



FAR NORTH QUEENSLAND ELECTRICITY USERS NETWORK

"Advocating on behalf of peak FNQ industry and social organisations
for affordable and reliable electricity in FNQ"

Submission to the Australian Energy Regulator on Exempt Selling Guidelines

9 November 2015

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DISCLAIMER

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The views expressed in this document do not necessarily reflect the views of the Energy Consumers Australia Panel or the Australian Energy Market Commission."

OVERVIEW

The Far North Queensland Electricity Users Network (FNQEUN) believes the Council of Australian Governments’ Energy Council, with advice from the Australian Energy Regulator and the Australian Energy Market Commission (AEMC), has failed in its obligation to uphold the National Electricity Objective.

The National Electricity Objective, as set out in the National Electricity Law, is to:

“promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to –

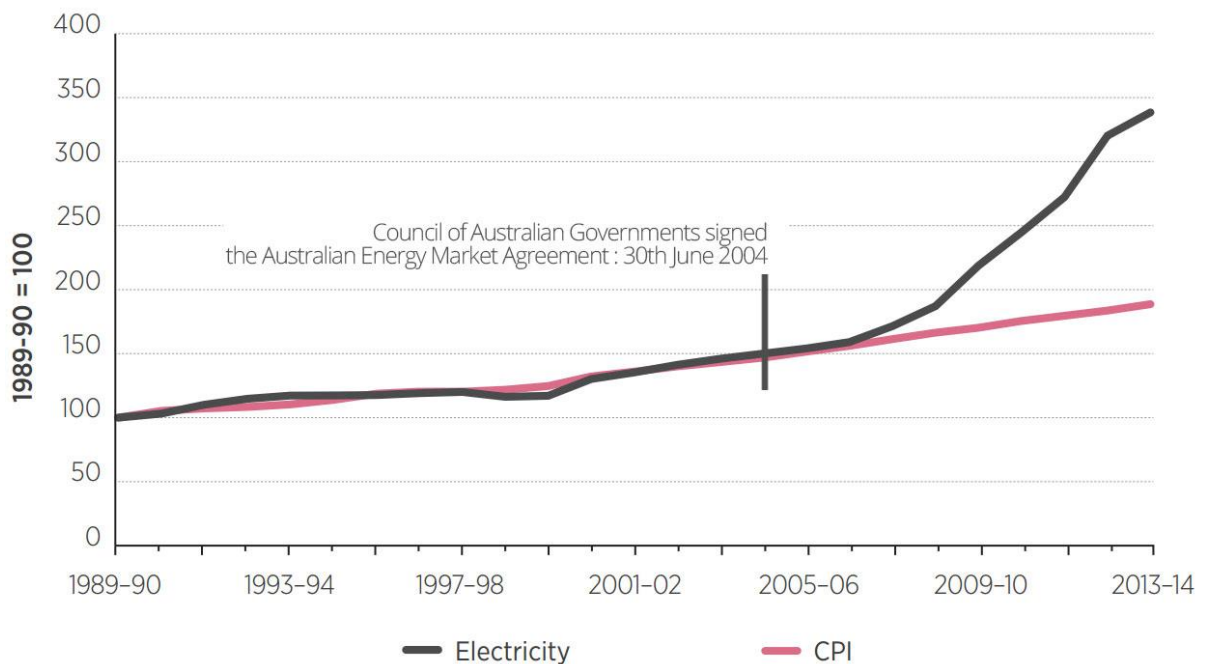
- (a) Price, quality, safety, reliability and security of supply of electricity; and*
- (b) The reliability, safety and security of the national electricity system”*

Since the Council of Australian Governments (COAG) signed the Australian Energy Market Agreement in 2004, national electricity prices have risen sharply (see Figure 1).

Electricity prices are now at unsustainable levels and the reliability, safety and security of the national electricity system is at risk.

The failure of the Australian Energy Regulator to fully comprehend the impact of retail legislation, particularly Solar Power Purchase Agreements, on electricity prices and the security of the national electricity system needs to be urgently addressed. Without changes to national retail rules the energy, food and economic security of Australia is at risk.

