



QUEENSLAND ELECTRICITY USERS NETWORK

"Advocating for affordable and reliable electricity in Queensland"

**Submission
to
Queensland Competition Authority
on
2018-19 Regulated Retail Electricity Prices for regional Queensland
17 January 2018**

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Queensland Competition Authority: 2018-19 Regulated Retail Electricity Prices for regional Queensland

1.0 Introduction

There is no doubt - electricity in regional Queensland is **NOT** affordable.

Energy poverty is no longer restricted to homes reliant on Centrelink payments - approximately 75% of homes disconnected for not paying their power bills are *not* eligible for government energy concessions.

The types of businesses struggling to pay their power bills are no longer restricted to manufacturers with high levels of electricity usage - as per a recent survey of over 700 regional Queensland businesses around 50% covering a diverse range of industries across different climate types are very concerned about their ability to pay their power bills in full and on time.

Since 2007 the Queensland Government has provided a Delegation to the Queensland Competition Authority to determine regulated retail electricity prices/tariffs for regional Queensland. The Terms of Reference specify the matters the Queensland Competition Authority must consider.

The word “affordable” is not stated in the 2017-18 (original and superseded) Delegations or in the 2018 -19 Delegation.

The Queensland Competition Authority (QCA) said last year that because “affordable” is not a Term of Reference, affordability is not a matter to be considered by the QCA.

For residential and business customers across regional Queensland the number one consideration is affordability.

The QEUN believe it is not in the best interests of electricity customers, the economy or regional jobs to exclude the term “affordable” from the Terms of Reference.

The QCA must adhere to the cost build-up methodology specified in the Delegation;

Network (N) plus Retail (R) where N (network cost) is treated as a pass-through and R (energy and retail cost) is determined by the Queensland Competition Authority

If the methodology specified in the Delegation results in electricity prices/tariffs that are not affordable, that does not concern the QCA. The QCA have advised the QEUN that affordability is a matter for the Queensland Government.

The Queensland Government is responsible for setting the regulated retail electricity prices/tariffs *for regional Queensland*. Customers in Southeast Queensland do not have access to regulated retail prices/tariffs.

Last year, hours after the Queensland Competition Authority announced the 2017-18 regulated retail electricity prices/tariffs, the Queensland Government announced the removal of the charges for the Solar Bonus Scheme over three years through to 2019-2020.

The Solar Bonus Scheme (SBS) is a policy of the Queensland Government. The Queensland Productivity Commission estimated the total cost of the SBS to be \$4.1 Billion, with more than \$2.8 Billion to be recovered from all electricity customers through electricity prices between 2016-17 and 2027-28. The SBS was estimated to contribute about \$89 to a residential power bill in 2015-16.

As a result of the Queensland Government’s decision to remove the SBS charges for three years, a ‘new or revised’ Delegation for 2017-18 was given to the QCA.

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The new Delegation stated:

*“The Government has taken steps to deliver price relief for Queensland electricity consumers by directing Energy Queensland to remove charges for the Solar Bonus Scheme from **network prices**”*

Energy Queensland is 100% owned by the Queensland Government and the prices charged by its Ergon Energy ‘Network’ delivers multi- million dollar profits to the Queensland Government each year.

The new Delegation for 2017-18 also stated the removal of the Solar Bonus Scheme:

*“Will assist in mitigating the impact of rising **wholesale prices** which are impacting retail electricity prices across the National Electricity Market (NEM), including Queensland.”*

The Queensland Government owns 65% of the electricity generation capacity in Queensland.

Due to the strategies practiced by the 100% Queensland Government owned generators, the wholesale prices in Queensland were the second highest in the National Electricity Market in 2016-17. The 55% jump in Queensland wholesale prices almost doubled the profits from the Queensland Government owned generators from an estimated \$482 million to an actual profit of \$892 million in 2016-17. The Queensland Government estimates profits from its generators will exceed one billion dollars in 2017-18.

