

A few  
words.

**19 November 2015**

Queensland Productivity Commission  
PO Box 12112  
George St QLD 4003

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Attention: Catherine Cussen

Energy in  
action.

AGL

## **Re: Electricity Pricing in Queensland**

AGL Energy (AGL) welcomes the opportunity to comment on the Queensland Productivity Commission's (QPC) Issues Paper, *Electricity Pricing in Queensland* (Issues Paper).

AGL is one of Australia's largest energy utilities, operating across the supply chain with investments in coal-fired, gas-fired, and renewable electricity generation and upstream gas exploration and production projects. AGL is Australia's largest private owner, operator and developer of renewable generation and is also a significant retailer of energy, providing energy solutions to over 3.7 million customers in across Australia. In Queensland, AGL has over 387,000 electricity customers as at 30 June 2015.

The Australian electricity industry is facing a period of transition as declining electricity consumption disrupts the current supply model and rapid advances in technology, such as energy storage and micro generation, are providing new opportunities for the efficient use of energy and utilisation of current supply infrastructure.

As a result, the regulatory framework that governs electricity supply requires significant amendment to facilitate a more flexible and consumer focused supply model that will accommodate these changes and allow the potential benefits to be realised. The QPC Review is therefore timely and compliments the many national reforms being considered to the National Electricity Market (NEM) and governing framework.

The Issues Paper draws on many of these reforms, as they relate to Queensland, and AGL supports the following key recommendations as part of the review:

- The introduction of full price deregulation. There is effective competition in the South East Queensland retail electricity market but the retention of a regulated price cap prevents the full realisation of the benefits of a competitive market. Removing the risk that a retail businesses may not make appropriate returns under regulation will encourage new market entrants, improved service and product bundles and ensure consumers can access market discounts and offers comparable to other jurisdictions;
- Improved customer assistance measures. Although the Queensland Government provides a significant level of funding, the concessions framework needs to be amended to provide more targeted and equitable assistance to those in need;
- The reform of network tariff structures. The current network tariffs based on volumetric charges are not cost-reflective, contain inherent cross subsidies, create annual pricing instability, and provides incorrect signals for investment in new technologies and for the usage of electricity. AGL supports the transition to demand based pricing over the medium term; and
- Use competitive markets to introduce new technologies. The regulatory framework must maintain competitive neutrality and allow differing business models and new

technologies to compete on their merits. New technologies like smart meters, distributed generation and battery storage will enable consumers to choose products and services that suit their particular circumstances and should be facilitated through competitive markets.



AGL's detailed responses to some of the specific questions raised in the Issues Paper are attached. Should you have any questions in relation to this submission, please contact Patrick Whish-Wilson on (07) 3023 2426.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Beth Griggs', is positioned below the 'Yours sincerely' text.

Beth Griggs  
Head of Regulatory Strategy

### 2. Productivity in the Electricity Supply Chain

- 2.1 Are there changes to the structure of the electricity supply chain and its regulation that might improve the efficient delivery of a reliable supply of electricity to customers?*
- 2.2 What are the key areas for productivity improvement across the electricity sector, and how could these influence Queensland's overall economic productivity?*

Queensland consumers have experienced large increases in electricity prices in recent years as a consequence of the large capital investments in network infrastructure and renewable energy generation that have been made despite falling levels of electricity consumption.

Furthermore, the electricity supply system is undergoing significant change as advances in technology are providing alternatives to the way electricity is generated and distributed. In response, a large number of national reforms have been completed or are underway including:

- Changes to the network regulation framework being applied by the Australian Energy Regulator (AER) with its recent Determinations constraining increases in network revenue;
- Changes by the Australia Energy Market Commission (AEMC) to the rules governing network pricing with networks moving to more cost reflective network tariffs;
- Price deregulation in most NEM jurisdictions; and
- Changes to the National Electricity Rules (NER) to accommodate new technologies and facilitate new energy models in competitive markets.

AGL supports the principles behind these reforms and agrees that the challenge before the NEM is to make better use of the existing infrastructure. This requires price signals to be cost reflective and to ensure markets are in place to provide new technologies and other innovations.

Given this national reform agenda, AGL does not generally support state based reforms, even those intending to enhance the national reforms, as they may disrupt the transition to a more efficient and consumer focused industry.

#### Generation

- 2.3 What are the potential benefits and risks in the Queensland Government's renewable energy plans, including solar targets, for electricity sector productivity and electricity prices in the longer term?*
- 2.4 What objectives do these plans and targets best support, and are there alternative levers or methods that might be considered?*
- 2.5 What factors are influencing higher wholesale prices in Queensland and do these represent systemic or transient market issues?*

AGL supports the Commonwealth Government's commitment to work towards a global agreement to limit global warming to less than 2°C above pre-industrial levels (2° goal). This is likely to require complete decarbonisation of the world economy by 2100 and emission reductions of up to 70% by 2050. As a significant source of greenhouse gas emissions in Australia, the decarbonisation of the electricity sector over the coming decades will be critical to achieving this goal, and both renewable and lower emissions fossil fuel generation are likely to be required. Consideration needs to be given to both the transitional nature of the challenge and the essential service nature of a reliable and affordable supply for electricity users. Climate change programs developed by State Governments should give due consideration to Australia's commitments under international climate change agreements and policies implemented at the Commonwealth level to achieve these targets.

