QEUN Queensland Electricity Users Network

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15th April 2020

Mr Mark Feather
General Manager
Policy and Performance
Australian Energy Regulator

Via Email: DMO@aer.gov.au

Dear Mr Feather

RE: Submission – The impact of COVID-19 on the 2020-21 Default Market Offer

The Queensland Electricity Users Network (QEUN) appreciates the opportunity to provide the Australian Energy Regulator with a submission and recommendations that we believe will lessen the impact of COVID-19 on the 2020-21 Default Market Offer and on over 1.4 million energy consumers.

The QEUN is a consumer advocate representing small business and residential consumers with a particular emphasis on regional consumers. We advocate for affordable and reliable electricity from a resilient national electricity system where the pace of the transition to a renewable energy future is not at the expense of the economy, jobs or reasonable living standards.

Consumer Input Limitation

The 2020-21 Default Market Offer (DMO) directly or indirectly impacts on over 1.4 million small business and residential consumers in three regions of the National Electricity Market.

As over 60% of the consumers impacted are located in Queensland, the Queensland Electricity Users Network (QEUN) applied to Energy Consumers Australia (ECA) for a CEO Grant. The grant application was refused citing "it did not provide enough information to show that it satisfies the Grants Program criteria, in particular on what analysis would be undertaken through the grant funding". With no funding to write a submission the QEUN felt it must provide at least a brief consumer perspective in response to the Australian Energy Regulator's call for submissions on the impact of COVID-19 on the 2020-21 Default Market Offer.

Recommendation 1

Due to the unprecedented and unknown impacts of COVID-19 on the wholesale electricity market, the QEUN recommends the Federal Government consider legislation that would delay the Australian Energy Regulator's publication of the Final 2020-21 Default Market Offer from 30 April 2020 to 15 June 2020. The delay would enable the Australian Energy Regulator to consider an updated estimate of the Wholesale Energy Cost (WEC); the WEC is a major component of the Total Energy Cost and therefore a major cost component of the Default Market Offer. Failure to more accurately estimate the Wholesale Energy Cost will potentially burden over 1.4 million small business and residential consumers with a highly inflated 2020-21 Default Market Offer. An inflated DMO will severely impact on the length of time required by small business and residential consumers to recover from COVID-19.

Recommendation 2

Due to the unprecedented and unknown impacts of COVID-19 on the wholesale electricity market, the QEUN recommends the Australian Energy Regulator engage a second opinion in relation to the Wholesale Energy Cost and Total Energy Cost to be included in the 2020-21 Default Market Offer.

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How the 2020-21 DMO impacts on over 1.4 million small businesses and households in the NEM

The AER's DMO *directly* impacts **728,784** consumers in NSW, South East Queensland and South Australia; 621,323 residential consumers and 107,461 small business consumers.

Of the 728,784 consumers directly impacted, about 28% or 201,704 are located in South East Queensland; 176,241 residential consumers and 25,463 small business consumers.

However, the DMO has an *indirect* impact on about **709,138** consumers captive to the regulated retail prices in regional Queensland; 621,607 residential consumers and 87, 531 small business consumers. Therefore the AER's 2020-21 DMO directly or indirectly impacts on 1,437,922 consumers, of which 910,842 or 63% are located *throughout* Queensland.

How the AER's DMO and QCA's regulated retail prices for regional Queensland are entwined

Similar to 2019-20, the AER's 2020-21 DMO and the Queensland Competition Authority's 2020-21 regulated retail prices for regional Queensland are entwined as both the AER and the QCA use the same consultant to estimate the Wholesale Energy Cost (WEC) and the Total Energy Cost (TEC). The consultant delivered the Total Energy Cost reports on two different days in February 2020. We assume that the same WEC and TEC means the consultant's modelling covers the same period which we understand is up to early January 2020.

Despite being entwined via the same consultant the two regulated retail price determinations have to be published on different dates. Federal Government legislation states that the AER's DMO must be published by 30 April 2020. A Delegation from the Queensland Energy Minister states that the QCA must publish the regulated retail prices for regional Queensland by 31 May 2020 but no later than 26 June 2020.

The AER's publication of the DMO up to two months earlier allows the Queensland Government to copy the AER's decision for regulated retail prices for regional Queensland, citing the AER is an independent regulator. This could potentially burden regional Queensland consumers with inflated retail prices for an entire year. South East Queensland consumers on a DMO aren't captive to Ergon Retail's near monopoly.

Queensland wholesale electricity prices and the influence of the Queensland Government

The Federal Government has implemented an economic stimulus package in excess of $200 billion, the largest in Australia's history. The Queensland Government's $4 billion economic stimulus package includes $200 off power bills to more than 2 million Queensland households and $500 off power bills to nearly 200,000 Queensland small businesses who consume less than 100 MWh per year.

However, the Queensland Government's ownership of most of the electricity assets in Queensland, and its high reliance on the revenue from those electricity assets, makes the Queensland Budget particularly vulnerable to falls in electricity asset revenue and falls in the wholesale electricity price.