The exorbitant wholesale prices are included in the Retail (R) component of the cost build up methodology specified by the Queensland Government in its Delegation.

The primary reason for escalating power bills in regional Queensland is the Solar Bonus Scheme, network charges and wholesale prices - all are largely controlled by the Queensland Government. The Queensland Budget has estimated the combined profit from all its electricity assets to be over \$3.1 Billion in 2017-18.

If the Queensland Government will not acknowledge their leading role in pushing power bills to unsustainable levels in regional Queensland, the Queensland Competition Authority under Term 4 of the Delegation can elect to consider affordability.

Term 4 states:

“In accordance with section 90(5)(b) of the Act, the QCA may have regard to any other matter that the QCA considers relevant”

The Queensland Government can choose to reject the Queensland Competition Authority’s Determination as the responsibility for setting regulated retail electricity prices for regional Queensland rests with the Queensland Government. The Queensland Government did choose to reject the QCA’s Determination last year.

Under the Affordable Energy Plan the Queensland Government has made a commitment to keep electricity prices to **below inflation on average** for typical residential and small business customers over the next 2 years.

This demonstrates the Queensland Government does not understand that current electricity prices/tariffs are placing existing jobs at risk and stifling the creation of more jobs and stronger regional economies.

For a strong economy and jobs growth electricity prices/tariffs in regional Queensland must fall.

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The Queensland Government's policy of "minimising the increases" is placing undue financial and social stress on cities and communities throughout regional Queensland.

The findings of a regional business survey conducted for the Queensland Electricity Users Network in 2017 clearly demonstrates that regional businesses and industries are at a tipping point.

The confidence in QCA's Determinations has been severely eroded by the large difference between their *Draft and Final* Determinations in 2017-18.

Residential customers expecting an increase of 1.7% faced a Final Determination of 7.1% and business customers expecting an increase of 1.5% faced an increase of 8.2%. In a media release that QEUN warned businesses that QCA's Draft Determination had lulled businesses into a false sense of security by not taking into account the surging wholesale prices being experienced in Queensland in 2017 (see Appendix 1).

The QCA's Draft could have been more accurate if the Queensland Government had conveyed to the QCA its policies and decisions on the on Solar Bonus Scheme, network charges and wholesale prices.

The huge difference between QCA's Draft and the Final Determinations only served to place further stress on already stressed household and business budgets.

Queensland Competition Authority: 2018-19 Regulated Retail Electricity Prices for regional Queensland**2.0 Recommendations**

To ensure residential and business customers in regional Queensland can **afford** their power bills, the Queensland Electricity Users Network recommends that the Queensland Competition Authority advises the Queensland Government that:

- The Solar Bonus Scheme must not, under any circumstances, be added to 2018-19 regulated retail electricity prices/tariffs
- The Queensland Government informs the Australian Energy Regulator that the Solar Bonus Scheme will no longer be collected as a jurisdictional levy and charged to electricity customers in regional Queensland
- The Queensland Government reduces Ergon Energy Network charges by reforming network tariffs, in particular increasing the small business customer threshold from 100 MWh per year to 160 MWh per year
- The Queensland Government removes the 'standing offer adjustment' or 'head room' charge from all tariffs particularly since there is no retail competition for residential and small business customers in regional Queensland *and* the difference between Southeast Queensland and regional Queensland retail offers is 20 to 30%. Therefore its addition only increases the differential and increases the profits of the Queensland Government's electricity assets.
- The Queensland Government reduces wholesale prices in Queensland by charging no more than necessary to efficiently operate its 100% Queensland Government owned generators
- The Queensland Government maintains the Uniform Tariff Policy
- The Queensland Government instructs Ergon Energy to work with consumer advocates on the development of a trial battery tariff for customers with and without solar systems
- The Queensland Government modifies EasyPay Rewards to share the benefits Ergon Energy Retail receives from customers agreeing to SmoothPay, Direct Debit and e-Bill and for the benefits to appear as a three credits on each power bill rather than being paid annually.
- The Queensland Government implements the removal of the Non-Reversion Policy as soon as possible and extend its removal to include all customers consuming up to 160 MWh per year

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3.0 How to make electricity ‘affordable’ - the case for tariff reform

A tariff is a pricing structure a retailer charges a customer for electricity consumption.

