

Scoping Paper

SEQ retail electricity market monitoring 2016–17

October 2016

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SUBMISSIONS

Closing date for submissions: 30 November 2016

Public involvement is an important element of the decision-making processes of the Queensland Competition Authority (QCA). Therefore, submissions are invited from interested parties concerning our scoping paper for monitoring of south east Queensland's retail electricity market for 2016–17. The QCA will take account of all submissions received.

Submissions, comments or inquiries regarding this paper should be directed to:

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Fax (07) 3222 0599

www.qca.org.au/submissions

Confidentiality

In the interests of transparency and to promote informed discussion, the QCA would prefer submissions to be made publicly available wherever this is reasonable. However, if a person making a submission does not want that submission to be public, that person should claim confidentiality in respect of the document (or any part of the document). Claims for confidentiality should be clearly noted on the front page of the submission and the relevant sections of the submission should be marked as confidential, so that the remainder of the document can be made publicly available. It would also be appreciated if two copies of each version of these submissions (i.e. the complete version and another excising confidential information) could be provided. Where it is unclear why a submission has been marked 'confidential', the status of the submission will be discussed with the person making the submission.

While the QCA will endeavour to identify and protect material claimed as confidential, as well as exempt information and information disclosure of which would be contrary to the public interest (within the meaning of the *Right to Information Act 2009* (RTI)), it cannot guarantee that submissions will not be made publicly available.

Public access to submissions

Subject to any confidentiality constraints, submissions will be available for public inspection at the Brisbane office, or on the website at www.qca.org.au. If you experience any difficulty gaining access to documents, please contact us on (07) 3222 0555.

Contents

| | |
|--|----|
| SUBMISSIONS | I |
| Closing date for submissions: 30 November 2016 | i |
| Confidentiality | i |
| Public access to submissions | i |
| THE ROLE OF THE QCA — TASK, TIMING AND CONTACTS | IV |
| 1 INTRODUCTION | 1 |
| 1.1 Electricity market monitoring in SEQ | 1 |
| 1.2 Scoping paper | 1 |
| 2 PRICES, DISCOUNTS, FEES, CHARGES AND TRENDS | 3 |
| 2.1 Background | 3 |
| 2.2 Other states | 6 |
| 2.3 Proposed methodology | 9 |
| 2.4 Consultation questions | 17 |
| 3 SWITCHING TO MARKET OFFERS | 18 |
| 3.1 Background | 18 |
| 3.2 Other states | 18 |
| 3.3 Proposed methodology | 19 |
| 3.4 Proposed data requirements | 21 |
| 3.5 Consultation question | 22 |
| 4 HARDSHIP AND CONCESSION CUSTOMERS | 23 |
| 4.1 Background | 23 |
| 4.2 Other states | 23 |
| 4.3 Proposed methodology | 24 |
| 4.4 Proposed data requirements | 26 |
| 4.5 Consultation question | 26 |
| 5 NEW TYPES OF RETAIL TARIFF STRUCTURES AND PLANS | 27 |
| 5.1 Background | 27 |
| 5.2 Other states | 27 |
| 5.3 Proposed methodology | 28 |
| 5.4 Proposed data requirements | 28 |
| 5.5 Consultation question | 28 |
| 6 DEROGATION TO THE NATIONAL ENERGY CUSTOMER FRAMEWORK | 29 |
| 6.1 Background | 29 |
| 6.2 Proposed methodology | 30 |
| 6.3 Proposed data requirements | 31 |
| 6.4 Consultation question | 31 |

| | | |
|-----|--|----|
| 7 | QCA INFORMATION NOTICE | 32 |
| 7.1 | Electricity Act | 32 |
| 7.2 | Contents of an information notice | 32 |
| 7.3 | QCA suggested timeframes | 32 |
| 7.4 | Consultation questions | 32 |
| | GLOSSARY | 34 |
| | APPENDIX A : MINISTER'S DIRECTION NOTICE | 36 |
| | REFERENCES | 39 |

THE ROLE OF THE QCA — TASK, TIMING AND CONTACTS

The Queensland Competition Authority (QCA) is an independent statutory authority which promotes competition as the basis for enhancing efficiency and growth in the Queensland economy.

The QCA's primary role with respect to monitoring south east Queensland's (SEQ) retail electricity market is set out in part 2, chapter 4 of the *Electricity Act 1994* (Qld) (the Electricity Act). In accordance with section 89B of the Electricity Act, the QCA has been directed by the Minister for Energy and Water Supply to report on the operation of SEQ's retail electricity market for 2016–17 (see Appendix A of this paper).

Key dates

The QCA's indicative timetable for SEQ retail electricity market monitoring for 2016–17 is shown below.

| | |
|--|-------------------------------|
| Release scoping paper | 14 October 2016 |
| Submissions on scoping paper due | 30 November 2016 |
| Issue request for information to retailers | mid-May 2017 |
| Information due from retailers | mid-July 2017 |
| Prepare report | August–September 2017 |
| Provide report to Minister for Energy and Water Supply | No later than 31 October 2017 |
| Publish report on QCA website | 31 October 2017 |

From October 2016 to August 2017 the QCA will collect and analyse data and information for the market monitoring report.

Registration of interest

To register your interest in SEQ retail electricity market monitoring subscribe to the QCA's electricity alerts at www.qca.org.au/subscribe.

Contacts

Enquiries regarding this project should be directed to:

Attention: Shannon Murphy

Contact: www.qca.org.au/Contact-us

1 INTRODUCTION

1.1 Electricity market monitoring in SEQ

The Queensland Government has removed retail electricity price regulation for residential and small business customers in the Energex distribution area – covering south east Queensland (SEQ) – from 1 July 2016.¹ The Government's amendments to the *Electricity Act 1994* (Qld) (the Electricity Act) also introduced 'market monitoring' and 'competition review' functions to ensure customers have the opportunity to benefit from price deregulation in SEQ.²

The QCA's market monitoring report will provide information on prices, the frequency with which customers change retailer, and a number of additional matters concerning the operation of the SEQ retail electricity market for residential and small business customers during 2016–17. This will increase customers' awareness of prices in SEQ's retail electricity market and assist with their decision-making. The report will not draw conclusions about the effectiveness of competition in the SEQ retail electricity market, nor will it report on costs to supply electricity in SEQ. We consider this approach is consistent with the Government's policy intent outlined in the Minister's Direction (the Direction) and the explanatory notes to the Electricity Competition and Protection Legislation Amendment Bill 2014.³

For analysis of the state of retail electricity competition in Queensland, stakeholders may wish to refer to the Australian Energy Market Commission's annual retail electricity competition reports.⁴ Also, the Australian Energy Regulator publishes a range of information on electricity retailers' performance and electricity supply costs.⁵

1.2 Scoping paper

This scoping paper is the first stage of the QCA's 2016–17 market monitoring project. The purposes of the paper are to:

- set out the QCA's interpretation of the Direction
- indicate the type of information we intend to present in the market monitoring report
- indicate the type of information we will need to collect to complete the report
- indicate our timeframes for the project.

The scoping paper contains a number of 'consultation questions', which we invite stakeholders to comment on. The questions mostly relate to the extent to which the proposed methodology and data requirements will fulfil the requirements of the Direction. We also invite stakeholders to comment on other issues relevant to the Direction. We will publish submissions on this paper that are not confidential (in part or whole) on our website.

¹ ECPLA Act, part 3; ECPLA Act Proclamation; ECPLA (Postponement) Regulation; Electricity Act, section 89B.

² Electricity Act, sections 89B and 89D; ECPLA Bill explanatory notes, page 2. The Electricity Act, the ECPLA Act, proclamation and postponement regulation, and the ECPLA Bill and explanatory notes, can be accessed on the OQPC (<https://www.legislation.qld.gov.au/OQPChome.htm>) or Lawlex (<https://lawlex.com.au/>) websites.

³ ECPLA Bill explanatory notes, page 2.

⁴ The AEMC reports can be accessed on the AEMC's website (<http://www.aemc.gov.au/>).

⁵ AER reports can be accessed on the AER's website (www.aer.gov.au).

Throughout this paper we refer to retail electricity price/market monitoring arrangements in New South Wales, Victoria and South Australia. These states participate in the National Electricity Market (NEM) and have implemented arrangements that can inform our monitoring of SEQ's retail electricity market. We have not referred in any detail to Tasmania and the Australian Capital Territory – the other jurisdictions participating in the NEM – as retail electricity competition is not effective in these jurisdictions⁶ and they retain price regulation⁷.

The scoping paper has been written prior to our collection of any data. While we are making our best efforts to anticipate the issues the market monitoring report will address and explain how we will report on them, other issues may arise as we analyse the data and other information before October 2017. Also, developments in the market between now and the end of 2016–17 may influence our market monitoring report. Therefore, we are not constrained from reporting in a different way to what we outline in this paper if we consider the Direction would be best addressed in a different way.

⁶ AEMC 2016, sections 4.4 (ACT) and 4.7 (Tasmania).

⁷ For information on price regulation in the ACT see the electricity page on the ICRC website (<http://www.icrc.act.gov.au/energy/electricity/>). For information on price regulation in Tasmania see the retail electricity pricing page on the OTTER website. (<http://www.economicregulator.tas.gov.au/domino/otter.nsf/elect-v/006>).

2 PRICES, DISCOUNTS, FEES, CHARGES AND TRENDS

This chapter relates to:

- (a) *retailers' standing offer prices and generally available market offer prices (published on the AER's Energy Made Easy website), including fixed and variable charges which were available to customers on a quarterly basis in 2016–17.⁸*
- (b) *variations to retailers' generally available market offer prices, including fixed and variable charges available to customers in 2016–17.*
- (c) *the types of discounts, savings and benefits generally available to customers in 2016–17.*
- (d) *retailers' fees and charges regarding the sale of electricity to customers in 2016–17.*
- (e) *trends in retailers' standing offer and generally available market offer prices available in 2015–16 and 2016–17.*

2.1 Background

In September 2016, we identified the retailers shown in Table 1 below as providing offers to SEQ's residential and small business customers.

Table 1 Retailers servicing SEQ's residential and small business customers – September 2016

| <i>Retailer</i> | <i>Residential</i> | <i>Small business</i> |
|---------------------------------|--------------------|-----------------------|
| AGL Sales Pty Ltd | ✓ | ✓ |
| Click Energy Pty Ltd | ✓ | ✓ |
| Diamond Energy Pty Ltd | ✓ | ✓ |
| Dodo Power & Gas ^(a) | ✓ | — |
| EnergyAustralia Pty Ltd | ✓ | ✓ |
| ERM Power Retail Pty Ltd | — | ✓ |
| Lumo Energy (Qld) Pty Ltd | ✓ | ✓ |
| Momentum Energy Pty Ltd | ✓ | ✓ |
| Mojo Power Pty Ltd | ✓ | — |
| Origin Energy Retail Ltd | ✓ | ✓ |
| Powerdirect Pty Ltd | ✓ | ✓ |
| QEnergy Limited | ✓ | ✓ |
| Sanctuary Energy Pty Ltd | ✓ | — |
| Simply Energy ^(b) | ✓ | ✓ |
| Urth Energy Pty Ltd | ✓ | ✓ |

Source: Energy Made Easy.

⁸ Energy Made Easy website (<https://www.energymadeeasy.gov.au/>).