Previously the Queensland Government received most of its electricity asset revenue from its wholly owned distribution and transmission networks (see Table 1). It is not unprecedented for the Queensland Government to use electricity asset revenue to prop up the Queensland Budget. In 2014-15 the Queensland Government directed Ergon and Energex to pay a special dividend of $1,229 million; this was in addition to the $696 million Net Profit After Tax dividend. The Queensland Government's electricity assets, under an arrangement with the Federal Government, do not pay tax to the Federal Government. The special dividend of $1,229 million, together with the $696 million dividend, increased the net debt to regulated asset base ratio to approximately 70%.

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Table 1: Revenue to the Queensland Government from publicly owned network assets

2016-17	Budget ($ millions)	Estimated Actual ($millions)	Actual ($millions)
Dividends	1,000	1,068	1,083
Tax Equivalent Payments	463	541	556
Competitive Neutrality Fee	94	48	48
TOTAL NETWORK REVENUE TO QUEENSLAND GOVERNMENT	1,557	1,657	1,687
2017-18			
Dividends	716	948	976
Tax Equivalent Payments	324	417	442
Competitive Neutrality Fee	59	69	67
TOTAL NETWORK REVENUE TO QUEENSLAND GOVERNMENT	1,099	1,434	1,485
2018-19			
Dividends	618	695	
Tax Equivalent Payments	290	331	
Competitive Neutrality Fee	67	89	
TOTAL NETWORK REVENUE TO QUEENSLAND GOVERNMENT	975	1,115	
2019-20			
Dividends	596		
Tax Equivalent Payments	371		
Competitive Neutrality Fee	106		
TOTAL NETWORK REVENUE TO QUEENSLAND GOVERNMENT	1,073		

Source: Compiled by QEUN from Queensland Budget Papers

In recent years the Queensland Government has increasingly relied on revenue generated by both its network and wholly owned generator assets to prop up the Queensland Budget. This increased reliance on generator asset revenue has come at a significant cost to business and residential electricity consumers in Queensland. The substantial rise in generator revenue as a result of higher wholesale prices was achieved despite there being surplus generation capacity in Queensland.

In 2014-15 the Queensland Government received $147 million in revenue from its wholly owned generation assets. In the same year Queensland's average annual wholesale electricity price traded on the National Electricity Market was $53.42/MWh. The wholesale electricity price estimated and included in regulated retail prices for regional Queensland was $68.41/MWh.

In 2016-17 the Queensland Government received $594 million in revenue from its wholly owned generation assets. In the same year Queensland's average annual wholesale electricity price traded on the National Electricity Market was $93.12/MWh. The wholesale electricity price estimated and included in regulated retail prices for regional Queensland was $75.32/MWh.

The quadrupling of generator revenue received by the Queensland Government over a 2 year period was largely achieved by a 55% increase in Queensland's wholesale electricity price in the NEM and a 10% increase in regulated retail prices in regional Queensland.

The Queensland Government is able to manipulate exorbitant increases in the Queensland wholesale electricity price as it controls about two thirds of the electricity generation in Queensland, and under the Australian Constitution, is responsible for determining the regulated retail prices for business and residential consumers in regional Queensland.

The AER's 2017-18 Wholesale Electricity Market Performance Report stated "*In Queensland, participants have previously taken advantage of the concentrated market and rebid large volumes of capacity from low to very high prices late in the trading interval, spiking prices.*"

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The AER's report further states *"Since the Queensland Government direction to Stanwell in July 2017, price volatility due to generator rebidding has declined and there have been very few high prices despite record demand."*

The Queensland Government's direction to its wholly owned generator Stanwell stated in a letter dated 5 June 2017 (link):

> *"The Queensland Government is very concerned about the impact of increasing wholesale and retail electricity prices following record price events experienced during summer 2017.* ***The Government has decided to take a number of steps to place downward pressure on prices****.*
>
> *This includes the enclosed direction, which* ***requires Stanwell to take certain steps to bid generation during peak periods from 1 July 2017 to 31 December 2017.***
>
> *We recognise that this may impact the short-term financial interests of Stanwell. In this respect,* ***the Government is prepared to forgo higher commercial returns potentially available from maximisation of generation profits in order to take actions that contribute to greater electricity price stability, which is fundamental to maximising economic and social benefits for the Queensland Government****."*

The Direction itself states:

> *"The objective of this direction is to ensure that Stanwell's generation bidding strategy more closely reflects the underlying cost of generation. In this respect, the maximum price threshold selected (commercial/MWh) is consistent with more recent bidding practices by Stanwell. Bidding generation dispatch at this level should be commercially viable for Stanwell, as well as putting downward pressure on forward contract prices."*

Despite the Queensland Government's direction to Stanwell taking effect as of 1 July 2017, the generator revenue received by the Queensland Government increased from $594 million in 2016-17 to $961 million in 2017-18. In 2017-18 Queensland's average annual wholesale electricity price traded on the National Electricity Market was $72.87/MWh. The fall of over $20/MWh from the previous year implies the direction to Stanwell did put downward pressure on Queensland's average annual wholesale electricity price in 2017-18. However, the benefit was not shared with all energy consumers in Queensland.