A national approach is particularly important for the transition to a decarbonised electricity generation sector given the existence of the interconnected National Electricity Market (NEM). These interstate implications involve the importing or exporting of emissions associated with electricity generation, and mean that any state-based electricity sector

policies are likely to be sub-optimal unless careful consideration is given to their interaction with the NEM (and its associated markets).

AGL supports regulatory and market mechanisms to effectively incentivise the new investment in low-emissions electricity generation, and the exit of older emissions-intensive power stations required to effect this market transformation. In its 2015 Greenhouse Gas Policy, AGL has committed that it will not extend the operating life of its coal-fired power stations, and that by 2050, AGL will close all existing coal-fired power stations in its portfolio. The decarbonisation and modernisation of the electricity sector will span several decades, and a long-term vision and trajectory for this transition is essential.

AGL is a strong supporter of renewable energy, having invested over \$3 billion in renewable generation over the past decade.

Generation capacity or supply in the NEM is substantially greater than the current demand for electricity. For example, AEMO has estimated that no new capacity is needed in Queensland until at least 2021-22, even under high growth scenarios. As a result, there continue to be challenges to investment in utility scale renewable projects as wholesale energy prices are well below the level required to incentivise new entrants (renewable or thermal). It remains unclear how new projects can be committed without complementary policy aimed at resolving wholesale market oversupply, such as the policy that has been implemented in Canada which requires power stations that have reached the end of their useful life (i.e. 50 years) to retire or retrofit Carbon Capture and Storage (CCS) technology.

Developments in technology, policy and market conditions are also changing the risk profile of investing in new renewable energy projects, and it is essential that innovation in project financing keeps pace with other market changes.

Governments at all levels have a role to play in this decarbonisation process, and Queensland should, in particular, consider opportunities for the State Government to provide support to or enhance Commonwealth and nationally consistent initiatives, such as through planning approval processes, and energy market regulatory settings. For example, AGL supports the development of Queensland Wind Farm Guidelines, and would welcome the appointment of an independent gate-keeper, such as AEMO or the AER to administer and approve applications for distributed grid connection (e.g. for solar, batteries, and digital metering) to ensure a fair and streamlined process for customers. Network businesses are increasingly competing in these markets and are therefore not well placed to perform this role. Additionally, solar grid connections up to 5 kW could be automatically processed to prevent delays.

- 2.6 *Are there any issues associated with the existing level of competition in Queensland's electricity generation sector, and what are the potential impacts on the wholesale electricity market?*
- 2.7 *What are the potential benefits and risks associated with structural reform of CS Energy and Stanwell in terms of supply chain productivity and electricity pricing?*
- 2.8 *What options are there to mitigate competition impacts associated with merging CS Energy and Stanwell, and maintain downward pressure on electricity pricing?*

The Queensland Government is currently investigating a range of structural and non-structural options for improving the commercial performance of these businesses.

AGL does not support the merger of Stanwell and CS Energy. AGL shares the concerns expressed by the Australian Competition and Consumer Commission (ACCC) that this merger would negatively impact competition to the detriment of consumers in Queensland. AGL understands that the Government is currently considering structural arrangements such as separate trading desks in order to mitigate the anti-competitive effect of the proposed merger. AGL would need to have a detailed understanding of what is proposed and how such arrangements would operate in practice in order to understand whether the anti-competitive effects could be avoided, and if so whether the potential benefits of the merger would still exist in such a structure.

## Networks

- 2.9 *What is the best way to recover the network costs associated with demand from electricity customers more efficiently and equitably?*

Existing volumetric rate network tariffs for residential and small business customers:

- Are not cost reflective and do not align to network cost drivers such as peak demand;
- embed cross subsidies with consumers that use more electricity at peak times (such as air conditioning) are being subsidised by those who do not; and
- create significant network price instability as a result of network revenue regulation and falling energy consumption.

As such, AGL supports the Energex and Ergon transition to demand based pricing for Queensland electricity consumers as the pricing reform will:

- provide more accurate network cost signals;
- remove cross-subsidies;
- encourage efficient usage of electricity and improve the efficiency of the supply system; and
- provide a time signal for investment in new technologies such as storage devices.

AGL also supports the voluntary nature of the pricing reforms as industry will be able to transition customers who will immediately benefit to these new tariff structures and allow consumers as a whole to gradually adjust to cost-reflective price signals. This is especially important in Queensland given the need to for interval metering to access the tariff reform. Demand pricing systems which are introduced alongside effective education and information campaigns and technologies which best support and enable customers to respond to the pricing signals will be the most effective.

However, AGL would suggest that demand based pricing will need to be mandatory in the long-term if the reform is to work efficiently.

