

CUMMINGS ECONOMICS

38 Grafton St (PO Box 2148) CAIRNS Q 4870 ABN 99 734 489 175

Tel : 07 4031 2888

Email : cummings@cummings.net.au

Website : www.cummings.net.au



**Submission to
Queensland Competition Authority
For Far North Queensland Electricity Users Network
27th February 2015 – Ref J2809**

Background

Cummings Economics is a respected economic research firm based in Cairns that over the years has carried out a substantial volume of economic research for, and provided a great deal of guidance to, industries, firms and government in the Far North Queensland (FNQ) region. The firm is constantly involved in monitoring trends in the region's economy and factors influencing these trends. The firm has long standing close relations with, and often fulfils an advisory role to, key local industries and organisations like Chambers of Commerce, Tourism Tropical North Queensland, Advance Cairns and local Government.

Cost of energy has been a major issue in the region over many years. However recent rapid escalation of electricity prices has been viewed with alarm in the region's industries and among consumers and has caused substantial havoc to sectors of the economy.

This led to staff of the firm starting to take a special interest in the question towards the end of 2013. Since then, this concern led to staff of the firm seeking to learn more about why these trends were occurring, the regulatory processes affecting them, and playing a key role in helping regional industries and organisations to understand how they might influence future outcomes. Cummings Economics is currently fulfilling a coordination and advocacy role for the Far North Queensland Electricity Users Network. The Network is supported by peak regional industry organisations and councils in Far North Queensland (see attachment).

Members of the Network have participated in the Australian Energy Regulator (AER) forums for over a year and continue to increase their knowledge of the issues through engagement with the Australian Energy Regulator, Ergon Energy and peak industry organisations based in Brisbane.

Members of the Network attended QCA's Draft Determination Workshops for 2014/15 in Cairns and Mareeba and the 2015/16 in Cairns.

The Network and members of the Network have provided submissions to:

- Australian Energy Regulator in relation to Ergon's 2015-2020 Regulatory Proposal
- Ergon Energy in relation to Future Network Tariffs

Members participating in the Ergon 2015-2020 regulatory process with the Australian Energy Regulator, find the process to be open and interactive.

Consumer engagement

The lack of consumer engagement by the Queensland Competition Authority is demonstrated by the low level of submissions to its Interim Consultation Paper – 13 submissions of which 2 were from Ergon Energy.

It is further evidenced by the lack of transparency as to who and how many organisations and individuals attended QCA workshops on Regulated Electricity Prices for 2015/16. The Australian Energy Regulator publishes attendees to their meetings on the AER website.

The plethora of electricity submissions to different agencies with various regulatory and political influence is causing submission fatigue amongst organisations that have a genuine interest and genuine concerns. This has resulted in organisations trying to allocate scarce resources to where they believe they will have the most chance of actually reducing electricity prices.

The note accompanying the publication on 2nd February 2015 of QCA's Review of Regional Electricity Price Regulation is disconcerting. The publication came with a note that *"In December 2014, the Government advised that it had established a new process to consider future arrangements for maintaining the uniform tariff policy and that it would not have regard to the QCA's advice."*

The rejection by the Queensland Government of QCA's advice creates a great deal of uncertainty on the future pricing of electricity in regional Queensland. It also creates confusion as to where to best concentrate efforts to reduce electricity bills in 2015/16 and into the future.

Uniform tariff policy & regional retail electricity price regulation

The purpose of this submission is to comment on QCA's Draft Determination for Regulated Retail Prices for 2015/2016.

The initial Delegation and Terms of Reference issued to the QCA on 12 February 2013 covered the determination of regulated (notified) retail electricity prices for the three year delegation period 2013/14 to 2015/16.

In April 2014 the Queensland Competition Authority provided its Final Advice on Uniform Tariff Policy & Regional Retail Electricity Price Regulation to the Queensland Government. On 28 August 2014 the Queensland Government, after receiving QCA's Final Advice in April 2014, issued a new Delegation and Terms Of Reference. The new Delegation and Terms of Reference were a result of the Queensland Government's "wide ranging reform of the electricity sector."