On 31 May 2017 (prior to the Stanwell direction), the Queensland Government was able to lock in a wholesale electricity price of $103.11/MWh for regulated retail electricity prices in regional Queensland. The inflated wholesale electricity price was paid by over 700,000 homes and businesses in regional Queensland for an entire 12 months. **The inflated wholesale electricity price helped to secure $961 million in generator revenue in 2017-18.** It appears the Queensland Government used its market share and legislative power to make regional Queenslanders pay an extra $27/MWh for wholesale electricity when the wholesale price fell by $20/MWh.

Table 2: Average annual wholesale electricity prices by NEM region 2014-15 to 2019-20

NEM AVERAGE ANNUAL WHOLESALE ELECTRICITY PRICE $/MWh	2014-15	2015-16	2016-17	2017-18	2018-19	YTD 2019-2020 (2/10/2019)	YTD 2019-2020 (12/04/2020)	YTD 2019-2020 (14/04/2020)
Queensland	53.42	59.99	93.12	72.87	80.29	62.29	59.08	58.97
NSW	34.58	51.60	81.22	82.27	88.56	84.35	80.00	79.77
Victoria	29.71	46.14	66.58	92.33	109.81	98.78	83.16	82.91
SA	41.15	61.67	108.66	98.10	109.80	74.37	68.00	67.88
Tasmania	35.22	102.70	75.40	86.98	90.01	68.21	61.70	61.44

Source: Compiled by QEUN from AEMO Data Dashboard

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Table 3: Queensland Government generation revenue 2014-15 to 2019-20

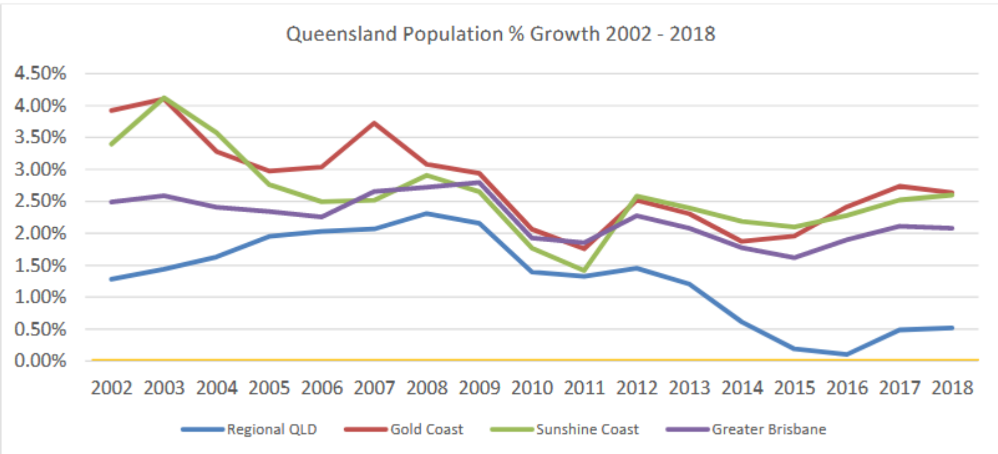
QUEENSLAND GOVERNMENT ELECTRICITY GENERATION REVENUE	2014-15 Qld Budget			2015-16 Qld Budget			2016-17 Qld Budget			2017-18 Qld Budget			2018-19 Qld Budget			Info from 2018-19 Annual Reports	2019-20 Qld Budget		
	Budget	Estimated Actual	Actual	Budget	Estimated Actual	Actual	Budget	Estimated Actual	Actual	Budget	Estimated Actual	Actual	Budget	Estimated Actual	Actual		Budget	Estimated Actual	Actual
Earnings before interest and tax	296	200	731	320	372	382	482	892	1,241	1,070	1,230	1,194	1,009	1,422		1,344	830		
Dividends	98	56	90	125	160	175	216	378	383	463	645	620	535	657		715	519		
Tax Equivalent Payment:	56	27	29	84	66	86	91	152	190	154	249	321	236	421			234		
Competitive Neutrality Fee Payments	32	30	28	30	26	23	21	21	21	22	20	20	17	17			17		
Revenue to Qld Governn	186	113	147	239	252	284	328	551	594	639	914	961	788	1095			770		
Borrowings	1,588	2,117	1,869	1,914	1,879	2,262	1,700	3,681	2,593	1,580	1,864	1,761	1,602	1,941			1,831		

Note: 2014-15 and 2016-17 EBIT includes Stanwell coal revenue sharing arrangements

Source: Compiled by QEUN from Queensland Budget Papers and CS Energy and Stanwell 2018-19 Annual Reports