A tariff consists of two parts:

- fixed charges for daily supply - charged in cents/day or on some tariffs also as \$/kW
- a variable charge for the amount of electricity consumed – charged in cents/kWh

In regional Queensland there is effectively one retailer selling electricity to small business and residential customers – Ergon Energy Retail.

Ergon Energy ‘Retail’ delivers electricity to its customers via a poles and wires network (grid) owned by Ergon Energy ‘Network’. The \$11 Billion Ergon Energy ‘Network’ delivers electricity to 97% of the geographic area of Queensland.

Despite a growing population in regional Queensland, Ergon Energy Network is delivering less electricity to customers with consumption falling 12% over 5 years. However, the demand for electricity during peak periods – Monday to Friday 4.00 to 8.00pm – has grown by 10% over 5 years (see Table 1).

Table 1: Electricity distribution by Ergon Energy Network

Ergon Energy Network	2012-13	2013-14	2014-15	2015-16	2016-17
No. Connected Customers	712,634	724,264	733,261	740,881	747,183 △
Network-wide Peak Demand	2,380MW	2,441MW	2,382MW	2,481MW	2,637MW △
Electricity Delivered	15,097GWh	15,247GWh	15,140GWh	14,997GWh	13,330GWh ▽

Source: Energy Queensland Annual Report 2016-17

To meet reliability obligations, Ergon Energy Network has continued to invest in network infrastructure to meet peak demand for only a few days a year. The operating cost of the larger network has to be paid for by customers consuming electricity from the network. To offset the falling consumption revenue (variable charges in cents/kWh), Ergon Energy Network has increased its fixed charges to recoup the set revenue allowed by the Australian Energy Regulator.

Increasing the utilisation of the Ergon Energy Network above the current level of 39% will alleviate the need for Ergon Energy Network to continue to rely on exorbitant fixed charges. This requires tariff reform to ensure that small business customers consuming between 100 MWh per year and 160 MWh per year are not subjected to \$/KW demand charges.

There are many other tariff reform measures that need to be implemented which includes:

- The introduction of a food, fibre and manufacturing tariff.
- The changing of the peak demand periods for business tariffs to a shorter window of time.

Tariff reform is urgently required to increase utilisation, reduce peak demand and to maintain and grow regional jobs.

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4.0 EasyPay Rewards

Under the Affordable Energy Plan the Queensland Government introduced EasyPay Rewards for small business customers consuming less than 100,000 kWh (100 MWh) per year. The offer closes on 30 June 2018.

If a small business agrees to set up SmoothPay, Direct Debit and e-Bill and has no missed payments or email delivery failures, Ergon Energy Retail will give the small business a \$120 reward each year for up to three years. EasyPay Rewards ends on 30 June 2020.

The aim of EasyPay Rewards is to assist small businesses to manage their cashflow by direct debiting an agreed amount of their annual electricity cost (SmoothPay) on either a weekly, fortnightly or monthly basis.

A survey of regional Queensland businesses conducted for the QEUN asked if electricity accounts were received on a quarterly or monthly basis. Of the businesses responding to the question 68% received power bills on a quarterly basis and 29% on a monthly basis (see Table 2).

Table 2: Billing period by business sector

Business sector	Received Quarterly Power Bills	Received Monthly Power Bills
Agriculture	89%	12%
Manufacturing	63%	41%
Retail Trade	62%	35%
Accommodation and Food	55%	44%
Mining	50%	75%
Total survey	68%	29%

Source: Regional Queensland Business Survey, QEUN, 2017

The ability of a small business to benefit from EasyPay Rewards is strongly linked to its cashflow and bank overdraft. The agricultural sector had the highest reliance on quarterly power bills. The uncertain cashflow of many businesses, particularly agricultural businesses, would make it difficult to commit and therefore receive benefits from EasyPay Rewards.