Notes: (a) the applicant for Dodo Power and Gas's electricity authorisation is M2 Energy Pty Ltd; (b) the applicant for Simply Energy's authorisation is IPower Pty Ltd. For more information on authorisations see the AER's public register of authorised retailers on the retail markets section of the AER's website (<https://www.aer.gov.au/>). Next Business Energy Pty Ltd also had residential and small business offers showing in Energy Made Easy in September 2016. We have excluded Next Business Energy from Table 1 as the company advised us – as part of our compliance program (see section 6.2 of this paper) – that it has no residential or small business customers in Queensland. We will update the list of retailers for the market monitoring report.

2.1.1 Types of contracts/offers

Electricity retailers operating in SEQ are required to provide customer retail services to small customers either under a standard retail contract or market retail contract.⁹

Small customers are residential customers or business customers who consume less than 100 megawatt hours of electricity per annum.¹⁰

Standing offers

Standing offers are basic offers with terms and conditions that are specified by the National Energy Retail Rules (NERR).¹¹ While the standing offer is the default offer that a retailer provides to customers who have not accepted a market offer, the standing offer may also apply where a customer:

- has moved into a new premises and started consuming electricity without contacting a retailer
- has been transferred to a retailer of last resort as a result of the failure of their retailer
- has not signed a new market contract when their existing market contract ended.¹²

In SEQ, where prices have been deregulated, standing offer prices are set by retailers.¹³ Standing offer prices are generally higher than market offer prices. For the first year of deregulation, retailers are not allowed to vary their standing offer prices, unless the variation is to reduce the price.¹⁴

As at 31 March 2016, around 27 per cent of small customers in SEQ were supplied under a standing offer.¹⁵ The Australian Energy Market Commission (AEMC) reported in June 2015 that, in SEQ:

- customers living in the west and south-west areas were more likely to be on standing offers than those living near the seaboard
- areas with an older median population were more likely to have a higher proportion of customers on standing offers
- areas with lower median rents and a lower proportion of the population employed were more likely to have a higher proportion of customers on standing offers.¹⁶

⁹ National Energy Retail Law, section 20.

¹⁰ National Energy Retail Law, section 5; National Energy Retail Regulations, section 7.

¹¹ National Energy Retail Rules, rule 12 and schedule 1.

¹² National Energy Retail Rules, rule 54; National Energy Retail Law, section 145(4).

¹³ In regional Queensland, standing offer prices are the notified prices that are decided under the Electricity Act, section 90(1).

¹⁴ National Energy Retail Law, section 23(9), as per section 16 of the schedule to the Queensland NERL Act.

¹⁵ Unpublished information provided by the AER.

¹⁶ AEMC 2015a, page 57.

Market offers

Market offers contain a minimum set of terms and conditions that are specified in the NERR, and other terms that are agreed between the retailer and the small customer.¹⁷ These offers may be generally available or offered only to specific customers and may either have a fixed term or an ongoing term ('evergreen' contracts). Some retailers may also provide offers that have a fixed benefit period (e.g. a discount might apply for a period that is less than the term of the contract). Prices under market offers are set by the retailer. Retailers can also differentiate their market offers through:

- different types of discounts; conditional discounts only apply where a customer satisfies certain requirements or conditions, such as paying bills on time. Non-conditional discounts do not require a particular action or behaviour to be performed by the customer; this type of discount is guaranteed
- benefits such as frequent flyer points and gift cards
- cash rebates
- fees (e.g. payment processing¹⁸, late payment or early termination¹⁹ fees)
- more innovative and tailored offers that match customers' needs and preferences (e.g. fixed price plans or plans that provide customers the option to support renewable or environmentally-friendly sources of electricity generation through programs such as GreenPower²⁰ for an additional charge).

2.1.2 Disclosure of standing and market offer prices (Energy Made Easy)

SEQ's electricity retailers are required to present standing and market offer prices in accordance with the Australian Energy Regulator's (AER) Retail Pricing Information Guidelines.²¹ The AER has developed a 'price comparator' and made it available on a website to assist small customers to compare available standing and market offers.²² The AER's price comparator is the Energy Made Easy website.²³

2.1.3 Prices, fees and charges included in a retail electricity contract

The bill that a customer pays under an electricity offer consists of fixed and variable charges, and other fees and charges.

Fixed and variable charges

Tariff structures typically include fixed and variable charges.

¹⁷ National Energy Retail Rules, rule 14.

¹⁸ The Competition and Consumer Act, part IVC, may prevent retailers from levying excessive payment processing fees on customers.

¹⁹ An early termination fee must be a reasonable estimate of the retailer's costs resulting from early termination, and the manner of calculating the fee must be detailed in the contract (National Energy Retail Rules, rule 49A).

²⁰ GreenPower is a voluntary government accredited program that enables a retailer to purchase renewable energy on the customer's behalf.

²¹ National Energy Retail Law, section 24.

²² National Energy Retail Law, section 62.

²³ Energy Made Easy website (<https://www.energymadeeasy.gov.au/>).

- The fixed (daily supply) charge is a fixed amount charged daily to cover the costs of maintaining electricity supply to a premises, including the costs associated with the provision of equipment (i.e. poles and wires) and general administration. Some SEQ retailers may also include metering charges levied by Energex or a meter service provider under this component.
- The variable (usage) charge(s) vary with a customer's consumption. They may include time-of-use charges which have different prices depending on when customers use electricity. They have a 'peak' (higher cost) period and 'off-peak' (lower cost) period.

Other retail fees and charges

Electricity offers can also include a number of additional fees levied by retailers for customer retail services (e.g. account establishment fees, payment processing fees and late payment fees).

Retailers also pass certain fees/charges levied by distributors (distribution non-network charges) through to customers. This includes metering charges, reconnection fees, special meter reading fees and meter inspection fees.²⁴

2.1.4 Types of tariffs

Prior to deregulation of the retail electricity market in SEQ, retail offers were based on retail tariffs determined by the QCA under the network (N) plus retail (R) cost build-up methodology.²⁵ The most common retail tariff for residential customers was tariff 11 (flat rate – customers pay the same rate for each unit of electricity consumed plus a fixed daily charge). However, many customers on tariff 11 were also on one of the 'off-peak' or 'controlled load' tariffs – tariffs 31 and 33 – for uses such as water heating and pool pumps.²⁶ The most common retail tariff for small business customers was tariff 20 (flat rate).²⁷

Since prices were deregulated in SEQ, retail tariffs have been set by retailers in line with their business models and customer preferences. However, we expect that in 2016–17 retailers will generally offer similar tariffs to those applicable prior to deregulation, but may name their tariffs differently (e.g. flat rate tariff, controlled load tariff, time-of-use tariff etc.).

2.2 Other states

Other states that have deregulated retail electricity prices have undertaken price and/or market reporting in one way or another.

2.2.1 New South Wales

Following the deregulation of retail electricity prices in New South Wales (NSW) in July 2014, the Independent Pricing and Regulatory Tribunal (IPART) was given the role of monitoring the performance and competitiveness of the retail electricity market in NSW for small customers each year.²⁸

²⁴ For more information, see Energex 2016 and the Electricity Regulation, section 226 and schedule 8.

²⁵ QCA 2016, chapter 3.

²⁶ QCA 2016, chapter 8. Controlled load is electricity supplied to specific appliances which are often separately metered. A controlled load tariff is generally a lower rate as these appliances operate during off-peak hours (usually overnight).

²⁷ QCA 2016, chapter 8.

²⁸ NSW NERL Act, section 234A; NSW NERL Regulation, clause 8A.

Assessment of standing and market offers

To assess whether price movements in 2014–15 and 2015–16 (draft report) were consistent with a competitive market, IPART:

- (1) measured price changes over the 12-month period
- (2) collected and analysed data on changes in the main underlying costs of supplying electricity
- (3) made observations of / assessed how changes in the underlying costs affected the general direction of price movements.²⁹

Of these, item (1) is relevant to the Minister's Direction (the Direction) and therefore this paper.

To measure price changes, IPART requested quarterly pricing information from retailers for flat-rate residential and small business tariffs. This included their standing offer prices, most common market offer prices by number of customers and their lowest generally available market offer prices. IPART then adopted an 'annual bill outcome' approach using annualised quarterly consumption and pricing information for a typical residential and small business customer. The annual bill calculations also accounted for all conditional and non-conditional price discounts (e.g. pay on-time and direct debit discounts).³⁰

Assessment of retailers' fees and charges

In its 2014–15 report, IPART assessed the range of early termination fees across retailers' single-rate residential market offers in Essential Energy's network area using information from Energy Made Easy.³¹ In its 2015–16 (draft) report, IPART surveyed the range of early termination fees in market offers in each of the three NSW network areas (Ausgrid, Endeavour Energy and Essential Energy).³² The reports presented a table summarising the number of offers with early termination fees in market offers.³³

2.2.2 Victoria

In Victoria, the Essential Services Commission (ESC) reports annually on retailers' published standing and generally available market offers, including standing and market offer price trends and other features of the competitive market.³⁴

Below is a snapshot of the ESC's price monitoring approach in its 2013–14 energy retailers comparative pricing report.³⁵ We have not referenced the ESC's 2014–15 report in this section of the scoping paper as the 2014–15 report mainly focused on new market offers – to reflect the maturity of the Victorian electricity retail market³⁶ – rather than on both standing and market offers relevant to a newly deregulated market such as SEQ.

²⁹ IPART 2015, chapter 6; IPART 2016, chapter 6.

³⁰ IPART 2015, chapter 6; IPART 2016, chapter 6.

³¹ IPART 2015, chapter 7.

³² IPART 2016, sections 3.1 and 8.5.2.

³³ IPART 2015, section 7.5.3 (table 7.1); IPART 2016, section 8.5.2 (table 8.1).

³⁴ Electricity Industry Act (Victoria), section 39A.

³⁵ ESC 2014.

³⁶ ESC 2016a, executive summary.

Assessment of standing and market offers

The ESC's assessment of retailers' published standing offer and generally available market offer prices was based on pricing data extracted from the Victorian price comparison website ('My Power Planner'³⁷) on 30 June 2014.³⁸

The ESC adopted an 'annual bill outcome' approach to assess price movements for the relevant tariff year. Simple averages of standing offer and market offer prices across all retailers, for the single-rate, single-rate + controlled load and time-of-use residential and small business tariffs were also reported.³⁹

Unlike reports for NSW and South Australia (see section 2.2.3 below), Victoria's report also included an assessment of residential electricity supply charges that were attached to retailers' cheapest market offers in each year since deregulation.⁴⁰

Assessment of retailers' fees and charges

The ESC did not undertake an assessment of retailers' fees and charges relating to the sale of electricity to customers in 2013–14 or 2014–15.

2.2.3 South Australia

In South Australia, the Essential Services Commission of South Australia (ESCOSA) publishes annual reports comparing electricity retail prices for residential and small business customers.⁴¹

In its 2014–15 pricing report, ESCOSA reported on:

- the range of standing offer and market offer prices generally available to small customers
- the difference between the average standing offer and market offer prices generally available to small customers.⁴²

ESCOSA was not required to analyse movements in the underlying costs of supplying electricity, or to provide a comparison and assessment of retailers' fees and charges in the reporting period.

