



29 July 2017

## **SUBMISSION TO ACCC INQUIRY INTO RETAIL ELECTRICITY SUPPLY AND PRICING**

### **BACKGROUND**

The Queensland Consumers' Association (the Association) is a non-profit organisation established over 40 years ago and which exists to advance the interests of Queensland consumers. The Association's members work in a voluntary capacity and specialise in particular policy areas.

The Association is a member of the Consumers' Federation of Australia, the peak body for Australian consumer groups, and works closely with many other consumer and community groups.

The Association has been especially active for many years on energy issues in Queensland and nationally and is currently represented on the:

- Queensland Competition Authority's Consumer Consultative Committee
- Energy and Water Queensland Ombudsman's Advisory Council
- Energex's Customer Council.

The Association is also a member of the Queensland Council of Social Service's Essential Services Consultative Group and the Queensland Energy Minister's Consumer and Industry Reference Group. It has also been a member of Origin Energy's National Consultative Customer Council.

The Association has participated in, and made numerous submissions to inquiries etc. on energy issues conducted at national level, in Queensland, and in other states.

The Association has a strong interest in policies and other arrangements which result in highly effective markets and especially the need for effective consumer protections and ongoing effective consumer demand created by many engaged consumers making well informed choices.

The Association's achievements regarding informed consumer choice include:

- Leading the national campaign for greater price transparency in the food and grocery market that in 2009, following a recommendation from the 2008 ACCC inquiry into the competitiveness of retail prices for standard groceries, resulted in large bricks and mortar supermarkets, and online sellers of food and grocery products being required to provide consumers with the unit price (price per unit of measure) of many pre-packaged products.
- With other consumer bodies, making submissions that resulted in the final report of the Harper Review of Competition emphasising the importance of informed choice and in Recommendation 21<sup>1</sup> — Informed choice – stating that *governments both in their own dealings with consumers and in any regulation of the information that businesses must*

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<sup>1</sup> Accepted by the Commonwealth government.

*provide to consumers, should draw on lessons from behavioural economics to present information and choices in ways that allow consumers to access, assess and act on them.*

Therefore, the Association welcomes the opportunity to make this submission, which due to resource constraints, is brief.

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## **GENERAL COMMENTS**

The Association strongly welcomes this inquiry which has the potential to beneficially influence electricity policies and practices in the short, medium and longer term.

The Issues Paper appears to have identified most of the key issues etc. that have influenced electricity prices in recent years and which are of interest and concern to most consumers.

The Association's views on some of these, and other, issues are below.

## **NETWORKS**

The Association has been involved in several of the processes involved in setting the revenue caps for these monopoly businesses.

The introduction of the Consumer Challenge Panel concept into the processes has been beneficial for consumers.

However, given that network costs represent a high proportion of the final price of electricity, the very rapid increases in network charges, and the very dynamic and rapidly changing environments in the networks operate, it is essential that the regulatory arrangements are fully fit for purpose. The Association has many concerns about the extent to which the current network (distribution and transmission) regulatory arrangements are sufficiently fit for purpose.

**Therefore, the Association requests the inquiry to fully investigate and report on opportunities to improve the current regulatory arrangements for distribution and transmission networks.**

## **DEMAND MANAGEMENT**

For several years, the Association has been interested in, and advocated for, greater use of all forms of demand management to address peak demand problems.

The Association has been particularly supportive of the direct control of air conditioners by distributors to better manage peak summer demand.

The need for this became apparent many years ago when the use of air conditioners began to expand very rapidly. Yet industry and governments failed<sup>2</sup> to quickly develop and implement policies to overcome impediments to the use of direct load control of air conditioners. The Association considers that this was a major public policy failure which resulted in a massive increase in peak demand in many states, especially late in the afternoon on very hot days, and in the network augmentation and replacement investments needed to meet it. These investments have in turn substantially pushed up power prices to consumers. High peak demand can also increase generation costs and prices.