To put the Queensland Government’s \$120 EasyPay Reward into perspective, it is important to note that businesses on average receive 2.3 power bills. The average power bill in the survey was \$30,000 and the median power bill \$10,000. EasyPay Rewards represents a potential saving of around 0.9% for an average business or 2.8% for a median business in regional Queensland.

It is alarming that small business disconnections have risen 17% in Queensland but 82% in regional Queensland. Ergon Energy Retail disconnects almost as many businesses in regional Queensland as the entire state of South Australia (see Table 3).

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Table 3: Small business customers disconnected for non-payment of electricity by jurisdiction

State	2015-16	2016-17	Change to previous financial year
New South Wales ¹	3107	2137	-31%
Queensland ¹	1403	1641	+17%
Ergon Energy in regional Queensland¹	384	698	+82%
South Australia ¹	678	727	+7%
Tasmania ¹	84	83	-1%
ACT ¹	75	76	+1%
Victoria ²	4319	3434	-20%

1. Under the National Energy Retail Law the Australian Energy Regulator is not responsible for the reporting of retailer performance in Victoria.

2. Statistics for Victoria sourced from the Essential Services Commission of Victoria

Source: Compiled from retail statistics, Australian Energy Regulator & Essential Services Commission of Victoria

EasyPay Rewards also provides a financial incentive of \$75 to residential customers if the customer agrees to set up SmoothPay, Direct Debit and e-Bill and has no missed payments or email delivery failures.

The National Debt Helpline has identified regional Queensland along with metropolitan Sydney and Melbourne, as areas where power bills are rising faster than what many can cope with. This together with the statistics showing an alarming number of regional Queensland homes being disconnected for not paying their power bills or placed on payment plans and hardship programs, demonstrates that many households in regional Queensland will not be able to commit to all three components/terms of EasyPay Rewards (see Tables 4,5 and 6).

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Table 4: Residential customer disconnections in Queensland

Retailer	2012-13	2013-14	2014-15	2015-16	2016-17	Q1 2017-18
AGL	5,481	3,653	5,246	4,037	3,860	952
Alinta Energy	-	-	-	-	-	3
Australian Power & Gas	527	612	-	-	-	-
Click Energy	242	796	718	350	166	142
Diamond Energy	0	12	18	10	18	6
EnergyAustralia	211	519	504	1,820	1,268	331
Ergon Energy	6,645	12,454	12,994	8,381	11,421	3,226
Locality Planning Energy	-	-	-	6	48	4
Lumo Energy	347	333	538	1,088	860	43
M2 Energy	0	6	52	73	95	99
Metered Energy Holdings	-	-	-	184	405	162
Mojo Power	-	-	-	-	-	1
Origin Energy	5,701	6,722	9,256	5,362	6,316	1,823
Powerdirect	100	143	299	312	540	81
Powershop	-	-	-	-	-	4
QEnergy	52	49	50	25	14	1
Red Energy	-	-	-	-	166	217
Sanctuary Energy	0	3	9	7	3	1
Simply Energy	0	3	8	12	20	17
Urth	-	-	-	-	1	-
TOTAL	19,306	25,305	29,692	21,667	25,201	7,113

