



## E-BULLETIN QUEENSLAND FEBRUARY 2008

*Welcome to the first edition of the Electricity Matters e-bulletin. The e-bulletin provides a statistical snapshot and background on electricity matters in relation to residential electricity users and other small customers. Its aim is to keep Queensland Consumer Advocates up to date with latest developments in the marketplace to help inform their advocacy work.*

*This e-bulletin is produced by the Centre for Credit and Consumer Law, Griffith University through funding received from the National Electricity Advocacy Panel. Feedback is welcome.*

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### Who is a small electricity customer?

It is important for advocates to know what defines a small electricity customer because it indicates the kinds of regulations and dispute resolution options that apply to consumers of electricity. In Queensland everyone who uses less than 100 Megawatt hours of electricity is defined as a small customer. This includes residential users, small business and many farmers and graziers. Typically residential users use far less than 100 Megawatt hours – up to about 6 Megawatt hours per annum or 6000 Kilowatt hours per annum.

## **The National Electricity Market and the National Electricity Law**

### **National Electricity Market**

The National Electricity Market (NEM) was created in 1998 as a wholesale market for the supply of electricity for those States and Territories connected through the national electricity grid. The NEM currently includes Queensland, NSW, South Australia and Tasmania. The National Electricity Market Management Company [NEMMCO](#) administers and operates the marketplace as well as ensuring the security of the power system.

The Australian Energy Market Commission ([AEMC](#)) is currently responsible for forming rules and providing policy advice in relation to the National Electricity Market (NEM).

The Australian Energy Regulator ([AER](#)) is the economic regulator in the wholesale electricity market and electricity transmission networks. It also enforces the National Electricity Law and the National Electricity Rules.

### **National Electricity Objective**

Of particular interest, from a consumer perspective, is the National Electricity Objective. The Objective is focused on principles of economic efficiency and guides the operations of the market. The long-term interests of consumers are ideally central to the operations of the market within economic limits. The National Electricity [Objective](#), as stated 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.*

The creation of the NEM is a significant part of energy reforms that introduced competition in state electricity markets in the generation, transmission, distribution and retail sectors. These changes ultimately have an impact on the cost of electricity and the quality and reliability of supply with obvious downstream effects on effects on consumers.

For more information on the NEM and consumer matters in relation to the National Electricity Market read 'On the Wire' a newsletter/zine produced by the Consumer Action Law Centre (Victoria). [On the Wire](#)

## **Consumer advocacy in Queensland**

There is one funded position in the State which deals with electricity issues for residential users. It is a policy position funded by the National Consumers Electricity Advocacy Panel. The position deals with consumer policy matters in relation to the National Electricity Market. There are also a number of committees that advise the Queensland Government on electricity

matters that wholly or partly comprise consumers. Here is a list of contacts and relevant committees.

- Advisory Council, Energy Ombudsman Queensland – [Advisory Council](#)
- Consumer Advisory Council, Queensland Competition Authority – [Consumer Advisory Council](#)
- Regional Electricity Councils - [Regional Electricity Councils](#)
- Tenzin Bathgate, Electricity policy officer, Centre for Credit and Consumer Law, Griffith University – [Contact](#) This position is advised by two committees comprising representatives from various organisations. They are the Retail and National Electricity Market Advisory Committee (and the Rural and Regional Electricity Network Advisory Committee

## Electricity price increases

One of the big selling points the Queensland Government proposed, when introducing Full Retail Competition to small customers in Queensland, was that there would be price savings. However, these price savings have failed to occur for a number of reasons including the extended drought. In fact Queensland consumers experienced an 11.37% increase in their electricity prices for the 2006-2007 and 2007-2008 period. Recently the Regulator proposed a 7% rise in the 2008-2009 year.<sup>1</sup> Because the calculation of electricity prices is now more closely aligned with the cost of delivery, electricity prices are likely to continue to increase in the future.