#### *2.11 Do Queensland's network reliability standards effectively allocate risk between consumers and businesses, and to the extent they exist, mitigate any risks?*

The previous high level of network reliability standards and subsequent investment in network asset redundancy are still being paid for by Queensland consumers at a high cost.

AGL notes these standards have been tempered by the Queensland Government with a subsequent reduction in the cost of network services. However, the way electricity consumers will use the distribution network in the future is changing as technologies such as distributed generation and energy storage proliferate.

These technologies are expected to reduce customers' reliance on the distribution network and will likely require further adjustment to reliability standards in the future.

#### *2.12 What are the potential benefits and risks of emerging technologies for the electricity networks in terms of electricity prices and supply chain productivity?*

#### *2.13 What is the role of economic regulation of networks in the face of increasing competition from non-network services and products?*

#### *2.14 How should the costs associated with implementing new technologies be shared between the businesses and consumers?*

As noted by the QPC, the emergence of new technologies is challenging the traditional network business model with new physical and technical demands on the networks and rapidly diminishing network utilisation. There are also potential opportunities for increased demand from new technologies such as electric vehicles and the need for charging these vehicles.

It is important to acknowledge that these new technologies are just as challenging to the other components of the supply chain, namely the traditional generators and retailers of energy.

The AEMC has conducted some initial consultation on these issues and AGL responses are clear that only competitive markets are able to provide the range of consumer benefits at an efficient cost.

The role of the regulated network is to operate the grid efficiently, set price signals that reflect costs appropriately and to recover the required network revenue in the face of new technologies that will impact on the usage patterns of the network. The regulated network

business should not be participating directly in these competitive markets and this includes new technologies used for grid augmentation. A regulated network's focus is limited on the grid and is unlikely to capture all the potential benefits from technology such as energy storage. In contrast, a competitive third party provider would be commercially incentivised to capture all possible benefits and returns. The networks should be and are incentivised to invest in appropriate energy storage but the service should be provided by the competitive market.

In saying this, there are no impediments to the distribution network businesses providing these competitive services as long as it is through an appropriately ring-fenced, associated entity to prevent cross-subsidisation from the regulated revenues.

## Environmental Policies

### *2.20 What would be a better alternative for funding the Solar Bonus Scheme?*

The Solar Bonus Scheme (SBS) is funded through increases to network tariffs to all Queensland electricity consumers, including large industrial and business customers.

It would be more economically efficient if network prices did not include the cost of this subsidy and consumers' energy consumption and investment decisions were therefore based on a more cost reflective price signal. Subsequently, consideration should be given to funding the SBS through the Government budget rather than as tax on electricity consumption.

Electricity customers experiencing financial hardship, on average, use much more energy than the average household and are therefore particularly affected by increases in energy prices. AGL therefore strongly recommends that any new renewable energy and climate change schemes that deliver additional subsidies to renewables be funded directly by government on balance sheet rather than recovered from consumers through electricity bills.

## New Technologies

### *2.21 What are the likely or potential impacts of new technology on the productivity of the electricity supply sector and its component parts, and electricity prices?*

### *2.22 How could existing regulatory and institutional arrangements in the Queensland electricity sector support the efficient adoption of emerging technology across the electricity supply chain?*

New technologies like smart meters, distributed generation and battery storage have the potential to increase the productivity of the electricity supply sector by maximising the utilisation of the current assets, at a lower cost. AGL is a strong supporter of customer choice in relation to new energy technologies and has an aspirational target to establish a smart connection in one million Australian homes by 2020.

Solar PV technology has been available for many years and advances in technology are making solar PV more cost-competitive. The increasing penetration of solar PV is already impacting all parts of the electricity supply chain.

The economic viability of energy storage technologies is rapidly advancing and it will be able to support:

- additional renewable energy as it mitigates the costs and issues created by renewable energy generation's intermittent dispatch;
- the efficient operation of networks including the avoidance of network capital augmentation; and
- the adoption of electric vehicles (EVs) as costs decline.

However, if the integration of these new technologies is done in an inefficient manner then there is the potential for large economic losses through asset redundancy and duplication of resources.

The regulatory and institutional frameworks in Queensland need to be competitively neutral so that existing and emerging business models can compete and enable consumers to choose products and services that suit their circumstances and can be efficiently delivered.

To realise the potential benefits of new technologies, the Queensland Government needs to support improvements in regulatory settings that will facilitate this competition, namely:

- Network tariff reform to transition to cost-reflective tariff structures to ensure that customers contribute equitably to costs of providing shared energy networks and that appropriate prices signals are guiding adoption of new technologies;
- Provision of demand side services on a competitive basis, to drive down costs for consumers and to enable the market to innovate a range of products and services for customers to choose from. AGL supports the AER determinations to reduce allowances for network businesses and believes regulated revenues should not be able to be used to support business activities in contestable markets;
- That network businesses wishing to compete for the provision of new products and services are appropriately ring fenced. AGL supports the establishment of a nationally consistent ring fencing guideline to address the structural and financial separation of network businesses wishing to participate in the competitive market; and
- the Queensland Government's continued support for the AEMC metering competition reform and the national, market-led, contestable roll out of digital meters. These are a fundamental technology for increasing the range of innovative products and services available to customers. We note the Queensland Code and Safety installation rules also require review and amendment to enable contestable digital meter installation.