Assessment of standing and market offers

ESCOSA's assessment of retailers' published standing offer and generally available market offer prices was based on pricing data from Energy Made Easy on, or near to, the last business day of each quarter. This information was also supplemented or confirmed with pricing information obtained directly from retailers or from retailers' websites.⁴³

ESCOSA then adopted an 'annual bill outcome' approach to monitor and assess prices. Annual bills were calculated for single-rate tariffs using the annual average consumption profiles of a typical residential and small business customer. Annual bills for controlled load tariffs and solar feed-in tariffs were reported separately in the appendix of the report. The consumption thresholds have been maintained in each of ESCOSA's three annual pricing reports (2012–13 to

³⁷ In October 2015, My Power Planner was replaced by the Victorian Energy Compare website (ESC 2016a, page 2).

³⁸ ESC 2014, chapter 2.

³⁹ ESC 2014, chapter 2.

⁴⁰ ESC 2014, chapter 2.

⁴¹ Electricity Regulations (SA), section 12(1).

⁴² ESCOSA 2015, chapter 1.

⁴³ ESCOSA 2015, Annexure B.

2014–15) so that movements in annual bills can be isolated to price movements and not to changes in energy usage.⁴⁴

ESCOSA also provided a comparison and assessment of annual bills for each retailer's standing offers, lowest-priced market offer and highest priced market offer. ESCOSA also reported a simple average of annual bills for each retailer's market offers as well as the overall/retailer-wide simple averages of annual bills for standing offers, market offers, lowest priced market offer and highest priced market offer for the relevant year.⁴⁵

2.3 Proposed methodology

Sections 2(a) to (e) of the Direction require the QCA to provide a comparison and assessment of:

- (a) retailers' standing offer prices and generally available market offer prices which were available to customers in 2016–17 (on a quarterly basis). Where relevant, the QCA should also provide a comparison of the lowest, highest and average prices for each retailer
- (b) variations to those generally available market offer prices in 2016–17
- (c) the types of discounts, savings and benefits generally available to customers
- (d) retailers' fees and charges relating to the sale of electricity to customers in 2016–17
- (e) any trends in relation to retailers' standing offer prices and generally available market offer prices available to customers in 2015–16 and 2016–17.

2.3.1 Standing and market offer pricing information (section 2(a)) and variations to generally available market offer prices (section 2(b))

This sub-section addresses the two parts of section 2(a), and section 2(b), of the Direction.

Comparison and assessment of retailers' standing and market offer prices

We propose to obtain information on each SEQ retailer's published standing and generally available market offer prices (including fixed and variable charges) for the most common residential and small business tariffs from Energy Made Easy for the last day of each quarter in 2016–17. We expect the most common tariffs to be:

- flat rate, controlled load (super economy) and controlled load (economy) for residential customers
- flat rate and time-of-use for small business customers.

For accuracy, we may also cross-check some or all of the extracted information with information from individual retailers' websites.

Given that standing and market offers may contain different types of charges (as noted in section 2.1.3 of this paper), we consider that presenting prices as an annual bill for a median consumption level customer ('typical SEQ customer') would provide the most meaningful comparison between individual price components. The QCA will source consumption information from Energex.⁴⁶ This approach is consistent with the 'annual bill outcome' approach that has been adopted for

⁴⁴ ESCOSA 2015, chapter 1.

⁴⁵ ESCOSA 2015, chapter 2.

⁴⁶ In the QCA's 2016–17 price determination, the QCA applied typical annual usage levels of 3,860 kWh and 6,470 kWh for residential and small business flat rate tariffs respectively, which were Energex's advised medians for consumption in 2014–15 (QCA 2016, chapter 6).

reporting in other states (see section 2.2 of this paper) and by consumer groups such as the St Vincent de Paul Society in its annual pricing analysis of electricity retail offers⁴⁷.

As our analysis would likely result in a larger dataset than could be feasibly presented in the main body of the market monitoring report, we propose to present the full data set as a separate downloadable spreadsheet (on our website) for stakeholders' benefit.

Retailers' lowest, highest and average market offer prices

As noted above, we consider the most effective approach would be to present prices as annual bills for a typical SEQ customer.

We see the relevance in reporting on retailers' lowest and highest market offer prices (in terms of estimated annual bills). Reporting on averages can be useful/relevant when dealing with large data sets – as will be the case for this project – as it allows the data to be usefully summarised for the purposes of reporting and analysis. However, average price information has some shortcomings, given that average prices do not correspond to actual prices in the market, and many offers are not directly comparable.

The Direction does not specify the method the QCA should use to calculate average market offer prices for each retailer. We believe the simplest and most practical approach would be to apply a simple (unweighted) average of the annual bill estimates of each retailer's portfolio of relevant offers. We propose to follow the same approach for estimating the overall/SEQ retailer-wide averages for each quarter of 2016–17.

We consider weighted averages to be unsuitable for this exercise as it could impose a material regulatory burden on retailers as the QCA would need to obtain extensive data through the information notice process (see chapter 7 of this paper). The information we would need could include certain confidential data such as the number of customers on each standing and generally available market offer, for each of the most common residential and small business tariffs, for each quarter of 2016–17. The regulatory burden on retailers of undertaking such a data intensive exercise may discourage new retailers from entering or remaining in the SEQ retail market, and/or disproportionately burden smaller retailers relative to larger retailers. Compliance costs of meeting a data request of this nature would likely be passed on to customers in terms of higher retail electricity prices. For these reasons, we do not propose calculating weighted average prices, particularly when average prices do not actually correspond to actual prices in the market (as stated above).

We anticipate the analysis of each retailer's lowest, highest and simple averages of market offer prices (in terms of estimated annual bills), for each of the most common residential and small business tariffs for each quarter of 2016–17 will result in a larger dataset than could be feasibly presented in the main body of the market monitoring report. Therefore, to provide a useful level of detail, we propose to include a summary table detailing typical SEQ customer annual bills for each retailer's lowest, highest and simple averages of market offer prices for each of the most common residential and small business tariffs for each quarter of 2016–17 in an appendix of the report (see Table 2 below for an example).

⁴⁷ St Vincent de Paul 2016.

Table 2 Typical SEQ customer annual bills for quarters 1 and 2 (flat rate residential tariff)

| Retailer | Quarter 1: 30 September 2016 | | | | Quarter 2: 31 December 2016 | | | |
|-----------------------|-------------------------------------|-----------------------------|----------------------------|-----------------------------|------------------------------------|-----------------------------|----------------------------|-----------------------------|
| | Standing offer | Average market offer | Lowest market offer | Highest market offer | Standing offer | Average market offer | Lowest market offer | Highest market offer |
| Retailer A | x | x | x | x | X | x | x | x |
| Retailer B | x | x | x | x | X | x | x | x |
| Retailer C | x | x | x | x | X | x | x | x |
| Retailer D | x | x | x | x | X | x | x | x |
| Simple average | x | x | x | x | X | x | x | x |

Note: this table is for illustrative purpose only. We would include all retailers in the market monitoring report and report information for each quarter of 2016–17.

We intend to supplement these tables with the full dataset, including fixed and variable charges for each standing and market offers, for each of the most common residential and small business tariffs for the four quarters of 2016–17 as a separate downloadable spreadsheet (on our website) for stakeholders seeking more detail.

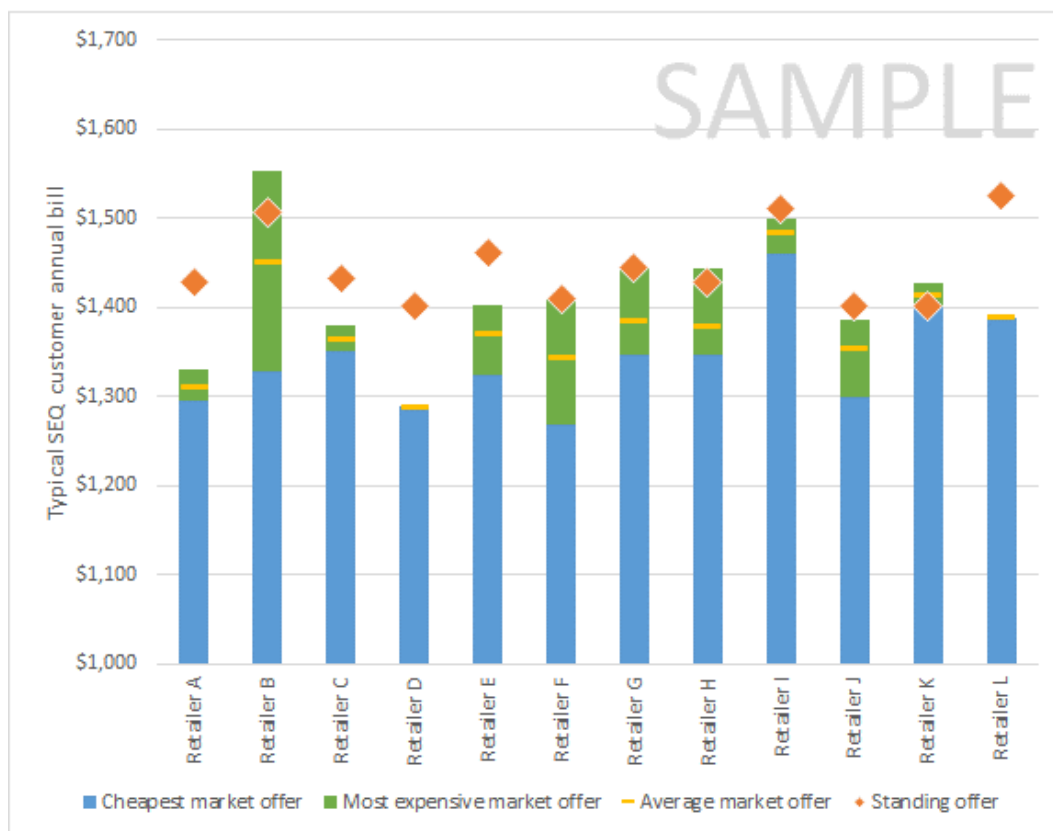
Based on the information presented in Table 2, we propose to include, in the main body of the report, some commentary on:

- which retailer had the cheapest market offer
- which retailer had the most expensive market offer
- the savings that a customer on a standing offer could have received had the customer switched to the same retailer's cheapest market offer
- whether prices were affected by the level of solar feed-in tariffs being offered by retailers.

We also propose show graphical comparisons (in annual bill estimates) between each retailer's standing offer prices against their lowest (cheapest), highest (most expensive) and average market offer prices in the main body of the report. This would be charted using pricing information available for the last day of the final quarter of 2016–17. We intend to present this information for each of the most common residential and small business tariffs (see Figure 1 below).

We may also 'pool' all the data for the four quarters of 2016–17 and select the cheapest market offer for each retailer during the year and identify each retailer's comparable offers available at that time. Stakeholders may find a graphical illustration of this comparison of retailers' offers – in a similar format to Figure 1 below – of particular interest as it would show the widest gap between each retailer's cheapest and most expensive offers at whatever point it occurred during 2016–17.

Figure 1 Standing offers, and lowest, highest and average market offer prices (flat rate residential tariff)



Note: this figure is for illustrative purpose only.

2.3.2 Discounts, savings and benefits (section 2(c))

Section 2(c) of the Direction requires the QCA to compare and assess the types of discounts, savings and benefits generally available to small customers in 2016–17.

As mentioned in section 2.1.1 of this paper, a retailer can vary its market offers via different types of guaranteed and/or conditional discounts, price benefits, non-price incentives (such as 'first month free' electricity offer, vouchers for use in retail stores, magazine subscriptions), or through more innovative and tailored offers that match customers' needs and preferences (e.g. contribution to renewable energy generation (GreenPower options) or fixed priced plans).

