



## SUBMISSION

**Prepared for:**

Queensland Competition Authority

# Regulated Retail Electricity Prices 2022-23: Draft Determination

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The views expressed in this document do not necessarily reflect the views of Energy Consumers Australia.

## COMMISSIONING OF THIS SUBMISSION

This submission is being made to support advocacy by a stakeholder group of thirteen community sector organisations in Queensland. Further details regarding this stakeholder group are contained in Appendix A.

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## 1. INTRODUCTION

This report has been prepared by Etrog Consulting Pty Ltd on behalf of a stakeholder group of thirteen community sector organisations in Queensland. Further information on the formation and composition of this stakeholder group can be found in Appendix A. This submission responds to a Draft Determination on regulated retail electricity prices to apply in Queensland from 1 July 2022 to 30 June 2023 which was published by the Queensland Competition Authority (the QCA) on 25 February 2022, inviting submissions from interested parties.<sup>1</sup>

This submission comments on a selection of key issues raised in the QCA's Draft Determination. It builds on previous years' reports from Etrog Consulting and submissions from QCOSS to the QCA.

This submission is being funded by Energy Consumers Australia ([www.energyconsumersaustralia.com.au](http://www.energyconsumersaustralia.com.au)) as part of its grants process for consumer advocacy projects and research projects for the benefit of consumers of electricity and natural gas. We did not have funding to respond to the QCA's Interim Consultation Paper, which preceded the Draft Determination, and therefore this is our first and only opportunity to influence this year's process.

Our stakeholder group focuses on the interests of residential customers, and examines the impacts of regulatory processes and decisions on those experiencing or at risk of experiencing poverty and disadvantage in particular. On the same basis, this submission only considers the regulated retail electricity prices to apply to residential customers. It does not consider business customers or other customer classes.

We were pleased to attend an online workshop on the Draft Determination that the QCA held on 24 March 2022. As we have said previously, we commend the QCA that this was a far better experience than the corresponding teleconferences that used to be held in previous years before the onset of COVID. We are pleased that the QCA is continuing to provide high quality online workshops, even after in-person meetings have to a large extent resumed post-COVID, and recommend that these should continue as part of post-COVID "business as usual". Many stakeholders, especially consumer side representatives, do not have the resources to travel to in-person meetings, and find attendance at online meetings to be an adequate substitute that they can resource. An online meeting rather than travel to an in-person meeting also in many cases is more environmentally friendly, and contributes to the achievement of emissions targets by stakeholders as well as jurisdictional and federal governments.

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<sup>1</sup> The QCA's Interim Consultation Paper and Draft Decision and other relevant documentation have been published on the QCA website at <http://www.qca.org.au/project/customers/electricity-prices/regulated-electricity-prices-for-regional-queensland-2022-23>

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*Delegation from the Minister*

As was set out in Chapter 1 of its Interim Consultation Paper, which preceded the Draft Determination, the QCA received a delegation and terms of reference from the Minister for Energy, Renewables and Hydrogen (the Minister) to set regulated retail electricity prices (notified prices) to apply in regional Queensland in 2022-23. A copy of the delegation, dated 16 December 2021, was provided in Appendix A of the Interim Consultation Paper, along with the Minister's covering letter of the same date.

As was noted in the Minister's cover letter, the delegation and terms of reference for 2022-23 are generally consistent with the approaches in the Minister's delegation and terms of reference for 2021-22. However, there are some important additional considerations.

The new matters that the QCA has been asked to consider this year include the potential rationalisation of existing retail tariffs and the compatibility of retail tariffs with the electric vehicle rollout.

- Rationalising existing tariffs: The QCA has been asked to review existing retail tariffs with a view to rationalising and removing any tariffs no longer considered appropriate. The QCA has also been asked to consider appropriate transitional arrangements for any customers impacted by the removal of tariffs.
- Electric vehicle rollout – compatibility with retail tariffs: The QCA has been asked to consider the compatibility of retail tariffs with the rollout of electric vehicles, given the state-wide rollout and integration of electric vehicles into Queensland is a key focus of the government's upcoming 10-year Energy Plan and the Zero Emissions Vehicle Strategy.

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## 2. OVERARCHING FRAMEWORK

### 2.1. LACK OF CO-ORDINATION IN THE ENERGY TRANSITION

We are concerned regarding the fact that the Draft Decision is foreshadowing higher costs to consumers, at a time when the energy transition should be delivering lower costs.<sup>2</sup>

We have an overarching concern that consumers are not seeing transparent co-ordinated approaches to energy transition. The QCA and Queensland Government, along with national bodies, need to take a larger role in co-ordination of the overall energy transition in the interests of customers. The alternative that we are seeing is an uncoordinated approach, which is leading to higher risks and costs for customers. This situation needs to be reversed at the earliest opportunity.

### 2.2. HOW COVID-19 AND OTHER ECONOMIC FACTORS HAVE IMPACTED ELECTRICITY ENERGY CONSUMERS IN QUEENSLAND

COVID-19 has significantly impacted on the Queensland economy as well as the Australian economy more generally, and we see it as being relevant to the overarching framework and context of the current regulatory process.