Source: Retail statistics, Australian Energy Regulator website

Table 5: Customers on payment plans in Queensland

Retailer	Sep 2015	Dec 2015	Mar 2016	Jun 2016	Sep 2016	Dec 2016	Mar 2017	Jun 2017	Sep 2017
AGL	1,662	1,664	3,343	3,637	3,313	3,844	5,270	5,932	3,106
Click Energy	752	814	802	744	688	660	1,022	1,524	1
Diamond Energy	0	80	91	99	75	71	121	72	725
Energy Locals	-	-	-	-	-	-	-	1	67
EnergyAustralia	14,051	9,582	15,418	11,189	11,570	11,398	12,447	13,264	11,995
Ergon Energy	11,224	10,607	10,248	15,483	10,020	9,368	13,992	14,139	11,612
Locality Planning Energy	0	4	5	8	10	10	16	16	20
Lumo Energy	2,323	2,200	2,225	2,534	2,418	2,408	1,963	286	227
M2 Energy	23	29	21	32	44	36	30	40	35
Metered Energy Holdings	83	64	191	111	72	71	153	138	110
Mojo Power	-	-	-	-	-	-	3	24	52
Momentum Energy	1	0	0	0	0	0	0	0	0
Origin Energy	5,350	4,498	4,528	4,532	4,615	3,549	5,099	5,518	4,888
People Energy	-	-	-	-	-	-	2	15	5
Powerdirect	164	205	250	334	396	364	387	361	185
Powershop	-	-	-	-	-	-	1	22	47
QEnergy	99	92	106	110	118	101	98	99	108
Red Energy	-	-	-	-	-	5	1,729	1,795	1,612
Sanctuary Energy	13	17	32	35	23	15	19	11	16
Simply Energy	5	3	6	10	7	6	9	16	41
TOTAL	35,750	29,859	37,266	38,858	33,369	31,906	42,361	43,273	34,852

Source: Retail statistics, Australian Energy Regulator website

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Table 6: Customers on hardship programs in Queensland

Retailer	Jun 2013	Jun 2014	Jun 2015	Jun 2016	Jun 2017	Sep 2017
AGL	1,332	2,617	2,519	4,966	4,065	4,029
Australian Power & Gas	174	-	-	-	-	-
Click Energy	169	18	266	434	466	504
Diamond Energy	0	6	8	13	18	19
EnergyAustralia	300	747	1,664	1,093	1,026	1,073
Ergon Energy	3,822	3,209	5,515	6,321	5,469	4,142
Lumo Energy	164	282	302	391	36	25
M2 Energy	27	88	266	264	343	290
Metered Energy Holdings	-	-	-	14	23	15
Origin Energy	3,189	2,370	4,330	4,729	7,590	7,749
Powerdirect	31	37	95	143	175	183
Powershop	-	-	-	-	-	1
QEnergy	22	28	34	40	113	117
Red Energy	-	-	-	-	361	300
Sanctuary Energy	0	0	4	13	1	1
Simply Energy	0	0	0	2	14	44
TOTAL	9,230	9,402	15,003	18,423	19,700	18,492

Source: Retail statistics, Australian Energy Regulator website

To put the \$120 and \$75 “rewards” in context, the Queensland Government in the last two years increased the power bills for a typical small business customer on Tariff 20 by 15.3% and a typical residential customer on Tariff 11 by 6.1%. Power bills for all customers have at least doubled over the past decade.

Business and residential customers on EasyPay Rewards reduce the operating costs and increase the profits of the 100% Queensland Government owned Ergon Energy Retail. A credit should be passed onto a customer when the customer commits to one of the three components of EasyPay Rewards. For example, a customer should automatically receive a reduction in their power bill once they agree to receive an e-bill. The customer should be able to choose to agree to one or all three components and the credits should appear on each power bill rather than on an annual basis.