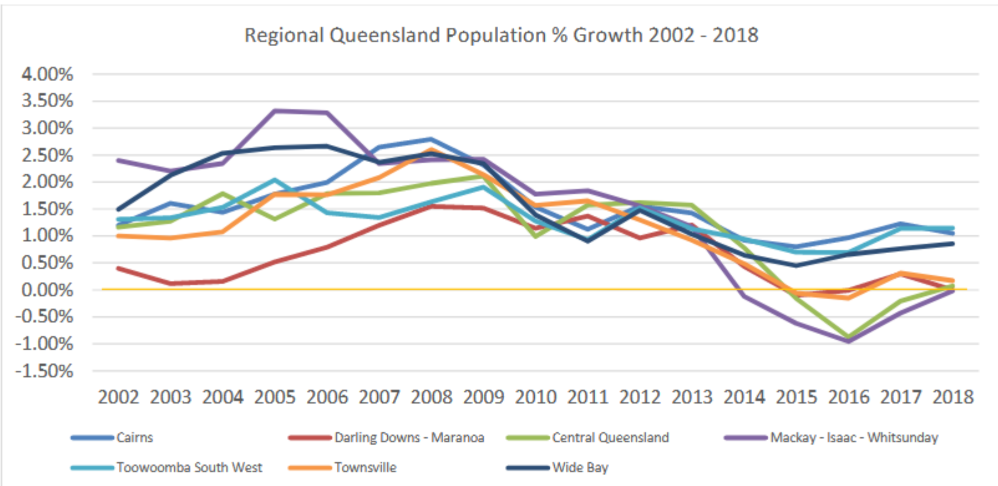
Electricity prices are a key economic driver or wet blanket to industries and jobs growth. Population generally gravitates to where there are jobs. Population growth is an indicator of the strength or otherwise of regional economies (see Figure 1 and 2). To recover from COVID-19 Queensland needs an electricity price it can afford, particularly regional Queensland.

Figure 1: Queensland population % growth 2002 to 2018



Source: Australian Bureau Statistics Cat. No. 3218.0 – Regional Population Growth, Australia

Figure 2: Regional Queensland population % growth 2002 to 2018



Source: Australian Bureau Statistics Cat. No. 3218.0 – Regional Population Growth, Australia

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The 2020-21 Wholesale Energy Cost (WEC) before COVID-19

We understand the WEC in the AER's DMO is the consultant's estimate of a book build of an efficient and prudent retailer who would use a combination of load profile, wholesale electricity spot prices (National Electricity Market), and hedging strategies (take positions on the ASX futures market or enter into contracts direct with generators) to price the WEC.

We are not sure how the consultant's modelling takes into account the concentrated generation market in Queensland and the ability of the Queensland Government to direct its generators to alter their bids, especially over the critical high priced summer periods (as per their direction Stanwell in July 2017).

The Australian Financial Review on 8 July 2019 reported:

> *"Federal Energy Minister Angus Taylor's promise of wholesale electricity prices falling to $70 per megawatt hour by 2021 look like a "pipe dream, according to energy experts.......*
>
> *Although Mr Taylor promised a returned Coalition government would lead to a 25 per cent cut in power prices, energy experts said wholesale prices would struggle to get below $80 per megawatt hour and could top $100 per megawatt hour in NSW and Victoria."*

AEMO's Electricity Statement of Opportunities in August 2019 warned of involuntary load shedding in Victoria during extreme weather events, potentially resulting in multiple events where up to 1.3 million households could be without power for four hours.

With these dire industry warnings of summer supply shortages many experts expected the average annual wholesale prices in the NEM to average up in 2019-20. This would lay the foundation for higher wholesale electricity prices in 2020-21.

To the market's surprise and bewilderment, and despite the Heywood SA/Victoria interconnector being out of service for over two weeks in February, the potentially firecracker month of February 2020 was benign; average wholesale prices in February in all regions of the NEM did not exceed $65/MWh. Average wholesale prices in March 2020 failed to exceed $47/MWh in all regions(see Table 4). The low wholesale prices in March cannot be solely attributed to COVID-19 as the pandemic was not declared until 12 March.

The WEC for the AER's 2019-20 DMO and QCA's regulated retail prices for regional Queensland was $89.16/MWh. This compares to a YTD 2019-20 Queensland WEC in the NEM of $58.97/MWh. The WEC estimated for the Draft 2020-21 DMO and Draft QCA retail prices for regional Queensland is $85.21/MWh, a fall of only $4/MWh. A singular consultant providing a WEC to both entities provides the consultant with immense influence on energy consumers and the economy.

