component*	*Fixed[a] (c/day)*	*Off-peak/Flat usage (c/kWh)*	*Peak usage (c/kWh)*	*Off-peak/Flat demand ($/kW/mth)*	*Peak demand ($/kW/mth)*	*Demand ($/kVA/mth)*
Tariff 44—Business over 100 MWh/yr—Small (demand)	Network (incl. JSC)	3639.900	1.291		24.652		22.187
	Energy		9.564				
	Fixed retail	384.860					
	Variable retail		0.656		1.490		1.341
	Headroom	201.238	0.576		1.307		1.176
	SRES cost pass-through		0.2888				
	Total	**4225.998**	**12.376**		**27.449**		**24.704**

Source: QCA Draft 2020-21 regulated retail electricity prices for regional Queensland

Table 16: *Headroom charge* in Tariff 71 (<u>street lighting</u> tariff for regional Queensland) – GST exclusive

Tariff 71—Street lighting	Network (incl. JSC)		13.350				
	Energy		9.564				
	Fixed retail						
	Variable retail		1.385				
	Headroom		1.215				
	SRES cost pass-through		0.2888				
	Total		**25.803**				

Source: QCA Draft 2020-21 regulated retail electricity prices for regional Queensland

Even *street lighting* in regional Queensland paid by local councils and the Queensland Department of Transport attracts a headroom charge to promote retail competition.

The QEUN recommends the QCA permanently removes the nonsensical 5% 'standing offer adjustment' and 'head room' charge from all regulated retail tariffs offered by Ergon Retail to residential and business consumers in regional Queensland**.**

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Recommendation 6

Quantify the so called 'benefits' of Ergon Retail's standing offers compared to market contracts.

Reason for Recommendation 6

The Queensland Energy Minister in his letter accompanying the Delegation to the QCA states *"the government notes 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"*.

It is not clear what the benefits of the terms and conditions of a standard Ergon Retail contract are and to date the 'benefits' have not been quantified. If regional Queensland consumers are paying a premium for the additional protections contained in a Ergon Retail contract this needs to be quantified by benefit.

Recommendation 7

Make the Uniform Tariff Policy arrangements transparent by;

- *Reporting on how the Uniform Tariff Policy/Community Service Obligation is defined and calculated and*
- *Disclosing annually the distribution of the Community Service Obligation by customer category, region and industry sector & subsector*

Reason for Recommendation 7

The QEUN's Recommendation 7 is the same as Recommendation 29 in the Queensland Productivity Commission's Electricity Pricing Inquiry Report submitted to the Queensland Government in May 2016. Recommendation 29 was accepted in principle by the Queensland Government in November 2016.

Nearly four years later, the Queensland Government is yet to implement Recommendation 29.

The Uniform Tariff Policy provides that:

> *Wherever possible customers of the same class should pay no more for their electricity, regardless of their geographic location*

The Queensland Government constantly reminds electricity consumers in regional Queensland that it "subsidises" regional Queensland electricity costs by supporting the Uniform Tariff Policy through the payment of the Community Service Obligation (CSO).

The CSO is paid by the Queensland Government to itself via its wholly owned electricity retailer Ergon Retail.

No other electricity retailer in regional Queensland receives a CSO payment from the Queensland Government. Hence, no other electricity retailer can compete against Ergon Retail in regional Queensland.

The Queensland Government recovers its CSO payment by inflating the regulated retail electricity prices charged by Ergon Retail and paid by regional Queensland households and businesses.

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This is blatantly evident in this statement contained in the 2017-18 Energy Queensland Financial Statements (Ergon Retail is part of Energy Queensland):

"Retail sales revenue increased slightly due to higher tariffs approved by the Queensland Competition Authority."

Higher (inflated) retail tariffs are achieved as QCA continues to add costs to retail tariffs that should not be included eg the exorbitant wholesale electricity price of $103.11/MWh in 2017-18. The QCA also inflates retail prices/tariffs by charging for consumer benefits that do not exist eg the 5% standing offer adjustment charge and headroom charge for retail competition.

In 2019-20 the Community Service Obligation for electricity in regional Queensland was estimated to cost $498 million (see Table 17). This pales in comparison to $1.8 billion paid by the Queensland Government to Queensland Rail to provide rail passenger services at non-commercial (subsidised) prices for the commuter and tourism markets. The majority of the subsidy paid to Queensland Rail is for commuter train services which are of little benefit to regional Queenslanders. However, regional Queensland taxes help pay for this $1.8 billion transport subsidy.