One reform is the Queensland Government's intention from 1 July 2015 to remove price regulation in the Energex distribution area for small customers and replace it with a market monitoring approach. This will mean that notified prices will only apply to customers in the Ergon Energy distribution area.

At the same time the Queensland Government announced that as part of the Queensland Government's longer term electricity sector reform program a review of the effectiveness and objectives of the Uniform Tariff Policy (UTP) and Community Service Obligation, and options for improved regional competition was being undertaken.

On 2nd December 2014, the Queensland Government formally rejected QCA's Final Advice – Uniform Tariff Policy and Regional Retail Electricity Price Regulation report of April 2014, in which a number of issues with the current UTP arrangements were identified and options to maintain the UTP presented.

The Queensland Government in its letter of rejection advised the QCA that:

“Consistent with the longer term electricity sector reform, the Government is currently considering ways to improve regional competition so that regional consumers will have greater choice and see the benefits of a competitive market, while continuing to receive subsidised electricity. In support of this, Government has reaffirmed its commitment to maintaining the UTP for regional consumers in 2015/16.

The Government is also committed to retaining the UTP beyond 2015/16. A new process has been established through which the Government will be able to consider future arrangements for maintaining the UTP. This process, and therefore the Government, will not have regard to the QCA's Final Advice of April 2014. I would be grateful if the QCA could so inform any parties acquiring the Final Advice should the QCA decide to publish it.”

The Queensland election on 31 January 2015 resulted in a change of government.

The uncertainty caused by the rejection of QCA's advice has now been replaced with the uncertainty of the new Queensland Government's policy with regards to the UTP and the Community Service Obligation.

In QCA's Draft 2015/16 Determination presentation on 11 February 2015 the CSO was estimated at \$655 million for 2014/15. As per Table 1 the previous Queensland Government expected the CSO to be \$683 million in 2014/15 and \$644 million in 2015/16.

In the tight fiscal situation facing the new Queensland Government, regional Queensland needs to be assured that the new Government is committed to maintaining the Community Service Obligation in 2015/16 and into the future.

This submission is about the regulated retail prices for 2015/16 but the UTP and the CSO are intrinsically linked.

The Uniform Tariff Policy should not be regarded as a “subsidy”. The current system of large centralised power generators in the central and southern part of the State enable economies of scale to be achieved in generation that benefits users in the southern part of the State, but at a cost of transmission (including transmission losses) to the northern regions. Peak load electricity at extremely low cost is fed into the system by hydrogenerators in the north.

Table 1: Community Service Obligations and Transport Service Contracts Receipts ¹

	2013-14 Budget \$ million	2013-14 Est. Act. \$ million	2014-15 Budget \$ million	2015-16 Projection \$ million	2016-17 Projection \$ million	2017-18 Projection \$ million
Electricity Networks	615	555	683	644	648	643
Electricity Generation	..	..	..	..	..	..
Transport ²	1,647	1,649	1,699	1,811	1,859	1,859
Water	16	15	14	7	6	3
Other	..	..	..	..	..	..
Total PNFC sector CSO and TSC	2,278	2,219	2,396	2,462	2,512	2,504

Notes:
1. Numbers may not add due to rounding.
2. The presentation of Transport revenue is not directly comparable to CSO revenue disclosed in the 2013-14 Budget Paper 2, as it now includes patronage revenue received by Queensland Rail and remitted to the Department of Transport and Main Roads under integrated ticketing arrangements.

Source: Queensland State Budget 2014/15, Budget Paper 2, Public Non-financial Corporations Sector

Headroom

The QCA in its Interim Consultation Paper on Regulated Retail Electricity Prices for 2015/16 dated September 2014 stated that:

“The notified prices we determine for residential and small business customers will be well below the costs of supply in 2015/16. This would mean that the inclusion of any reasonable level of headroom would not be sufficient to promote retail competition. We will consider whether headroom should continue to be included in notified prices for small customers.”