Figure 1: National Retail Electricity Price Index, 1989-90 to 2013-14



Source: Australian Government Energy White Paper, April 2015

Statistics – essential for National Rules that act in the long term interest of consumers

Official statistics collated quarterly by State government entities and the Australian Energy Regulator clearly demonstrate how the trend of rising electricity prices is causing widespread financial stress to both households and businesses (see Tables 1,2,3 and 4 in Appendix 1). This is not in the long term interest of consumers throughout Australia and is not isolated to vulnerable groups.

Statistics released by the Queensland Competition Authority show the number of residential customers on hardship payments in Queensland increased again in June Quarter 2015 to 15,003. That's 15,003 households that can't afford to pay their electricity bill, an increase of 60 percent in one year.

The affordability of electricity in June Quarter 2015 for NSW, ACT, Victoria, South Australia and Tasmania is unknown at the time of writing this submission as the Australian Energy Regulator has not provided June Quarter 2015 retail market performance data. Under the National Energy Retail Law, the AER is only required to provide an 'annual' retail market performance report.

The annual retail market performance report includes statistics such as:

- Hardship programs
- Disconnections and reconnections
- Energy bill debt
- Customer numbers

The AER does publish quarterly performance data on the AER website aiming to have the data available within 8 weeks of receiving the data from retailers. Last year the AER published June Quarter 2014 performance data 21 weeks after the June Quarter (see Table 5 in Appendix 1). This year it is already 19 weeks after June Quarter 2015 and no retail performance data has been published by the AER.

The failure to mandate the reporting of quarterly performance data is a failure of the National Energy Retail Law which is part of the National Energy Customer Framework (Customer Framework). The Customer Framework is set by the COAG Energy Council. Due to the rapid pace of change in the electricity/energy industry the COAG Energy Council needs to legislate that retail performance data is published 8 weeks from the end of a Quarter.

The type of statistics collected also needs to be widened to reflect changing consumer choices brought about by the introduction of the Customer Framework. The same statistics collated for authorised retailers should also be collected for individual exemptions eg Solar Power Purchase Agreements (SPPAs) number, size by postcode location, average length of time on a residential and non-residential SPPA, SPPA disconnections and hardship programs.

The COAG Energy Council and the AER do not have a role in setting retail energy prices. However, the national rules legislated by COAG Energy Council, under advice from the AER, have pushed national electricity prices to unsustainable levels. Any future changes to the national rules need to be in the long term interest of consumers. For this we need to broaden the collection of statistics and ensure statistics are published in a timely manner, particularly on Solar Power Purchase Agreements which will transform the retail market and the demand for grid electricity.

Poor consumer outcomes a reflection of narrow and limited consultation on rule changes

The Customer Framework requires the Australian Energy Regulator to establish and maintain a Customer Consultative Group (CCG). The narrow field of representation on the Customer Consultative Group is a major reason why the AER has provided poor advice to the COAG Energy Council.

The AER's inaugural Customer Consultative Group from 2009 to 2011 consisted of 9 organisations, the majority of whom represented social interests. The second CCG remained at 9 organisations for most of its 2011 to 2014 term, however the representation of social groups increased even further.

In April 2014, the AER appointed 12 organisations to the current Customer Consultative Group for a minimum 2 year period. Again, the overwhelming representation is from organisations representing vulnerable residential customers (see List 1 in Appendix 1).

In Queensland official statistics show that pensioners/concession card holders represent about 23 percent of small customers disconnected due to non-payment (see Table 2 in Appendix 1). This means 77 percent of consumers being disconnected due to non-payment are working families, couples and individuals.

Most of the organisations involved with the Far North Queensland Electricity Users Network represent small businesses. It is important to note that the engine room of the Australian economy – small business – does not have access to hardship programs under the national rules set by the COAG Energy Council. Similarly, large electricity customers do not have access to hardship programs. Hence, small and large businesses have limited options if they are experiencing difficulties paying their bill in 90 days and they have almost no voice on the Customer Consultative Group.