Table 4: Average annual and monthly wholesale electricity prices by NEM region

			2019-20 NEM Monthly average WEC											
NEM region	NEM annual average WEC 2017-18	NEM annual average WEC 2018-19	Jul	AEMO ESOO Aug	Sept	Oct	Nov	Dec	Jan	Feb	COVID-19 Pandemic Declared 12 Mch Mar	MTD Apr 14/04	NEM annual average WEC YTD 2019-20	DMO/QCA Draft WEC 2020-21
NSW	$82.27	$88.56	$71.57	$84.04	$95.62	$101.77	$69.90	$52.09	$152.30	$57.50	$46.16	$45.68	$79.77	
QLD	$72.87	$80.29	$66.17	$61.73	$58.52	$74.16	$61.08	$54.83	$66.79	$53.81	$41.27	$40.03	$58.97	$85.21
SA	$98.10	$109.80	$73.93	$78.78	$72.95	$67.34	$50.86	$84.03	$83.20	$64.18	$46.95	$39.35	$67.88	
TAS	$86.98	$90.01	$74.77	$70.04	$57.62	$107.68	$68.29	$52.18	$56.84	$39.10	$37.37	$32.26	$61.44	N/A
VIC	$92.33	$109.81	$85.92	$104.95	$104.76	$100.70	$67.98	$61.39	$142.95	$48.31	$43.30	$44.59	$82.91	N/A

Source: Compiled by QEUN from AEMO Data Dashboard

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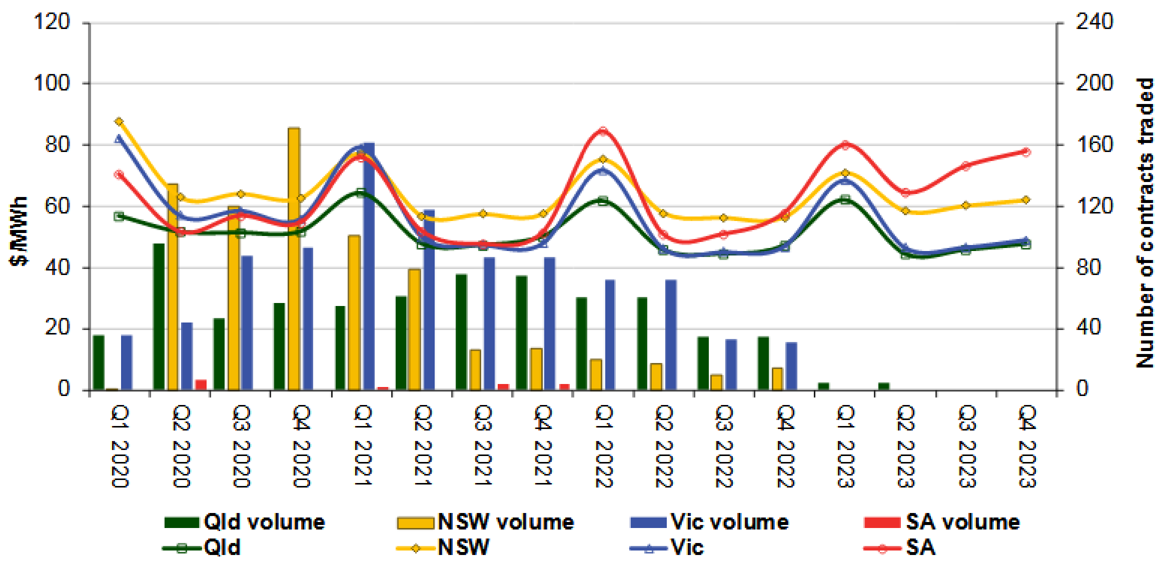
The consultant's modelling assumes a prudent and efficient retailer will use the ASX to hedge over a period of two to three years. Figure 3 shows Queensland contracts for the week 1-7 March 2020 trading as low as about $50/MWh in Q3 2020 and as high as about $65/MWh in Q1 2021.

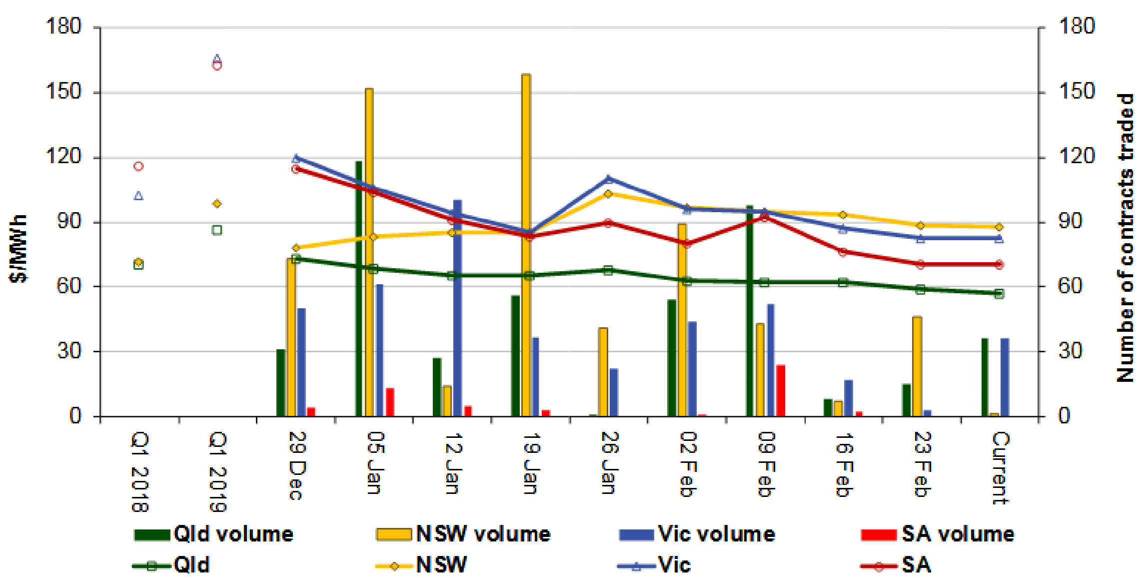
Retailers riskiest time for an unhedged position is over summer ie primarily Quarter 1. In light of the dire predictions for supply shortages last summer, it is interesting to note that Q1 2020 base contracts traded at an average of about $70/MWh in Q1 2018 and about $88/MWh in Q1 2019. In the 10 weeks since 29 December 2019, Q1 2020 base contracts have hovered around $60/MWh (see Figure 4).

