



CCIQ SUBMISSION

**Review of the National Energy Retail Law in
Queensland**

▾ **Department of Natural Resources, Mines and Energy**

CHAMBER OF COMMERCE AND INDUSTRY QUEENSLAND

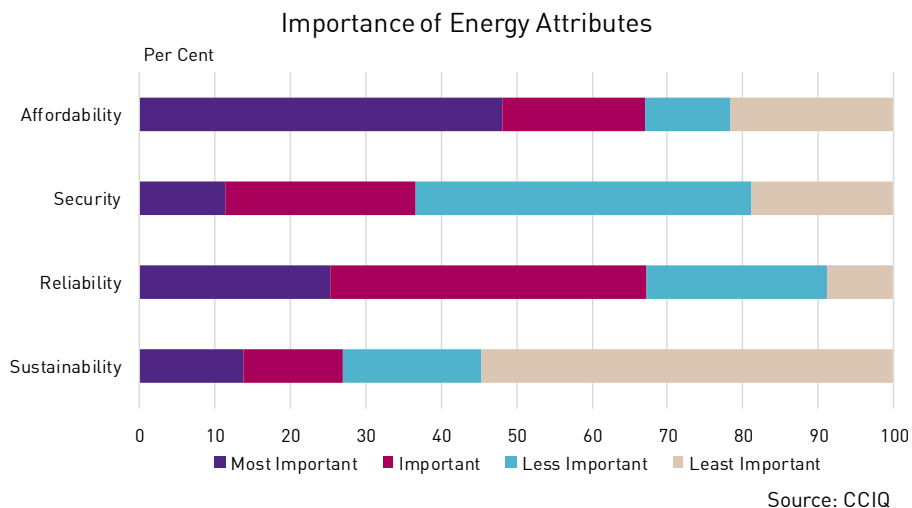
March 2019

Introduction

1. The Chamber of Commerce and Industry Queensland (CCIQ) welcomes the opportunity to provide a submission to the Department of Natural Resources, Mines and Energy (DNRME) in relation to the DNRME's review of the National Energy Retail Law (Queensland) (NERL (Qld)).
2. While the NERL (Qld) review poses specific questions (to which CCIQ will answer where appropriate), CCIQ will also provide a broad overview relevant to the set of questions at hand.
3. CCIQ is Queensland's peak industry representative organisation for small and medium enterprises (SMEs). We represent over 448,000 Queensland businesses on local, state, and federal issues that matter to them. Our guiding focus is to develop and advocate policies that are in the best interests of Queensland businesses, the Queensland economy, and the Queensland community.
4. CCIQ has long advocated for policies that will deliver reductions in power prices in the near-term and ongoing reductions in real energy costs in the long-term. It is essential that all households and businesses have access to affordable, reliable and secure energy. Businesses would like to see a return of our country's competitive advantage in cheap and secure energy, assisting growth for Queensland's small businesses and the broader economy.

Small Business and Electricity Policy

5. In a CCIQ Pulse survey, which CCIQ conducts quarterly to gauge business sentiment, respondents to the survey were requested to rank a list of energy attributes from most important to least important. The results are depicted below.



6. Small business clearly articulated that affordability is the most pressing concern when it comes to energy policy. When asked to preference which energy attributes are most important to their operations, businesses overwhelmingly indicated affordability as the top concern in almost half of the survey responses.

7. Reliability was the second most important attribute for businesses with over two-thirds of businesses indicating that as one of the top two attributes for energy. Small business owners did not consider security or sustainability to be as important considerations when shaping energy policy.

8. For businesses with under 20 employees, there was an overwhelming majority who indicated that rising electricity prices have had a critical or major impact on their businesses. Our members have indicated that they have adjusted to rising energy prices through the adoption of several measures including reduced staff, lesser services, invested in energy saving initiatives or absorbed the cost increase into the bottom line.

9. The discussion regarding energy affordability for businesses is supported by findings of the Australian Competition and Consumer Commission’s (ACCC) Retail Electricity Pricing Inquiry

Final Report. The report highlights the following experiences and concerns SMEs face regarding their electricity bill¹:

9.1 The average SME customer bill is generally around 3 times higher than the average household bill.

9.2 Very small business customers can pay more than a residential customer when consuming the same amount of electricity.