In November 2020, QCOSS published a research report which explored how COVID-19 has impacted electricity energy consumers in Queensland. This included an assessment of changing energy usage and consumer behaviours, and the then-current response by government, regulatory bodies and industry.

The report assessed the effectiveness of government and industry responses based on consumer impacts, and proposed an overview of the key ways in which consumer energy vulnerability and disadvantage may be manifesting due to COVID-19.

Building on the findings from its research and analysis, QCOSS presented a view on the key aims that government, industry and community sector should work towards to support COVID-19 recovery, and the policy priority areas to achieve them.<sup>3</sup>

Across government, industry and the community sector our actions must focus on the realisation of the following key aims:

- create systemic change;
- ensure new vulnerabilities are transient;
- support those with pre-existing hardship to create better futures; and
- destigmatise hardship and vulnerability.

The identified policy priority areas where actions are needed are:

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<sup>2</sup> Customers' expectations of lower energy costs resulting from the energy transition are discussed in section 4.1 below.

<sup>3</sup> See <https://www.qcoss.org.au/publication/covid-19-and-consumer-energy-vulnerability-in-queensland> for more information, including the full QCOSS report and an infographic summarising the report findings.

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- advocate to the federal government to maintain adequate levels of income support;
- prevent unmanageable energy debt and debt accumulation;
- unify and coordinate responses within the energy sector, putting help and trust at the centre;
- maintain engagement between retailers and customers;
- achieve cross-sector coordination; and
- build household, community and economic resilience, including through stimulus.

We concur, and have stated in previous submissions to the QCA and other regulators that there is a strong need to address pricing and other regulatory matters *based on consumer impacts*. At the moment, the QCA's processes focus on industry facing costs and positions. The consumer focus is absent and should be re-introduced. We have been giving this advice since before the pandemic; the pandemic has reinforced the need to address these issues with a consumer perspective.

For example in the Draft Determination, the QCA considers the impacts of COVID-19 only from the point of view of how it impacts EV charging behaviour<sup>4</sup> and retailer costs.<sup>5</sup> There is no discussion of how COVID-19 and other economic factors have impacted electricity energy consumers in Queensland. Section 2 of the Draft Determination sets out the indicative bill impacts of the Draft Determination. It comprises charts that show bills for a typical customer based on the draft notified prices, compared to bills based on the current (2021–22) notified prices. It does not discuss or take into account what impacts these bill changes will have on customers, particularly from the point of view of affordability and household stress.

Our view is that decisions that impact customer bills should be based on consideration of consumer impacts rather than looking solely from the perspective of retailers' costs as is done in the QCA's Draft Determination.

At the QCA workshop which we attended on 24 March 2022, we raised the question in the Q&A: "what concern does QCA have about affordability of the essential service more generally, and what is QCA doing to help keep prices down to address the affordability issue?" The response we received referred to the Queensland Government's uniform tariff policy (UTP), which benefits customers in regional Queensland through the payment of a community service obligation subsidy to Ergon Energy Queensland of approximately \$500 million each year.<sup>6</sup>

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4 QCA Draft Determination, page 18

5 QCA Draft Determination, pages 34-35

6 Queensland Government, *Queensland Budget 2021–22, Budget Strategy and Outlook*, Budget Paper No. 2, June 2021, p. 35

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We were also given to understand the view of the QCA staff was that the QCA could not do more than that to address affordability. We believe that there are other decisions the QCA can make in its Final Determination to address affordability within the terms of the Delegation. The overall purpose of this submission is to highlight some of those measures for action by the QCA.

## 2.3. NEW PRICING MATTERS

### 2.3.1. Tariff rationalisation

The delegation asks the QCA to review existing retail tariffs with a view to:<sup>7</sup>

- removing any tariffs no longer considered appropriate; and
- introducing suitable transitional arrangements for any customers impacted by the removal of tariffs.

The Minister provided the following further context and guidance:

*The QCA should consider if individual tariffs are meeting customer needs, and balance competing factors including the impact extinguishing a tariff would have on customers and their options, along with other matters the QCA considers relevant. Consistent with [the] application of the [uniform tariff policy], this should be informed by the price structures commonly available in the deregulated [south east Queensland] electricity market and with a view to future needs for a variety of tariffs to be available as customer preferences, needs and technologies change.*

The Minister also considered the existing flat rate and controlled load tariffs for both residential and small business customers should be retained, and careful consideration should be given to retaining any tariffs compatible with the uptake of EVs and other technologies in future.<sup>8</sup>

The QCA's draft position on rationalising the existing suite of retail tariffs is to:<sup>9</sup>

- make six tariffs obsolete; and
- extinguish a further tariff.

As shown in Table 3.1 in the Draft Determination<sup>10</sup> from which an extract is shown below, in regard to tariffs that may affect residential customers, there are two tariffs that the QCA proposes to make obsolete, and none that it proposes to extinguish.