The QCA in its Draft Determination of Regulated Retail Electricity Prices for 2015/16 dated December 2014 stated that:

“We consider that standing offer prices in south east Queensland are the most appropriate benchmark prices to use when setting notified prices for regional Queensland customers. Like notified prices, standing offer prices in south east Queensland will apply to a default contract with standard terms and conditions. Market contract prices are not comparable, because the terms and conditions in these contracts will vary from the default contract and from retailer to retailer.”

“On balance, the QCA believes it is reasonable to use a ‘standing offer’ approach to set notified prices. In the absence of information about standing offer prices that will apply in south east Queensland in 2015/16, our draft decision is to add a standing offer margin of 5% of total costs. This is consistent with our previous decisions to include a headroom allowance of 5% in the notified prices applying to customers in south east Queensland.”

The QCA by using the N (network cost) + R (energy and retail cost) approach has increased fixed charges, variable charges and demand charges for all residential and small business tariffs.

The average electricity use per household in the Ergon distribution area in 2012/13 was 6,811 kWh. The headroom charge increases the electricity bill for a Tariff 11 customer by \$93 per year or 4.86 percent.

Table 2: Effect of Headroom on Tariff 11 customer with a consumption of 6811 kWh

	Fixed Charge cents/day	Variable Charge cents/Day	Metering Charge cents/day	Total Bill Excl GST
With Headroom	\$392	\$1576	\$39	\$2007
Without Headroom	\$374	\$1501	\$39	\$1914

Source: Compiled from data in QCA Draft Determination Regulated Retail Electricity Prices for 2015/16, Appendix G

The headroom charge will have a similar effect on the electricity bills of small business.

Due to the current lack of retail competition in regional Queensland and no clear direction on if and when retail competition will occur in regional Queensland, the headroom charge should be omitted from all residential and business tariffs for 2015/16.

Headroom acts as unwelcome burden to household budgets and a hidden tax to business and farmers in a sluggish economy.

Table 3: Residential regulated retail tariffs (GST exclusive)

Retail tariff	Tariff component	Fixed charge ^a	Variable rate 1 (flat/off-peak)	Variable rate 2 (shoulder)	Variable rate 3 (peak)
		c/day	c/kWh	c/kWh	c/kWh
Tariff 11 - Residential (flat rate)	Network	50.300	12.938		
	Energy		7.839		
	Retail	46.230			
	Margin	5.835	1.256		
	Headroom	5.118	1.102		
	Total ^b	107.483	23.135		
Tariff 12 - Residential (time of use)	Network	50.300	8.276	22.588	45.581
	Energy		7.839	7.839	7.839
	Retail	46.230			
	Margin	5.835	0.974	1.839	3.229
	Headroom	5.118	0.854	1.613	2.832
	Total ^b	107.483	17.943	33.879	59.481
Tariff 31 - Night rate (super economy)	Network		5.616		
	Energy		5.181		
	Retail				
	Margin		0.653		
	Headroom		0.573		
	Total ^b		12.023		
Tariff 33 - Controlled supply (economy)	Network		10.217		
	Energy		6.374		
	Retail				
	Margin		1.003		
	Headroom		0.880		
	Total ^b		18.474		

a. Charged per metering point

b. Totals may not add due to rounding.

