QCOSS Queensland Council of Social Service

27 June 2014

The Research Director
State Development, Infrastructure and Industry Committee
Parliament House
George Street
BRISBANE QLD 4000

Dear Committee Members

RE: NATIONAL ENERGY RETAIL LAW (QUEENSLAND) BILL 2014 AND ELECTRICITY COMPETITION AND PROTECTION AMENDMENT BILL 2014

Thank you for the opportunity to make a submission to the Parliamentary Inquiry into the National Energy Retail Law (Queensland) Bill 2014 and the Electricity Competition and Protection Amendment Bill 2014. QCOSS understands the purpose of these Bills is to implement the National Energy Customer Framework (NECF) in Queensland with some modifications specific to Queensland, and to introduce the framework for deregulating retail electricity prices in South East Queensland (SEQ) from 1 July 2015.

Reforms to the energy sector are a critical aspect of QCOSS's policy work. Electricity is an essential service that facilitates access to safe food, health care, shelter and security, as well as supporting participation in employment, education and social interaction. It is important to ensure all Queensland households are able to access an affordable supply of energy to maintain a reasonable standard of living.

QCOSS supports the implementation of the NECF in Queensland, as it represents an overall improvement on the existing consumer protections for residential energy customers across the state. QCOSS is also supportive of the consultation undertaken by the Department of Energy and Water Supply to develop the modifications to further enhance the protections for Queensland consumers.

QCOSS has concerns about the timelines for deregulation of retail electricity prices in SEQ. The removal of price regulation can only result in better outcomes for consumers if they are well-informed and able to easily compare offers. It is critical that reforms to the electricity sector do not further confuse consumers, many of whom are already bewildered by the complexity of the market and struggling with affordability as energy costs continue to rise. QCOSS considers there is more work to be done to minimise complexity and assist consumers to understand the market. We strongly recommend the commencement date for the removal of price regulation in SEQ be delayed to 1 July 2016 to ensure the market is ready.

We have outlined our positions in the attached submission. Thank you for considering our comments in relation to these Bills. If you have any questions regarding our submission, please contact Carly Allen on 3004 6909 or carlya@qcoss.org.au.

Yours sincerely,

Mark Henley
Chief Executive Officer

Queensland Council of Social Service Ltd
River Tower, Ground Floor, 20 Pidgeon Close, West End QLD 4101
PO Box 3786, South Brisbane QLD 4101
RECEPTION (07) 3004 6900 FAX (07) 3004 6999 EMAIL qcoss@qcoss.org.au ABN 11 781 477 447 ACN 169 502 032 www.qcoss.org.au

QCOSS Queensland Council of Social Service

Submission to Parliamentary Committee

National Energy Retail Law (Queensland) Bill 2014 & Electricity Competition and Protection Legislation Amendment Bill 2014

1.0 Introduction

The Queensland Council of Social Service (QCOSS) is Queensland's leading force for social change, working to eliminate poverty and disadvantage. With more than 600 members, QCOSS undertakes informed advocacy and supports a strong community service sector.

QCOSS' key activities focus on providing effective policy advice, working to strengthen responsive community services and having productive partnerships with government, private sector, the media and the sector. This work is done with a Queensland free of poverty and disadvantage front of mind.

QCOSS receives funding from the Department of Energy and Water Supply to represent low-income and vulnerable consumers in electricity market policy and reform, and to build the capacity of the community sector to assist low-income and vulnerable clients on energy-related matters. In conducting this work, we consult and collaborate with our members and other community sector and consumer organisations across the state.

While many of our members and stakeholders work with people experiencing poverty or disadvantage, QCOSS is aware that all Queensland consumers have experienced significant electricity price increases in recent years, and many find the electricity market extremely complex and confusing. For this reason, much of our feedback relating to the experiences of low-income and disadvantaged customers is likely to also be relevant for residential consumers more broadly.