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7 QCA Draft Determination, page 8

8 QCA Draft Determination, page 9

9 QCA Draft Determination, page 10

10 QCA Draft Determination, page 11

<b><i>Residential tariff</i></b>	<b><i>Draft position</i></b>
Tariff 11 (flat rate)	Retain
Tariff 12A (seasonal TOU)	Make obsolete
Tariff 12B (TOU)	Retain
Tariff 14 (seasonal TOU monthly demand)	Make obsolete
Tariff 14A (TOU monthly demand)	Retain
Tariff 14B (TOU monthly demand)	Retain
<b><i>Residential and small business load control tariff</i></b>	<b><i>Draft position</i></b>
Tariff 31 (small customer secondary load control)	Retain
Tariff 33 (small customer secondary load control)	Retain

The two tariffs relevant to residential customers that the QCA proposes to make obsolete are:

- Tariff 12A (seasonal TOU); and
- Tariff 14 (seasonal TOU monthly demand).

In regard to these tariffs, the QCA has stated:<sup>11</sup>

*These tariffs no longer have underlying network tariffs following the recent network tariff reforms and the introduction of new small customer TOU and demand tariffs.*

<sup>11</sup> QCA Draft Determination, page 12

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The QCA's draft position is to make these tariffs obsolete and to set a scheduled phase-out date of 30 June 2023 (12 months), on the basis that:

- *There are no underlying network tariffs, so maintaining these tariffs as standard tariffs in the long term is not consistent with the N+R framework.*
- *There are other tariffs of a similar nature available to small customers (i.e. TOU and demand tariffs). While these other tariffs do not have the seasonal element, that element has been phased out at the network level for small customer tariffs, so it is not clear why the seasonal element should be retained at the retail level. We are mindful that having multiple TOU and demand tariffs for a customer class, with different peak windows, creates complexity in the tariff schedule and may deter a customer from moving onto these tariff types. We consider it preferable to retain the peak windows of the more recently introduced tariffs (e.g. 4 pm to 9 pm), as these windows have been more recently developed and align with the network tariff strategy.*
- *These tariffs have a relatively low uptake, as all but one of these tariffs have less than 200 NMI's assigned to them (tariff 24 has less than 750 NMI's assigned to it).*

The QCA further noted:

*Importantly, making a tariff obsolete provides a transition period for existing customers on that tariff to assess their options before they lose access to the tariff. While most are small customer tariffs, we consider the remaining tariffs provide an appropriate level of choice for small customers, including because each customer class will continue to have access to flat rate, time of use (TOU), demand and controlled load tariff types.*

We note specifically the QCA's comment that "*making a tariff obsolete provides a transition period for existing customers on that tariff to assess their options before they lose access to the tariff*". However, this can only happen in practice if the affected customers' retailer informs these customers that their tariff will be made obsolete and what their options are for tariff transition. Only then can customers make informed assessment and informed choices based on the options available to them.

The QCA should therefore obligate the retailer to work with the affected customers in the transition period and to report periodically to the QCA on progress in this regard.

If such retailer-customer engagement is actioned, we then support the QCA's draft position to make Tariff 12A (seasonal TOU) and Tariff 14 (seasonal TOU monthly demand) obsolete for residential customers, and to set a scheduled phase-out date of 30 June 2023 (12 months), on the basis of the analysis set out by the QCA, as summarised above.

We also support the QCA's draft position to retain the other tariffs available to residential customers that are discussed in section 3.2.1 on tariff rationalisation in the QCA's Draft Decision.

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### 2.3.2. Emerging issues: electric vehicle (EV) electricity pricing

In the cover letter to the delegation, the Minister said the statewide rollout and integration of electric vehicles (EVs) into Queensland is a key focus of the Queensland Government's upcoming 10-year Energy Plan and the Zero Emissions Vehicle Strategy—pricing, infrastructure, network impacts and access to EVs will be considered as part of these strategies:

*Charging is set to introduce new load into the system and EV users will make decisions that will impact the electricity network in new ways. Uptake of EVs is growing quickly and Queensland wants to encourage this uptake in a sustainable way that limits adverse impacts on the system.*

The Minister has not asked the QCA to introduce new retail tariffs for EVs at this stage but indicated that the QCA might be issued a separate delegation to do so in the future.

We support the views of stakeholders who responded to the QCA's Interim Consultation Paper that “work on EV tariffs should begin as EV uptake is increasing”.<sup>12</sup>

We concur with the statement of the QCA:<sup>13</sup>

*We understand the importance of EV pricing in the context of the Queensland Government's broader energy and EV initiatives, including to ensure suitable tariff options are in place to encourage EV customers (particularly as EV uptake increases) to make the most of renewable energy charging options when they try to meet their increasing electricity needs.*

We also agree that “as EV uptake increases, targeted EV pricing will be an important part of broader initiatives to encourage desired customer behaviour”.