Table 17: Community service obligation payments and Transport Services Contracts[1]

	2017-18 Actual $ million	2018-19 Budget $ million	2018-19 Est. Act. $ million	2019-20 Budget $ million	2020-21 Projection $ million	2021-22 Projection $ million	2022-23 Projection $ million
Electricity Networks	478	462	462	498	421	437	422
Rail	1,646	1,797	1,797	1,801	1,882	1,964	2,014
Water	11	11	10	10	7	7	..
Total PNFC Sector	**2,136**	**2,270**	**2,270**	**2,309**	**2,310**	**2,408**	**2,436**

Note:
1. Numbers may not add due to rounding.

Source: Budget Strategy and Outlook Paper, Public Non-Financial Corporations Sector, 2019-20 Queensland Budget

The QEUN recommends the Queensland Government follows through with its acceptance in principle of the Queensland Productivity Commission's Recommendation 29 in the 2016 Electricity Pricing Inquiry Report and makes the Uniform Tariff Policy transparent.

Recommendation 8

Extend the removal of the Non-Reversion Policy to include customers up to 160 MWh per year.

Reason for Recommendation 8

Some business customers consuming over 100 MWh per year have become captive to unsustainable market contracts as electricity retailers are aware the Queensland Government's Non-Reversion Policy does not allow customers consuming over 100 MWh per year to return to Ergon Retail.

Ironically the aim of the Non-Reversion Policy is to promote retail competition, for some customers the Non-Reversion Policy limits retail competition by excluding Ergon Retail.

The threshold for the Non-Reversion Policy needs to be extended from 100 MWh per year to 160 MWh per year.

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Recommendation 9

Introduce a dedicated Food, Fibre and Manufacturing Tariff in 2020-21.

Reason for Recommendation 9

The Queensland Electricity Act 1994 90 (3) (c) states "*a tariff may be added to the tariff schedule at any time during a tariff year*".

Unless the Ergon Network 2020-21 network tariffs approved by the Australian Energy Regulator result in regulated retail electricity tariffs that are affordable to farmers and manufacturers a new Food, Fibre and Manufacturing Tariff must be introduced for the 2020-21 tariff year.

Without an affordable Food, Fibre and Manufacturing Tariff a strong post COVID19 recovery will not be possible and regional Queensland towns and communities dependent on agriculture will increasingly become reliant on Centrelink payments.

Recommendation 10

Introduce the Traffic Light System of demand response to lower power bills and maintain reliability standards as the Queensland Government implements its 50% Renewable Energy Target by 2030.

Reason for Recommendation 10

Renewable energy capacity and generation in the National Electricity Market is increasing.

The quantity of solar generation in the middle of the day and on weekends can exceed demand causing wholesale electricity prices in the NEM to plummet to as low as the floor price of negative $1,000/MWh for a 30 minute trading interval. For example, in August and September 2019 the Queensland wholesale electricity price was $0/MWh or negative for 188 trading intervals (Table 18).

Table 18: Number of trading intervals at $0/MWh or negative from July 2018 to September 2019

	Total number of QLD Negative TIs	Total number of NSW Negative TIs	Total number of VIC Negative TIs	Total number of SA Negative TIs	Total number of TAS Negative TIs
Jul-18	0	0	0	44	36
Aug-18	0	0	29	68	137
Sep-18	5	0	22	37	117
Oct-18	3	0	0	4	0
Nov-18	0	0	0	5	0
Dec-18	5	0	10	21	19
Jan-19	1	0	0	2	42
Feb-19	0	0	8	19	4
Mar-19	1	0	0	2	4
Apr-19	0	0	1	26	0
May-19	0	0	2	28	2
Jun-19	9	0	6	31	11
Jul-19	10	0	16	81	22
Aug-19	54	5	26	147	72
Sep-19	134	5	11	136	2

