QCOSS

Queensland Council of Social Service

Submission to the Queensland Competition Authority

Draft Determination of Regulated Retail Electricity Prices for 2016-17

20 April 2016

About QCOSS

The Queensland Council of Social Service (QCOSS) is the state-wide peak body representing the interests of individuals experiencing or at risk of experiencing poverty and disadvantage, and organisations working in the social and community service sector.

For more than 50 years, QCOSS has been a leading force for social change to build social and economic wellbeing for all. With members across the state, QCOSS supports a strong community service sector.

QCOSS, together with our members continues to play a crucial lobbying and advocacy role in a broad number of areas including:

- sector capacity building and support
- homelessness and housing issues
- early intervention and prevention
- cost of living pressures including low income energy concessions and improved consumer protections in the electricity, gas and water markets
- energy efficiency support for culturally and linguistically diverse people
- early childhood support for Aboriginal and Torres Strait Islander and culturally and linguistically diverse peoples.

QCOSS is part of the national network of Councils of Social Service lending support and gaining essential insight to national and other state issues.

QCOSS is supported by the vice-regal patronage of His Excellency the Honourable Paul de Jersey AC**,** Governor of Queensland**.**

Lend your voice and your organisation's voice to this vision by joining QCOSS. To join, visit the QCOSS website (www.QCOSS.org.au).

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QCOSS would like to acknowledge and sincerely thank all who participated in the development of this submission. Specifically, QCOSS thanks David Prins of Etrog Consulting for assisting with technical advice and consultancy services in preparing this submission.

Introduction

QCOSS welcomes the opportunity to provide comment on the Queensland Competition Authority's (QCA) Draft Determination on Retail Electricity Prices for 2016-2017.

With the introduction of price deregulation in South East Queensland (SEQ) from 1 July 2016, the retail prices set by the QCA in this process will only apply to customers in regional Queensland. While electricity prices have increased across the state in recent years, regional Queensland households are among the most vulnerable to impacts of declining energy affordability.

The risk of experiencing poverty is far greater for households outside capital cities. According to a 2013 report prepared for ACOSS,[1] 15 per cent of regional Queenslanders are considered to live in 'after housing' poverty compared to 9.5 per cent in the greater Brisbane area. This is the widest differential between a capital city and the rest of the state in the nation.

Poverty in regional areas has a particular set of characteristics that include:

- Generally lower incomes;
- Reduced access to services such as health, education and transport;
- Higher unemployment and declining employment opportunities; and
- Distance and isolation.

[1] ACOSS. *Poverty in Australia: ACOSS paper 194*, 2012

QCOSS's regional Cost of Living Report[2] demonstrates considerable variation across regions, and in some locations in Queensland where households face high housing and transport costs, low-income households are finding it extremely challenging to meet the costs of a very basic standard of living. For these reasons it is critically important that prices for regional customers are minimised to the greatest extent possible.

This submission focuses on issues relating to prices for residential tariffs only. In summary, QCOSS recommends that:

1. The QCA should improve the transparency of information provided on the methodology for determining retail costs and the analysis of bill impacts for different customers.

2. The QCA should ensure the methodology for estimating energy costs that is used and applied is exactly the same in the estimation of energy costs and the estimation of retail costs.

3. ACIL should review the full set of tariffs used in its analysis of efficient tariffs in other jurisdictions, to address the issues raised in this submission, and to ensure that its methodology principle has been correctly applied.

4. The QCA should publish the tariff details of ACIL's above analysis to improve transparency and confidence in the findings.

5. The QCA should weight the retail costs by customer numbers to give a more accurate reflection of costs across the sector, and thereby avoid the anomalies that a large number of small retailers, or mergers between retailers, might skew the overall results.

6. The QCA should base its estimation of standing offer prices on a mark-up of market offer prices that reflects the empirical evidence, and does not exclude certain market offers based on what are likely to be unsubstantiated assumptions about the offers consumers are likely to take up.

7. The Queensland Government should respond to consumer concerns relating to significant increases in wholesale costs, impacts of increasing controlled load tariff prices, and the implications of using standing offer prices as the basis for regional electricity prices in future years, as highlighted in this submission.