### **3. Deregulation in Southeast Queensland**

#### **3.1 *What are the potential costs and risks of maintaining retail price regulation in a competitive market?***

Retail price regulation requires the calculation of an artificial efficient price in the market and provides consumer protection in lieu of in the absence of effective competition.

However, a regulated price is an imperfect substitute for prices determined by competitive market processes and is likely to impose costs and distortions that would not otherwise be present. The regulatory risk that regulated prices will be set too low, such as the freezing of Queensland electricity prices in 2012-13, deter market participation by new entrants and stifle investment and innovation by market participants. The AEMC has accepted that as competition increases, price regulation can hinder further market development.

Retail competition in South East Queensland was found to be effective in the AEMC's latest retail market review with retail price regulation remaining the only impediment to further competition in the region.

Consequently, the removal of retail price regulation will provide the best outcome for Queensland consumers through the development of efficient, competitive market offers. Furthermore, the additional competition in retail electricity markets will incentivise businesses to improve service, develop products that meet consumer needs and find ways to lower their costs and to pass these savings onto consumers. This flexibility in retail will also be fundamental to the introduction of new technologies in a changing electricity market.

AGL strongly supports the removal of price regulation in South East Queensland on 1 July 2016.

#### **3.2 *What are the potential costs of deregulation? How should they be assessed?***

#### **3.3 *What risks might consumers face in a deregulated SEQ market, and how might these risks be mitigated?***

#### **3.4 *Is the AEMC's approach to assessing retail competition in the NEM appropriate, or are there other factors that should be considered?***

#### **3.5 *What are the lessons to be learned from deregulation in other jurisdictions that could be applied to the SEQ market?***

All NEM jurisdictions have introduced retail price deregulation although the development of competition in the respective retail electricity markets vary.

The South East Queensland electricity market has full retail competition and the AEMC found competition to be effective, albeit less intense than in other jurisdictions. Price deregulation

on 1 July 2016 will simply remove the price regulation of Standing Offers provided by retailers.

As such, there is no expected economic cost or welfare loss readily attributable to price deregulation. In fact, the history of price deregulation in other states suggests that price deregulation will improve total economic efficiency as competition increases, price dispersion increases over time and retailers' market offers move to marginal cost levels in line with economic theory.

In Victoria, where deregulation has existed for the longest period, retail electricity prices have attracted rising attention over the past two years with concerns raised that Standing Offer tariffs are well above industry average total cost. However, record numbers of Victoria customers are accessing very high-level discounts which provide prices at the marginal cost of retail supply. Amongst the various reports on Victorian tariffs, the efficiency of marginal offers receives little attention. As such, AGL agrees with the AEMC's caution against drawing any conclusions from Standing Offer analysis as South East Queensland progresses with price regulation.

The AGL' Working Paper No. 49, *Reforming reform: differential pricing and price dispersion in retail electricity markets*<sup>1</sup>, analyses this situation and finds that the marginal offer in Victoria has a zero profit margin, and is 20 per cent below the industry average total cost of supply. Marginal offers in Victoria are unambiguously lower than in semi-deregulated Southeast Queensland where marginal still retain a moderate retail margin.

To be clear, price dispersion increases under competition, especially in capital intensive industries and the electricity supply industry is a very capital-intensive industry with large common and fixed sunk costs.

From an economics or public policy perspective, this price dispersion is distributing retailers cost recovery from less-price sensitive customer segments to the price sensitive customer segments. This is economically efficient because the less price sensitive customers are usually high-income households. Therefore, although total economic efficiency increases with price deregulation, and the evidence of this can be found in this Working Paper, there are welfare transfers between consumers.

In Victoria, AGL has identified that there is a fundamental issue when vulnerable consumers are misallocated to Standing Offer tariffs designed for higher income households, despite countless activities to engender further customer engagement with the market. AGL's response is to unilaterally move these vulnerable customers from Standing Offers to a discounted product (without explicit customer consent but with full Government awareness) and this is scheduled to occur from 1 January 2016. AGL believes that all energy retailers need to reorganise vulnerable customers away from Standing Offer rates to ensure they are no worse-off than under average uniform rates. AGL has also supported the policy proposal put forward by St Vincent de Paul Society to have all standing offers gazetted on the same day. AGL encourages the Queensland Government to promote greater customer engagement and to promote customer information channels and visibility of comparator website as entering the market will allow customers' to access the benefits of price deregulation.

**3.6 *In the event retail prices in SEQ were deregulated, are the market monitoring and reporting arrangements adequate, or are there changes or improvements that could be made?***

AGL believes the proposed market monitoring and reporting arrangements are adequate noting that the Queensland government will retain a reserve power to reintroduce retail price regulation.