The QCA concludes its discussion of this issue in its Draft Decision by stating:

*We consider that more work needs to be done to determine an appropriate methodology for estimating time-varying wholesale energy costs for customers on smart meters. As such, we do not propose to implement any time-varying energy components as part of this determination. At this stage, we have commenced work in obtaining the relevant demand profiles for smart meters from AEMO and are investigating the robustness of these data sets.*

*Given this is an emerging issue, we expect to progress and develop our preliminary analysis over time and with the benefit of further information, including from stakeholders. We strongly encourage stakeholders, including customers, retailers and distributors, to provide comments on any matters they consider relevant. This will be taken into account in our analysis in the final determination.*

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12 QCA Draft Determination, page 16

13 QCA Draft Determination, page 17

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We appreciate that the QCA has commenced work in obtaining the relevant demand profiles for smart meters from AEMO and is investigating the robustness of these data sets. We would like to see the QCA expedite this important emerging issue, because of its importance and the speed with which EV uptake could occur given relevant national and state government policies, and economic and climate change related and other factors. As discussed in section 2.1 above, a co-ordinated approach to EV uptake is necessary, across jurisdictional and national governments, regulators, industry participants, market bodies and other stakeholders. This includes a need for QCA to work more closely with Energy Queensland, recognising the need for network and retail tariffs for EVs to be complementary rather than potentially conflicting.

### **2.3.3. Emerging issues: a TOU retail tariff with improved price signals**

While the QCA Draft Decision discusses the prospect of a TOU retail tariff with improved price signals in the same section as EV electricity pricing,<sup>14</sup> we see a wider role for a TOU retail tariff with improved price signals beyond just EV charging.

The Minister said the department is working closely with electricity distributors to ensure the 'right mix of network tariffs are in place, from which regulated retail tariffs will be developed for regional Queensland'.

In addition, the Minister asked the QCA to consider how tariffs could be structured to better guide customer behaviour, which may include commentaries about the need for new tariffs with different structures to those currently available and also incentives for customers to respond to stronger pricing signals within tariffs.

In particular, the Minister raised the prospect of a TOU retail tariff with improved price signals – specifically, existing retail tariff 12B (the 'solar-soaker' tariff), which has an inexpensive daytime off-peak network component. However, the energy cost component is flat across all time periods, which does not reflect actual underlying energy cost structures, as these vary across the day.

We see a solar-soaker retail tariff which reflects actual underlying energy cost structures which vary during the day alongside varying network costs as being important to restore equity between customers with and without solar PV. Such a retail tariff can enable customers who for whatever reason cannot invest in solar PV (such as renters, those who lack capital to invest, those in apartments or other living spaces without access to a suitable roof space) to benefit from the community investment in solar PV, at the same time as they provide community benefit in "soaking up" excess solar PV being generated and exported by those with solar PV. It would be useful if in its final determination the AER could report on uptake of the existing retail tariff 12B and any barriers to its uptake that the QCA could remove (in conjunction with others as required).

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<sup>14</sup> Draft Decision section 3.2.2 titled "Emerging issues: electric vehicle (EV) electricity pricing"

### 3. NETWORK COMPONENT OF COSTS

Network costs comprise the costs of transporting electricity through transmission and distribution networks, as well as jurisdictional scheme charges, all of which are regulated (and approved) by the AER.

Due to the QCA's review timeframes, it has used draft network prices provided by Ergon Distribution and Energex as the relevant network prices in its Draft Decision. The QCA intends to use the prices approved by the AER in its 2022-23 network determinations in its final determination, pending the availability and timing of this information. If at the time of the QCA's final determination, the AER has yet to publish the approved network prices, the QCA proposes to use the 2022-23 prices submitted to the AER by Ergon Distribution and Energex. We concur with this approach.

The QCA stated further that if the AER's approved prices differ from those submitted by Ergon Distribution and Energex, it will consider using a cost pass-through mechanism to adjust for material differences, if it is delegated this task in the future. We do not concur with this approach. As we have stated previously, each year's prices should be based on the costs of the retailer for that year, and not be adjusted based on any inaccuracy in previous years' estimates. Our approach is the one adopted by the AER in its determination of the Default Market Offer, and we commend that approach to the QCA.

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## 4. ENERGY COSTS

### 4.1. OVERALL LEVEL OF ENERGY COSTS AND METHODOLOGY OF ENERGY COST ESTIMATION

The QCA's Draft decision states: "Total energy costs are expected to increase by 16.5 per cent to 20.8 per cent for the main small customer tariffs."

We are particularly concerned regarding this, given affordability issues and the fact that customers are being told that the energy transition should result in much lower energy costs, because the marginal costs of production of solar and wind and other renewable energy generation technologies is close to zero. Customers need to understand why the process of replacing legacy energy sources with cheaper renewables is not delivering lower energy prices for consumers, i.e. the process is not working as intended and as expected. The QCA also needs to review its processes and methodologies for relevance in the new sustainable energy environment to ensure they are still fit for purpose, meeting customers' expectations and delivering affordable prices.

At the QCA workshop on 24 March 2022, we wrote in the Q&A:

*We hear that the system is now awash with renewables, with negative prices, and renewables are supposed to be bringing down the cost of energy. Why then is the QCA's energy cost analysis showing higher costs? The QCA's energy cost analysis methodology is probably now about 20 years old. Is it still fit for purpose? Should it be reviewed?*

The QCA staff at the workshop responded to the effect that the methodology is quite well established. The QCA reviews it every year and thinks it is fit for purpose. The staff also gave Callide C being out of action as having affected the supply and demand balance in Queensland and hence led to higher prices.