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<sup>2</sup> The reasons are identified and discussed in a Consultation Regulation Impact Statement on Mandating Smart Appliance interfaces issued by the Equipment, Energy Efficiency Committee of Energy Efficiency in 2013 and available at <http://www.energyrating.gov.au/about/other-programs/demand-response/>

The advantages of direct load control over other forms of demand management, and other approaches to managing peak demand, include:

- It is a simple “set and forget” operation for consumers.
- It provides a highly reliable way for distributors to manage peak demand.
- It can lock in a peak demand reduction capability for several years.
- It can often be implemented without the need for any tariff or meter changes.

With direct load control of air conditioners, the units are switched to a lower operating level, not turned off (as occurs with hot water systems) and trials have shown that this results in no noticeable reduction in consumer comfort.

Fortunately, there has been some recent progress on this issue recently, including the development of an Australian Standard for air conditioners. And, the south east Queensland distributor Energex has operated a PeakSmart air conditioner program since 2012. It offers a capacity-related incentive for each PeakSmart air conditioner fitted with a signal receiver, for up to 5 units. This program allows households to stay on their current tariff, they do not have to move to a time of use tariff, and there is no need to change meters. Currently, most new household air conditioners sold in south east Queensland are PeakSmart enabled (ie a signal receiver could be fitted) and a significant proportion of them are being registered with Energex’s program.

Retrofitting older air conditioners for direct load control does not seem to be practical or economic. Nevertheless, the Association considers that the continuing expansion in the number of air conditioners in use, and the impending very large replacement market, will still allow direct load control of air conditioners to become a significant demand management tool.

Also, PeakSmart enabled air conditioners are now widely available but for a variety of reasons<sup>3</sup> many will be installed without a signal receiver being fitted. Therefore, there will be considerable potential for distributors to later develop and implement programs that result in a receiver being fitted and the appliances becoming part of distributor demand management portfolios.

The Association considers that distributors, retailers, equipment manufacturers, builders, installers, regulators and governments should work much harder and more cooperatively than in the past to ensure that demand management, including direct load control, plays an important role in the future management of peak demand.

**Therefore, the Association requests that the inquiry fully investigate and report on the scope for greater use of demand management, including direct load control of air conditioners, to have beneficial effects on electricity costs and prices.**

## **ENERGY EFFICIENCY**

The Issues Paper does not appear to mention or seek views about energy efficiency even though it is widely recognised that it can have, and has had, major beneficial impacts on the cost and price of electricity.

The Association considers there is still great scope for energy efficiency policies and practices to have very beneficial effects on electricity costs and prices.

In this regard the Association considers that there is great potential to reduce overall and peak demand from air conditioners by the more widespread use of proven beneficial actions including temperatures set at slightly higher levels for cooling and lower for heating, not air conditioning unused areas, closing open doors and windows, using fans or the air conditioner’s fan only mode, etc. The Association also considers that there is great scope for more widespread use of air conditioners in economy/eco mode when this is available.

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<sup>3</sup> For example, where a distributor does not want or is unable to have direct control of the household air conditioner loads or a householder does not want to participate in a distributor’s direct load control program

**Therefore, the Association requests that the inquiry fully investigate and report on the scope for greater use of energy efficiency measures to have beneficial effects on electricity costs and prices.**

**RETAIL**

**Standing offers**

The Association is very concerned about the cost to consumers of many of the standing offer tariffs offered by retailers operating in the south east Queensland (SEQ) market since the deregulation of SEQ standing offer prices on 1 July 2016.

The Association’s research indicates that the annual cost of many SEQ standing offers are substantially higher (for example, by up to 17% for 2000 kWh annual consumption of the SEQ equivalents) than the standing offer for Tariff 11 set by the Queensland Competition Authority for the rest of Queensland, which is determined by estimated costs in SEQ.

Excessively high standing offer prices have very negative effects on the many SEQ consumers on standing offers. However, they also adversely affect consumers on market contracts some of which charge only standing offer prices, and those on market contracts which use standing offer prices as the base prices from which discounts are deducted.