There are relative cost savings for consumers who choose to go on to a market contract with the incumbent retailer or a new entrant. However, not all Queensland consumers will be offered this opportunity as it is not currently profitable for retailers to offer contracts to small customers outside the Energex area in South-East Queensland. Currently, Queensland electricity prices compare well with other jurisdictions and overall Australian consumers pay less for their electricity than other OECD countries. Queensland has the third lowest electricity prices in Australia for residential customers and internationally the fifth lowest electricity prices.<sup>2</sup> However, this low ranking may change given increasing cost-reflectivity in pricing and the upward pressure on electricity prices due to a variety of factors.

Recently St Vincent de Paul undertook a review of Australian electricity pricing in the capital cities between 1990 and 2007 and found that generally speaking electricity prices up until 2000 were tied closely to the Consumer Price Index (CPI), but after 2000 prices became much more volatile. South Australia has had significant price increases and pricing volatility since the introduction of privatisation while Perth has experienced the reverse with the lowest charges for electricity since this time. Brisbane electricity costs have generally increased at a rate below the CPI.<sup>3</sup> However, given the most recent price increase, the outlook for Queensland electricity

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<sup>1</sup> Queensland Competition Authority (2007) Final Decision. Advice to the Minister for Mines and Energy. Benchmark Retail Cost Index for electricity 2006-2007 and 2007-2008, p.1; Queensland Competition Authority (2008) Draft Decision. Benchmark Retail Cost Index for Electricity: 2008-09

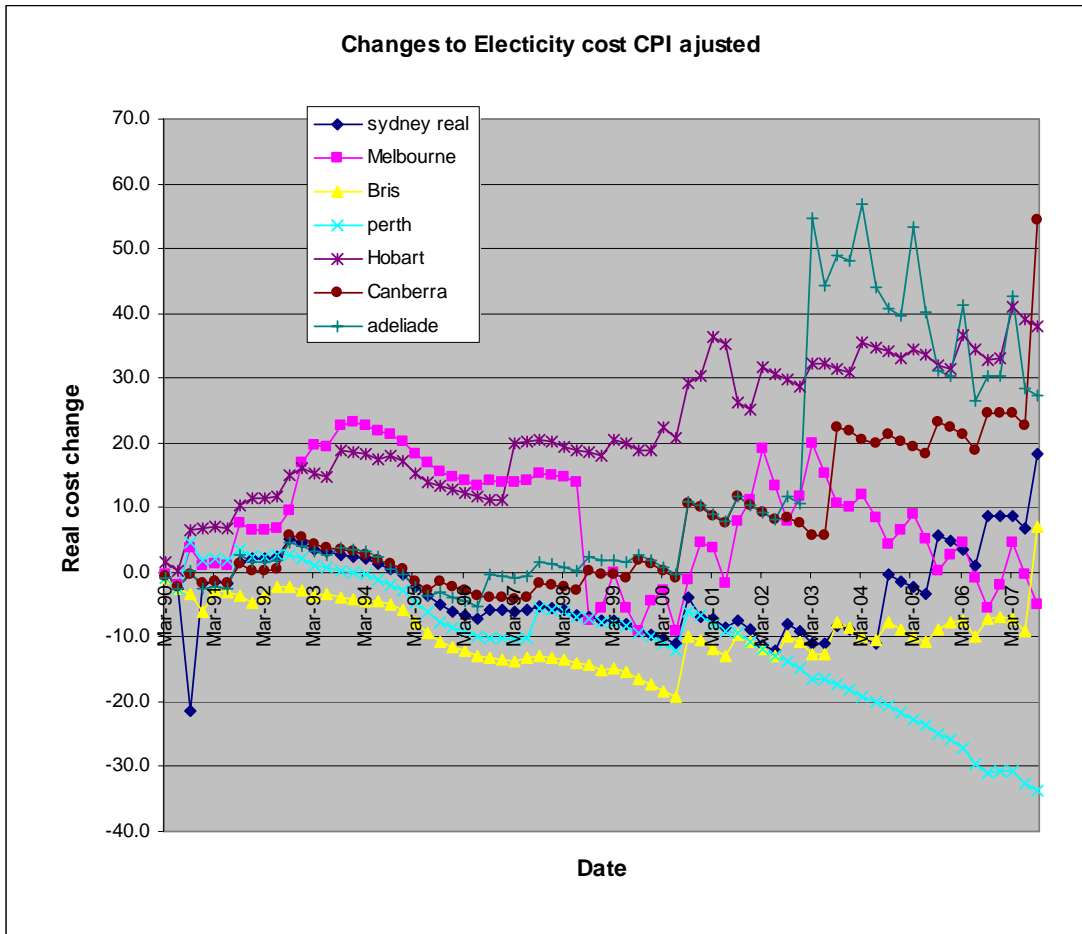
<sup>2</sup> Department of Mines and Energy – Electricity in Queensland web page 22/01/2008 [http://www.energy.qld.gov.au/electricity\\_in\\_queensland.cfm](http://www.energy.qld.gov.au/electricity_in_queensland.cfm); ‘Australia’s electricity Briefing Paper 37 and Appendix to 1, 8/1/08 <http://www.uic.com.au/nip37.htm>