The type of discounts or benefits attached to a market offer should be an important consideration for SEQ customers, as these elements can materially affect the customer's quarterly bills. In its submission to the Queensland Productivity Commission's electricity pricing inquiry issues paper, the Queensland Council of Social Service noted the prevalence of certain discounts (e.g. pay on-time discounts) and fees (e.g. late payment fees) could present a risk to customers who may enter into market contracts without a sufficient understanding of these types of conditions or the penalties for not meeting them.⁴⁸ The St Vincent de Paul Society's recent Queensland energy prices report similarly observed that customers can be 'significantly penalised' for late bill

⁴⁸ QCOSS 2015, page 19.

payments through the combined effect of losing conditional discounts and incurring late payment fees.⁴⁹

Consistent with previous sections of this paper, we propose to assess the types of discounts and benefits generally available in retailers' market offers using information from Energy Made Easy for the last business day of each quarter in 2016–17. We intend to provide this information for each of the most common residential and small business tariffs. We would also cross-check some or all of the extracted information with information sourced from individual retailer websites.

As this analysis would likely result in a larger dataset than could be feasibly presented in the main body of the market monitoring report, we may supplement the report with the full dataset as a downloadable spreadsheet (on our website) for stakeholders seeking more detail.

We propose to include the following summary tables in the main body of the market monitoring report:

- the types of conditional discounts attached to generally available market offers along with the number of retailers offering those discounts and the range of discounts offered by retailers (see Table 3)
- the types of guaranteed discounts attached to generally available market offers and the number of retailers that are offering the discounts (see Table 4)
- the types of benefits/incentives attached to generally available market offers and the number of retailers that are offering them (see Table 5).

Table 3 Conditional discounts – 2016–17 (flat rate residential market offers)

| <i>Conditional discounts</i> | <i>Retailers (#)</i> | <i>Range (%) and its application</i> |
|------------------------------|----------------------|--------------------------------------|
| Loyalty discount | 13 | X - XX |
| Pay on time discount | 10 | X - XX |
| Bundling discount | 7 | X - XX |
| Direct debit discount | 5 | X - XX |
| Early bird discount | 2 | X - XX |

Note: this table is for illustrative purpose only; it is not based on actual data. For our report, we intend to include other categories of conditional discounts based on information obtained from Energy Made Easy.

Table 4 Guaranteed/unconditional discounts – 2016–17 (flat rate residential market offers)

| <i>Guaranteed discounts</i> | <i>Retailers (#)</i> |
|-------------------------------|----------------------|
| % off usage charge | 10 |
| % off fixed charge | 5 |
| % off fixed and usage charges | 3 |

Note: this table is for illustrative purpose only; it is not based on actual data. For our report, we intend to include other categories of conditional discounts based on information obtained from Energy Made Easy.

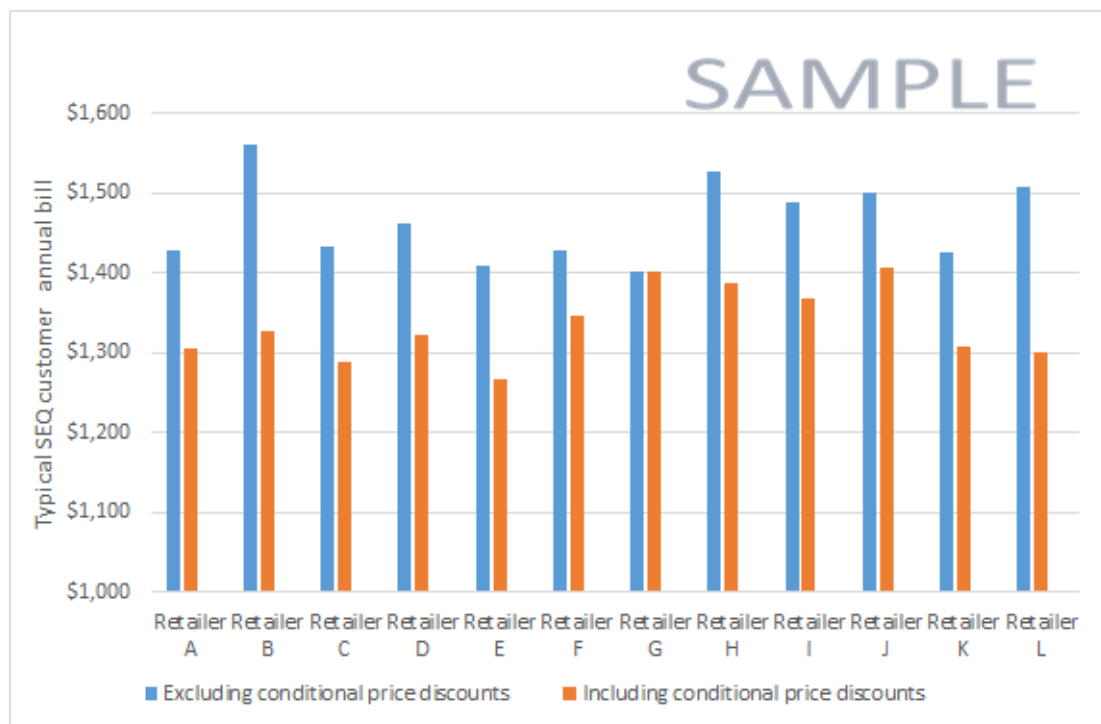
⁴⁹ St Vincent de Paul Society 2016, page 15.

Table 5 Other benefits – 2016–17 (flat rate residential market offers)

| <i>Other benefits</i> | <i>Retailers (#)</i> |
|--|----------------------|
| Option to contribute towards renewable energy generation (e.g. GreenPower options) | 10 |
| Tickets to sporting events | 5 |
| Cinema tickets | 4 |
| Magazine subscriptions | 3 |
| Vouchers for use in retail stores | 2 |
| First month free electricity | 1 |

Note: this table is provided for illustrative purpose only; it is not based on actual data. For our report, we intend to include other categories of conditional discounts based on information obtained from Energy Made Easy.

Further, we propose to include a graphical illustration to show how much a customer could have saved had the customer fulfilled the relevant conditions to receive the price discounts on the retailer's cheapest/best market offer versus not meeting the conditions to receive the price discounts on that same offer (see Figure 2). We intend to present this information using information obtained for the last day of the final quarter of 2016–17 for each of the most common residential and small business tariffs.

Figure 2 Annual bills impacts - excluding and including price discounts – 30 June 2017 (flat rate residential tariff)

Note: this figure is for illustrative purpose only.

2.3.3 Fees and charges (section 2(d))

Section 2(d) of the Direction requires the QCA to include, in the market monitoring report, a comparison and assessment of retailers' fees and charges relating to the sale of electricity to customers in 2016–17.

As noted in section 2.1.3 of this paper, electricity offers can include a number of additional fees or charges levied by retailers for customer retail services (e.g. account establishment fees, payment processing fees and late payment fees).⁵⁰ We also noted that retailers also pass-through to customers certain distribution non-network fees/charges levied by distributors (e.g. disconnection fees, reconnection fees, special meter reading fees and meter inspection fees). However, as the Direction only requires the QCA to provide a comparison and assessment of retailers' fees and charges relating to the sale of electricity to customers in 2016–17, we do not propose to include any assessment of distribution non-network charges in our market monitoring report. We would assess retailers' fees and charges relating to the sale of electricity to customers using information obtained from Energy Made Easy for the last business day of the final quarter of 2016–17 (i.e. 30 June 2017).

This analysis would likely result in a larger dataset than could be feasibly presented in the main body of the market monitoring report. Therefore, we may supplement the report with the full dataset detailing the types of fees (and amounts) levied by each retailer that are attached to their published standing and generally available market offers, for each of the most common residential and small business tariffs, as a separate downloadable spreadsheet (on our website) for stakeholders seeking more detail.

To provide a useful level of detail in the main body of the market monitoring report, we propose to include a summary table detailing the type of fees levied by retailers for customer retail services and their corresponding ranges for the last business day of the final quarter of 2016–17 (i.e. 30 June 2017). We propose to provide this information for each of the common residential and small business tariffs (see Table 6).

Table 6 Fees attached to market offers – 30 June 2017 (flat rate residential tariffs)

| <i>Retailer</i> | <i>Types of retail fees (\$)</i> | | | | |
|-----------------|----------------------------------|--------------------------------------|------------------|--------------------------|--------------------------------|
| | Account establishment fee | Annual fees / membership fees | Exit fees | Late payment fees | Payment processing fees |
| Retailer A | \$X - \$XX | \$X - \$XX | \$X - \$XX | \$X - \$XX | \$X - \$XX |
| Retailer B | \$X - \$XX | \$X - \$XX | \$X - \$XX | \$X - \$XX | \$X - \$XX |
| Retailer C | \$X - \$XX | \$X - \$XX | \$X - \$XX | \$X - \$XX | \$X - \$XX |
| Retailer D | \$X - \$XX | \$X - \$XX | \$X - \$XX | \$X - \$XX | \$X - \$XX |

Notes: this table is for illustrative purpose only. We would include all retailers in the market monitoring report.

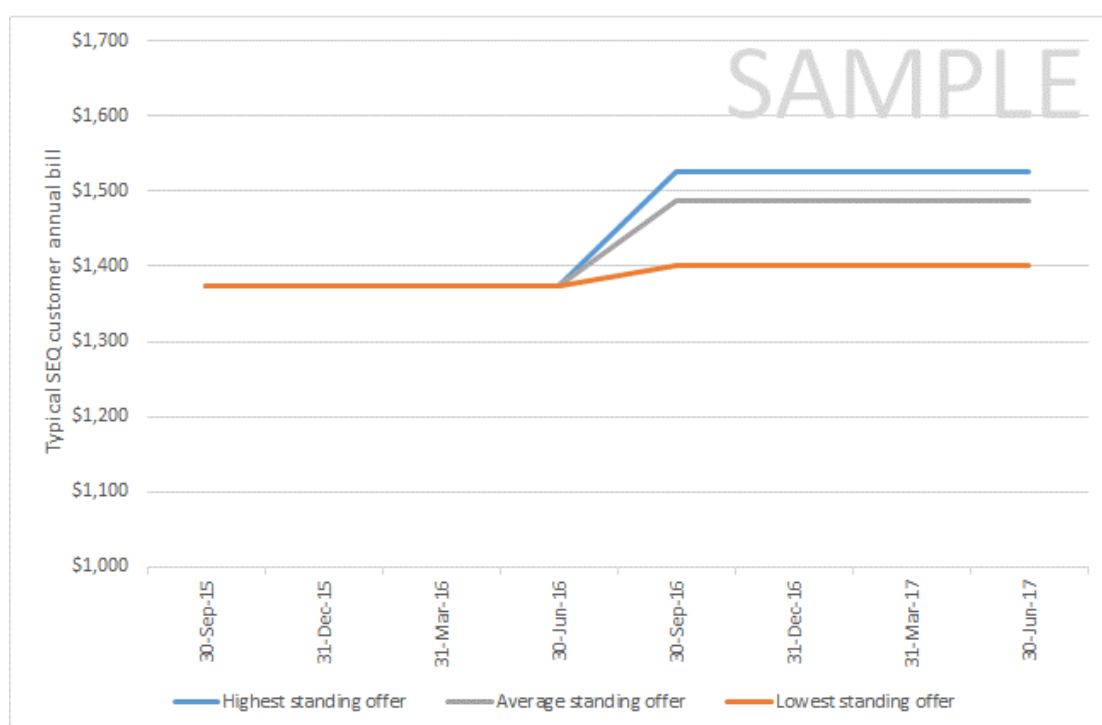
⁵⁰ Section 22A of the National Energy Retail Law, as per section 15 of the schedule to the Queensland NERL Act, restricts retailers to levying only the fee and charge types which applied to notified price customers in 2015–16. These are set out on page 190 of the Queensland Government Gazette published on 18 June 2015. See chapter 6 of this paper for further information.