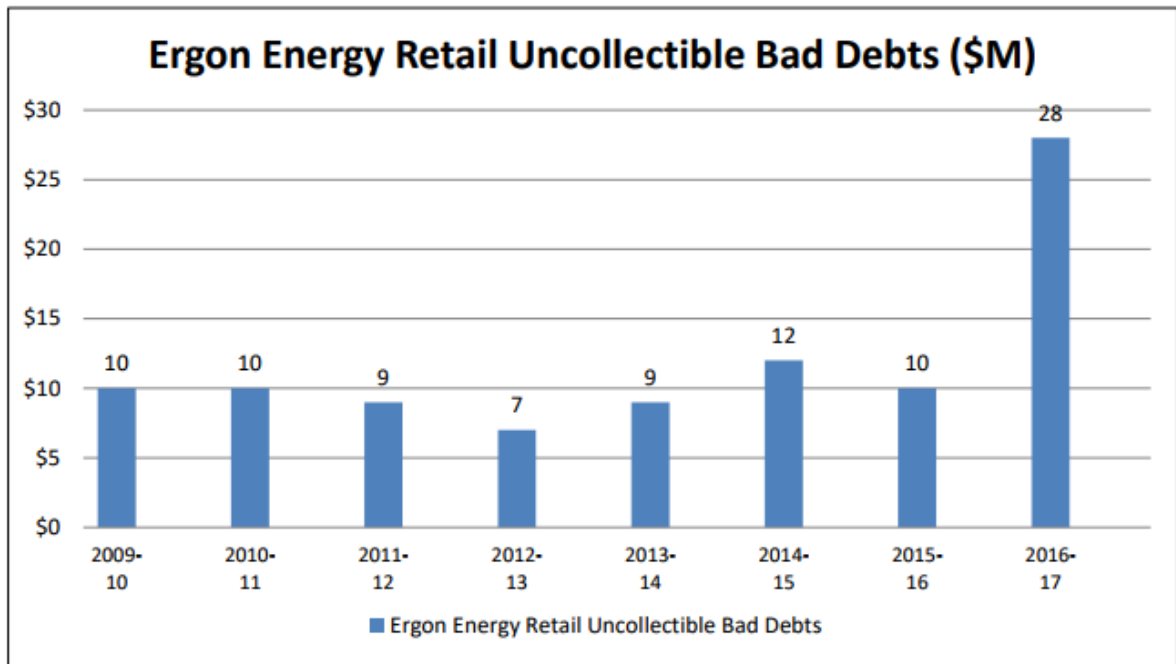
EasyPay Rewards may have more to do with Ergon Energy Retail managing its cashflow than assisting its customers to manage their cashflow.

The dramatic increase in the uncollectible debts and aging of overdue receivables of Ergon Energy Retail is proof that customers cannot afford the electricity prices/tariffs set by the QCA and Queensland Government (see Tables 7 and 8).

Customers in regional Queensland need a reduction in electricity prices/tariffs and the continuation of a modified EasyPay Rewards.

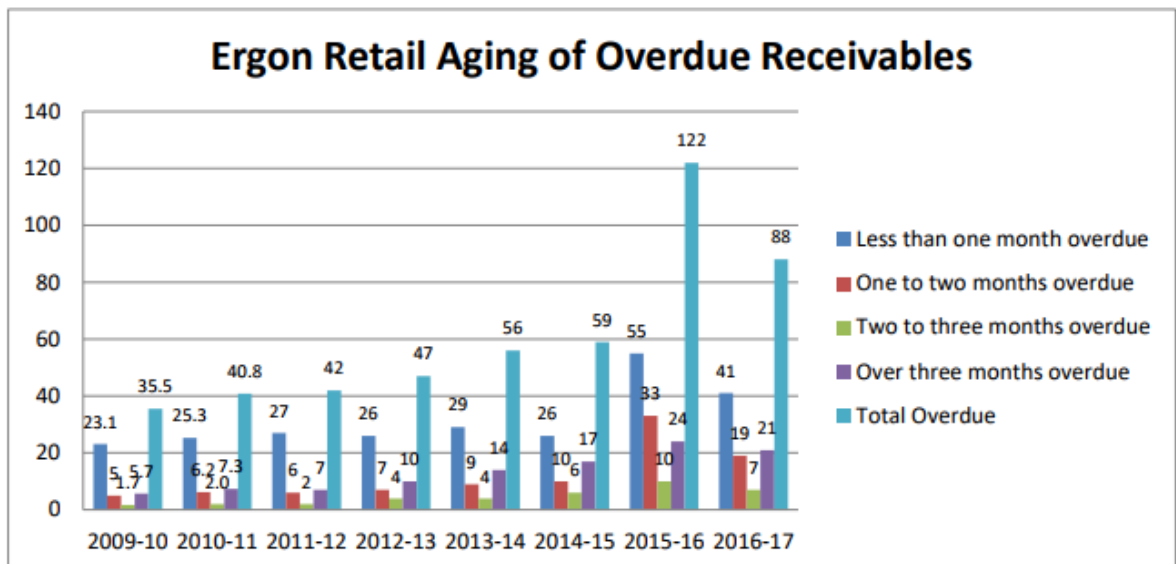
Queensland Competition Authority: 2018-19 Regulated Retail Electricity Prices for regional Queensland