<sup>3</sup> St Vincent de Paul Society (2007) Australian electricity pricing March 1990 through to and including September

prices is clearly changing. There is an increasing need in Queensland to address the issue of affordability and sustainability in relation to electricity prices and the delivery of electricity.

The table below provides a pictorial representation of electricity price fluctuations in relation to CPI by capital city.

**Figure 1: Changes in electricity cost CPI adjusted by capital city 1990-2007**



**Source:** Gavin Dufty, St Vincent de Paul Society referencing ABS 6401.0 – Consumer Price Index, Australia Groups, Sub-groups and Expenditure Class, Index Numbers by Capital city

## Competition and the consumer

### Electricity retail activity: consumers switching to market contracts

Full Retail Competition was introduced in Queensland on the 1<sup>st</sup> of July 2007 and the contestable market is currently focussed in south-east Queensland.

One way of measuring the effectiveness of competition is to see how many customers switch from standard contracts on a regulated government tariff to market contracts. Out of a total potential pool of approximately 1.8 million Queensland small end-users (residential users and

small business) 3.1% have entered into market contracts with a retailer. All these customers are in south-east Queensland which has most of the customer base (1.2 million). At the end of September 58,350 small customers had moved onto market contracts. How many of this number are residential customers as opposed to small business is unknown.

How does this switching rate compare with other States? It is early days in Queensland. In Victoria where competition has existed since 2002, there are switching rates now of 60% although 19% of this figure is due to people moving house so the figure in real terms is closer to 50%.<sup>4</sup> There is evidence from the UK that switching is of more cost-benefit to higher-income households.<sup>5</sup>

## Keeping electricity affordable

### Government community service obligations and rebates

One way of off-setting high electricity bills is through government policy. For instance, the Queensland Government as part of its Community Service Obligations provides Ergon with funds to enable it to meet the gap between the revenue collected through electricity tariffs and the actual costs of providing the service which is much higher in rural and regional Queensland than south-East Queensland largely due to the cost of transmitting electricity over long distances.<sup>6</sup>

The other strategy is to provide rebates to off-set electricity bills. Pensioners and Senior Card Holders are entitled to a rebate on their monthly electricity bill of \$10.97 cents (\$12.07 GST inclusive) per month. This is adjusted in line with CPI. (A gas rebate is now also available). The Electricity Life Support Concession Scheme also offers a concession of \$24.64 per month (paid quarterly) per machine for eligible users of an oxygen concentrator or \$16.47 per month (paid quarterly) for eligible users of a kidney dialysis machine to assist with meeting electricity costs.