2.0 Delaying the commencement of price deregulation

QCOSS believes there are a number of matters to be addressed prior to the removal of retail electricity price regulation in SEQ. We believe the commencement date should be delayed until all the preconditions outlined in the Queensland Government's *30 Year Electricity Strategy Discussion Paper* have been met. We recommend a short delay to the commencement of price deregulation in SEQ to 1 July 2016 to enable the government's preconditions to be fully considered and addressed.

We have some concerns around the effectiveness of competition in the SEQ electricity market. We believe the reforms should not be progressed until a public review of competition has been completed. The Australian Energy Market Commission (AEMC) is currently reviewing competition and will release their report on 1 September 2014. The AEMC may find competition to be not as effective as required, or may make recommendations for improving consumer engagement or other matters prior to deregulation. QCOSS believes the outcomes of this review should be published and fully considered before the framework for removing price regulation can be finalised.

There will also need to be a clear process for determining retail prices in regional Queensland. Due to the application of the Uniform Tariff Policy, the removal of price regulation in SEQ will require a new methodology for calculating regulated prices for regional customers. This is a highly complex issue that is likely to require further consultation and consideration to ensure regional customers are not worse off under the new arrangements. There needs to be a clear understanding of how removing price regulation will affect low-income and vulnerable households in regional areas.

Structural changes and improvements to the eligibility for concessions are also urgently needed. QCOSS considers that a revised concessions framework is an important precondition to ensure the equitable and adequate protection of vulnerable customers prior to the removal of retail electricity price regulation in SEQ. More time is needed to complete the review of concessions and implement the improved concessions framework before deregulation comes into effect.

3.0 Steps to improve consumer engagement

The success of the reforms to remove price regulation in achieving any benefits for consumers depends on the level of consumer engagement in the market. Price deregulation will only deliver better outcomes for consumers over the long term if they are able to understand what is available and make informed choices that force retailers to compete by offering cheaper prices and better service over time.

Consumers need simple, clear and accessible information in order to understand and compare the complex variables, terms and conditions of the contracts on offer. QCOSS considers the availability and accessibility of accurate and easy to understand information about energy offers in Queensland is currently very poor. We have identified:

- a lack of reliable, non-internet based sources of independent information and advice
- gaps in the quality and accessibility of comparative information from the Queensland Competition Authority (QCA)
- inconsistencies in the quality and comparability of information provided by energy retailers
- a heavy reliance on biased information provided by door-to-door and telephone salespeople
- the confusing nature of the variables (tariffs, fees, charges, discounts and rewards) that consumers must consider when comparing electricity offers
- a lack of support for consumers who may have impaired capacity to understand complex information.

These issues present very real barriers to achieving any significant improvement in consumer engagement prior to 1 July 2015. QCOSS is particularly concerned that many of the people currently on regulated contracts in SEQ (approximately 30 per cent of the market) will have limited opportunity to compare market offers prior to 1 July 2015. This will result in them remaining on regulated contracts which will convert to uncapped standing offer prices on 1 July 2015.

We believe it would be better to support improved consumer engagement by delaying the removal of price regulation until at least 12 months after the implementation of the NECF. This will allow customers a full year to access the Australian Energy Regulator's comparison resources (which are activated by implementation of the NECF) and for these resources to be actively promoted to customers before they are exposed to a deregulated market.

4.0 Advance notice of price increases

QCOSS strongly supports the modifications proposed to require individualised advance notice of price changes. However we recommend that these requirements be extended to all customers – regardless of whether they are on a standing offer or market offer – in recognition many electricity customers in SEQ do not understand there is a difference between the two contract types.

We also recommend that these requirements be applied to all changes that affect the price customers pay for electricity – that includes not just increases in tariff prices but also any increases in the fees and charges that the customer may incur, or the expiry of any time-limited discounts the customer might have been receiving. We note that most consumers do not distinguish between the removal or reduction of a discount and an increase in the tariff price, as they both have similar outcomes for the customer. Any attempt to have separate rules for these issues is likely to be very confusing for the average consumer.