**Therefore, the Association requests that the inquiry examine and report on the efficiency and fairness of standing offer prices in SEQ.**

**Proposals for change**

The Association considers that many changes are needed to the retail sector to:

- Improve consumer outcomes
- Enhance informed consumer choice
- Reduce complexity and enhance comparability of offers
- Increase consumer and retailer focus on prices, charges, and costs rather than on discounts and other incentives
- Increase effective competition between retailers
- Foster increased efficiency and more affordable prices.

**The Association requests that the inquiry consider recommending the following proposals for change:**

<b><u>Proposed Change</u></b>	<b><u>Justifications</u></b>
1. Increased research, monitoring and public release of information on the actual outcomes consumers are achieving in the market and how these relate to consumer needs and circumstances.	Currently, despite the reporting undertaken by various organisations, very little is known about the actual outcomes achieved by consumers, yet it is essential information for assessment of the effectiveness of retail energy markets.
2. Require energy retailers to show that any charges made on, or discounts lost by, customers for non-compliance with terms and conditions only reflect the actual cost incurred by the retailer.	This is will increase transparency and comparability, is fairer, and will result in greater competition based on prices and costs.  It is also an extension of the provision of the recent federal legislation on surcharging for use electronic payment methods (credit and debit cards, etc.) that the charge should reflect only the actual cost.
3. Require any energy retailer wishing to impose additional costs (or loss of benefit, etc.) on	Where appropriate in conjunction with a fixed actual cost related fee, this is the fairest way to

customers for late payments to do so primarily by charging a fair interest rate applied to the amount unpaid and the time the bill remains unpaid.	charge for late payments. It is widely used by businesses, including by telcos (some of which also have minimum amounts before any charges apply).
4. Require energy retailers to provide individual customers with information about any proposed changes in tariffs or charges (including discounts) at least 10 business days prior to the start of the proposed change.	<p>This will increase consumer awareness of proposed changes and is likely to significantly increase consumer interest in considering whether they can get a better deal from their existing, or another, retailer.</p> <p>In Queensland, this is required for all energy contracts, except those involving a regulated tariff, but only if the proposed change is an increase. However, we consider that it should apply to any change not just to increases.</p>
<p>5. Require any energy retailers offering % discounts to show prominently and legibly on price fact sheets, advertisements and any communications with consumers:</p> <ul style="list-style-type: none"> <li>• The total % discount offered (conditional and unconditional), <b>and</b> close to and in type no smaller than the total % discount, the total % unconditional discount offered.</li> <li>• the component of the tariff to which any or all discounts apply (e.g. daily charges, consumption charges or both).</li> </ul>	<p>These proposals would increase consumer awareness about types of discounts and what they may or may not apply to.</p> <p>The suggested presentation requirements for the total and the unconditional discounts are similar to those required in the Australian Consumer Law for the display for goods and services of the total price and a price that is only part of the total price, and to those in ASIC legislation for the display of a “comparison interest rate” for loans.</p>
6. Require energy retailers to show prominently and legibly on price fact sheets, advertisements and any communications with consumers about a specific offer, the annual cost of the offer for defined and standardised representative groups of consumers (for example low, medium and high consumption consumers).	<p>This would increase consumer awareness of the total cost of energy contracts. It would therefore help consumers to compare offers and relate them to their needs and circumstances.</p> <p>It would be similar to the requirements of other legislation to provide consumers with the total cost of other types of contracts, for example mobile phones plans and loans.</p>
7. Increased scrutiny, and consumer participation in assessment, of any proposed mergers or acquisitions of energy retailers.	This would help ensure that the effectiveness of these already highly concentrated markets is not reduced by further concentration arising from mergers and acquisitions.

## CONSUMER EDUCATION

Many consumers are insufficiently energy literate about many matters, including how they are charged, what influences their consumption, understanding of bills, how to shop around for a better deal from their current or another retailer, and energy efficiency.

The Association considers that this is a major problem and impediment to the operation of an efficient market and to the development and implementation of effective energy policies. However, this is not sufficiently recognised in the Issues Paper.

**Therefore, the Association requests that the inquiry examine and report on the scope for improved consumer education to beneficially influence electricity costs and prices.**