Figure 3: Quarterly base future prices Q1 2020 – Q4 2023



Source: AER Weekly Electricity Report 1-7 March 2020

Figure 4: Price of Q1 2020 base contracts over the past 10 weeks (and the past 2 years)



Note. Base contract prices are shown for each of the current week and the previous 9 weeks, with average prices shown for periods 1 and 2 years prior to the current year.

Source: AER Weekly Electricity Report 1-7 March 2020

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The concentrated generation market in Queensland in 2018-19 was dominated by two wholly owned Queensland Government generators; CS Energy and Stanwell Corporation.

CS Energy supplies approximately one third of Queensland's electricity generation and therefore is a reasonalble indicator of the wholesale cost of electricity in Queensland. In its annual reports it stated:

2017- 18 Annual Report:

"Despite a decline in pool prices with Queensland recording a Time Weighted Pool Price for 2018 of $72.87/MWh (2017: $93.12/MWh), CS Energy increased revenue from sales of electricity. CS Energy entered into forward electricity contracts in prior years for 2018 to reduce the exposure to pool price volatility, therefore achieved a higher realised price on the generation and contract portfolio in 2018 of $74.17/MWh (2017: $67.66/MWh)."

2018-19 Annual Report:

"CS Energy increased revenue from sales of electricity due to an increase in pool prices with Queensland recording a Time Weighted Pool Price for 2019 of $80.29/MWh (2018: $72.87/MWh). CS Energy entered into forward electricity contracts in prior years for 2019 to reduce the exposure to pool price volatility, therefore achieved a higher realised price on the generation and contract portfolio in 2019 of $86.77/MWh (2018: $74.17/MWh)."

The WEC in regulated retail prices paid by regional Queensland consumers is almost $30/MWh higher in 2017-18 and over $12/MWh higher in 2018-19 than that of CS Energy.

Table 5: Comparison of wholesale electricity prices in Queensland

Queensland WEC $/MWh	WEC for QCA regulated retail prices for regional Queensland	NEM Average Annual WEC	CS Energy Contract Portfolio
2017-18	$103.11	$72.87	$74.17
2018-19	$99.10	$80.29	$86.77

Source: Compiled by QEUN from QCA regulated retail price determinations for regional Queensland and CS Energy Annual Reports

Prior to COVID-19 it's possible the average annual 2019-20 wholesale electricity price for Queensland would be less than $60/MWh and the average price for the riskiest and therefore highest priced quarter on the ASX (Quarter 1 2020) would not exceed $80/MWh. However, the QCA accepted a single consultant's estimate and locked in on 31 May 2019 a WEC of $89.16/MWh for regulated retail prices for regional Queensland. The timing of a consultant's cost of energy report, and in particular the date to which the modelling refers to, is critical in any year but more so in year heavily impacted by the unknown effect of COVID-19 on the wholesale electricity market.

The adverse impact of jurisdictional levies on the 2020-21 DMO for Queensland

The addition of jurisdictional levies to the DMO will increase the DMO and will impede the COVID-19 recovery for both small business and residential customers. Many of Queensland's most vulnerable residential customers are dependent on the DMO, the addition of a jurisdictional levy affects the most vulnerable households in Queensland.

The AER's Draft 2020-21 DMO published on 10 February 2020 did not include the Queensland Government's jurisdictional levy/tax – the Solar Bonus Scheme (SBS). The QCA's Draft 2020-21 regulated retail prices published on 31 March 2020 includes the Solar Bonus Scheme. Since the SBS applies to all tariffs in Queensland we assume the SBS will be added to the AER's Final 2020-21 DMO.

The impact of the SBS will depend on a customer's consumption as the SBS includes both a fixed and variable charge (Table 6).