It is also important that the regulation includes clear parameters to ensure retailers notify their customers of price increases within a timeframe that allows sufficient time for the customer to take action. QCOSS recommends at least 10 business days advanced notice which is consistent with the requirements for publishing standing offer prices.

5.0 Restricting fees and charges

While we note there have been some modifications to the NECF to simplify the market, there are a number of complexities that still present a barrier to consumer understanding and engagement. The more fees that retailers are permitted to charge, and the greater variation in the amounts that can be charged, the greater complexity consumers face in trying to compare energy offers. QCOSS considers it is necessary to restrict the allowable fees and charges to the greatest extent possible to ensure all consumers can easily compare offers and make decisions that are in their best interests.

Late payment fees

QCOSS does not support retailers being able to charge late payment fees – under either standing offers or market offers. Retailers have other options available to discourage chronic late payment, including withholding pay-on-time discounts under market contracts, introducing shortened collection cycles for chronic late payers and disconnection if payment is not forthcoming. Late payment fees can significantly increase energy costs for customers in financial hardship and are unnecessary given the range of other mechanisms available for retailers to manage their costs.

Early termination or exit fees

Exit fees are a barrier to competition as they prevent consumers from responding to a price increase by switching to another offer. Allowing exit fees to be charged at varied amounts that are uncapped also increases the complexity for customers when they are trying to calculate the overall value of an energy offer.

QCOSS believes exit fees should be capped at $20 (excluding GST) plus the pro-rata cost of any inducements. This provision is consistent with the approach taken in Victoria. This amount balances the cost to retailers of terminated contracts while still making it easy for consumers to shop around and engage in the market.

We also recommend exit fees should be banned in circumstances where it is inequitable to charge them, including:

- Where the customer does not have the option to continue the contract, for example where they have vacated the premises and cannot carry their account with the retailer to new premises.

- Where the customer has been identified as being in hardship either before or after a transfer has taken place.
- Where the customer has entered a new contract with the same retailer before their previous contract expired.
- Where the retailer has acted unreasonably, for example by reducing the value of the discount that the customer signed up to during the term of the contract.

Banning fees and charges on standing offer contracts

We note that as a transitional measure the fees and charges able to be charged under a standing offer will be restricted to those specified currently in notified prices. QCOSS supports this, but recommend that this restriction be made permanent.

6.0 Preventing price increases on fixed term contracts

QCOSS believes retailers should be prevented from increasing tariff prices under fixed term contracts. Under the current provisions in the NECF, energy retailers are permitted not only to increase the price they charge during a fixed contract period, and also charge an exit fee if the customer responds to the price increase by switching retailers. Consumers would rarely, if ever, encounter similar conditions when purchasing other services.

This situation creates both practical and psychological disincentives for consumers to engage in competitive retail markets. If consumers do switch retailers in response to a price increase, they face the risk that their new retailer will also increase the price, thereby eliminating the benefit of switching. There is also less reason for consumers to investigate other offers and participate in the market if they believe the prices agreed can be changed at any time.

QCOSS believes that prohibiting price changes during a fixed term contract will greatly improve the protections for Queensland consumers.

7.0 Restricting price increases to standing offers to pre-determined dates

QCOSS supports the amendment to limit standing offer price increases to an annual basis for a transitional period. Queensland consumers are used to annual increases in the regulated tariffs on 1 July each year. A doubling in the frequency of price increases in a newly deregulated market has the potential to confuse consumers and damage consumer confidence in the new market arrangements.

We suggest that once this transitional period concludes, standing offer prices should be limited to six monthly increases to be published on set dates. Requiring retailers to publish standing offers on pre-determined dates provides customers with more certainty around when prices will increase and enhances the comparability of prices at any given time. In Victoria (where there are no predetermined dates for publishing standing offer prices) there is evidence retailers wait to see their competitors’ offers before publishing their own standing offer prices.

