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Electricity Competition and Protection Legislation Amendment Bill 2014

The Energy Supply Association of Australia (esaa) welcomes the opportunity to make a submission to the State Development, Infrastructure and Industry Committee's inquiry into the *Electricity Competition and Protection Legislation Amendment Bill 2014*.

The esaa is the peak industry body for the stationary energy sector in Australia and represents the policy positions of the Chief Executives of 34 electricity and downstream natural gas businesses. These businesses own and operate some $120 billion in assets, employ more than 51,000 people and contribute $16.5 billion directly to the nation's Gross Domestic Product.

The electricity supply system in Australia is undergoing a period of transformation. Advances in technology are fundamentally changing the way electricity is made, moved and consumed. Consumers have also experienced sharp rises in electricity prices in recent years as the system keeps pace with strict reliability standards and a range of other cost pressures, including environmental policies.

While energy costs play a small part in most household budgets, price rises and changes to tariff structures may have a greater impact on vulnerable households. This is not a reason to delay reform. Rather, it highlights the need for a more strategic approach that encourages efficient and competitive energy supply and provides appropriate protections for vulnerable customers.

The Queensland Government's commitment to drive the electricity sector reform process is a significant achievement in this regard. The *Electricity Competition and Protection Legislation Amendment Bill 2014* and *National Energy Retail Law (Queensland) Bill 2014* lay the foundations for a truly competitive, sustainable and customer focused electricity supply sector in Queensland.

Driving competition in retail markets through price deregulation

South East Queensland (SEQ) has developed a mature and competitive retail market that now supports a mix of retailers from small new entrants to large incumbents. To date, retail price regulation has remained the only true impediment to vibrant competition in the region. The removal of price regulation in SEQ by 1 July 2015 is therefore an important and timely reform.

The Association has consistently advocated for deregulation of the retail energy market to drive the best outcome for consumers. Open, competitive energy markets free from distortions such as retail price regulation naturally encourage prices to be efficient through the development of market offers. Competition in retail electricity markets, as in other sectors of the Australian economy, incentivises businesses to improve service, develop products that meet consumer needs and find ways to lower their costs and to pass these savings onto consumers. This ensures retail prices are set as low as is sustainably possible while businesses can still make an appropriate return.

South Australia has provided the most recent example of how market deregulation enables competition to thrive, with businesses able to respond more flexibly to market forces. The end result is improved product choice, service quality and price discounts for consumers over the long term.

Of note, Adelaide recorded a 2.7 per cent reduction in electricity prices in the 12 months following price deregulation in January 2013. This was well below the national average which increased by 6.1 per cent.[1] Both South Australia and Victoria also boast materially higher customer switching rates – approximately 18 per cent and 28 per cent per annum respectively, compared with 11 per cent in Queensland.

Declining or stable pricing in SEQ on 1 July 2015 would be an ideal outcome for industry and consumers. It would also immediately validate the Queensland Government’s decision to implement such a fundamental market reform. But the ability of retail businesses to deliver such pricing outcomes – particularly in the short-term – is dependent on a range of other cost drivers, particularly network tariffs.

Falling electricity demand coupled with the rapid uptake of solar photovoltaic (PV) panels and energy intense-domestic appliances has reinforced the need for more efficient and equitable tariff structures in Queensland. Under the current flat rates offered, consumers do not face cost-reflective prices and this leads to unfair cross-subsidies and inefficient system utilisation. Energex’s prices rose by an average of 19 per cent[2] on 1 July 2013 and prices are set to rise further on 1 July this year[3], despite Energex limiting the increase for a number of small customer categories. On both occasions, the major reasons for the increase were the cost of the Solar Bonus Scheme and the impact of falling demand (partly due to PV uptake) pushing prices up for all customers.

Work is already under way on establishing fairer electricity pricing for all customers. This includes rebalancing the fixed and variable components of the main residential tariff (Tariff 11) to remove the heavy bias toward variable charges. Further changes to tariff structures and pricing are needed and will likely take effect post 30 July 2015 as Energex enters its new five year regulatory period.

[1] Energy Supply Association of Australia, “Deregulation sparks energy price fall: CPI”, Media release of 31 October 2013.
[2] Queensland Competition Authority, “Final Determination – Regulated retail electricity prices 2013-14”, May 2013.
[3] Queensland Competition Authority, “Final Determination – Regulated retail electricity prices 2014-15”, May 2014.

Regardless of short-term outcomes, completing the retail market deregulation process and encouraging the development of, and transition to, tariff structures that appropriately reflect the cost of the system is essential. This approach will allow consumers to flexibly adjust to cost-reflective price signals and ensure each user pays their fair share of system costs, the long-term benefits of which are improved system utilisation and least-cost electricity supply.

Providing appropriate and effective protections for vulnerable customers

Access to energy is an important social objective. Importantly, the level of customer protection offered under the proposed legislative changes will be greater than that afforded to Queensland energy consumers today.

Application of the National Energy Retail Law will provide Queensland consumers with additional protections under the National Energy Customer Framework (NECF). This includes providing consumers with better tools to engage in the retail market (e.g. access to the Australian Energy Regulator's price comparison website) and better support if they are in financial hardship. The Queensland Government has also incorporated further provisions in the National Energy Retail Law, including:

- for the first year of market monitoring, retail businesses will not be able to vary their price for consumers on standard retail contracts (unless the price goes down); and
- for the first two years of market monitoring, retail businesses can't introduce new types of fees and charges for consumers on standard retail contracts. Queensland consumers on market retail contracts will get advanced notice of price changes.

Adopting the NECF will reduce the regulatory burden of operating across multiple jurisdictions and lower barriers to retail market entry. But the above provisions are concerning, as they potentially expose retail businesses to costs they cannot pass on. This can potentially limit product differentiation and also increase the unit cost of electricity for all consumers as retail businesses are required to incorporate a risk premium into their pricing structures.

Retailer fees/charges are a feature of the current market and market offers can be revised to reflect changes in underlying costs (e.g. changes in network pricing or green scheme costs). A key benefit of retail price deregulation will be the evolution of a broader range of product offerings that better suit particular customer needs. This may include market offers that exclude exit fees entirely or provide price certainty over a longer time period. Further, customers will still have access to standard retail contracts that are bound by additional protections, such as a defined time for providing advanced notice of price changes.

In conjunction with adopting the National Energy Retail Law, it should also be noted that improved customer assistance measures is a key priority for the Queensland Government. The state's electricity rebate in its current form is poorly targeted, providing a flat $282.54 rebate to eligible senior and pension concession card holders regardless of the need for assistance. There is no income test on the eligibility of seniors to receive this, yet many unemployed Queenslanders are not eligible, in contrast to other states. The Queensland Government has advised that it will review the eligibility criteria and structure of the rebate to better target assistance to those most in need as part of the development of a holistic hardship framework.

As an additional consumer protection, the proposed legislation provides the Queensland Government with the reserve power to reintroduce retail price regulation in SEQ. This poses a significant risk for retail market participants. As such, the Association is strongly supportive of making the decision contingent on the findings of an independent assessment of competition in the SEQ market. In particular, the independent assessment must demonstrate that competition is ineffective and recommend retail price controls be reinstated.

Any questions about our submission should be addressed to Shaun Cole, by email to shaun.cole@esaa.com.au or by telephone on (03) 9205 3106.

Yours sincerely

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