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[2] QCOSS, *Cost of Living Report*. Regional Edition 1, 2014

Information transparency

Analysis of customer impacts

QCOSS has previously commended the QCA on its efforts to set out prices in its Draft and Final Determinations in a way that clearly identifies the estimated bill impacts for different types of households. In the past, this has been complimented with factsheets to provide snapshots of the information in table and graphs formats that present complex information in a way that is accessible and transparent. QCOSS is disappointed to see that the QCA has moved away from that approach this year.

The Draft Determination only shows effects on one “typical” customer in each tariff, rather than showing effects on consumers with a range of usage levels. Given fluctuations in how costs are allocated between the fixed and variable charges, prices set by the QCA have a different impact on the overall bill for households depending on their household consumption, and they are increasingly affected by differences driven by the uptake of technologies such as solar generation or controlled load tariffs.

The Draft Determination also does not show the effects on consumers with combinations of tariffs, in particular T11+T31 or T11+T33, for a range of usage levels. These are important and common combinations, particularly given the high proportion of residential customers in Queensland who have a hot water system or a pool filtration system connected to a controlled load tariff.

It is important for the QCA to present clearly the bill impacts for a wide range of consumer usage levels on each tariff, and on common combinations of tariffs. This will help QCOSS and other stakeholders, including end consumers, to better understand the impact of the prices in the QCA’s Draft and Final Determinations on actual bills.

The information provided in the current Draft Determination represents a reduction in the transparency and accessibility of information available to consumers about the impact of changes in electricity prices on their bills, as compared to previous years. This is a significant departure from general moves across the electricity sector, where most stakeholders are striving to encourage greater consumer understanding and engagement with their electricity costs.

QCOSS therefore requests the QCA to provide a wider range of effects in its future publications. These publications should include Draft and Final Determinations, as well as fact sheets.

QCOSS notes further that while they are not part of the QCA’s Determination, metering costs also factor into the costs of electricity for consumers, and should be included in fact sheets if not in actual Draft and Final

Determinations, as part of the illustration and presentation of effects on consumers' overall bills.

ACIL's retail costs methodology

The methodology in the Draft Determination for the estimation of retail costs has changed fundamentally since last year's Final Determination of retail electricity prices.

QCOSS is concerned that there is a lack of full information to assist stakeholders to understand the methodology and its application, to allow stakeholders to comment effectively on all aspects of the methodology and its application, and whether there may be improvements in the methodology that should be proposed. As a general rule, QCOSS seeks full disclosure to provide the greatest transparency and the greatest assistance to stakeholders in the regulatory process.

In its retail costs report, ACIL undertook a full analysis of energy costs in every other jurisdiction. There are, however, significant differences in the depth of coverage of the energy costs in the Queensland energy costs section, as against the energy costs in other jurisdictions which sit in the retail costs report. In future, additional data and accompanying spreadsheets should be provided for the other jurisdictions as for Queensland.

ACIL has provided a list of the tariffs analysed, but has not provided the full detail of the tariffs, or the discount levels that were used. These should have been provided. Spreadsheets of the retail cost calculations should have been provided to help stakeholders assess the applicability of the ACIL methodology.

Energy costs

The energy cost calculations in the Draft Determination follow the existing methodology that has previously been deployed by the QCA. What has changed this year is that this methodology is now deployed in the estimation of retail costs as well as in the estimation of energy costs in Queensland.

It is very important for the integrity of the calculations that the methodology for estimating energy costs and the application of that methodology should be exactly the same in both the estimation of energy costs and the estimation of retail costs. QCOSS has read the assurances in the Draft Determination that this is the case.

At QCA's recent Consumer Advisory Committee meeting in Brisbane which was attended by QCOSS, this assurance was repeated, and QCA also stated that if any change were to be made to the methodology or the application of the methodology in the Final Determination for energy costs, exactly the same change would be made for retail costs.

QCOSS was pleased to hear that assurance, and emphasises in this submission the importance of this being maintained.

Retail costs

Most efficient tariffs for other jurisdictions

QCOSS agrees with ACIL that using the tariffs with the biggest discounts should give the most "efficient tariffs" in each set of tariffs.