Table 6: 2020-21 Draft jurisdictional scheme charges for small customers (GST exclusive)

Tariff class	*Retail tariff*	*Fixed (c/day)*	*Usage (c/kWh)*
Residential	11, 12A, 14	1.100	0.920
Small business	20, 22A, 14, 41	1.100	1.010
Controlled load	31, 33	-	0.790
Unmetered	91	-	0.664
Large business	44, 45, 46 ,50	51.600	0.067
Very large business	51A—51D, 53	1052.300	0.051

Source: QCA Draft 2020-21 regulated retail prices for regional Queensland, Technical appendices – Appendix D

For South East Queensland the AER's calculations are based on 4,600 kWh/year for residential customers and 20,000 kWh/year for small business customers.

Compared to last year the Draft 2020-21 DMO proposes a reduction of $86 for residential customers. Notwithstanding any other changes to the DMO, the addition of $46.34 for the SBS will reduce the proposed reduction in the 2020-21 DMO to $39.66. This wipes out more than half the proposed DMO reduction.

Compared to last year the Draft 2020-21 DMO proposes a reduction of $378 for small business customers. Notwithstanding any other changes to the DMO, the addition of $206.02 for the SBS will reduce the proposed reduction in the 2020-21 DMO to $171.99. Again, the SBS has wiped out more than half of the proposed DMO reduction and in doing so has added to the problems of small businesses struggling to recover from COVID-19.

The SBS was not included in last year's DMO as the Queensland Government decided to remove the levy for 3 years commencing on 1 July 2017 and ending on 30 June 2020. The decision to remove the SBS occurred on 31 May 2017, the same day that Queensland households were stunned to learn the draft 1.7% increase in residential retail prices for regional Queensland (published by the QCA on 28 February 2017), had ballooned out to a Final price increase of 7.1%. The Queensland Government instructed the QCA to remove the SBS and the new Final price was limited to an increase of 3.3%.

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The removal of the SBS from small business power bills reduced the increase in regulated retail prices in regional Queensand from 8.2% to 4.1%.

The SBS represents a substantial increase to the Draft 2020-21 DMO and as such will impede the COVID-19 recovery of both businesses and households.

The Queensland Productivity Commission in its 2016 Electricity Pricing Inquiry recommended to the Queensland Government that:

> *"The Queensland Government should consider the merits of ending the Solar Bonus Scheme earlier than the planned 2028 scheme closure."*

The residual retail component of the DMO needs to be the subject to analysis

The residual retail component of the AER's DMO contains a number of elements including the Customer Acquisition and Retention Cost (CARC). The QCA's position on the standing offer adjustment or headroom charge is another example of how the AER's DMO and QCA's regulated retail prices for regional Queensland are entwined.

As in previous years, QCA's Draft 2020-21 regulated retail prices for regional Queensland contains a 5% standing offer adjustment or headroom charge – a charge regional consumers have been forced to pay for years under the guise that it promotes retail competition. Since its inception the Queensland Government and the QCA have failed to provide proof that the addition of a standing offer adjustment or headroom charge has increased competition in regional Queensland. Consumers in regional Queensland continue to remain captive to the near monopoly of Ergon Retail – an electricity retailer wholly owned by the Queensland Government.

The QCA is now using a new tack to justify a standing offer adjustment or headroom charge. The QCA now claim that standing offer contracts typically provide more favourable terms and conditions than market contracts. Consumers strongly challenge the QCA's position of a tangible benefit. For example, if consumers in regional Queensland are disconnected there is almost no ability to source a competitive alternative retail offer. Consequently, Ergon Retail dictates the terms and conditions of contracts. Consumers are simply too frightened to be left without electricity supply to their homes and businesses. This situation is more relevant now during the COVID-19 pandemic when the massive loss of jobs in regional Queensland will mean many homes and businesses will not be able to pay their power bills in full or in part for an extended period of time. Some regional economies highly reliant on industries impacted by COVID-19 (eg tourism) are facing unemployment rates of over 20% for an unknown period of time. This is an ideal time to measure the so called extra protections of standing offer contracts in both South East Queensland and regional Queensland

In defence of its 5% charge for favourable terms and conditions of a standing contract, the QCA state that their analysis has found a typical South East Queensland residential customer and South East Queensland small business customer can pay up to 9.5% and 7.4% respectively to enjoy the benefits of a standing offer contract.

The QCA position is articulated in its Draft 2020-21 Determination:

> *"Standard contracts typically provide more favourable terms and conditions than market contracts. These benefits include simpler pricing, access to bills at no extra cost, better payment terms (which can include bill smoothing) and ongoing certainty of terms (i.e. retailers cannot change terms or impose restrictions, as they can under market contracts).*