Some of the small businesses represented by the Far North Queensland Electricity Users Network are farmers. At present more than 80 percent of Queensland is officially drought declared and the strengthening El Nino is bringing warmer and drier conditions. The lack of agricultural representation on the Customer Consultative Group is now affecting Queensland's economy as irrigation pumps are turned off and valuable agricultural production and jobs are lost.

In Ergon Energy's distribution network which covers 97 percent of Queensland, customers consuming more than 100 MWh per annum use around 40 percent of the electricity consumed in the Ergon network. Whilst these large customers only represent 10 percent of Ergon's annual network revenue, the loss of their demand due to unsustainable electricity prices would have major detrimental consequences to both Ergon's network and the Queensland economy and increase the already high unemployment rate. Mining as a major driver of the Australian economy needs to be represented on the CCG.

The AER needs to urgently broaden the representation on the Customer Consultative Group in order to receive critical advice regarding the impact of individual exemptions/ Solar Power Purchase Agreements on small and large businesses, particularly customers located outside the capital cities.

Solar Power Purchase Agreements – a risk to consumers & the national grid

The National Energy Retail Law requires that anyone selling electricity to a customer for use at premises where the sale is reflected in a separate discrete charge for electricity must hold a retailer authorisation or a valid exemption.

The AER is authorised to exempt persons or classes of persons from the requirement to hold a retailer authorisation.

The Retail Rules provide for three different types of exemption:

- Deemed exemptions
- Registrable exemptions and
- Individual exemptions

Deemed exemptions apply to a range of entities but most commonly include caravan parks or holiday parks that sell metered electricity to people in short term holiday accommodation.

Entities that require a registrable exemption include retirement villages or caravan parks who sell metered electricity to permanent residents.

Where the sale of electricity is not covered by a deemed or registrable class exemption, a business or person may apply to the AER for an individual exemption.

Individual exemptions are allowed under the National Energy Retail Law. The National Energy Retail Law together with the National Energy Retail Rules and National Energy Retail Regulations are part of the National Energy Customer Framework (Customer Framework). In order for the Customer Framework to apply, each participating jurisdiction needs to pass its own legislation adopting the Retail Law, Rules and Regulations.

According to the AER website *“A State or territory may choose to change the way that the Law or the Rules apply eg by creating additional or different protections and obligations for customers and businesses in that State or Territory.”*

According to the AER website on the 9th November 2015 (the date of this submission):

“The framework has commenced in the Australian Capital Territory, Tasmania, South Australia and New South Wales. Victoria will commence the Customer Framework as soon as is practicable. Queensland is yet to consider its position on application of the Customer Framework. In states that have yet to adopt the Customer Framework, state and territory governments will remain responsible for regulating retail energy markets. Western Australia and the Northern Territory do not propose to implement the reforms.”

Yet according to a media statement released by the Queensland Minister for Energy and Water Supply, Mark Bailey, on 30 June 2015:

“Energy Minister Mark Bailey said the new protective measures for energy consumers follows Queensland’s decision to sign up to the National Energy Customer Framework.”