We then wrote further in the Q&A:

*Thanks for confirming that the energy cost methodology is reviewed each year. Please can the QCA publish this year's review – what other methodologies were considered and why were they rejected?*

We were told in response to look at the appendices to the Draft Decision.

However, we find no reference in the QCA's Draft Decision (including Technical Appendices) to review of the energy cost methodology being undertaken by the QCA. Rather we find:<sup>15</sup>

*Consistent with previous years, we have engaged ACIL Allen (ACIL) to provide expert advice on energy costs. Our draft position for this review is to estimate energy costs based on ACIL's advice.*

We conclude that the QCA has not undertaken a review of the energy costs methodology independent of any review undertaken by ACIL.

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15 QCA Draft Determination, page 26

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While ACIL has reviewed specific stakeholder inputs, we find that in regard to the overall methodology to estimate energy costs ACIL writes in its methodology section:<sup>16</sup>

*ACIL Allen’s methodology follows the methodology used to provide advice to the QCA for the 2013-14 to 2021-22 determinations.*

*The ACIL Allen methodology estimates costs from a retailing perspective. This involves estimating the energy and environmental costs that an electricity retailer would be expected to incur in a given determination year. The methodology includes undertaking wholesale energy market simulations to estimate expected spot market costs and volatility, and the hedging of the spot market price risk by entering into electricity contracts with prices represented by the observable futures market data. Environmental and other energy costs are added to the wholesale energy costs and the total is then adjusted for network losses.*

We see no evidence of any review of the methodology this year. Rather, the methodology used in 2013-14 is still used. That methodology dates back to a decade earlier than when first used by ACIL in 2013-14. While the methodology may have reflected how retailers purchased wholesale energy when it was first used, the methodology is certainly ripe for review, and we urge the QCA to undertake such a review at the earliest opportunity.

An updated methodology might result in lower costs to consumers.

We urge the QCA to find ways to minimise the energy costs in its final determination.

#### **4.2. COMPARISON OF ACIL ALLEN’S FORECASTS WITH THOSE OF THE AEMC**

ACIL Allen discusses the AEMC’s 2021 Residential electricity price trends report and compares and contrasts its methodology with that used by ACIL Allen.<sup>17</sup> Various differences in methodology are considered, while the conclusion is that the trend in pricing between 2021-22 and 2022-23 as between the AEMC and ACIL Allen is quite different. As ACIL Allen writes: “one of the headlines from the latest AEMC report is that prices in Queensland will decline between 2021-22 and 2022-23 due to reducing wholesale costs – which is in contrast to our analysis”.

Clearly the differences between the modelling undertaken by the AEMC and the modelling undertaken by ACIL Allen lead to diametrically different outcomes for consumers. The useful documentation of difference provided by ACIL Allen can be used to form that basis of a fundamental review of methodology that we are calling for, so that consumers can benefit from the energy transition, and not simply see higher prices than necessary due perhaps in part to use of an outdated methodology.

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<sup>16</sup> ACIL Allen, Estimated energy costs, 9 February 2022, section 2.3

<sup>17</sup> See ACIL Allen, Estimated energy costs, 9 February 2022, Appendix A

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### 4.3. RELIABILITY AND EMERGENCY RESERVE TRADER (RERT) AND RETAILER RELIABILITY OBLIGATION (RRO) SCHEME CHARGES

Reliability and Emergency Reserve Trader (RERT) scheme charges are levied by AEMO to cover the costs of maintaining power system reliability and security using reserve contracts. The RERT scheme allows AEMO to contract for emergency reserves, such as generation or demand response outside of the NEM.

Alongside the RERT sits the Retailer Reliability Obligation (RRO).<sup>18</sup> The RRO commenced on 1 July 2019, with the intention of providing stronger incentives for market participants to invest in the right technologies in regions where it is needed, to support reliability in the National Electricity Market.

AEMO may commence procurement of emergency reserves at this point through the RERT framework if market participants have not invested sufficiently and entered into appropriate contracting to address the remaining gap with costs to be recovered through the Procurer of Last Resort cost recovery mechanism.

#### 4.3.1. Reliability and Emergency Reserve Trader (RERT) scheme charges

ACIL Allen has included RERT costs in total energy costs without any justification of whether these costs should be included for the purposes of estimating notified prices.<sup>19</sup>

In its Technical Appendix on its energy cost approach, the QCA similarly provides no justification for the inclusion of RERT costs in estimating notified prices.<sup>20</sup>

It is clear that AEMO acts as *Procurer of Last Resort* only when the market participants themselves have not procured sufficient reserves in their procurement and contracting activities.

The costs of administering the RERT scheme are incurred by AEMO because retailers leave gaps in their contracting. Therefore it is not appropriate for retailers to be allowed to pass these costs through to consumers in regulated prices, as it does not encourage retailers to do their part to minimise RERT costs.