Customers need to be able to assess whether the price they are being offered is competitive by comparing it against other offers. Specifying dates on which changes to standing offers may be published is considered to increase the likelihood that they will be based on efficient costs rather than competitors’ offers, as well as facilitating scrutiny of price movements in the market.

8.0 Definition and protections for card-operated meter customers

The definition of a card-operated meter in the modification of application of the NERL is:

> *"…a device, including any associated equipment, for measuring electricity that switches on and off in accordance with the amount of credit applied to the device* ***by a card*** *designed for use with the device".*

Clause 4 of the Schedule replaces the definition of a prepayment meter system under section 2(1) of the NERL to clarify that a prepayment meter system does not include a card-operated meter. The definition provided is:

> *"Prepayment meter system means a device componentry, software or other mechanism that operates to permit the flow of energy through a meter after prepayment and when activated by a card, code or some other method:* ***but does not include a device, componentry, software or other mechanism that is or includes a card-operated meter****".*

These definitions are confusing and potentially conflicting. The definition of a prepayment meter system states it includes meters which are '*activated by a card'* but then states it does not include 'card-operated meters' which by definition are also activated by a card. QCOSS understands the intent of providing a definition for card-operated meters is to clarify that those meters are not able to comply with some of the prepayment meter provisions in the NERL. However, we note that the characteristics which set 'card-operated meters' apart from 'prepayment meter systems' is not that they are operated by a card, but that they are located in remote communities where geographic isolation and lack of reliable communications infrastructure prevents the meters from complying with some of the prepayment meter provisions in the NERL.

QCOSS recommends the term and definition of card-operated meters be changed to reflect this distinction, rather than referring to the use of 'cards'. QCOSS recommends the term be amended to define 'card-operated meters' as 'remote prepayment meters' or 'isolated prepayment meters' to clarify that not all prepayment meters that are operated by a card fit this definition but only those that are located in remote areas. QCOSS suggests the new definition could reference both the location of the meters, as well as the fact that they are pre-existing (in place before the commencement of the NERL in Queensland), as those are the defining characteristics that will set them apart from other prepayment meters that may be permitted in Queensland in the future. QCOSS proposes the following definitions as suggestions to address this:

> *'A remote or isolated prepayment meter means a device componentry, software or other mechanism that was installed in a geographically remote community prior to 1 July 2015 and operates to permit the flow of energy through a meter after prepayment and when activated by a card, code or some other method'*

The definition of prepayment meter system could then be amended to:

> *'Prepayment meter system means a device componentry, software or other mechanism that operates to permit the flow of energy through a meter after prepayment and when activated by a card, code or some other method: but does not include a device, componentry, software or other mechanism that is or includes a remote or isolated prepayment meter'.*

Replacement of s55DA (Additional condition about community services agreement)

QCOSS supports the obligation on retailers to enter into a new Agreement with the State for the provision of community services. QCOSS would like to take this opportunity to highlight a critical deficiency in the existing Agreements which are resulting in vulnerable card-operated meter customers missing out on concessions and rebates.

The Electricity Rebate Agreement between Ergon Energy Queensland (Ergon) and the State of Queensland requires Ergon to pay the rebate to 'rebate customers' with this term defined in clause 2.1 of the Agreement as: 1) A customer who has made an application to a Retail Entity in accordance with clause 4; 2) Holds an electricity account with the Retail Entity; and 3) Meets the Eligibility Criteria. QCOSS is aware that this definition precludes card-operated meter customers in isolated communities from receiving the rebate on the basis that they do not hold an account with Ergon and therefore cannot meet the Eligibility Criteria. Urgent clarification of the eligibility of card-operated meter customers (and other prepayment meter customers should they be permitted in Queensland in the future) is required in the new agreement to take effect from 1 July 2015.