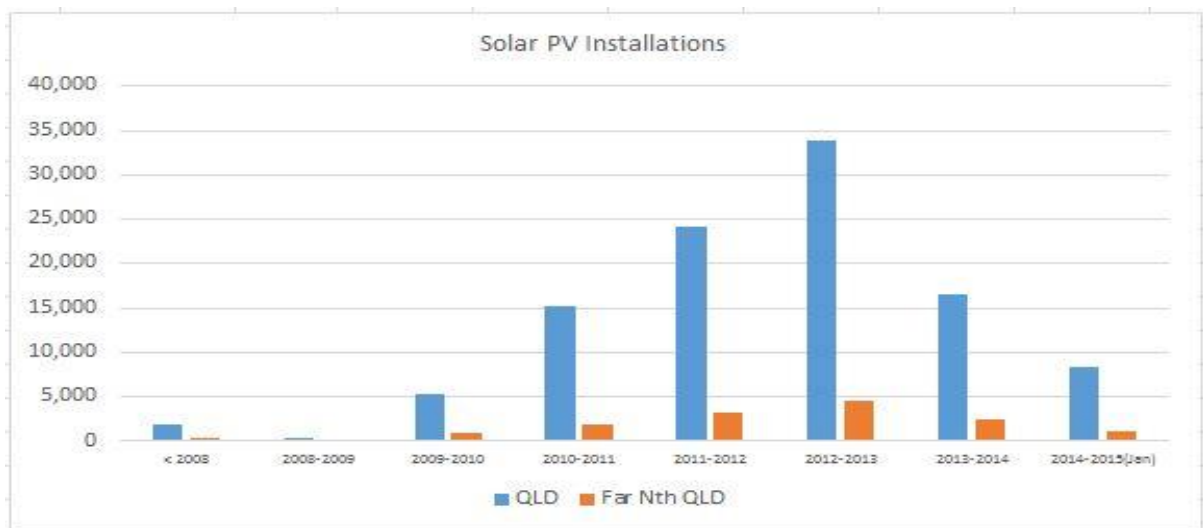
The Far North Queensland Electricity Users Network has been actively engaged with AER Networks in the Ergon Energy 2015-2020 Determination for the past two years. We are still at loss to understand what the Queensland Government has signed up to and if Queensland consumers are subject to any differences in the way the Customer Framework is rolled out in Queensland.

The main point we question is the depth and breadth of AER Retail’s consumer consultation when most consumer organisations appear to have been oblivious to the introduction of the Customer Framework on 1st July 2015 or its implications.

We have concerns regarding deemed and registrable exemptions but these concerns are overwhelmed by what we believe could be the impact of individual exemptions on Queensland’s electricity prices and on the viability of Queensland’s distribution and transmission networks.

To date the installation of solar PVs in Queensland have closely mirrored the Queensland Government’s Solar Bonus Scheme.

Table 6 : Solar PV installations in the Ergon Energy Area



Source: Compiled from Ergon Energy data

Applications for the Queensland Government’s generous 44 cents per kWh Solar Bonus Scheme closed on 9th July 2012. The current Solar Feed- In Tariff of 6.348 cents per kWh has severely stifled solar PV installations and without further government incentives puts in doubt the Queensland Government’s target of 1 million solar PVs by 2020.

The major barrier to solar PV installation is cost.

This barrier was removed on 1st July 2015 when the Queensland Government supposedly adopted the Customer Framework which allows the AER to grant individual exemptions. Once an individual exemption is granted a person or business can operate a Solar Power Purchase Agreement in any jurisdiction that has adopted the Customer Framework.

From reading AER's set questions on a number of applications for an individual exemption, it is clear the AER have failed to grasp the nature of the change that SPPAs will unleash.

The AER have been quick to point out the positives of SPPAs but due to low consumer engagement on SPPAs in Queensland the obstacles and ramifications have not been explored.

In the past there have been a relatively small number of authorised retailers which has enabled the AER to collate statistics which enable the AER and the Australian Energy Market Operator to determine how the electricity market is performing.

Solar Power Purchase Agreements have terms of up to 20 years. If customer switching is an indicator of a healthy de-regulated retail market, how will the AER determine its health if customers are tied up for long and unknown periods of time and the SPPA company does not have to legally provide details on the length of contracts by jurisdiction?

The Australian Energy Market Operator needs to accurately estimate the national demand for grid electricity as it is responsible for ensuring there is adequate supply to the grid within set standards. The SPPAs clearly inform customers that an SPPA will not affect their ability to access reliable electricity as a condition of an SPPA is that the customer remains connected to the grid via an authorised retailer. As demand falls from the national grid the cost of building and maintaining the multi-billion grid (about \$30 billion in Queensland) will be passed on to SPPA customers and non-SPPA customers through higher fixed charges.

In 2015-16, Queensland's fixed charges on an electricity bill increased by around 40 percent. Fixed charges could balloon significantly as networks scramble to recoup the revenue lost due to reduced demand/consumption from SPPA customers.

To reduce network costs it is necessary to reduce 'peak' demand. This will prevent building and maintaining a network which is only being utilised for 10 percent of the time. The installation of more solar PVs is not reducing peak demand in either winter or summer.