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18 For a brief summary of the RRO, see for example <https://www.aer.gov.au/retail-markets/retailer-reliability-obligation>

19 See ACIL Allen, Estimated energy costs, 9 February 2022 pages 6, 16, 50 and 54

20 QCA Draft Determination, Appendix C, pages 23 and 28-29

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We also note that a significant RERT event occurred in Queensland earlier this year which is not considered in the Draft Decision.<sup>21</sup> This RERT event was referred to in the online workshop on the Draft Determination that the QCA held on 24 March 2022. We are concerned regarding the effect that the costs of this event would have on notified prices, if allowed to be included in energy costs in the QCA's Final Determination of regulated retail electricity prices for 2022-23. We urge the QCA to consider that these costs should not be passed on to customers in regulated prices. Instead the QCA should signal to retailers that expects them to play their part to avoid RERT costs being incurred by AEMO, otherwise they will have to bear these costs themselves.

#### 4.3.2. Retailer Reliability Obligation (RRO) scheme charges

ACIL Allen wrote:<sup>22</sup>

*The RRO is currently not triggered for 2022-23, and hence we are not required to account for the RRO in the wholesale costs for 2022-23. However, it is worth noting that this cost component should be included as part of the wholesale cost if the RRO is triggered in future determinations.*

The statement that “*this cost component should be included as part of the wholesale cost if the RRO is triggered in future determinations*” is made without any justification.

In its Technical Appendix on its energy cost approach, the QCA expands as follows:<sup>23</sup>

*However, we consider that this cost component should be incorporated as part of the wholesale energy costs, as retailers are required to modify their contract cover (such as using ASX contracts) to ensure sufficient coverage if the RRO is triggered. We will consider the appropriate methodology to account for the RRO costs when the RRO is triggered for Queensland.*

Our view, similarly to that stated above in regard to RERT costs, is that retailers should be getting their contracting right in the first place to avoid RRO and RERT costs obligations arising. It is not appropriate to allow retailers to recover costs of contracting as modelled by ACIL Allen, and then further costs associated with meeting RRO costs. Rather the modelling undertaken by ACIL Allen should already include meeting reliability requirements. If retailers then decide to contract in different ways and incur RRO and/or RERT costs they should not be considered as additional costs for cost recovery in regulated prices.

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<sup>21</sup> See <https://aemo.com.au/en/energy-systems/electricity/emergency-management/reliability-and-emergency-reserve-trader-rert/rert-reporting>

<sup>22</sup> See ACIL Allen, Estimated energy costs, 9 February 2022, page 17

<sup>23</sup> QCA Draft Determination, Appendix C, page 29

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As mentioned above, the methodology used by ACIL Allen to estimate energy purchase costs is decades old. It was put in place to model retailer behaviour before RERT or RRO schemes were established. Since these schemes are now in place, a prudent retailer would now take them into account in their initial contracting strategies. Instead the modelling allows RERT and RRO costs to be passed through as add-ons. This removes all risk of RERT and RRO related costs from the retailer, and instead places those risks directly with customers who have no way to hedge against them. In contrast, retailers can hedge against these costs in their overall hedging of energy purchases.

The risks associated with RERT and RRO related costs should be placed back with the retailer where they belong. This should be undertaken by

- Revising the wholesale energy purchasing modelling to optimise the purchasing strategy taking into account the potential for the retailer to incur RERT and RRO costs; and
- Not separately allowing pass-through of RERT and RRO costs in notified prices.

## 5. RETAIL COSTS AND MARGINS

The QCA writes:<sup>24</sup>

*Last year, we undertook a fulsome review of retail cost allowances for small and large customers. That review used market data and considered potential changes in costs resulting from productivity improvements and covid-19. As a result of that review, we:*

- *updated the retail cost allowances for residential and small business customers to take account of recent market information, including updating the cost allocator used to set the variable component of the retail costs*
- *maintained the existing retail cost allowance for large customers (adjusted for inflation), including maintaining the cost allocator used to set the variable component of the retail costs.*

*Given the recency of the retail cost review, we are considering maintaining our existing retail cost allowances this year, updated to account for inflation.*

For retail costs, the QCA therefore proposes to use the existing retail cost allowances for small, large and very large customers, adjusted by inflation.<sup>25</sup>

The draft retail cost estimates for 2021-22 were based on the retail market offers in SEQ. The Delegation for 2021-22 required the QCA to consider “Retail Operating Costs – undertake a full review of these costs as used in the N plus R framework”. Given the reference to a “full review”, we expected the QCA to undertake a full review, i.e. a full bottom-up cost review of retail operating costs, rather than a reapplication of the methodology from 2016-17. The update in 2021-22 was a considerable improvement on continuing to use the benchmark from 2016-17 adjusted for inflation, but we remain of the view that the QCA should in future years undertake a full bottom-up cost review of retail operating costs.