Source: QCA Draft Determination Regulated Retail Electricity Prices for 2015/16, Appendix G

Table 4: Small business customer regulated retail tariffs and unmetered supplies other than street lighting (GST exclusive)

Retail tariff	Tariff component	Fixed charge ^a	Demand charge	Variable rate (flat/off-peak)	Variable rate (shoulder)	Variable rate (peak)
		c/day	\$/kWh/month	c/kWh	c/kWh	c/kWh
Tariff 20 - Business (flat rate)	Network	71.500		13.637		
	Energy			7.839		
	Retail	46.230				
	Margin	7.116		1.298		
	Headroom	6.242		1.139		
	Total ^b	131.068		23.913		
Tariff 22 - Business (time of-use - obsolete)	Network	71.500		9.888		15.242
	Energy			7.839		7.839
	Retail	46.230				
	Margin	7.116		1.072		1.395
	Headroom	6.242		0.940		1.234
	Total ^b	131.068		19.739		25.700
Tariff 22A - Business (time of-use)	Network	71.500		10.692	23.406	31.249
	Energy			7.839	7.839	7.839
	Retail	46.230				
	Margin	7.116		1.120	1.889	2.363
	Headroom	6.242		0.983	1.657	2.073
	Total ^b	131.068		20.634	34.791	43.524
Tariff 41 - Low voltage (demand)	Network	730.700	24.604	1.624		
	Energy			7.839		
	Retail	46.230				
	Margin	469.62	1.487	0.572		
	Headroom	41.195	1.305	0.502		
	Total ^b	865.067	27.396	10.537		
Tariff 91 - Unmetered	Network			10.321		
	Energy			7.839		
	Retail					
	Margin			1.098		
	Headroom			0.963		
	Total ^b			20.221		

a. Charged per metering point.

b. Totals may not add due to rounding.

Source: QCA Draft Determination Regulated Retail Electricity Prices for 2015/16, Appendix G

Inappropriate portrayal of electricity bill changes

Table 1 (seen as Table 5 below) in QCA's Draft Determination Regulated Retail Electricity Prices for 2015/16 paints a picture of the changes to a typical annual bill based on a typical Tariff 11 customer consuming 4,053 kWh per year. Tariff 11 is the major tariff accessed by residential consumers in the Ergon distribution area.

As per Table 6 which uses data from the Energy Made Easy website maintained by the Australian Energy Regulator, the consumption of 4,053 kWh is closest to a one person household in Gladstone. This would not appear to be "typical" customer and therefore not typical of electricity bill changes.

Ergon's average electricity use per household in 2012/13 was 6, 811 kWh per year and the average in Far North Queensland was 6,985 kWh per year.

Portraying a typical Tariff 11 customer with a consumption of 4,053 kWh is inappropriate.

Table 5: Tariff 11 – Charges and typical annual bill

	2014–15 Final Determination (carbon exclusive)	2015–16 Draft Determination	Change (%)
<i>Tariff components</i>			
Fixed charge (cents/day)	83.414	107.483	28.9%
Variable charge (cents/kWh)	25.378	23.135	-8.8%
<i>Other charges</i>			
Metering charge (cents/day)	-	10.700	-
Annual Bill (GST inclusive) (\$)	1,467	1,506	2.7%

Note: Based on a typical tariff 11 customer consuming 4,053 kWh per year and assumes that the Energex metering charge will apply.

Source: QCA Draft Determination Regulated Retail Electricity Prices for 2015/16

Table 6: Average Electricity Use By Postcode/City by Household Type and Ergon Statistical Region

Location	P/code	Average Electricity Use per Type of Household (1)										Ergon Average Electricity Use per Household in 2012/13 (kWh/yr) (2)
		1 person		2 person		3 person		4 person		6 person		
		kWh/yr	kWh/day	kWh/yr	kWh/day	kWh/yr	kWh/day	kWh/yr	kWh/day	kWh/yr	kWh/day	
Brisbane	4000	3837	10.5	5114	14.0	6390	17.5	7666	21.0	10220	28.0	Ergon Region
Toowoomba	4350	3709	10.2	4943	13.5	6178	16.9	7412	20.3	9880	27.1	South West 6068
Bundaberg	4670	3376	9.2	4497	12.3	5620	15.4	6742	18.5	8987	24.6	Wide Bay 5370
Gladstone	4680	4093	11.2	5454	14.9	6816	18.7	8177	22.4	10900	29.9	Central Qld 7039
Mackay	4740	4363	12.0	5815	15.9	7267	19.9	8719	23.9	11621	31.8	Mackay 7324
Townsville	4810	4870	13.3	6490	17.8	8111	22.2	9370	26.7	12970	35.5	North Qld 7872
Cairns	4870	4276	11.7	5698	15.6	7121	19.5	8544	23.4	11387	31.2	Far North Qld 6985
Average		4075	11.2	5430	14.9	6786	18.6	8090	22.3	10852	29.7	Ergon Qld Av. 6811