2.3.4 Trends in standing and market offer prices (section 2(e))

Section 2(e) of the Direction requires the QCA to report on trends in relation to retailers' standing offer prices and generally available market offer prices between 2015–16 and 2016–17.

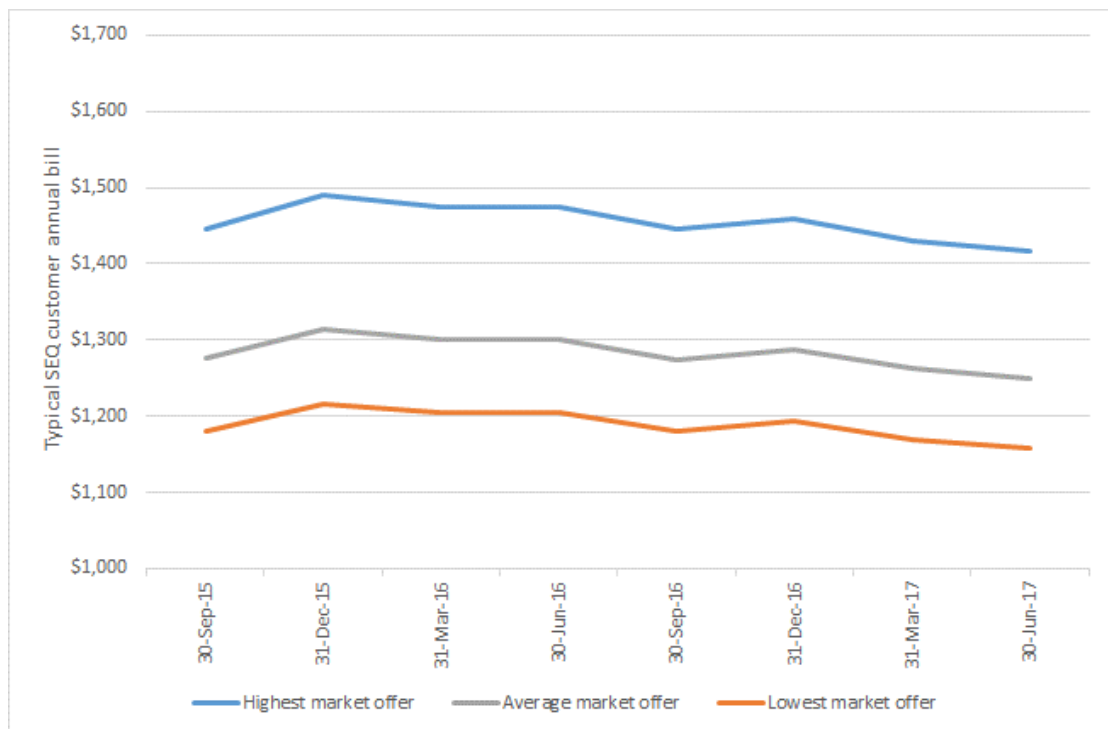
We propose to report on this requirement using the information provided under section 2(a) of the Direction for 2016–17 and pricing data obtained from Energy Made Easy for 2015–16. Consistent with the previous sections of this paper, we propose to provide this information for each of the most common residential and small business tariffs; see Figure 3 for the trends in standing offer prices and Figure 4 for the trends in market offer prices. As part of this exercise, we would also note any outliers.

Figure 3 Trends in standing offer annual bills – 2015–16 and 2016–17 (flat rate residential tariff)



Note: this figure is for illustrative purpose.

Figure 4 Trends in market offer annual bills – 2015–16 and 2016–17 (flat rate residential tariff)



Note: this figure is for illustrative purpose.

2.4 Consultation questions

The QCA invites stakeholders to comment on the consultation questions below.

Consultation questions

- (1) Will the proposed methodologies allow the QCA to report on prices, discounts, fees, charges and trends as per sections 2(a)–(e) of the Minister's Direction? If not, what changes would need to be made to do so?
- (2) Will full downloadable datasets on the QCA's website be useful supplements to the market monitoring report?

3 SWITCHING TO MARKET OFFERS

This chapter relates to customers moving from standing to market offers in 2016–17.

3.1 Background

Standing offers are basic contracts with terms and conditions that are set under the National Energy Retail Rules and cannot be varied by the retailer.⁵¹ They provide the full suite of protections to customers and do not have a fixed contract term. Market offers retain minimum terms and conditions, but conditions such as payment options, fees, can be varied and these contracts may include a fixed term or benefit period.⁵² See section 2.1.1 of this paper for more information on standing and market offers.

Standing offer prices are generally higher than market offer prices, reflecting to some extent the difference in terms and conditions between the two types of contract, and their impact on retailer costs. Despite the generally higher prices, some customers opt to remain on standing offers. This may be because customers value greater customer protections in standing offers. Customers who are not price-sensitive may also prefer the simplicity of standing offers to the (relative) complexity of market offers.

Generally, an increase in customers moving from standing to market offers would indicate an increase in the number of customers actively engaging in the competitive market. However, the data reported in the market monitoring report under this part of the Minister's Direction (the Direction) will understate the overall number of standing offer customers switching to market offers in the SEQ market. This is because when a customer on a standing offer transfers to a market offer with a *new* retailer, the new retailer does not have any record of the type of contract the customer was on with their previous retailer. As such it will not be possible for the QCA to capture data on customers who switch from a standing offer with one retailer to a market offer with a different retailer.

We consider it will therefore be difficult for stakeholders to draw conclusions about the state of competition in SEQ based on this measure alone given the inability to capture data on all customers switching to market offers and the preference of an unquantified number of customers to remain on standing offers.

3.2 Other states

The Australian Energy Regulator (AER) reports on the percentage of electricity customers that switched over the preceding five years as part of its annual report on the performance of the retail energy market.⁵³ The AER does not report on the rate of customers switching between standing offer and market offers with the same retailer.

None of the Independent Pricing and Regulatory Tribunal (IPART) in New South Wales (NSW), the Essential Services Commission (ESC) in Victoria or the Essential Services Commission of South Australia (ESCOSA) report on customer switching between standing offer and market offers in the way specified by section 2(f) of the Direction.

⁵¹ National Energy Retail Rules, rule 12 and schedule 1.

⁵² National Energy Retail Rules, rule 14.

⁵³ See AER 2015b, section 1.3.

3.3 Proposed methodology

Section 2(f) of the Direction requires the QCA to include in the market monitoring report:

- a comparison and assessment of the number of customers who moved from a standing offer to a market offer with a retailer in 2016–17, and
- information on the following characteristics of those customers:
 - their location
 - their electricity consumption
 - whether they were participating in a retailer hardship program or received an energy concession
 - whether they had an electricity debt.

3.3.1 Customer location (section 2(f)(i))

Section 2f(i) of the Direction requires the QCA to report on the location of customers who switched from a standing offer to a market offer with their existing retailer during the reporting period. The Direction does not define 'location' or the level of detail which the QCA should include on location in its report.

We believe the most accurate, and simplest, way for retailers to identify the location of customers switching from standing offers to market offers is to reference the postcode of the premises being supplied. This would likely result in a larger dataset being provided by retailers than could be feasibly presented in the main body of the market monitoring report. In order to present a useful level of detail in the main report while not limiting data available to stakeholders we intend to present data for the top 10 postcodes in the report (see Table 7 for a sample), and may provide a full list of figures for all postcodes in an appendix to the market monitoring report. We would examine the data and provide commentary on any notable geographical patterns present in the data collected from retailers.

Table 7 Top 10 postcodes for switching

| <i>Postcode</i> | <i>Postcode location</i> | <i>Number of customers switching</i> |
|-----------------|--------------------------|--------------------------------------|
| 4001 | Suburb(s) | 100 |
| 4002 | Suburb(s) | 90 |
| 4003 | Suburb(s) | 80 |
| 4004 | Suburb(s) | 70 |
| 4005 | Suburb(s) | 60 |
| 4006 | Suburb(s) | 50 |
| 4007 | Suburb(s) | 40 |
| 4008 | Suburb(s) | 30 |
| 4009 | Suburb(s) | 20 |
| 4010 | Suburb(s) | 10 |

Note: this table is for illustrative purpose only; it is not based on actual data.

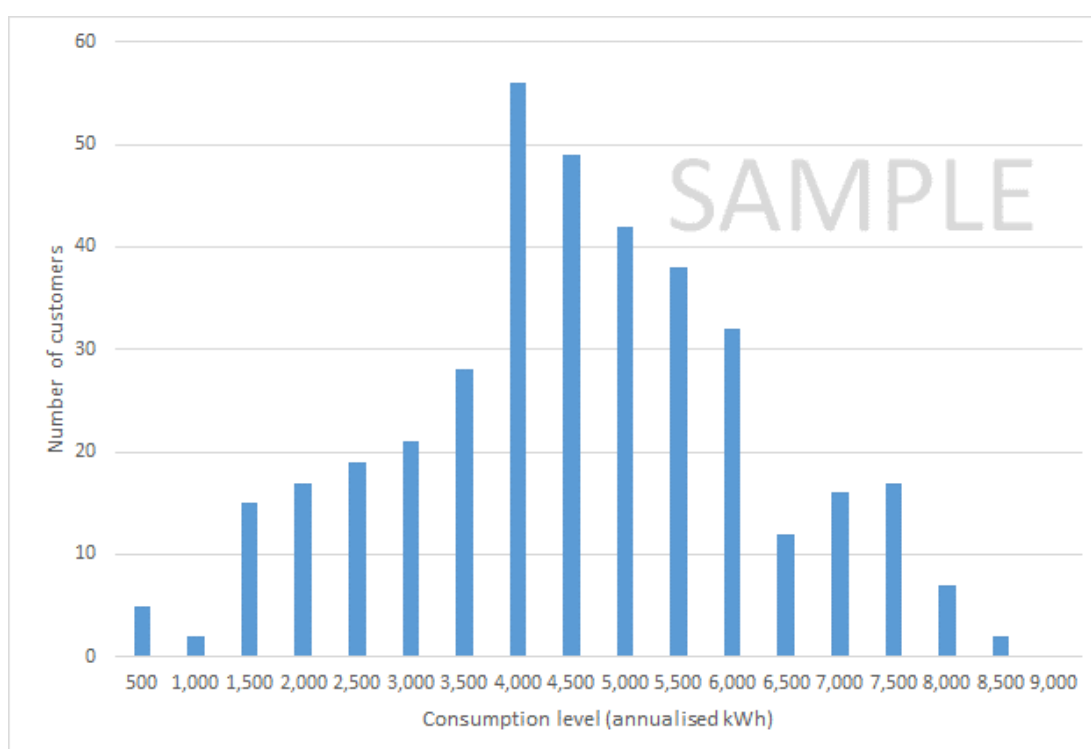
We would also report on areas of low switching.