Queensland summer peak demand fell about 5 percent from 2009-10 to 2013-14 to 8465 MW. In 2014-15 the peak demand rose to 8969 MW, similar to the 2009-10 summer peak demand of 8933 MW.

Winter peak demand fell about 6 percent from 2009 to 2013 to 7233 MW. In 2014 the downward trend reversed and by the winter of 2015 winter peak demand exceeded the 2009 winter peak demand by 4 percent. Peak winter demand for 2015 was 8006 MW.

More solar PVs is reducing the consumption/demand from the grid and is also delaying the peak demand until later in the day. Both of these consequences increase the unit cost of electricity from the grid which is passed on through authorised retailers to both SPPA customers and non-SPPA customers.

We urgently call on the AER, in collaboration with AEMO, to fully explore the implications of SPPAs on electricity prices in Queensland and the viability of the national grid, particularly the Ergon grid/network component which covers 97 percent of Queensland.

SUMMARY

The Far North Queensland Electricity Users Network strongly believes the current National Electricity Rules, evidenced by official 'affordability' or retail performance statistics, are not in the long term interest of consumers of any class.

The FNQEUN also believes that the Customer Consultative Group is not representative of Australian electricity customers and needs to be broadened to include business and industry representation as well as representation from outside the capital cities. Failure to broaden the representation and frequency of meaningful consultation (eg through video and telephone conferencing to locations outside of the capital cities) will result in National Electricity Rules that continues the trend of increasing electricity prices and ultimately impacts adversely on Australia's economy and unemployment rate.

Solar Power Purchase Agreements will change the face of electricity selling in Australia forever. The AER has failed to understand the impact of Solar Power Purchase Agreements on all customers, particularly customers captive to the grid. We urgently call on the AER to set up a joint review with the Australian Energy Market Operator into the potential effect of Solar Power Purchase Agreements on Queensland electricity prices and the viability of the national electricity grid, particularly the geographically dispersed Ergon Energy network.

Appendix 1

Table 1: Customers in Queensland on a Hardship Program

| Period | Participating in a hardship program (#) | % in a hardship program in Ergon area | Av. Debt on entry into a hardship program (\$) | Av. Length of time a customer remained in a hardship program (days) |
|-------------------|---|---------------------------------------|--|---|
| Jun Quarter 2015 | 15003 | | n/a | n/a |
| - Ergon only | 5515 | 36.76% | 301 | 127 |
| Mar Quarter 2015 | 14438 | | n/a | n/a |
| - Ergon only | 5087 | 35.23% | 365 | 154 |
| Dec Quarter 2014 | 12757 | | n/a | n/a |
| - Ergon only | 3603 | 28.24% | 390 | 174 |
| Sept Quarter 2014 | 11422 | | n/a | n/a |
| - Ergon only | 3242 | 28.38% | 726 | 190 |
| June Quarter 2014 | 9402 | | n/a | n/a |
| - Ergon only | 3209 | 34.13% | 388 | 196 |
| Mar Quarter 2014 | 8633 | | n/a | n/a |
| - Ergon only | 2938 | 34.03% | 311 | 230 |
| Dec Quarter 2013 | 7104 | | n/a | n/a |
| - Ergon only | 2461 | 34.64% | 389 | 264 |
| Sept Quarter 2013 | 8497 | | n/a | n/a |
| - Ergon only | 2998 | 35.28% | 648 | 236 |
| Dec Quarter 2012 | 8950 | | n/a | n/a |
| - Ergon only | 5184 | 57.92% | 768 | 292 |
| Sept Quarter 2012 | 8653 | | n/a | n/a |
| - Ergon only | 5293 | 61.17% | 731 | 250 |
| Dec Quarter 2011 | 7512 | | n/a | n/a |
| - Ergon only | 4580 | 60.97% | 645 | 247 |
| Sept Quarter 2011 | 7309 | | n/a | n/a |
| - Ergon only | 4454 | 60.94% | 696 | 181 |
| Dec Quarter 2010 | 5311 | | n/a | n/a |
| - Ergon only | 2659 | 50.07% | 633 | 191 |
| Sept Quarter 2010 | 4932 | | n/a | n/a |
| - Ergon only | 2367 | 47.99% | 663 | 163 |

Source: Queensland Competition Authority.