Source: (1) Energy Made Easy Australian Government website maintained by the Australian Energy Regulator
(2) Data supplied by Ergon Energy

Fixed Charges

There has been a concerted effort by QCA to rebalance tariffs in favour of fixed charges.

In Table 5 above QCA clearly gives the impression that fixed charges have increased by 28.9 percent. However, metering costs are no longer expected to be part of the regulated prices set by QCA in 2015/16. Metering costs are expected to be recovered by retailers through a new charge set by the Australian Energy Regulator. Hence, compared to 2014/15 when the fixed charge of 83.414 cents per day included metering the like for like comparison means the fixed charge for 2015/16 has actually increased to 118.183 cents per day for a Tariff 11 customer or a 42 percent increase in fixed charges. The portrayal of a 28.9 percent increase when it is in effect 42 percent is misleading.

Many residential customers use off peak Tariffs 31 and 33 for water heaters and pool pumps. Typical customer bills for these tariffs will increase next year due to the introduction of separate metering charges and for Tariff 31, a higher wholesale energy cost.

For customers with Tariff 11 and 31 and customers with Tariff 11, 31 and 33 their fixed charges will increase by 46 percent and 49 percent respectively.

As per Table 7 below the hardest hit will be 1 and 2 person households who consume less electricity than any other group and have a large percentage of pensioners and independent retirees on limited incomes. Customers in 1 or 2 person households will face an increasing electricity bill even if they are energy efficient.

Table 7: Change in Electricity Bill for Cairns/ Postcode 4870

Cairns /4870 Postcode Households	Average Electricity Use per Household kWh/yr (1)	2014/15 (2)			2015/16 (2)			% Change		
		Fixed Charge cents/day	Variable Charge cents/kWh	Total Bill excl. GST	Fixed Charge cents/day	Variable Charge cents/kWh	Total Bill excl. GST	Fixed Charge	Variable Charge	Total Bill excl. GST
		\$0.83414	\$0.25378		\$1.18183	\$0.23135				
1 person	4276	\$304	\$1,085	\$1,390	\$431	\$989	\$1,421	42%	-9%	2.23%
2 person	5698	\$304	\$1,446	\$1,750	\$431	\$1,318	\$1,750	42%	-9%	-0.05%
3 person	7121	\$304	\$1,807	\$2,112	\$431	\$1,647	\$2,079	42%	-9%	-1.55%
4 person	8544	\$304	\$2,168	\$2,473	\$431	\$1,977	\$2,408	42%	-9%	-2.62%
6 person	11387	\$304	\$2,890	\$3,194	\$431	\$2,634	\$3,066	42%	-9%	-4.02%
Ergon Average FNQ Region	6811	\$304	\$1,728	\$2,033	\$431	\$1,576	\$2,007	42%	-9%	-1.27%

Source: (1) Energy Made Easy Australian Government website maintained by the Australian Energy Regulator
(2) Compiled from prices in QCA's Draft Determination Regulated Retail Prices for 2015/16

Off Peak Tariffs

The introduction of Time Of Use charges and smart meters is aimed at assisting all customers to understand that their demand behaviour does impact on the cost of the distribution network (poles and wires). Time of Use tariffs are specifically designed to alter the load profile and reduce peak demand.