3.3.2 Customer electricity consumption (section 2(f)(ii))

Section 2(f)(ii) of the Direction requires the QCA to report on the electricity consumption of customers switching from a standing offer to a market offer with their existing retailer during 2016–17. Total consumption data for these customers (including supply from other tariffs, such as controlled load) would need to be obtained from retailers, who we anticipate would be able to provide 2016–17 consumption data for each of their customers who switched from a standing offer to a market offer.

We consider that consumption data should be presented on an annual basis to provide comparability with the rest of the market monitoring report consumption data. Consumption data that does not cover the entire 2016–17 reporting period would be annualised. The QCA would present consumption data in 500 kilowatt hour (kWh) bands, with charts showing the number of customers in each consumption band (see Figure 5).

Figure 5 Number of customers switching from standing offers to market offers – 2016–17



Note: this figure is for illustrative purpose only.

3.3.3 Customers participating in a retailer hardship program or receiving an energy concession (section 2(f)(iii))

Section 2(f)(iii) of the Direction requires the QCA to report on the number of customers switching from standing offers to market offers with their retailer who are participating in a retailer

hardship program⁵⁴, or are receiving the Queensland Government's electricity rebate⁵⁵ (the electricity rebate).

Using information provided by SEQ's electricity retailers, we would report on the number of customers participating in these programs. However, it is possible for customers to participate in a hardship program while simultaneously receiving the electricity rebate. In order to avoid overstating the overall number of customers on these programs we would also request, and report on, data on these customers in the market monitoring report.

In order to provide a sufficient level of detail for the market monitoring report we intend to present overall data for these measures in the main body of the report (see Table 8), and may provide a full listing of data by retailer in an appendix for stakeholders seeking more detail.

Table 8 Switching customers in hardship program, receiving a concession or both

| <i>Number of customers in a hardship program</i> | <i>Number of customers receiving the electricity rebate</i> | <i>Number of customers in a hardship program and receiving the electricity rebate</i> |
|--|---|---|
| X | X | X |

Note: this table is for illustrative purpose only.

3.3.4 Customers with electricity debt (section 2(f)(iv))

Section 2(f)(iv) of the Direction requires the QCA to report on the number of customers switching from standing offers to market offers who had an electricity debt. The Direction does not define the term 'electricity debt'. However, the AER's 2014–15 retail energy market performance report defined electricity debt as 'an amount owed to a retailer that has been outstanding for 90 days or more'.⁵⁶ In the interest of consistency with figures published by the AER, as well as reducing the regulatory burden on retailers, we intend to require retailers to use the same definition when reporting numbers of hardship customers under section 2(f)(iv) of the Direction.

3.4 Proposed data requirements

In order to report data as required by section 2(f) of the Direction we anticipate that retailers should supply us with the following information:

- the number of customers who switched from a standing offer to a market offer during 2016–17
- the location (by postcode) of customers who switched

⁵⁴ Hardship programs are formal assistance programs which aim to provide assistance to residential customers experiencing financial difficulty. SEQ retailers must implement a customer hardship policy which aims to identify residential customers experiencing payment difficulties due to hardship and to assist those customers to better manage their energy bills on an ongoing basis. These policies must be approved by the AER. See the National Energy Retail Law, section 43 and the AER's customer hardship policies webpage (<https://www.aer.gov.au/retail-markets/energy-retailers-customer-hardship-policies>).

⁵⁵ The Queensland Government's electricity rebate is available to customers with a Pensioner Concession Card issued by either Centrelink or Department of Veterans' Affairs, a Department of Veterans' Affairs Gold Card (and recipient of the War Widow Pension or special rate TPI Pension) or a Queensland Government Seniors Card. Details can be found on the DEWS website (<https://www.dews.qld.gov.au/electricity/rebates>).

⁵⁶ AER 2015b, section 2.3 (page 20).

- the electricity consumption of customers who switched, and the number of days over which the electricity was consumed
- the number of customers who switched who were participating in a retailer hardship program, or were receiving the electricity rebate, and the number of customers who were participating in a hardship program and were receiving the electricity rebate.
- the number of customers who switched who, at any time during 2016–17, had an electricity debt which was outstanding for 90 days or more.

This data would be requested in electronic format through a formal information notice under section 89C of the Electricity Act. See chapter 7 of this paper for details of our proposed approach to information notices.

3.5 Consultation question

The QCA invites stakeholders to comment on the consultation question below.

Consultation question

- (3) Will the proposed methodology allow the QCA to report on switching to market offers as per section 2(f) of the Minister's Direction? If not, what changes would need to be made to do so?**

4 HARDSHIP AND CONCESSION CUSTOMERS

This chapter relates to customers participating in a retailer hardship program or receiving the electricity rebate in 2016–17.

4.1 Background

As discussed in section 3.1 of this paper, standing offers are basic contracts with regulated terms and conditions which provide a greater range of protections for customers compared to market offers. Standing offers may be highly suited to customers experiencing financial hardship or customers receiving concessions. However, as discussed in section 2.1.1 of this paper, where customers meet certain conditions, such as paying their bills on time, prices under market offers can result in lower customer bills.

Due to the differences in prices, terms, and conditions – between the multitude of market offers being offered by retailers, and standing offers – it is not clear which type of contract is best suited to customers experiencing financial hardship or who are on a concession. That is, contract suitability will likely depend on the customer's individual circumstances.

4.2 Other states

Three recent reports have been published in other states that addressed hardship issues, although the matters in these reports are different to those the Minister's Direction (the Direction) requires us to address.

In January 2015, the Australian Energy Regulator published its review of energy retailers' customer hardship policies and practices.⁵⁷ The review focused on retailers with residential customers in New South Wales, the Australian Capital Territory, South Australia and Tasmania.⁵⁸ The report utilised qualitative data from an online stakeholder survey and quantitative hardship indicators, including customer debt levels average debt on entry to hardship programs, and figures on the number of hardship program participants.⁵⁹

In Victoria, the Essential Services Commission published an energy hardship inquiry report in February 2016.⁶⁰ The report included information on levels of customer debt as compared with the number of customers being assisted through a payment plan or hardship program.⁶¹

In South Australia, the Essential Services Commission of South Australia recently published its analysis of hardship issues in a review of the operation of the National Energy Retail Law in South Australia.⁶² The report sought to explain whether the adoption of the retail law had resulted in adverse outcomes for South Australian energy customers in terms of hardship and customer service indicators.⁶³

⁵⁷ AER 2015c.

⁵⁸ It is expected that Queensland will be included as part of any future reports owing to the adoption of the National Energy Customer Framework on 1 July 2015.

⁵⁹ AER 2015c, chapter 1.

⁶⁰ ESC 2016b.

⁶¹ ESC 2016b, chapter 2.

⁶² ESCOSA 2016.

⁶³ ESCOSA 2016, chapter 3.

4.3 Proposed methodology

Section 2(g) of the Direction requires the market monitoring report to include a comparison and assessment of customers that were participating in a retailer hardship program or receiving an energy concession in 2016–17. The comparison and assessment is to cover (i) the number of customers on standing and market offers, and (ii) the standing and market offer prices they paid.

We interpret 'energy concession' in section 2(g) of the Direction to have the same meaning as it does in section 2(f)(iii) of the Direction; that is, customers receiving an energy concession are those receiving the Queensland Government's electricity rebate (the electricity rebate).

4.3.1 Number of customers on standing offers and market offers (section 2(g)(i))

Section 2(g)(i) of the Direction requires the QCA to report on the number of customers on standing and market offers that were participating in a retailer hardship program or receiving an energy concession in 2016–17.

We would report on the number of residential customers participating in a hardship program, as well as the number of customers receiving the electricity rebate, and those participating in both programs on standing offers and market offers during 2016–17. This data would be obtained directly from retailers. Table 9 below illustrates how we propose to present this information.

Table 9 Customers in hardship programs and receiving the electricity rebate

| | <i>Number of customers on standing offers</i> | <i>Number of customers on market offers</i> |
|--|---|---|
| Customers in a hardship program only | X | X |
| Customers receiving the electricity rebate only | X | X |
| Customers in a hardship program and receiving the electricity rebate | X | X |

Note: this table is for illustrative purpose only.

4.3.2 Standing offer prices and market offer prices they paid (section 2(g)(ii))

Section 2(g)(ii) of the Direction requires the QCA to report on the standing and market offer prices paid by customers who participated in a retailer hardship program or received an energy concession in 2016–17.

In order to fulfil this requirement of the Direction the QCA will have to obtain data from retailers on the standing and market offer prices hardship and concession customers paid them in 2016–17. Presentation of the prices hardship and concession customers paid is potentially problematic for a number of reasons:

- Retailers may have hardship and concession customers on a range of different contracts, with some retailers offering more than one standing offer.
- Some customers will have multiple tariffs.
- Customers on some market offers will effectively pay a different price depending on whether or not they fulfil certain conditions, such as paying their bill on time; therefore, the price they effectively pay may vary from bill to bill.
- Prices under market offers may vary during 2016–17, so there may not be a single price for each hardship and/or concession customer for the entire reporting period.

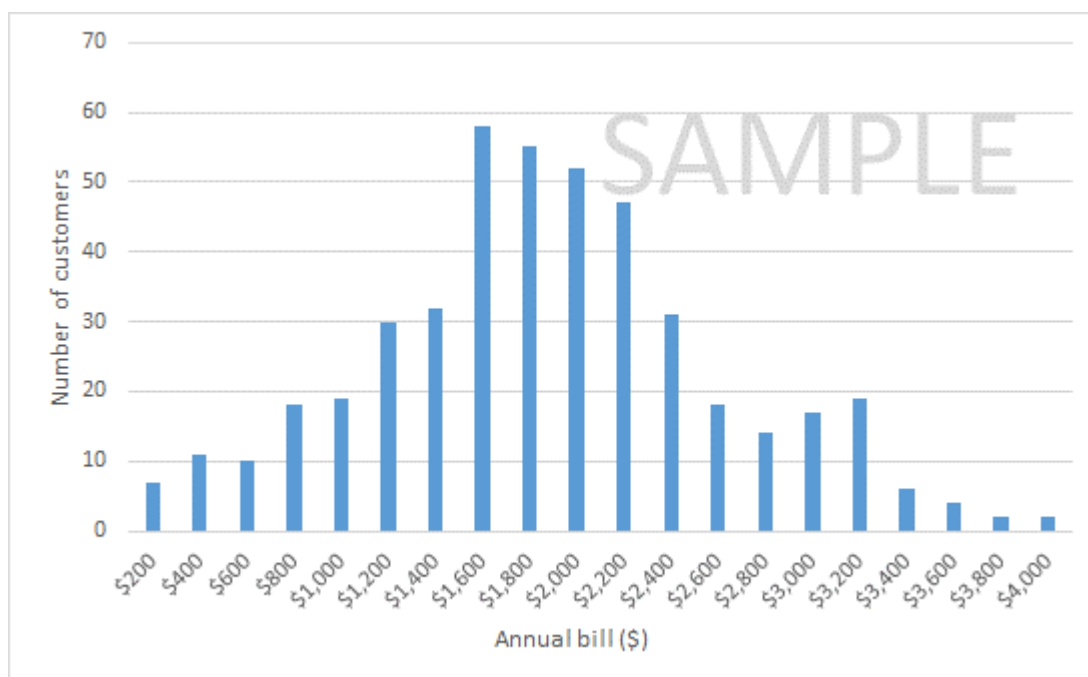
- Presenting prices will not provide information on how many customers are on each price.