QCOSS notes in particular in the ACIL Retail Costs report page 8:

> *Where a retailer had multiple single rate tariffs available, we used the single rate tariff that resulted in the lowest retail electricity bill, net of discounts, on the basis that this is the most efficient tariff.*

And page 9:

> *In calculating customers' retail electricity bills we have the single rate tariff that resulted in the lowest retail electricity bill, net of discounts. We have amortised upfront discounts over a period consistent with the rate of customer switching in that jurisdiction.*

QCOSS strongly supports this element of the methodology.

QCOSS is however concerned that ACIL may not in all cases have used the single rate tariff that resulted in the lowest retail electricity bill, net of discounts.

ACIL states in its retail costs report:

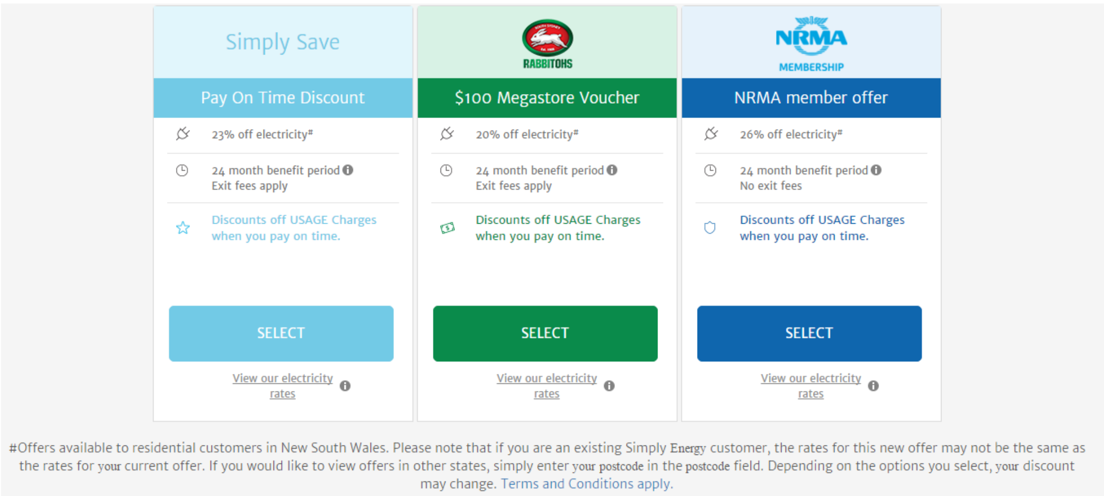
- *"We used the retail electricity tariffs that were offered for the 2015-16 financial year in NSW, Queensland and South Australia and the retail electricity tariffs that were offered in the 2015 calendar year in Victoria."* (ACIL retail costs report page 8)
- *"We obtained a data set of residential tariffs from Alviss Consulting for 2015-16 for NSW, Queensland and South Australia, and for 2015 for Victoria."* (page 20)

In contrast, ACIL collected one small business retail electricity tariff for each retailer in each electricity distribution area from the retailers' websites in late 2015 / early 2016 (page 21), and in Queensland the QCA looked at tariffs in February 2016 for both residential and small business customers (Draft Determination page 41). QCOSS submits that it would have been more consistent if all tariffs used were from the same timeframes and using the same methodology. It would also have made it easier to verify that the residential tariffs used were the full set of efficient tariffs if they corresponded with tariffs being offered now on retailers' websites.

The Essential Services Commission (ESC) Victoria's Energy Retailers Comparative Performance Report on pricing for 2014-15 (section 4.2.1 pages 47 onwards) lists prices for flat residential retail electricity tariffs as at June 2015 in Victoria. It would be expected that the residential electricity tariffs offered in 2015 used by ACIL would include all the flat residential retail electricity tariffs that the ESC showed were available in June 2015. However, it is not clear that this is the case, as demonstrated by the following examples.

- In Appendix A of its retail costs report, ACIL lists the following residential retail tariffs of Simply Energy that were analysed in Victoria: *Green, Guaranteed, Guaranteed DD, and Guaranteed E-billing*. Alternatively, the ESC shows the following flat residential retail electricity tariffs in Victoria for Simply Energy in June 2015: *Simply Guaranteed 23; Simply Gold Guaranteed 20; Simply Guaranteed 27; Simply Guaranteed 25; Simply Gold Guaranteed 24; Simply Gold Guaranteed* 22. It is unclear if these match the tariffs listed by ACIL.