All other jurisdictions have implemented market or price monitoring arrangements following price deregulation with little concerns.

AGL would highlight, as discussed above, that any comparison of retail market pricing is often misleading if it only focusses on Standing Offer contracts and rates and suggest that the Queensland Competition Authority (QCA) also consider the market offers and marginal pricing available to consumers when assessing the competitiveness of the market.

<sup>1</sup> <http://aglblog.com.au/wp-content/uploads/2015/07/No.49-Price-Discrimination.pdf>

*3.7 In the event retail prices in SEQ were deregulated, would the customer protection arrangements provide adequate support and protection for SEQ consumers, particularly those who are most vulnerable?*

*3.8 Are there any additional protections required, and what is the evidence that these would improve consumer outcomes?*

The Application of the National Energy Retail Law has provided Queensland consumers with additional protections under the National Energy Customer Framework (NECF). This includes providing consumers with better tools to engage in the retail market.

AGL believes NECF provides adequate protection for Queensland consumers and note that this is augmented by retailers' hardship programs that provide support for vulnerable consumers and help customers experiencing financial difficulty.

Furthermore, when retail prices in SEQ are deregulated, the following transitional arrangements are proposed:

- for the first year of deregulation, retailers would not be permitted to vary their standing offer prices for consumers on standard retail contracts, unless the variation is to reduce the price; and
- for the first two years of deregulation, retailers would not be permitted to include any new types of fees or charges in their standing offer prices.

AGL believes these protections support the transition to market deregulation but must be temporary as pricing flexibility will be important in this period of disruption as new technologies are introduced.

AGL would also highlight that as part of the debate in Victoria, it has been proposed by various stakeholders that energy retailers gazette Standing Offer rates on the same day to add to existing competitive dynamics. AGL believes this is consistent with sound economic and public policy principles.

Finally, as discussed above, there is a 'low income' or vulnerable customer group that, in AGL experience from other jurisdictions, are unlikely to enter the contestable retail market despite the benefits available to them. Following price deregulation, AGL will look to identify this grouping in Queensland and provide them with a discounted product to avoid any welfare losses.

*3.9 In what ways could the tools, information and support available to assist residential and small business customers in SEQ to participate in the retail electricity market be improved better targeted?*

*3.10 What is the role for government, retailers and consumer groups in promoting greater customer participation should retail electricity price deregulation in SEQ eventuate?*

The AEMC consider options for raising awareness of the tools available to simplify comparing energy offers to improve customer confidence in the market. The AEMC considers greater promotion of EnergyMadeEasy could help improve customer confidence in the market.

Consumer engagement and participation are important facets of a competitive market. A lack of awareness and understanding of the offers and products available can impede market engagement.

In this respect, it should be noted that close to 90 per cent of SEQ consumers surveyed by the AEMC as part of their competition assessment were aware they could choose their electricity and gas retailers.

But the report also noted there is limited awareness of price comparator websites like the AER's Energy Made Easy website, which became available to Queensland consumers on 1 July 2015.

Both governments and retail businesses have an important role to play in increasing customer engagement and awareness. While retail businesses are heavily incentivised to increase consumer awareness of products and their benefits, the role of government is crucial during the transitional period as customers generally consider government advice to be impartial.

AGL suggest that the Consumer Education Campaign that was developed by the Queensland Department of Energy and Water Supply, in partnership with energy retailers, industry bodies and consumer advocacy groups, could play an important role in facilitating this engagement.



#### **4. Regional Queensland**

##### **4.1 What objective(s) should the UTP be designed to achieve and how effective is the current UTP at achieving the objective(s)?**

AGL understands that the original intent of the Uniform Tariff Policy (UTP) is to ensure that Queensland customers have access to the same retail tariffs for their electricity, regardless of location and despite the inherent variations in the cost of supply. With the introduction of full retail contestability, customers in SEQ are able to access a range of market offers, generally at a discount to the regulated prices. Therefore, the original intent of the UTP is no longer applicable. The objectives of this government policy need to be clearly identified so it can be amended to meet its stated objectives while minimising any unintended outcomes. It may be worth considering limiting the UTP to regional Queensland only.

This is a timely consideration for the QPC given the significant disruption to the electricity supply industry caused by declining energy consumption and rapid technology changes. The current design of the UTP is now having unintended consequences on investment and the use of energy that were not previous considerations of the policy, with some of these impacts in conflict with other Government policies such as its 3000 MW solar target.

##### **4.2 Could the UTP be targeted more effectively to better achieve these objectives?**

AGL believes the UTP can be better targeted as irrespective of its objectives, it is creating distortions that are impeding productivity and the best interest of Queensland's consumers.

The suppression of price signals may be meeting an equity objective but causes:

- irrational decisions by consumers with regard to energy consumption as retail prices are lower than the costs of supply for most regional customers;
- uneconomic decisions on alternate energy sources as the subsidised lower retail prices deter investment in alternate generation despite the cost of the alternate energy delivery being lower than the current cost of electricity supply;
- Impeding the development of competition as the CSO payments to Ergon Energy at a retail level prevent any retail competition in regional Queensland; and
- Providing poorly targeted assistance rather than to those in need: The UTP subsidises all regional customers, even very large businesses and Publicly Listed companies.