It is therefore interesting to note that Tariff 31 (overnight controlled loads) is an off peak tariff that is forecast to rise by 4.3 percent due to higher fuel costs prevailing overnight.

This substantial increase in a major off peak tariff is counter-productive to encouraging customers to use off peak tariffs.

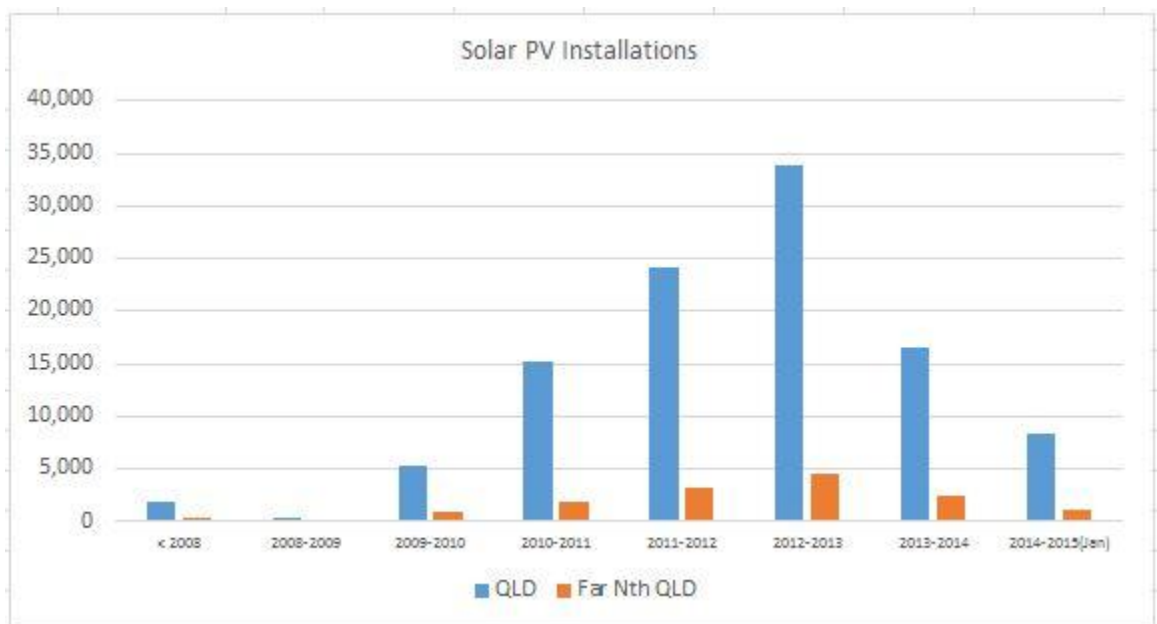
This forecast rise also brings in the question of why distribution and generation are not discussed at the same time. Distribution and generation are intrinsically linked and the reason for the increase needs to be fully investigated.

Solar Bonus Scheme

The Solar Bonus Scheme (SBS) will cost \$3.4 billion over the period to 2028, with the cost to be recovered through every Queensland electricity bill until 2028.

Due largely to government incentives paid for by electricity customers, the number of solar photovoltaic (PV) systems connected at domestic premises within Ergon’s network area has increased significantly from 1,841 in 2008 to a total of 105,685 in January 2015.