- In NSW, ACIL obtained a data set of residential tariffs from Alviss Consulting for 2015-16, so it would be expected that those would include offers currently available. However, QCOSS' research reveals offers that are shown on Simply Energy's website that were not included in ACIL's report, as shown in the screen shot below which was taken on 18 April 2016.



- QCOSS also notes that ACIL has omitted consideration of Powershop in its analysis. QCOSS understands that Powershop has been offering very competitive prices in Victoria and has thus been growing market share. Powershop features prominently in the ESC's Energy Retailers Comparative Performance Report on pricing for 2014-15 as being one of the retailers with the lowest (and hence most efficient) retail electricity tariffs in Victoria. Table 3.15 in that report shows that as at June 2015 (i.e. in the middle of the period for which ACIL was analysing the most efficient retail electricity tariffs in Victoria), Powershop had 36,749 residential customers on market offers in Victoria. In contrast, at the same date, Click Energy had only 26,374 residential customers on market offers in Victoria.

It is therefore very surprising that ACIL chose to include Click Energy with a smaller market share in its analysis of efficient residential retail tariffs in Victoria, but did not include Powershop with a larger market share. ACIL should revisit its residential electricity retail tariff analysis in Victoria to include Powershop tariffs.

- The list of retail tariffs in Appendix A sometimes includes repeats, such as in the entries for Red Energy in the Powercor area. It is unclear if this should only have been listed once, or if a tariff is missing from ACIL's analysis in place of the duplication.

The above are just examples. QCOSS has similar concerns regarding the most efficient tariffs offered by other retailers. There are several more cases where QCOSS' research does not match the ACIL Appendix A.

Additionally, it is not clear how ACIL has valued such items as cinema tickets or subscriptions to the Entertainment Guide or vouchers off other services. Clearly these also decrease costs for consumers as the consumer would otherwise have purchased those items themselves, though they do not directly impact on energy bills. QCOSS suggests that the value of these should be included in this methodology and valued as if they were discounts on electricity bills.

Given the lack of transparency of the details of the offers that ACIL used, QCOSS does not have assurance that ACIL used the single rate tariff that resulted in the lowest retail electricity bill, net of discounts, in all cases. QCOSS recommends that ACIL review the full set of tariffs used to ensure that its methodology principle has been correctly applied. Further, the QCA should publish the tariff details to give QCOSS and other stakeholders this assurance.

Weighting of retail costs in other jurisdictions

QCOSS is surprised that the QCA has processed the retail costs in other jurisdictions by taking a simple average across retailers, rather than weighting by customer numbers. QCOSS requests that the QCA should instead weight the retail costs by customer numbers. This would give a more accurate reflection of costs across the sector. It would avoid the anomalies that a large number of small retailers could skew the overall results.

A further anomaly is that if two retailers merge then until they reveal the synergies of the merger their costs remain the same. With weighted averages, this would be the case. But under the QCA's simple average treating all retailers equally, such a merger would move the simple average inappropriately.

ACIL has also apparently somewhat arbitrarily chosen which retailers to analyse. This has resulted, for example, in the surprising omission of Powershop in Victoria, as discussed above. Under weighted averages, the omission of smaller retailers would not have a significant impact. But with a simple average, the inclusion or otherwise of smaller retailers has a more significant effect, which should not be the case.

Mark-up of standing offers in Queensland

QCOSS notes that there may be substantial numbers of customers in Queensland on market offers that are priced at or above standing offer levels. On that basis, QCOSS queries the magnitude of the mark-up of market offer prices to estimate standing offer prices. In particular, QCOSS points to footnote 57 in the Draft Determination which states:

> *This analysis does not take account of those market offers that feature prices higher than the notified prices. These offers have been excluded from our analysis as it is not clear that a significant number of customers would take up these offers.*

It appears to QCOSS that the QCA does not have available data to know how many customers are taking up the offers, and is trying to second-guess customer behaviour. QCOSS believes that QCA should rather be basing its Determination on empirical evidence, and should not be excluding offers simply because it is not clear to the QCA how many customers are taking up the offers. Further, it is QCOSS' experience that customers do "take up" such offers, for a variety of reasons. These offers should not be excluded from analysis.