It appears that some of these concerns can be mitigated without disrupting the overall equity objectives of the UTP.

##### **4.9 What are the potential benefits and costs of competition in regional Queensland?**

##### **4.10 Why would a network-based CSO be the most effective way of supporting the UTP and promoting competition in regional Queensland?**

##### **4.11 Are there any other options that would increase competition in regional Queensland and maintain a UTP, or deliver the same objectives as a UTP?**

First and foremost, AGL believe a network-based CSO is the most sensible alternative for promoting competition in regional Queensland while retaining the UTP.

It would enable retailer's to compete for regional customers based on the competitiveness of their energy procurement and retailing costs and initially could be administered under the notified price regulation of the QCA.

More critically, embedding the subsidy into network charges would allow a transition to price deregulation in regional Queensland as a competitive market develops.

Secondly, removing Large energy users' access to subsidised regulated prices would better target the CSO and introduce competition directly into this market segment of regional Queensland.

Finally, the longer term objective should be transitioning electricity tariffs to cost-reflective levels tariffs with associated price signals that will better inform customers' decisions on energy supply models and consumption patterns including non-network solutions, such as PV and battery storage. This removes the inefficiencies associated with pricing that is not cost-reflective.

The CSO could instead be replaced with a targeted assistance measure for regional households and small businesses according to the Government's overarching objectives.

*4.14 What is the most efficient approach to setting Notified Prices in regional Queensland that will support a UTP and why?*

*4.15 What are the benefits and impacts of using Ergon Energy's network charges and tariff structures to form the basis of regulated prices in regional Queensland?*

While the UTP is retained, Ergon Energy's network charges and tariff structures should form the basis of regulated prices in regional Queensland with the network CSO applied to align retail prices with price levels in South East Queensland (Energex area). As a result of combining distribution and transmission zones, there are seven network zones in Ergon Energy's distribution region. If Ergon Energy network charges are used as a basis to set Notified Prices in regional Queensland, there will be a range of options, such as using the highest Ergon network charges, the middle level charge or an average of all Ergon Energy charges.

Although regional customers would not face cost-reflective retail prices, basing them on Ergon Energy's network pricing structures would allow the network to convey aspects of its price signals that are relevant to its own network such as critical times of use, seasonal demand and marginal costs of energy consumption in relevant pricing zones.

*4.19 In what ways could the existing arrangements for supplying local communities be more effective?*

*4.20 What alternatives might be considered to ensure the efficient delivery of electricity to meet local requirements?*

*4.21 What factors should be considered to support any transition to alternate service delivery models or provider as the more efficient means to meet localised energy supply?*

Regulatory arrangements that were introduced to ensure that remote and isolated communities in Queensland have access to affordable energy may not be fit-for-purpose in the near future. The emergence of new technologies that can provide cost-effective partial or full substitution for grid supply in remote locations are limited by current network regulation and the UTP.

AGL supports the use of renewable energy, and other enabling technologies to reduce the cost of supplying electricity to regional areas. Wherever possible, competitive markets and tender processes need to be used to deliver innovation and cost-competitive solutions tailored to the needs of these communities.

Distributed generation and other localised energy supply solutions could feature prominently with respect to isolated networks in regional Queensland in situations where localised energy supply solutions and potentially moving customers(s) off-grid could deliver reliability improvements and lower network costs.

The previous method of expanding the main grid to meet new demand and to interconnect existing isolated networks to the main regional grids is not appropriate in these situations but the existing regulatory framework will require amending to allow:

- local governments involvement in achieving social licence;
- private sector involvement in the operation and maintenance of isolated supply assets as an independent power producer;
- transparent contractual or regulatory arrangement to ensure isolated systems are built, maintained and operated to standards agreed by the Government as the provider of the CSO; and
- that the efficiencies and cost savings to the network are passed through rather than imposing asset stranding costs on other regional Queensland customers.

## 5. Customer Participation and Support

- 5.1 *What are the barriers to improving consumer participation in the electricity market?*
- 5.2 *What are the benefits to the productivity of the electricity market and broader supply chain in increasing customer participation, and how can these benefits be measured?*
- 5.3 *What is the existing level of consumer knowledge and understanding of new electricity sector business models, products and services, and technologies?*
- 5.4 *How will future developments, including changes in technology and the growth of new markets and business models, influence consumers' participation in electricity markets?*
- 5.5 *What are the key information gaps in consumer knowledge and understanding of electricity markets?*
- 5.6 *What have industry or consumer groups done to address existing information and how effective have these strategies been?*

Customer participation will be key in allowing consumers to benefit from price deregulation.

However, as the QPC rightly note, despite the introduction of retail competition, advances in technology, access to new tools and energy programs available to help customers' manage their energy usage better, energy consumers may still be intractable.