The QCA also wrote in its Draft Decision for 2022-23 in regard to COVID-19:

*Market reports suggest the net impact on the electricity market of covid-19 remains uncertain. Decreases in retail costs (partially due to the decrease in debt collection expenses and customer acquisition and retention) have been offset by increases in bad debt (some customers transferring away to other retailers with unpaid debts). Taking into account these factors, there is no conclusive evidence to support any adjustment (either increase or reduce) to retail cost allowances, other than to account for inflation.*

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24 QCA Draft Determination, page 34

25 QCA Draft Determination, page 25

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We agree with the QCA that the net impact on the electricity market of COVID-19 related costs remains uncertain. We add here, as discussed in section 2.1 above:

*Our view is that decisions that impact customer bills should be based on consideration of consumer impacts rather than looking solely from the perspective of retailers' costs as is done in the QCA's Draft Determination.*

Instead of updating retail costs to account for inflation, an adjustment for productivity gains should be introduced. Recalculating retail costs for 2021-22 rather than just adjusting them for inflation as had been done previously each year since 2016-17 resulted in substantial decrease in the retail cost allowance. Clearly, updating retail costs to account for inflation each year results in over-estimation of retail costs, which is now being repeated in the Draft Decision for 2022-23. The QCA should rather learn from experience, work out how much below inflation retail costs changed on average each year from 2016-17 to 2021-22 based on last year's analysis, and use that as the adjustment factor rather than inflation in its final determination for 2022-23.

Further, a considerable part of retail costs is comprised of manpower costs. Incomes are stagnating, and changes in income are running lower than inflation. Therefore, the indexing of retail costs by inflation this year is entirely unjustified. Affordability of electricity is also driven by income rather than more general inflation, and that also needs to be taken into account in the setting of notified prices for the coming year.

## 6. STANDING OFFER ADJUSTMENT – RESIDENTIAL AND SMALL BUSINESS CUSTOMERS

The covering letter to the Delegation states that the QCA's process should include "considering all costs and benefits associated with standing offers in SEQ".

This wording is different from that which was included in last year's Delegation, which required the QCA to consider "as residential and small business customers paying notified prices are on standard retail contracts, the Government is of the view that the QCA must consider incorporating into notified prices, an appropriate value reflecting the more favourable terms and conditions of standard retail contracts compared to market contracts (value)".

While the Draft Decision introduces its discussion of standing offer adjustment with the words "Consistent with previous years, the Minister has asked us to consider the costs and benefits associated with standing offers in SEQ",<sup>26</sup> we read this year's Delegation as being quite different. In contrast to previous years, rather than "consistent with previous years", this year's Delegation does not call for a standing offer adjustment.

While last year's Delegation clearly indicated that the QCA should include a "standing offer adjustment" in last year's calculation of notified prices, the wording this year is quite different. There should be no standing offer adjustment in this year's notified prices. This year's Delegation does not require the QCA to incorporate any "additional value" in notified prices. Rather, the QCA simply needs to ensure that it considers the costs of standing offers in SEQ, which are regulated by the AER, and the benefits of standing offers. The latter is achieved in the terms and conditions of standing offers where notified prices apply, to ensure that they are consistent with the benefits of standing offers in SEQ. There should be no standing offer adjustment – or it can be set to zero.

We also are concerned regarding the calculation of the standing offer adjustment, and whether there is an arithmetic error. In last year's final determination, the QCA reported that \$55 equated to around 3.6 per cent of a small customer's annual bill. In this year's Draft Decision the QCA finds that \$51 equates to around 3.7 per cent of a small customer's annual bill. The sum of \$51 this year should equate to a smaller percentage of the annual bill than last year's sum of \$55, given that (a) \$51 is lower than \$55, and (b) the Draft Decision has overall annual bills increased as compared to last year's Final Decision. Therefore the percentage of the annual bill that \$51 or \$55 reflects should be lower in this year's Draft Decision than in last year's Final Decision.

In the event that the QCA does determine that there should be a standing offer adjustment, notwithstanding the lack of that direction in this year's Delegation, we make the following additional comments which are edited from our submission to last year's Draft Determination to which the QCA should refer for further detail. These comments were not fully addressed in the QCA's Final Determination last year.

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26 Draft Decision, page 38

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*The value of a standard retail contract should be that perceived by customers*

We believe that the value of the more favourable terms and conditions of standard retail contracts compared to market contracts is something that can only be determined by the customers themselves. They determine the value that a standard retail contract offers them as compared to a market contract. The QCA should therefore conduct market research by asking customers what that value is.

*The QCA's own value judgement*

Instead the QCA has chosen to make its own value judgement, without reference to the customers themselves. The QCA's methodology is based on avoided fees that are incurred on a market contract that are not incurred on a standard contract.

*The value in standing offers of non-charging of late payment fees*

In previous years, it was noted that the largest fee component is the late payment fee.

Under section 22A of the National Energy Retail Law (Queensland), standing offer customers in Queensland cannot be charged late payment fees, but market offer customers in Queensland can be charged late payment fees. Therefore the QCA attributes value to standing offer customers that they will not incur late payment fees whereas market offer customers may incur late payment fees.