Table 2: Total Queensland Disconnections and Percentage of Pension/ Concession Card Holders Disconnected due to non-payment

| Period | Business Customer | | Residential Customer | | | | Total Customers | | % Business Customers Disconnected (using Distributor data) | % Pension/ Concession Card Holders (using Retailer data) |
|---------------|-------------------|------------------|---------------------------------|--------|-------|------------------|-----------------|------------------|--|--|
| | Retailer data | Distributor data | Retailer data | | | Distributor data | Retailer data | Distributor data | | |
| | | | Pension/ Concession Card Holder | Others | Total | | | | | |
| Jun Qtr 2015 | 461 | 630 | 1773 | 5886 | 7659 | 7586 | 8120 | 8216 | 7.67% | 23.15% |
| - Ergon only | 141 | 141 | 762 | 2847 | 3609 | 3606 | 3750 | 3747 | 3.76% | 21.11% |
| Mar Qtr 2015 | 540 | 720 | 1830 | 6545 | 8375 | 8420 | 8915 | 9140 | 7.88% | 21.85% |
| - Ergon only | 199 | 199 | 832 | 2949 | 3781 | 3781 | 3980 | 3980 | 5.00% | 22.00% |
| Dec Qtr 2014 | 436 | 581 | 1502 | 5072 | 6574 | 6525 | 7010 | 7106 | 8.18% | 22.85% |
| - Ergon only | 142 | 142 | 698 | 1911 | 2609 | 2609 | 2751 | 2751 | 5.16% | 26.75% |
| Sept Qtr 2014 | 622 | 758 | 1404 | 5680 | 7084 | 7301 | 7706 | 8059 | 9.41% | 19.82% |
| - Ergon only | 180 | 180 | 752 | 2243 | 2995 | 2995 | 3175 | 3175 | 5.67% | 23.69% |
| June Qtr 2014 | 549 | 647 | 1351 | 5409 | 6760 | 6953 | 7309 | 7600 | 8.51% | 19.99% |
| - Ergon only | 162 | 162 | 891 | 2590 | 3481 | 3481 | 3643 | 3643 | 4.65% | 25.60% |
| Mar Qtr 2014 | 508 | 551 | 1210 | 5408 | 6618 | 6713 | 7126 | 7264 | 7.59% | 18.28% |
| - Ergon only | 106 | 106 | 733 | 2227 | 2960 | 2960 | 3066 | 3066 | 3.46% | 24.76% |
| Dec Qtr 2014 | 436 | 581 | 1502 | 5072 | 6574 | 6525 | 7010 | 7106 | 8.18% | 22.85% |
| Dec Qtr 2013 | 495 | 446 | 1378 | 4300 | 5678 | 6048 | 6173 | 6494 | 6.87% | 24.27% |
| Dec Qtr 2012 | 355 | 373 | 1071 | 3888 | 4959 | 4976 | 5314 | 5349 | 6.97% | 21.60% |
| Dec Qtr 2011 | 320 | 356 | 959 | 4452 | 5411 | 5527 | 5731 | 5883 | 6.05% | 17.72% |
| Dec Qtr 2010 | 357 | 360 | 881 | 4052 | 4933 | 4986 | 5290 | 5346 | 6.73% | 17.86% |

Source: Queensland Competition Authority.

Table 3: Customers in NSW on a Payment Plan

| Retailer | Jun 2014 | Sep-14 | Dec-14 | Mar-15 |
|------------------|-----------------|---------------|---------------|---------------|
| ActewAGL | 124 | 170 | 163 | 190 |
| AGL | 4300 | 5397 | 4155 | 3512 |
| Click Energy | 25 | 34 | 41 | 29 |
| CovaU | - | 0 | 0 | 7 |
| Diamond Energy | 5 | 9 | 13 | 50 |
| EnergyAustralia | 16669 | 19120 | 31666 | 59320 |
| Lumo Energy | 1428 | 1503 | 1765 | 1827 |
| M2 Energy | 9 | 25 | 35 | 33 |
| Momentum Energy | 278 | 363 | 578 | 297 |
| Origin Energy | 35928 | 32461 | 31697 | 33035 |
| Powerdirect | 162 | 243 | 277 | 214 |
| QEnergy | 25 | 20 | 38 | 27 |
| Red Energy | 1685 | 158 | 1858 | 1811 |
| Sanctuary Energy | 29 | 107 | 51 | 49 |
| Simply Energy | 293 | 602 | 891 | 926 |
| Total | 60960 | 60212 | 73228 | 101327 |

Source: AER retail statistics.