Source: AEMO

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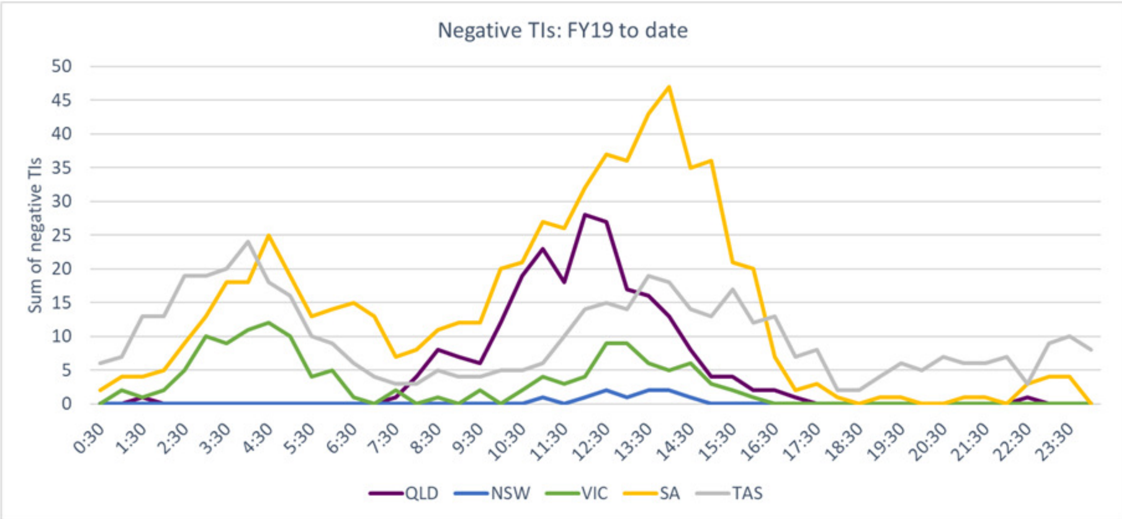
In Queensland the negative wholesale electricity prices in the NEM occurred between 7.30 am and 5.30 pm coinciding with the output from solar generation (Figure 13).

Figure 13: Timing of trading intervals at $0/MWh or negative from July 2018 to September 2019



Source: AEMO

Negative wholesale electricity prices mean generators pay consumers to buy their electricity output. Whilst on the surface this may seem of great benefit to consumers, affordable and reliable electricity is only possible if all components of an electricity system are viable including generators.

Approximately 70% of electricity supplied by the NEM is consumed by business, with the majority being consumed by small business (Figure 3, 4 and 5). It is therefore critical that the NEM is able to supply affordable and reliable electricity at all times including during the peak demand period of 4.00 pm to 8.00 pm Monday to Friday – a time of the day when solar output is low or non-existent.

Since every generator and pole and wire is ultimately paid for by consumers it makes little economic sense to build more generation and more poles and wires networks to use for only a few days each year when the National Electricity Market is under threat of load shedding.

The Traffic Light System is a consumer friendly notification system that informs consumers by SMS when the NEM is under stress and actions consumers can take to reduce electricity consumption. Actions are voluntary and can be as simple as increasing air-conditioning to 25 degrees Celsius or cooking dinner on the gas barbeque rather than on the electric stove. Simple demand response actions by consumers can lower power bills, help the environment and at the same time maintain a reliable electricity supply.

To date the Queensland Government owned distribution networks - Ergon and Energex - have showed little interest in pursuing demand response initiatives. Other government and non-government owned networks in the NEM have been proactive in demand response, including South Australia and regional Victoria (AusNet) – all have high levels of renewable energy generation (Figure 14). The Ergon and Energex networks have spent $4.347 million of their $10.52 million Demand Management Innovation Allowance (DMIA) over 4 years. This means that to spend their DMIA for the 2015-2020 regulatory period they will need to collectively spend $6.173 million in 2019-20 (Table 19).

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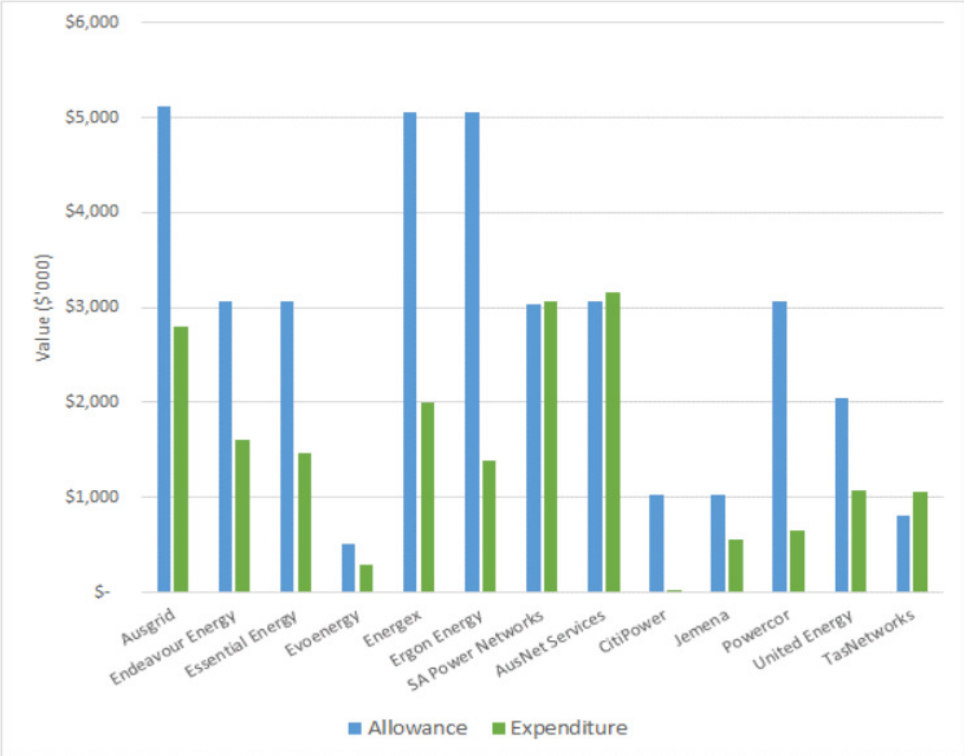
Figure 14: Demand Management Innovation Allowance – comparison of regulatory period vs expenditure to date