We note however that the two largest retailers in SEQ, Origin Energy and AGL, have both had enforcement action taken against them by the QCA for charging late payment fees to customers in breach of section 22A of the National Energy Retail Law (Queensland).<sup>27</sup> It appears that in the case of Origin Energy the breach was discovered by the QCA, while AGL discovered its own breach. *In neither case had any customer apparently complained to the QCA or ombudsman or another body that they had been incorrectly charged.* This is likely to be because customers were not aware of the provision of section 22A of the National Energy Retail Law (Queensland), which set out that standing offer customers in Queensland cannot be charged late payment fees, while market offer customers in Queensland can be charged late payment fees. In any case, it is clear that those customers did not ascribe any value to that provision – they could not have done, otherwise they would have complained when that value was not realised.

On that basis, the QCA should set the value of the provision that standing offer customers in Queensland cannot be charged late payment fees, but market offer customers in Queensland can be charged late payment fees to **zero**, because that is its perceived value to customers.

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<sup>27</sup> For more information on the breaches and the QCA's compliance action see <https://www.qca.org.au/project/retailers-and-distributors/enforcement-overview/enforcement> under the titles 'Origin Energy late payment fees (2019)' and 'AGL late payment fees (2020)'.

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### *Lack of transparency in the QCA's calculations*

As in previous years, we have been unable to work out how the QCA came to its estimated value (\$51 in this year's Draft Decision) to reflect the more favourable terms and conditions of standard retail contracts compared to market contracts. We have previously requested that the QCA should release for public scrutiny its spreadsheet or other workings that show in more detail how that figure was derived. We consider the release of such works to be in the interests of good governance and transparency. However, we have been told that the spreadsheet is not being released. We have not received any explanation as to why that is the case – we do not see confidentiality to be an issue, given the calculations are based on a published Market Monitoring report.<sup>28</sup>

In last year's submission we detailed concerns arising from the lack of transparency, which are not repeated here. We refer the QCA to our submission to last year's Draft Determination for further detail.

- The fees charged by retailers are complex in their definition;
- Possible double (or triple) counting;
- Averaging of costs based on numbers of customers affected;
- Averaging of costs based on market shares of retailers;
- Treatment of zeroes; and
- Treatment of account establishment fees.

### *Comments made in the QCA's Final Determination for 2021-22*

Last year's final determination included some interesting commentary in a section headed "Recent market developments".<sup>29</sup> This included:

*Recent market developments may inform our assessment in future determinations, particularly given these have impacted how customers and retailers interact in the market. Recent regulatory reforms have been aimed at improving safety net provisions for consumers and influencing the way retailers communicate retail market offers to consumers.<sup>205</sup> As a result, it is unclear whether standard contract terms and conditions will continue to offer value to customers in the future and, therefore, be a viable ongoing basis on which to make adjustments to small customer notified prices.*

...

*Our observations suggest the value of standard contract terms and conditions has likely diminished due to broader improvements in retail market offers aimed at protecting consumers.*

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<sup>28</sup> QCA, *SEQ retail electricity market monitoring 2020–21*, December 2021, chapter 4

<sup>29</sup> See the QCA's Final Determination for 2021-22, page 57

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On that basis, we would have expected this year's Draft Decision to continue that commentary, resulting in substantial lower (or as we propose – zero) standing offer adjustment this year. We would like to see last year's commentary followed through in this year's Final Decision to support a much lower (if not zero) standing offer adjustment for 2022-23.

## APPENDIX A: COMMISSIONING OF THIS SUBMISSION

This submission to the QCA is funded by Energy Consumers Australia ([www.energyconsumersaustralia.com.au](http://www.energyconsumersaustralia.com.au)) as part of its grants process for consumer advocacy projects and research projects for the benefit of consumers of electricity and natural gas.

The grant has been provided to support advocacy by a stakeholder group of thirteen community sector organisations in Queensland in 2021-22 in regard to consumer engagement and advocacy on regulated retail electricity prices in Queensland.

The intended outcomes of the project that is supported by the grant include:

- Robust submission to the Draft Determination of the QCA on setting regulated retail electricity prices in Queensland in 2022-23.
- Ensuring that Queensland-based consumer and community organisations are well informed and understand the processes and associated reforms so they can support their own community organisations and each other in their own client advocacy.
- Enhancing understanding of the implications of these processes and their outcomes on residential customers, particularly those on low incomes or experiencing vulnerability.

The thirteen community sector organisations are:

- Caxton Legal Centre, Queensland
- Council on the Aging (COTA) Queensland
- Energetic Communities Association Inc, Queensland
- Good Shepherd, Queensland
- Kildonan & Lentara Cluster, Queensland
- Laidley Community Centre, Laidley, Queensland
- Multilink Community Services Inc, Queensland
- Queensland Consumers Association
- Queensland Council of Social Service (QCOSS)
- St Vincent de Paul, Queensland
- Uniting Care, Queensland
- Uniting Church, Queensland
- Youth and Family Service (YFS), Logan, Queensland

Representatives of the following five stakeholders have formed a steering group to guide and review the submission before presentation to the QCA:

- Council on the Aging (COTA) Queensland
- Energetic Communities Association Inc, Queensland
- Queensland Consumers Association

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- Queensland Council of Social Service (QCOSS)
- Youth and Family Service (YFS), Logan, Queensland