9.3 In South East Queensland (SEQ), around a third of SMEs are on the standing offer rate (which is generally substantially higher than most market retail offers).

9.4 Energy offers are too complex and discounts are too confusing.

9.5 There is a lack of transparency and comparability of retailers' offers which has resulted in a very low level of self confidence in finding the right information to choose a suitable energy plan.

9.6 There has been a steep decrease in the level of awareness of price comparison websites amongst small businesses particularly because many businesses are time and resources poor.

10. With businesses facing considerable difficulties and competition in the NEM still burgeoning, customer protection is crucial.

Customer Protection

11. Customer protection includes empowering customers to make the best electricity package choice for them and the Australian Energy Regulator's (AER's) *Energy Made Easy* website is an important step towards this.

¹ ACCC Retail Electricity Pricing Inquiry June 2018, page 336

12. Use of the website is simple enough although certain terminology needs to be explained or more simple terminology should be used. Business owners might not be familiar with terms such as 'peak' and 'off-peak' rates and 'controlled load'. By being able to click on the word which takes the user to a page that explains the terminology would easily rectify this.
13. Existence of the website also needs to be better circulated and working with consumer groups, industry representative bodies and chambers will be able to assist with this. Improving customer awareness of the site can be done through promotional material such as newsletters and emails. And for those who don't belong to consumer groups or industry groups then TV ad campaigns and newspaper advertisements should be far reaching.
14. While the *Energy Made Easy* website is a government initiative there are commercial comparison websites. These need to be regulated and it should be a requirement that a comparison website must clearly state whether it is not for profit or commercial. If it is commercial there needs to be a code or standard to which it must comply. This view is expressed by the ACCC². The ACCC states that the code should ensure that offers should be recommended based on benefit to the customer rather than size of commission received.
15. It must also be taken into account that not all consumers have easy access to comparison websites. In these instances, there should be on-site consultants to assist with choosing the correct electricity package. There can also be 'pop-up' stations in shopping centres that provide the same service as the website.
16. Part of empowering customers to make the right decisions is by providing consumers with enough notice when it comes to price or benefit changes. It is for this reason that CCIQ submits that the 10-day notice requirement for price increases under market retail contracts should rather be the same notification period as Section 48A in the NERL (Qld) which states that if a market retail contract includes a benefit change, the retailer must notify the small

² ACCC *Retail Electricity Pricing Inquiry* June 2018, page 150

customer of each benefit change with notice no earlier than 40 business days and no later than 20 business days before the benefit change date.

17. As swapping from one retailer to another may be time consuming, a minimum of 20 days business days gives the consumer more time to shop around for another retailer if they are not happy with price change or benefit change.
18. Section 48A of the NERL (Qld) should therefore be amended to include notice for price change in this provision.

Efficiency - Competition

19. In order to maintain downward pressure on electricity costs, effective competition in the retail market is crucial. As it stands, retail competition is still largely concentrated and customers are therefore not benefitting as much as they should be from deregulation in South East Queensland (SEQ).
20. Large retailers have advantages over smaller retailers, particularly the large customer base that the bigger retailers purchased when the market was deregulated.
21. Data obtained by the ACCC supports the view that the larger retailers have more longer standing customers than other retailers.³ This isn't necessarily indicative of the competitive electricity packages on offer but rather the disengagement to switch to a better offer. Furthermore, these customers tend to be on standing offers as opposed to the generally more price competitive market retail offers. In fact, the average revenue the large retailers make per customer is almost 10 percent higher than other retailers.⁴ The large retailers have the

³ ACCC *Retail Electricity Pricing Inquiry* June 2018, page 141

⁴ As above

largest customer base and most are still sitting on the more expensive standing offer – this is the very antithesis of competition.