In the interests of comparability with typical SEQ customers, it would be useful to present prices for hardship and concession customers as an annual bill based on median consumption levels. We would compare these outcomes with outcomes for typical SEQ customers, in any or all of text, table or graphical forms, to best describe the results of the comparison.

Retailers should be able to provide standing offer, and market offer, prices and the number of customers who are participating in their hardship program or are receiving the Queensland Government's electricity rebate on each offer. So that we can present prices as an annual bill for typical hardship and concession customers, we would also request for these customers the proportion of bills that received conditional discounts and the total discount value. Any conditional discounts would be applied in line with these proportions. See Figure 6 below for a sample chart showing the number of customers on a hardship program and their annual bill size.

In order to provide a sufficient level of detail we propose to present annual bill outcomes, calculated in line with section 2.3 of this paper, in bands, with charts showing the number of customers in bill bands (see Figure 6 for a sample chart).

Figure 6 Equivalent annual bills for customers on hardship programs and receiving concessions – 2016–17 (flat rate residential tariff)



Note: this figure is for illustrative purpose only.

4.4 Proposed data requirements

To enable us to make our assessment we consider we would need anonymised quarterly billing data from retailers showing complete information on each of their customers who are participating in a hardship program and/or receiving the electricity rebate. This would include information on customers supplied for part of each quarter.

This data would be requested in electronic format through a formal information notice under section 89C of the Electricity Act. See chapter 7 of this paper for details of our proposed approach to information notices.

4.5 Consultation question

The QCA invites stakeholders to comment on the consultation question below.

Consultation question

- (4) Will the proposed methodology allow the QCA to report on hardship and concession customers as per section 2(g) of the Minister's Direction? If not, what changes would need to be made to do so?**

5 NEW TYPES OF RETAIL TARIFF STRUCTURES AND PLANS

This chapter relates to the emergence of new types of retail tariff structures and retail electricity plans.

5.1 Background

The Queensland Productivity Commission's (QPC) recent electricity pricing inquiry (draft) report found that, while the benefits of increased competition in the SEQ retail electricity market are likely to be realised gradually, deregulation would drive retailers to offer more innovative and tailored products and services that match customers' needs and preferences.⁶⁴ In particular, the QPC noted:

- Price deregulation could increase options and choices for customers in the longer term; this may include better electricity plans.
- Price deregulation could give businesses more flexibility to formulate their own strategies and processes, without government interference or regulatory restrictions.
- Research by the International Energy Agency suggested that removing price regulation resulted in greater product differentiation and innovation, reflecting new entry and resulting in more tailored choices for customers.
- Retailers in deregulated jurisdictions are diversifying their product offerings and are increasingly competing through innovative services such as energy audits and appliance swaps, advice about energy efficiency initiatives, energy cap plans, providing better information about energy usage profiles, and providing 'free' electricity or gas on certain days of the week.⁶⁵

5.2 Other states

In New South Wales, the Independent Pricing and Regulatory Tribunal (IPART) examined offers available on the Australian Energy Regulator's Energy Made Easy website to report on the 'extent of diversity in tariff structures, prices and product and service offerings' for its 2014–15 market monitoring report.⁶⁶ In its 2015–16 (draft) report, IPART referenced a range of retailers' websites, and other websites such as news websites, to report on product diversity.⁶⁷

In Victoria, the Essential Services Commission analysed data in the 'My Power Planner' website that provided electricity product comparison information for its 2014–15 comparative performance report on Victoria's electricity market pricing.⁶⁸

In South Australia, the Essential Services Commission of South Australia's (ESCOSA) three pricing reports (2012–13 to 2014–15) have not reported on changes in tariff structures. The QCA notes

⁶⁴ QPC 2016, chapter 8.

⁶⁵ QPC 2016, pages 120, 126–7.

⁶⁶ IPART 2015, page 57.

⁶⁷ IPART 2016, section 8.5.

⁶⁸ ESC 2016a, page 9.

that such reporting is not required by the electricity regulations under which ESCOSA prepares its pricing reports.⁶⁹

5.3 Proposed methodology

Section 3 of the Minister's Direction (the Direction) asks the QCA to comment on whether new types of retail tariff structures and retail electricity plans have emerged since deregulation on 1 July 2016.

The QCA suggests an approach similar to that of IPART would fulfil the requirements of the Direction. That is, the QCA intends to collect and analyse retail tariff structure and electricity plan data from Energy Made Easy and retailers' websites and report on the emergence of new structures and plans in its report.

The QCA notes that retailers are responsible for the accuracy of data and information they provide to the Energy Made Easy website.⁷⁰ We are not aware of any independent quality assurance of data provided by retailers to Energy Made Easy. Therefore we also think retailers should be invited, through the information notice process (see chapter 7) to provide specific information on any new tariff structures and retail electricity plans to us for potential inclusion in the market monitoring report.

5.4 Proposed data requirements

As stated, we expect to use Energy Made Easy and retailers' websites to meet the necessary data requirements to report on section 3 of the Direction. We would also consider any information on new tariff structures and retail electricity plans provided to us by retailers.

5.5 Consultation question

The QCA invites stakeholders to comment on the consultation question below.

Consultation question

- (5) Will the proposed methodology allow the QCA to report on new types of retail tariff structures and plans as per section 3 of the Minister's Direction? If not, what changes would need to be made to do so?**

⁶⁹ Electricity Regulations (SA), section 12(1).

⁷⁰ AER 2015a, page 20.

6 DEROGATION TO THE NATIONAL ENERGY CUSTOMER FRAMEWORK

This chapter relates to any significant issues that emerge in 2016–17 in SEQ regarding the Queensland-specific derogation to the National Energy Customer Framework concerning price deregulation for which the QCA is responsible.

6.1 Background

The National Energy Customer Framework (NECF) is a set of national laws, rules and regulations governing the sale and supply of energy (electricity and reticulated natural gas) to consumers. It was developed via cooperative arrangements between Australia's federal, state and territory governments and aims to reduce regulatory red tape for the electricity industry, drive greater efficiencies and foster increased competition in the retail market. The NECF works by participating jurisdictions applying the framework as a law of its jurisdiction. The NECF was introduced to Queensland on 1 July 2015 via the *National Energy Retail Law (Queensland) Act 2014 (Qld)* (Queensland NERL Act).⁷¹

When Queensland adopted the NECF, it did so with a number of Queensland-specific modifications, known as 'derogations'. The QCA is responsible for one derogation in respect of price deregulation — the restriction on the types of fees that can be included in standing offers for the first two years after deregulation.

Standing offer prices for retailers

The Queensland NERL Act amends the National Energy Retail Law to include an additional Queensland-specific provision (section 22A) about standing offer prices for particular electricity retailers.⁷²

Sub-sections (1) and (2) of section 22A provide that, if notified prices have been made under section 90(4) of the Electricity Act, the retailer's standing offer prices must be the notified prices. Accordingly, prior to price deregulation on 1 July 2016, the standing offer price in SEQ was the notified price.⁷³

Sub-sections (3) and (4) of section 22A provide transitional arrangements to support price deregulation and the adoption of market monitoring in SEQ. These sub-sections ensure that standing offer customers in SEQ do not see new fees and charges applied to their accounts for the first two years after price regulation was removed.⁷⁴

⁷¹ DEWS website (<https://www.dews.qld.gov.au/electricity/regulation/initiatives/necf>), accessed 11 August 2016; Queensland NERL Act, section 4(a). The AEMC has a guide to the application of the NECF on its website (<http://www.aemc.gov.au/Energy-Rules/Retail-energy-rules/Guide-to-application-of-the-NECF>).

⁷² National Energy Retail Law, section 22A, as per section 15 of the schedule to the Queensland NERL Act.

⁷³ National Energy Retail Law, section 22A(1)–(2), as per section 15 of the schedule to the Queensland NERL Act; Queensland NERL Bill explanatory notes, page 30.

⁷⁴ National Energy Retail Law, section 22A(3)–(4), as per section 15 of the schedule to the Queensland NERL Act; Queensland NERL Bill explanatory notes, page 31.

As of 1 July 2016 notified prices no longer apply in SEQ.⁷⁵ As a result, section 22A of the National Energy Retail Law restricts retailers to the three types of fees and charges which applied to notified price customers in 2015–16. These are set out in the Queensland Government Gazette published on 18 June 2015:

A retailer may charge its Standard Contract Customers the following:

- (a) *if, at a customer's request, the retailer provides historical billing data which is more than two years old – a maximum of \$30;*
- (b) *retailer's administration fee for a dishonoured payment – a maximum of \$15; and*
- (c) *financial institution fee for a dishonoured payment – no more than the fee incurred by the retailer.*⁷⁶

Further, as noted in section 2.1.1 of this paper, for the first year of deregulation, retailers are not allowed to vary their standing offer prices, unless the variation is to reduce the price.⁷⁷

6.2 Proposed methodology

Section 4 of the Direction requires the QCA to comment on any issues that emerge in 2016–17 as a result of the derogation in section 22A of the National Energy Retail Law.

The QCA proposes to provide comment on issues relating to this derogation which are identified through its ongoing compliance program.⁷⁸ The QCA conducts reviews of retailer compliance with this derogation by comparing fees charged by retailers under their standing offers to SEQ small customers against those permitted under section 22A(4) of the National Energy Retail Law. In addition to compliance reviews, we also actively monitor retailer compliance with section 22A(4) through reviewing monthly systemic complaint data from the Energy and Water Ombudsman Queensland⁷⁹, and from issues raised with us directly by customers.

The data for this section would come from our investigations and any enforcement action relating to retailer compliance during 2016–17. We intend to report contraventions in the way shown in Table 10 below.

Table 10 Contravention of derogation

| <i>Non-compliant standing offer identified by the QCA</i> | <i>Potential financial impact on customers</i> | <i>QCA action</i> |
|--|--|--------------------------|
| Retailer X standing offer | X% of total customer bill (credit card payments only) \$X where customer paid their bill after the due date \$X account establishment fee | |

Note: this table is for illustrative purpose only.

⁷⁵ ECPLA Act, part 3.

⁷⁶ Queensland Government Gazette, vol. 369, no. 36, 18 June 2015, page 190.

⁷⁷ National Energy Retail Law, section 23(9), as per section 16 of the schedule to the Queensland NERL Act.

⁷⁸ Details of the QCA's approach to compliance, including our enforcement guidelines (QCA 2015), can be accessed on the code breaches page of the QCA's website (<http://www.qca.org.au/Electricity/Reviews/Code-Breaches>).

⁷⁹ For information on EWOQ's approach to managing systemic issues in SEQ's retail electricity market, see EWOQ 2016, systemic issues and electricity chapters.

We may also report on contraventions in text form where doing so would best describe the results of our investigations and any enforcement action.

6.3 Proposed data requirements

In order to report data as required by section 4 of the Direction we would use data from our investigations and any action we take relating to retailer compliance with the fee types restriction in 2016–17.

6.4 Consultation question

The QCA invites stakeholders to comment on the consultation question below.

Consultation question

- (6) Will the proposed methodology allow the QCA to report on the derogation to the National Energy Customer Framework as per section 4 of the Minister's Direction? If not, what changes would need to be made to do so?**

7 QCA INFORMATION NOTICE

This chapter outlines the QCA's suggested approach to issuing information notices to SEQ electricity retailers for the purpose of the 2016–17 market monitoring.