Table 7: Uncollectible bad debts of Ergon Energy Retail



Source: Compiled from Ergon Energy and Energy Queensland Annual Reports

Table 8: Aging of overdue receivables of Ergon Energy Retail



Source: Compiled from Ergon Energy and Energy Queensland Annual Reports

Customers do not take the non-payment of a power bill lightly. The customers of Ergon Energy Retail understand the consequences. The financial, physical and emotional toll caused by not paying a power bill or going without other essentials to pay a power bill, adversely impacts entire families, businesses and towns. It also has a wider impact as it places additional demands on the Queensland Budget for health and social services.

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5.0 Conclusion

Unless the QCA and the Queensland Government understand the ramifications of ‘unaffordable’ power bills for both business and residential customers, regional economies and regional jobs are at risk in 2018-19.

This will have significant adverse implications for the Queensland Budget in terms of reduced revenue and increased expenses.

The recommendations in this submission will reduce electricity prices/tariffs and improve the economy and create jobs.

Since all the recommendations require the agreement of the Queensland Government, we request that the Queensland Competition Authority discuss the recommendations with the Queensland Government prior to the release of the QCA’s Draft Determination for 2018-19.

Appendix 1.

**QEUN Media Release 26th Feb 2017:
Businesses Urged to View Electricity Prices with Caution**



MEDIA RELEASE - 26TH February 2017

Businesses urged to view electricity prices with caution

The Queensland Electricity Users Network (QEUN) is urging all businesses in regional Queensland to view the Draft 2017-18 retail electricity prices announced by the Queensland Competition Authority with extreme caution.

Coordinator of the QEUN Jennifer Brownie said the draft retail electricity prices did not take into account the surging wholesale electricity prices experienced in Queensland in 2017.

“Most businesses will be unaware of how drastic a change could be possible when the final retail electricity prices are announced on 31st May.”

“Businesses are being lulled into a false sense of security believing their power bills will only go up by 1.5 percent from 1st July 2017,” she said.

Wholesale electricity prices make up about 25 percent of a power bill.

The wholesale electricity price has risen from an average of \$59.99/MWh in calendar year 2016 to \$96.89/MWh so far this year.

“Queensland has the dubious honour of being the highest average weekly wholesale electricity price in the National Electricity Market almost every week this year. This is despite the Queensland Government owning and controlling 65 percent of the electricity generation capacity in Queensland,” Ms Brownie said.

Businesses in regional Queensland were stung with increases ranging from 11.2 percent to 15.8 percent in 2016-17.

“The Queensland Government has failed to receive the message that regional businesses need power bills to go down not up.”

“If the recent surge in the wholesale electricity price continues it’s possible that Queensland businesses will suffer a rise in their power bills in excess of 20 percent over a 2 year period.”

“We strongly urge businesses to use extreme caution in relation to using the draft retail electricity prices as a basis for their budgets,” Ms Brownie said.

In March the QEUN will conduct business surveys in four regional centres in Queensland to estimate the impact of rising power bills on the regional economy and regional jobs.

For further information please contact: Jennifer Brownie, Coordinator, QEUN, ph: 0740 312 065