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> *In our previous determination, we considered the fees and charges that an SEQ customer would likely incur on a market contract to enjoy the benefits of more favourable terms and conditions of a standard contract. Our analysis indicated that typical residential customers in SEQ can pay up to 9.5 per cent of their annual bill to enjoy these benefits. Typical small business customers can pay up to 7.4 per cent of their annual bill to enjoy these benefits.*
>
> *Despite the limitations inherent in this analysis, we considered that it provided a useful indication of the potential maximum amount that customers in SEQ would need to pay to enjoy the benefits of more favourable terms and conditions. As such, a reasonable adjustment to reflect the more favourable terms and conditions is likely to be less than 9.5 per cent for residential customers and 7.4 per cent for small business customers.*
>
> *We have previously acknowledged the difficulty of appropriately quantifying the value of these additional benefits. Nevertheless, taking into account the analysis and conclusions of our 2019–20 determination, and the requirement in the delegation to consider applying a similar adjustment to previous determinations, our draft decision is that maintaining the adjustment at 5 per cent of total costs is reasonable.*

Based on the QCA's analysis of a large premium for standing offer contracts in South East Queensland, it is reasonable to assume the large premium would have been reflected in the standing offers used to calculate the AER's 2019-2020 DMO ie the AER's Final DMO 1 used the mid-point between the median standing offer and the median market offer.

The QCA then adds a new twist stating that if the premium for the standing offer contract results in a higher regulated retail price in regional Queensland than the AER's DMO in South East Queensland it will reduce the standing offer adjustment/headroom charge.

The QCA Draft 2020-21 Determination states:

> *However, consistent with the delegation, we consider that the adjustment should be reduced if the resulting notified price bill would exceed the equivalent DMO reference bill in SEQ. Customers on notified prices would then generally not pay more than customers on equivalent default market offers in SEQ."*

In both the cases, South East Queensland and regional Queensland customers are being charged a cost for a benefit that has not been substantiated by robust analysis.

Potential loss of retail competition due to the DMO and COVID-19

Many second tier retailers survive on slim margins. Their survival requires strict adherence to cash flow and debt collection. In the challenging times caused by COVID-19 many households and small businesses will not be able to pay their power bill in full or in some cases not at all for quite some time.

In the states of New South Wales, Victoria and South Australia, Energy Networks Australia has announced networks will be deferring or rebating electricity and gas network charges for customers impacted by COVID-19. We are not aware of any similar offer by the Queensland Government that owns all the networks supplying Queensland.

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This means that if the Wholesale Energy Cost in the DMO is set too low and network charges are not rebated, second tier retailers are in danger of defaulting on their weekly payments to the Australian Energy Market Operator. AEMO strictly applies its credit procedures therefore it is highly likely that some second tier retailers will not survive COVID-19.

Prior to COVID-19, we expressed a belief that the Wholesale Energy Cost set by the DMO had a significant bearing on the viability of second tier retailers and hence the extent of retail competition in various regions of the National Electricity Market. As a consumer advocate representing consumers in both a regulated and unregulated retail market we believe the short and long term interests of consumers is best served by a supply chain that is viable ie affordable and reliable electricity requires generators, networks and retailers to be viable but not at the expense of the viability of consumers.

Consumer engagement in the DMO process

The Draft 2020-21 DMO received 12 submissions of which only 3 were from consumer advocates. Whilst we applaud the AER's call for submissions on the impact of the COVID-19 on the DMO, we would be amiss if we did not highlight the discontent felt by consumer advocates towards the DMO consultation process.

The discontent is best summarised by the comments in submissions to the Draft 2020-21 DMO.

The Queensland Council of Social Services in their submission wrote:

> ***Underrepresentation of consumer voice:***
>
> *The consumer voice is underrepresented in the Draft Determination report and in the DMO process at large. Therefore, the proportion of supportive submissions should not be considered a proxy for the level of support from the community for the AER's determination.*

The Public Interest Advocacy Centre of NSW in their submission wrote:

> *"PIAC remains concerned that the current DMO regulating these standing offers, and its proposed 20-21 adjustment, do not provide sufficient assurance that these people are paying a justifiable and fair price for these services."*

The *3 page* submission from Energy Consumers Australia (the national voice of residential and small business consumers) provided scant analysis of the Draft 2020-21 DMO but stated in their submission conclusion:

> *The 2020-21 DMO is a key opportunity to continue the good consumer outcomes that are beginning to emerge in the energy market. We expect the energy businesses to continue to work together, to strive to meet consumer expectations on affordability and to rebuild trust in the sector. We look forward to seeing a DMO for 2020-21 that encourages businesses to deliver affordable energy prices.*

Conclusion

The AER's Final 2020-21 DMO will directly or indirectly impact on over 1.4 million residential and small business consumers in three regions of the National Electricity Market.

As such the DMO will have a profound impact on the financial and emotional recovery from COVID-19 of 1.4 million households and small businesses.

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It is therefore essential that the DMO does not force consumers into paying an inflated 2020-21 DMO.

A strong post COVID-19 recovery for 1.4 million energy consumers can be achieved if the Australian Energy Regulator recommends to the Federal Government:

- A delay in the Final 2020-21 DMO from 30 April 2020 until 15 June 2020 and
- A second opinion is sought on the Wholesale Energy Cost and Total Energy Cost which incorporates:
    - COVID-19 related announcements by government & energy supply chain businesses and
    - Modelling up to 31st May 2020.

Yours faithfully

J Brownie

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