Those who are finding it difficult to pay their bills can contact their electricity retailer and request an instalment plan. The terms of this instalment arrangement are outlined in the Queensland Electricity Industry Code [Electricity Industry Code](#) (go to page 57). The Queensland Government also recently established the Home Energy Emergency Assistance Scheme to help those people who are experiencing a crisis or unforeseen emergency limiting their ability to pay their home electricity or natural gas bill and under threat of disconnection. The scheme is administered by the Department of Communities who work with St Vincent de Paul, Lifeline and electricity retailers. A maximum of \$360 is available over a two year period.

### Disconnections

One way of identifying the number of people in hardship is to look at the rate of disconnections through inability to pay the bill. In Victoria where the hardship programs are most robust compared to other States, disconnections are lower than any other state. In 2004-2005 Victoria

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<sup>4</sup> Queensland Competition Authority (2007) 'Market and non-market customers', 30 September 2007; Wallis Group (2007); 'AEMC Review of Competition in the Gas and Electricity Markets Consumer Research Report', ii; NEMMCO (2007) MSATS Transfers for Queensland: December 2007

<sup>5</sup> National Consumer Council (2004) Consumer empowerment & competitiveness. A report prepared for the National Consumer Council by Janet Bush, p.11.

<sup>6</sup> Ergon Energy (2007) Annual Report 2006/07 Growing for Tomorrow, p.34

had disconnections per 100 customers of 0.50. In contrast Queensland disconnection rates were 1.57 the highest of all Australian jurisdictions.

The rate of disconnections for failure to pay the amount due on the electricity bill is almost three times higher in the Ergon area and suggests that there are more people in financial hardship in rural and regional Queensland than in the metropolitan Queensland.<sup>7</sup>

## Queensland Complaint Data

The Office of the Energy Ombudsman Queensland opened its doors on the 1<sup>st</sup> of July 2007 superseding the Energy Consumer Protection Office. The Office handles complaints from consumers about electricity and has just released its first six month's data. The number of contacts is small (2,730) of which 1027 required further investigation. These small numbers may reflect a lack of knowledge among consumers, about the existence of the Ombudsman.

A slow build up of complaints over time is probably to be expected. In Victoria, the Energy and Water Ombudsman Victoria, handled 3,825 gas and electricity cases in 1998-1999. By 2006 it handled 16,164 gas and electricity cases.<sup>8</sup> However, the common factor between Victoria and Queensland is the type of complaints with most relating to account issues. A significant number of complaints in Queensland (1521) were referred back to the retailer where consumers must, as a first port of call, sort out their complaint. For a breakdown of complaint figures see Figure 2 at the end of this document. For more extensive statistics go to: [EOQ complaints data](#)

## Web sites for more information

The following web sites may be of interest to advocates for the additional information they provide on the electricity retail and supply sector in relation to consumers.

- Energy Ombudsman Queensland [EOQ](#)
- Electricity Price Comparator – Queensland Competition Authority [QCA Comparator](#)
- Queensland Department of Mines and Energy – [NEM and Retail Competition Information](#)
- Queensland Department of Mines and Energy - [Consumer Information on Electricity Retail Choice](#)
- Centre for Credit and Consumer Law, Griffith University - go to 'Publication Compendium' and 'Electricity Matters Seminar' for policy work on electricity [Seminars and Submissions](#)

## Interstate energy advocacy links of interest

- Consumer Utilities Advocacy Centre (Victoria) [CUAC](#)
- Consumer Action Law Centre (Victoria) [CALC](#)
- Public Interest Advocacy Centre (New South Wales) [PIAC](#)

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<sup>7</sup> National Comparative Performance Data (2005) 'Electricity Retailing Quality of Service Reporting Template 2004-05', Jurisdiction: Queensland; Productivity Commission (2007) *Review of Australia's Consumer Policy Framework*, Draft Report, Vol. 2, p.425, p.411.

<sup>8</sup> EWOV, Annual Report July 1998- June 1999 and Annual Report July 2005-June 2006

**National Funding for Electricity and Gas Advocacy**

- National Consumers Electricity Advocacy Panel [NCEAP](#)

**Figure 2: Energy Ombudsman Queensland complaints Data by complaint type 2007**