This is the case in regard to customers' engagement with other products decisions such as selecting their superannuation fund, mortgage lender or insurance provider. These consumer decisions involve much greater shares of consumers' disposable income with greater incentives to change providers or products yet engagement remains lacking.

This implies is that removing any barriers to consumer participation is vital, providing relevant, accessible information for informed decision is important but the industry is then largely reliant on consumers making the decisions and trade-offs as befits their circumstances.

In this regard, AGL supports removal of any barriers to informed decision making by:

- the development and transition to cost-reflective tariff structures;
- encouraging access to new technology such as improved metering services;
- providing customers with timely and meaningful information about efficient use of energy; and
- communicating the potential benefits of reforms and price deregulation to consumers.

Consumers already access information from the market directly through industry- and consumer group- led initiatives. Industry has a direct financial interest in ensuring customers are informed about various product offerings and this will undoubtedly increase with price deregulation and increasing competition in the South East Queensland market.

However, Governments and community agencies have an important role to play:

- as impartial and trusted information providers and educators;
- to raise awareness of existing independent comparator websites such as the AER's Energy Made Easy website; and
- in promoting consumer interests.

As such, AGL reiterates its previous support for the implementation of a consumer education campaign by the Department of Energy and Water in conjunction industry and consumer groups to facilitate awareness and engagement in energy market.

### Impacts of Network Tariff Reforms

- 5.7 *What are the potential benefits and risks in the transition to cost-reflective pricing, in terms of electricity prices and supply chain productivity?*
- 5.8 *In what ways could customers be better supported and equipped to understand and accept more cost-reflective tariff structures?*

**5.9 What barriers and costs does a voluntary uptake of advanced metering present for the rate at which cost-reflective tariffs are able to be adopted?**



AGL supports the network tariff reform including the move to demand based network pricing and agrees with the fundamental assumptions that:

- the current network tariff structure does not work for residential and small business customers given the adoption of new technologies and the way customers are utilising electricity;
- network pricing of electricity based primarily on volume is both unstable and not sustainable in the medium-term; and
- reforming tariffs to align with consumers' electricity demand is more cost-reflective, provides greater pricing stability, encourages more efficient investment and will benefit consumers through reduced network investment.

Energex proposal for a voluntary demand-based network tariff for residential customers in 2016-17 and for small business customers in 2017-18 appears a sensible approach given the limited penetration of advanced meters in Queensland.

AGL agree with the QPC that advanced metering is a critical element of the reform agenda to enable consumers to realise the full benefits of broader and more diverse product offerings and new technologies.

AGL supports the market-led rollout of advanced meters and subsequent rule change to provide for competition in metering and believes, at this stage, that the Energex draft tariff reforms may provide sufficient incentives (in conjunction with other inherent benefits) for the deployment of advanced metering in South East Queensland.

AGL also agrees that the Government can play a key role alongside industry in communicating benefits of the new tariff structures to consumers. Similar discussions are occurring with industry and Government in Victoria to ensure that complexity is minimised and simple, consistent messages can be relayed to consumers. For example, all Victorian networks have adjusted their proposed network tariffs to align the timing of their peak demand charges to between 3pm-9pm. This alignment between networks allows a consistent message to be conveyed to all Victorian customers regarding when peak demand is measured and how to respond.

The voluntary nature of demand-based tariffs requires retailers actively engage with customers to convert those consumers who will benefit from lower bills to the new charging regime. However, in the medium term, demand based network tariffs will be required to be mandatory if the benefits of network tariff reform are to be fully realised.

**5.10 What are the benefits and risks of cost-reflective pricing?**

**5.11 What strategies or safeguards could support low-income and vulnerable consumers in the transition to new tariff structures?**

**5.12 What is the role of retailers in the transition to new tariff structures?**

As highlighted by the QPC, a comprehensive understanding of the potential impacts of network tariff reform remains difficult at this point in time.

However, in this respect, the voluntary opt-in nature of the reform in Queensland and the start of demand based pricing in Victoria from 1 January 2016 put Queensland in a position to assess the costs and benefits of these reforms over this regulatory pricing period and act accordingly.

AGL's previous analysis of interval data for 160,000 customers based on different customer profiles or cohorts (see AGL Working Paper No. 41, *On the inequity of flat-rate tariffs*) and a more recent assessment of the demand based network tariffs proposed by Victorian networks has revealed several general learnings:

- That demand based tariff reform does not unfairly target any specific customer group with winners and losers in each cohort or group that depend on the individual customer's consumption levels, peak demand and load factor; and
- That hardship or vulnerable customers are the most likely group to benefit from demand based pricing because 1) they have larger than average consumption levels so they benefit from lower volumetric charges and 2) this consumption is usually spread

over a longer period of the day rather than being focussed on peak periods so they have a better than average load factor and lower bills under demand pricing..