Table 4: Customers in NSW on a Hardship Program

| Retailer | Jun-14 | Sep-14 | Dec-14 | Mar-15 |
|------------------|---------------|---------------|---------------|---------------|
| ActewAGL | 416 | 423 | 418 | 433 |
| AGL | 4743 | 5592 | 5791 | 6099 |
| Click Energy | 0 | 0 | 26 | 32 |
| Diamond Energy | 0 | 1 | 1 | 3 |
| EnergyAustralia | 3517 | 3279 | 3743 | 4483 |
| Lumo Energy | 209 | 276 | 206 | 184 |
| M2 Energy | 240 | 301 | 308 | 295 |
| Momentum Energy | 14 | 35 | 59 | 125 |
| Origin Energy | 8714 | 11873 | 12184 | 10742 |
| Powerdirect | 24 | 45 | 60 | 73 |
| QEnergy | 20 | 24 | 28 | 16 |
| Red Energy | 347 | 285 | 285 | 274 |
| Sanctuary Energy | 0 | 0 | 20 | 14 |
| Simply Energy | 49 | 190 | 397 | 580 |
| Total | 18293 | 22324 | 23526 | 23353 |

Source: AER retail statistics.

Table 5: Timing of release of AER Retail Performance Data

| <u>2013-14</u> | <u>Release date</u> | <u>Number of weeks after Quarter</u> |
|-----------------------|----------------------------|---|
| Quarter 1 - JAS | 13-Feb-14 | 15 |
| Quarter 2 - OND | 25-Mar-14 | 12 |
| Quarter 3 - JFM | 21-May-14 | 7 |
| Quarter 4 - AMJ | 25-Nov-14 | 21 |
| <u>2014-15</u> | <u>Release date</u> | <u>Number of weeks after Quarter</u> |
| Quarter 1 - JAS | 22-Jan-15 | 16 |
| Quarter 2 - OND | 16-Mar-15 | 11 |
| Quarter 3 - JFM | 9-Jun-15 | 10 |
| Quarter 4 - AMJ | | |

Source: *Compiled from AER website*

List 1: Current membership of AER's Customer Consultative Committee

1. Consumer Action Law Centre
2. Consumer Utilities Advocacy Centre
3. Council of Small Business of Australia
4. COTA Australia
5. Energy Consumers Australia
6. Ethnic Communities Council of NSW
7. National Retail Association
8. Public Interest Advocacy Centre
9. Queensland Council of Social Service
10. St Vincent de Paul Society
11. Tasmanian Council of Social Service
12. UnitingCare Australia

Source: *AER website*

Appendix 2

The following is a list of organisations involved in the FNQ Electricity Users Network:

1. Cairns Regional Council
2. Tablelands Regional Council
3. Cook Shire Council
4. Far North Queensland Regional Organisation of Councils
5. Advance Cairns
6. Tourism Tropical North Queensland
7. Regional Development Australia FNQ & Torres Strait
8. Cairns Chamber of Commerce
9. Mareeba Chamber of Commerce
10. Atherton Tablelands Chamber of Commerce
11. Innisfail District Chamber of Commerce, Industry and Tourism
12. Urban Development Institute of Australia (Cairns branch)
13. Consolidated Tin Mines Ltd
14. Canegrowers - Tablelands
15. North Queensland Miners Association
16. Australians in Retirement (Cairns branch)
17. Queensland Dairyfarmers Organisation (Northern Division)
18. Mareeba District Fruit and Vegetable Growers Association
19. Mareeba Shire Council