Source: Decision – Approval of Demand Management Innovation Allowance expenditures by distributors in 2017-18 and 2018, AER

Table 19: QLD and SA electricity distributors' DMIA expenditure for 2015-16 to 2019-20 period ($'000, nominal)

DNSP	DMIA approved 2015-16	DMIA approved 2016-17	DMIA approved 2017-18	DMIA approved 2018-19	DMIA approved 2019-20	Total DMIA approved	Total DMIA allowance for period	DMIA remaining for period	Per cent of DMIA spent
Energex	338	440	1,123	475		2,375	5,260	2,884	45%
Ergon Energy	472	795	262	441		1,971	5,260	3,289	37%
SA Power	1,955	1,120	-13	143		3,205	3,156	-49	102%
TOTAL	**2,765**	**2,355**	**1,372**	**1,059**		**7,551**	**13,676**	**6,125**	**55%**

Source: Decision – Approval of Demand Management Innovation Allowance expenditures by non-Victorian distributors in 2018-19, AER

By not reducing peak demand and therefore being at risk of breaching the national reliability standards, Ergon and Energex networks can build a case to the Australian Energy Regulator to increase the capacity of their poles and wires network. The greater the size and value of the poles and wires network the higher the Regulated Asset Base and the higher the returns/revenue to the Queensland Government. It also means higher costs for consumers to maintain and repair the larger network.

We recommend the Queensland Government introduce the consumer friendly Traffic Light System of demand response to lower power bills and maintain a reliable electricity supply due to the increased percentage of renewable generation (particularly intermittent renewable generation) in the National Electricity Market.

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Recommendation 11

Maintain the national reliability standard at 0.002 % to prevent an increase in power bills.

Reason for Recommendation 11

In August 2017 COAG Energy Council established the Energy Security Board (ESB). The ESB without consultation with industry stakeholders and consumers recommended to the March 2020 COAG Energy Council meeting that the national reliability standard be increased from 0.002% to 0.0006%. An increase in the reliability standard was widely consulted on by the AEMC last year and rejected, therefore the increased reliability standard does not have broad stakeholder support.

An increase in the reliability standard will increase power bills without necessarily increasing the reliability of electricity supply. This is because the national reliability standard applies to the transmission network managed by the Australian Energy Market Operator. It is estimated that 96 % of the outages experienced by consumers occur on the distribution network which is owned and managed by a combination of government and non-government network businesses.

Recommendation 12

Public acknowledgement that under the Australian Constitution it is the responsibility of the Queensland Government, not the Queensland Competition Authority, to set regulated retail electricity prices/tariffs for regional Queensland.

Reason for Recommendation 12

It is the Queensland Government that is responsible for the setting of regulated retail electricity prices in regional Queensland. Queensland is at the beginning of a recession that will be deeper and longer than the GFC of 2008 that hit regional Queensland particularly hard.

As cheaper retail electricity prices are one of the key drivers for a strong post COVID19 recovery it is up to the Queensland Government, not the Queensland Competition Authority, to set regulated retail electricity prices at a level that will promote strong economic activity and jobs growth.

Conclusion

Due to COVID19 Queensland is at the start of a deep recession of unknown duration that will make the GFC look like a walk in the park.

The key to a strong post COVID19 recovery is economic growth, particularly from industries such as mining, agriculture and tourism that bring outside dollars into the Queensland economy. The majority of industries producing outside dollars are located in regional Queensland.

If the QEUN recommendations are adopted regional Queensland businesses and regional Queensland households will have cheaper power bills and reliable electricity supply. This will enable the regional Queensland and the Queensland economy to recover as soon as possible.

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Thank you for the opportunity to provide a submission. We are always open to further discussing any aspect of our submission.

Yours faithfully

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