Table 8: Solar PV installations in Ergon’s network



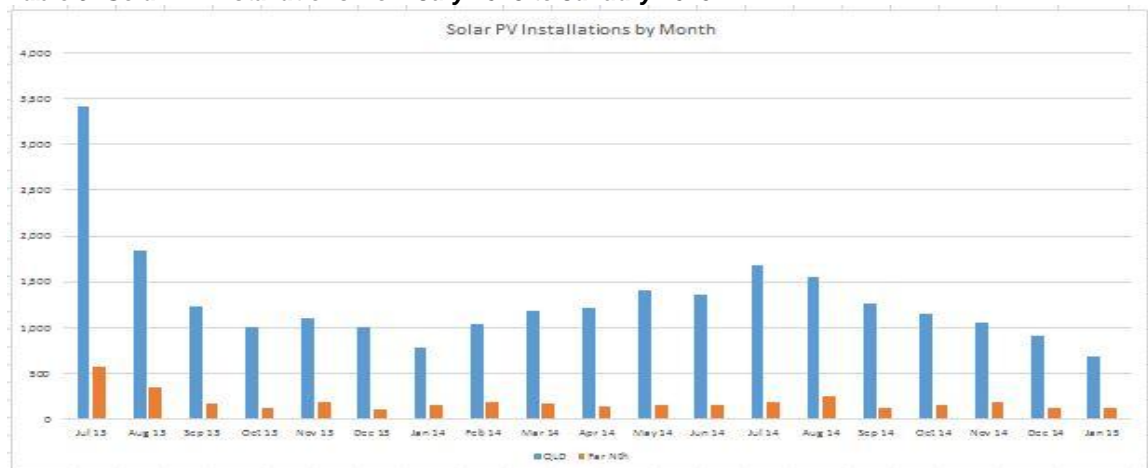
Source: Compiled from statistics provided by Ergon

The Feed-In Tariff of 44 cent per kWh ceased on 9 July 2012 in relation to new installations and as at 1 October 2014 had fallen to 6.53 cents/kWh.

The reduction in the Feed-In Tariff has had a direct impact on the number of solar PV installations resulting in only 684 solar PV connections in the Ergon distribution area in January 2015.

The number of solar PV installations could fall even further if the Federal Government’s Small-scale Renewable Energy Scheme is withdrawn as a result of the Renewable Energy Target Review released in August 2014.

Table 9: Solar PV installations from July 2013 to January 2015



Source: Compiled from statistics provided by Ergon

The energy costs for the Draft 2015/16 Determination need to be revisited in light of the consistent pattern of falling solar PV installations and uncertain State and Federal Government policies.

The whole question of solar PV generation and its impact on the distribution network needs to be urgently addressed.

There are areas within the Ergon distribution area where solar PV or renewable energy generation would increase price competitiveness and improve supply reliability. However, this requires earnest engagement on a region by region basis before committing to a State or Federal policy on renewable energy.

Conclusion

The overwhelming message from regional Queensland electricity consumers, both residential and business, is the need to reduce electricity prices in 2015/16. The cumulative impact of continuous rising electricity prices over the past five years has taken its toll on households, businesses and industries.

Any increase is not acceptable.

Electricity price increases are effectively acting as a hidden tax on the economy of Queensland.

Regional Queensland consumers demand a decrease in electricity prices which could be achieved by:

- Assurance from the new Queensland Government that it is committed to maintaining the Community Service Obligation
- The removal of the headroom
- A reduction in the fixed price component (particularly favourable should the AER reduce Ergon's revenue for 2015-2020)
- The reduction in off peak tariffs to enable Ergon's distribution network to improve their load profile
- An earnest discussion regarding the role and geographic dispersion of renewable energy particularly solar PV

Without a reduction in electricity prices regional industries will shrink and regional jobs will be lost.

Attachment

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

1. Cairns Regional Council
2. Tablelands Regional Council
3. Cook Shire Council
4. Far North Queensland Regional Organisation of Councils
5. Advance Cairns
6. Tourism Tropical North Queensland
7. Regional Development Australia FNQ & Torres Strait
8. Cairns Chamber of Commerce
9. Mareeba Chamber of Commerce
10. Atherton Tableland Chamber of Commerce
11. Innisfail District Chamber of Commerce
12. Urban Development Institute of Australia
13. Consolidated Tin Mines Ltd
14. Snow Peak Mining Pty Ltd
15. Tableland Canegrowers
16. Queensland Dairyfarmers Organisation