As noted by the AEMC, retail pricing may not necessarily match the structure of these new network tariffs and retailers may choose to manage the price, volume and demand risk themselves rather than passing through to customers. However, it is highly likely that many retailers will pass through the demand charges directly because there is an incentive to do so and some retailers may expand on the tariff reform to provide monthly demand pricing plans or other innovative products to manage demand charges on behalf of their customers.

These are the benefits of a competitive retail market.

- 5.13 In what ways do the benefits of energy efficiency and demand management programs help consumers offset price risks?*
- 5.14 What types of incentives would be the most effective in balancing benefits and costs to achieve better outcomes in terms of electricity pricing and supply chain productivity?*
- 5.15 What are the benefits and risks in the Queensland Government providing incentives for households, businesses and industries to become more energy efficient or manage their peak levels of demand, including implementing energy efficiency standards for sectors within its jurisdictional authority?*
- 5.16 What barriers and costs does a voluntary uptake of advanced metering present for energy efficiency and demand management tools?*

Many jurisdictions have previously implemented energy efficiency schemes that were initially effective but expensive. These schemes are now uneconomic given the falling marginal cost of energy consumption. AGL would not support Queensland implementing an energy efficiency scheme.

Energy efficiency and demand management programs can only achieve better outcomes with regard to lower costs and greater productivity in the supply of electricity if the price signals driving this behaviour are cost reflective.

For example, current retail and network prices for Small consumers are predominantly volume based charges which has resulted in the volume rate paid by customers for additional energy consumption being demonstrably greater than the marginal cost of delivering this energy. This is clearly evidenced by the low utilisation of distribution networks and large oversupply of generation capacity available in the NEM. The consequence of prices not reflecting cost is that customers are making decisions on energy usage that are inefficient and will not improve the productivity of the industry.

This is also true for demand management. Peak demand has been a major cost driver of electricity prices but Small customer electricity prices are not impacted by demand. Consequently, individual consumers are not incentivised to make changes to their demand and are also making decisions that reduce the efficiency of networks and impose costs on all consumers.

However, the response of customers to current pricing structures (large reductions in energy consumption but not demand) does suggest that customers are willing to make behavioural and economic decisions (if the technology is available) in response to pricing signals.

This highlights the need for the network tariff reforms, as discussed above, and the education of consumers on the direct bill benefits available to customers through behavioural change and the longer-term benefits to all consumers through increased productivity of the electricity supply industry.

Demand based pricing will require investment in advanced metering infrastructure but AGL believes that metering competition in conjunction with network tariff reform will provide opportunities for the uptake of advanced metering in South East Queensland.

AGL sees great value in effective and targeted energy efficiency and demand management programs which target high-consumption customers participating on retailer hardship programs. AGL research has found that on average, customers participating on hardship program Staying Connected consume around 40 per cent more electricity than the average customer base. Compounding this, this customer group also often has limited capacity to pay, resulting in payment plans being set at very low levels, resulting in debt accrual.

Demographic research and information from home audits conducted by AGL's community partners in Victoria and South Australia found a significant proportion of these customers living in private rental and social housing properties. Customers living in these properties often face significant barriers to making meaningful upgrades to more efficient appliances or improving the building fabric. For this group, market-based mechanisms will not overcome their challenges, AGL advocates for targeted co-investment programs to be developed by government for this customer group.

AGL has also announced \$500,000 per year for the next three years to co-invest with other sectors to upgrade public and community housing projects for customers participating on AGL's hardship program.

## Concessions

- 5.17 Are the principles outlined above useful for assessing the Queensland energy concession framework and identifying improvements?*
- 5.18 What other key criteria or principles should be used to assess the energy concessions framework?*
- 5.19 Is it appropriate that the level of household income is used as a measure to define vulnerable consumers, or are there other measures that would more effectively identify vulnerable consumers?*
- 5.20 How could electricity concessions be better targeted to assist customers most in need?*
- 5.21 What alternatives to the flat rebate structure would better assist vulnerable customers?*

AGL support the design principles for a concession framework outlined in the Issues Paper and agrees that any reform to the current concessions framework first requires a clearly articulated objective.

Ensuring the appropriate protections for vulnerable customers are in place should be a key priority for the Queensland Government and is timely given the reforms being consider by the QPC in its Issues Paper.

AGL agrees with the Queensland consumers groups that current electricity concessions are poorly targeted with the state's electricity rebate fails to adequately reach those most in need. The adjustments needed to provide better targeted and equitable assistance are well known:

- eligible Health Care Card holders should be able to access the electricity rebate; and
- Queensland Seniors Card eligibility for the rebate should be linked to the customers' ability to pay through appropriate means testing.

AGL would also support the consideration of a rebate structure that reflects the household's electricity costs rather than the current flat rebate, similar to the Victorian process of providing concession as a percentage of the bill.

AGL also Chairs an ERAA Working Group, including retailers, community groups and an Energy Ombudsman that has been considering the effectiveness of the various jurisdiction's energy concessions frameworks and the opportunities for improvements. The report puts forward a best practice national concessions framework for vulnerable customers and recommendations for state governments. The report should be released this month for the QPC to consider its recommendations.