22. Because the electricity market is so complex, many customers have remained with the same retailer since the deregulation of the market – regardless of the electricity package. More needs to be done to encourage customer engagement which will force the bigger retailers to offer competitive packages.
23. Regional Queensland is in a unique situation with the Uniform Tariff Policy (UTP) whereby everyone in regional Queensland pays the same price for electricity regardless of where they live.
24. While the UTP is in place, private retailers are unable to supply electricity at a regulated price without incurring a loss. This makes the development of retail competition in the UTP more complicated.
25. In the Queensland Productivity Commission’s (QPC) final report on electricity pricing⁵ an option is discussed which should improve retail competition in the regional areas. This option is to provide the UTP Community Service Obligation (CSO) subsidy at the Ergon Energy network level with no changes to the existing UTP arrangements. A CSO would therefore be paid to Ergon Energy’s distribution business which would charge retailers based on a discounted network charge, allowing all retailers to recover their costs of supplying electricity through notified prices. CCIQ has expressed its support of this recommendation in previous submissions and urges for this to be considered.
26. In response to the recommendation made by the QPC, the Queensland government advised that they would further investigate this option but industry is yet to see the findings from this and urgently requests an update.

⁵ QPC *Electricity Pricing Inquiry* 31 May 2016, page 237

Future Retail Market Reforms

27. As already stated, many customers are disengaged when it comes to choosing the correct electricity package.
28. This is largely due to the difficulty they have in engaging with the market because of its complexity and the difficulties that consumers face in being able to easily and accurately compare the value of different electricity offers.
29. CCIQ has been advocating for a requirement that all advertised discounts must be calculated from a reference bill amount set by the AER.
30. Another reform should be having easier access to electricity consumption data as the reading of electricity consumption and issuance thereof is too infrequent. This is a problem for service development and managing energy consumption.
31. Section 24 (1) of the NERL (Qld) addresses the frequency of bills and states that energy bills must be issued at least once every 100 days for customers on standard retail contracts. CCIQ submits that this is too long and does not allow for customers to manage their bill and electricity usage efficiently when bills are issued so infrequently. This also serves as a barrier to the emergence of services that could help customers to choose the correct electricity offer.
32. With the impending rollout of the Consumer Data Right (CDR) model, the NERL (Qld) may need to be amended to align with the provisions in the CDR. The CDR model will enable customers to share, amongst other information, data usage with comparison websites and service providers (such as retailers). This will allow for customers to more accurately compare electricity offers and will foster more competition leading to more competitive electricity prices.
33. The use of smart meters is another mechanism that will allow for customers to have better access to their data consumption information. With the half hourly measurements of

consumption that a smart meter provides, customers will be able to better understand and adjust their usage allowing them to find the best deal.

34. Unfortunately, there have been cases where the energy consumption readings by a smart meter has resulted in higher electricity bills. This is because the older meters are not necessarily as accurate and under-record electricity use. With high electricity prices already serving as a major burden on businesses, this potential bill shock needs to be mitigated.
35. Another type of meter that can assist customers in better managing their electricity bills and usage is prepaid meters. By having to pre -pay for access to electricity forces the consumer to understand how far their money takes them in the amount of energy they consume. AGL, for example, has launched a prepaid electricity plan that rewards customers with lower bills based on how much energy they purchase in advance. Once the customer falls behind with prepaid payment, they will be charged standard, non-discounted rates. This is a great incentive to minimise electricity usage or use more efficient methods.
36. However, while it may work for residential customers who can pre-pay based on their income cycle, the same principle does not necessarily apply for businesses. This is because:
 - 36.1 It is more difficult for businesses to predict their energy consumption than households due to the amount of factors that can effect how much energy a business consumes such as staff turnover, unexpected influx of work or unexpected lack of work.
 - 36.2 Many businesses have to chase payment of invoices and sit on 30 day, 60 day or 90 day payment of invoices. They would essentially be fast tracking an expense they don't yet have the income to pay.
37. Accordingly, while it may work for certain consumers it may not for others and this needs to be monitored to ensure there is not undue disadvantage to those who cannot take on a prepaid electricity package.

Conclusion

38. Overall, the operation of the NERL (Qld) has furthered the interest of Queensland energy consumers but there should be further reform as consumers need to be further empowered to choose the most competitive electricity package.
39. While retail competition in SEQ is improving, competition in Regional Queensland is not and this needs to be urgently addressed.
40. CCIQ welcomes any feedback or questions related to this submission. Please contact Policy Advisor, Olivia Van der Wagen at ovanderwagen@cciq.com.au.