7.1 Electricity Act

The *Electricity Act 1994* (Qld) obliges SEQ's electricity retailers to comply with a QCA information notice regarding market monitoring within the reasonable period stated in the notice. This obligation applies unless, in the circumstances, the retailer could not have been expected to have, or to be able to obtain, the relevant information. The maximum penalty for a retailer's non-compliance with an information notice is 100 penalty units.⁸⁰

7.2 Contents of an information notice

The QCA has endeavoured to set out data and methodology requirements in this paper that rely as much as possible on publicly available information. Where publicly available information will not be available to meet the requirements of the Minister's Direction, we have sought to minimise the level of information we intend to request through the information notices.

We anticipate that our approach will minimise the regulatory burden of market monitoring on all retailers. We also appreciate that the retailers operating in SEQ vary significantly in terms of their size; therefore, the cost of meeting information requests may affect smaller retailers relatively more than larger ones.

In general terms, the QCA intends to issue an information notice to each SEQ electricity retailer requesting information set out in this paper that is not available on Energy Made Easy or retailers' own websites. The 'proposed data requirements' section in sections 3.4, 4.4 and 5.4 of this paper outline the data requirements we intend to include in information notices.

7.3 QCA suggested timeframes

We consider two months to be a reasonable time for the retailers to obtain and give the information to the QCA. We also hold the view that the two-month timeframe should end a reasonable number of weeks after the end of the fourth quarter of 2016–17 to allow retailers sufficient time to finalise the 2016–17 information and data they would supply to the QCA.

Therefore, the QCA proposes to issue written notices to retailers in mid-May 2017 requiring retailers to give information to the QCA by mid-July 2017. We expect this will also allow the QCA reasonable time to analyse and, where necessary, clarify data with retailers, and provide the report to the Minister by 31 October 2017.

7.4 Consultation questions

The QCA invites stakeholders to comment on the consultation questions below.

⁸⁰ Electricity Act, section 89C. The Penalties and Sentences Act, section 5, sets the value of a penalty unit as \$110.

Consultation questions

- (7) Is two months a reasonable timeframe for the QCA to give retailers to give the QCA the relevant information the QCA requires to comply with the Minister's Direction?**
- (8) Is mid-July 2017 a reasonable due date for the QCA to set retailers to give the QCA the relevant information the QCA requires to comply with the Minister's Direction?**

GLOSSARY

A

| | |
|------|-------------------------------------|
| ACT | Australian Capital Territory |
| AEMC | Australian Energy Market Commission |
| AER | Australian Energy Regulator |

C

| | |
|------------------------------|--|
| Competition and Consumer Act | <i>Competition and Consumer Act 2010 (Cth)</i> |
|------------------------------|--|

D

| | |
|------|--|
| DEWS | Department of Energy and Water Supply (Queensland) |
|------|--|

E

| | |
|-------------------------------------|---|
| ECPLA Act | <i>Electricity Competition and Protection Legislation Amendment Act 2014 (Qld)</i> |
| ECPLA Act Proclamation | <i>Electricity Competition and Protection Legislation Amendment Act 2014 (Qld)</i> Proclamation (SL 2015 No. 32) |
| ECPLA Bill explanatory notes | Electricity Competition and Protection Legislation Amendment Bill 2014 (Qld) explanatory notes |
| ECPLA (Postponement) Regulation | <i>Electricity Competition and Protection Legislation Amendment (Postponement) Regulation 2015 (Qld)</i> (SL 2015 No. 33) |
| Electricity Act | <i>Electricity Act 1994 (Qld)</i> |
| Electricity Industry Act (Victoria) | <i>Electricity Industry Act 2000 (Vic)</i> |
| Electricity Regulation | <i>Electricity Regulation 2006 (Qld)</i> |
| Electricity Regulations (SA) | <i>Electricity (General) Regulations 2012 (SA)</i> |
| ESC | Essential Services Commission (Victoria) |
| ESCOSA | Essential Services Commission of South Australia |
| EWOQ | Energy and Water Ombudsman Queensland |

G

| | |
|-----|------------------------|
| GST | Goods and Services Tax |
|-----|------------------------|

I

| | |
|-------|---|
| ICRC | Independent Competition and Regulatory Commission (ACT) |
| IPART | Independent Pricing and Regulatory Tribunal (NSW) |

K

| | |
|-----|----------------|
| kWh | kilowatt hours |
|-----|----------------|

N

| | |
|--------------------------------------|--|
| National Energy Retail Law or NERL | National Energy Retail Law (schedule to the <i>National Energy Retail Law (South Australia) Act 2011 (SA)</i>) |
| National Energy Retail Regulations | National Energy Retail Regulations (under the National Energy Retail Law and section 12 of the <i>National Energy Retail Law (South Australia) Act 2011 (SA)</i>) |
| National Energy Retail Rules or NERR | National Energy Retail Rules, version 6 |

| | |
|---------------------|--|
| NECF | National Energy Customer Framework |
| NEM | National Electricity Market |
| No. | number |
| NSW | New South Wales |
| NSW NERL Act | <i>National Energy Retail Law (Adoption) Act 2012 (NSW)</i> |
| NSW NERL Regulation | <i>National Energy Retail Law (Adoption) Regulation 2013 (NSW)</i> |

O

| | |
|-------|--|
| OTTER | Office of the Tasmanian Economic Regulator |
|-------|--|

P

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|-----------------------------|---|
| Penalties and Sentences Act | <i>Penalties and Sentences Act 1992 (Qld)</i> |
|-----------------------------|---|

Q

| | |
|--|---|
| QCA | Queensland Competition Authority |
| QCA Act | <i>Queensland Competition Authority Act 1997 (Qld)</i> |
| QCOSS | Queensland Council of Social Service |
| Qld | Queensland |
| QPC | Queensland Productivity Commission |
| Queensland NERL Act | <i>National Energy Retail Law (Queensland) Act 2014 (Qld)</i> |
| Queensland NERL Bill explanatory notes | National Energy Retail Law (Queensland) Bill 2014 (Qld) explanatory notes |

S

| | |
|-----|-------------------------|
| SA | South Australia |
| SEQ | south east Queensland |
| SL | Subordinate Legislation |

APPENDIX A: MINISTER'S DIRECTION NOTICE



Minister for Main Roads, Road Safety and Ports
Minister for Energy, Biofuels and Water Supply

Our Reference: CTS 04983/16

Professor Roy Green
Chairman
Queensland Competition Authority
Level 27, 145 Ann Street
BRISBANE QLD 4000

11 JUL 2016

Level 15 Capital Hill Building
85 George Street Brisbane 4000
GPO Box 2644 Brisbane
Queensland 4001 Australia
Telephone +61 7 3719 7300
Facsimile +61 7 3224 2493
Email mainroads@ministerial.qld.gov.au
Website www.tmr.qld.gov.au

Dear Professor Green

Re: Queensland Productivity Commission Inquiry into Electricity Pricing

In line with recommendations of the Queensland Productivity Commission Inquiry into Electricity Pricing, the Queensland Government has confirmed the deregulation of retail electricity prices for customers in South East Queensland (SEQ) from 1 July 2016. The removal of retail price regulation for small customers in SEQ from 1 July 2016 is supported by a carefully considered framework of consumer protections, and represents a key reform of the electricity sector aimed at improving competition and reducing pressure on prices for the benefit of customers.

As you are aware, while price controls in SEQ will be removed as a result of deregulation, the Queensland Competition Authority (QCA) will continue to set notified prices for the Ergon Energy (Ergon) area. At the same time, the QCA will play an important monitoring role in the deregulated SEQ retail electricity market. Effective monitoring will be essential to maximise the success of deregulation in SEQ, as it will enable Government to evaluate the impacts of deregulation on SEQ customers, provide regulatory certainty for market participants, promote strong competition and consumer confidence in the market, and ensure Government's ongoing role as a well-informed policy-maker.

Accordingly, attached is the formal notice, pursuant to section 89B(1) of the *Electricity Act 1994*, directing the QCA to monitor, and give a written report on, the operation of the retail electricity market in the designated retail market area (Energex distribution area) for the period 1 July 2016 to 30 June 2017. In accordance with the *Electricity Act 1994*, the QCA is to provide a final report to me and publish the report on its website by no later than 31 October 2017.

If you have any queries, please contact Ms Ty Taylor-Bean, Director of Consumer and Retail Policy within my department on (07) 3199 4978.

Yours sincerely

Mark Bailey MP
Minister for Main Roads, Road Safety and Ports
Minister for Energy and Water Supply

Att: - Direction Notice

ELECTRICITY ACT 1994
Section 89B(1)

MINISTERS' DIRECTION NOTICE

Pursuant to section 89B(1) of the *Electricity Act 1994* (the Act), I hereby direct the Queensland Competition Authority (the QCA) to monitor and provide a written report on the operation of the retail electricity market in the designated retail market area (Energex distribution area) for residential and small business customers for the period of 1 July 2016 to 30 June 2017.

The following are the Terms of Reference of this direction:

Terms of Reference

1. In accordance with section 89B(2)(a) of the Act, these Terms of Reference apply for the period commencing 1 July 2016 to 30 June 2017 (the reporting period).
2. In accordance with section 89B(4) of the Act, the QCA is to include in its report a comparison and assessment of the following:
 - a. retailers' standing offer prices and generally available market offer prices,¹ including fixed and variable charges, which were available to customers in the reporting period (on a quarterly basis). Where relevant, a comparison of the lowest, highest and average prices for each retailer is to be provided;
 - b. variations to retailers' generally available market offer prices, including fixed and variable charges, that were available to customers in the reporting period;
 - c. the types of discounts, savings and benefits generally available to customers in the reporting period;
 - d. retailers' fees and charges relating to the sale of electricity to customers in the reporting period;
 - e. any trends in relation to retailers' standing offer prices and generally available market offer prices available to customers in the reporting period and in the period 1 July 2015 to 30 June 2016;
 - f. the number of customers who moved from a standing offer to a market offer with their retailer in the reporting period, and information on the following characteristics of those customers:
 - i. their location;
 - ii. their electricity consumption;
 - iii. whether they were participating in a retailer hardship program or received an energy concession²; and
 - iv. whether they had electricity debt.

¹ Published on the Australian Energy Regulator's *Energy Made Easy* website.

² The Queensland Government's electricity rebate.

- g. of customers that were participating in a retailer hardship or receiving an energy concession program in the reporting period:
 - i. the number of customers on standing offers and market offers
 - ii. the standing offer prices and market offer prices they paid.
- 3. In accordance with section 89B(4) of the Act, the QCA is to provide comment on the emergence of new types of retail tariff structures and retail electricity plans.
- 4. In accordance with section 89B(4) of the Act, the QCA is also to provide comment on any significant issues that have emerged in the designated retail market area concerning the Queensland-specific derogations to the National Energy Customer Framework concerning price deregulation that the QCA is responsible for.

Timing and publication of report

In accordance with section 89B(2)(b) of the Act, the QCA must provide me with a final version of the written report no later than 31 October 2017.

In accordance with section 89B(2)(c), the QCA must publish the report on the QCA website on 31 October 2017.

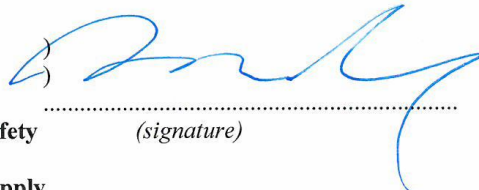
DATED this

6th

day of July 2016.

SIGNED by the Honourable
MARK BAILEY,

**Minister for Main Roads, Road Safety
and Ports
Minister for Energy and Water Supply**


.....
(signature)

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