A non-profit, volunteer organisation, advocating to advance the interests of consumers in Queensland

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SUBMISSION ON QCA DRAFT DETERMINATION ON REGULATED RETAIL ELECTRICITY PRICES 2012-13

BACKGROUND

The Queensland Consumers' Association (the Association) is a non-profit organisation which exists to advance the interests of Queensland consumers. The Association's members work in a voluntary capacity and specialise in particular policy areas, including energy. The Association is a member of the Consumers' Federation of Australia, the peak body for Australian consumer groups and is represented on the Queensland Competition Authority's Consumer Consultative Committee and the Energy and Water Queensland Ombudsman's Advisory Council.

The Association made submissions on the Issues Paper and the Draft Methodology Paper and is pleased to make this submission on the Draft Determination.

Although the topic is of great importance to all Queensland consumers, the Association only has the resources and time to make a brief submission. The Association understands that QCOSS will be making a more detailed submission.

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GENERAL COMMENTS

The Association wishes to emphasise:

- The great importance of this final determination in terms not only of its effects in 2012-13 but also its longer term implications since this is the first year of the new arrangements and decisions made for this year may be difficult to change later.
- That the final decision must ensure that regulated prices for consumers are fully justified and minimised. This is far more important than comparisons with the regulated prices set for 2011-12 under the BRCI system which indexed annual changes to long established electricity prices.
- That the QCA's Final Decision for the 2011-12 BRCI estimated the cost of supplying electricity in 2011-12 will be $6.76 billion. While this doesn't exactly equate to the actual amount paid by consumers, it is a reasonable approximation, and highlights that only a 1% over or underestimation of prices could result in around $67 million extra costs or savings for all consumers.
- The methodology used to set 2012-13 prices should as far as possible be suitable for use in subsequent years.
- Because of the possibility of significant changes to government policies which might occur during 2012-13, it is important that the final prices be able to be reviewed before any new annual review process. (The Association notes that this is dealt with on pages 84 and 85 of the Draft Determination and considers that the Government should provide the Authority with this power before 1 July 2012.)

- There has been insufficient work, and more is urgently needed, on what is required for an effectively competitive market in Queensland and there is an almost complete focus by QCA on prices and their effects on competition even though service quality and innovation are important to many customers. In this regard, the Association notes that the ACCC's decision to allow the sale of the Queensland customers of the NSW government's energy retailers Integral Energy and Energy Australia to Origin Energy and TRUenergy respectively significantly reduced the number of retailers competing in SEQ. Yet the ACCC considered that there could still be an effective level of competition.
- Any new arrangements should be able to easily incorporate future changes to the boundaries of the Energex and Ergon distribution areas and to their pricing policies and pricing zones. (Although not a matter for QCA, the Association remains concerned that these zoning and pricing polices may be preventing some consumers in the Ergon area, for example in Toowoomba, from receiving offers of market contracts from other retailers.)

SPECIFIC COMMENTS

Network costs

The Association is very concerned that there appears to have been no public consultation on Energex's critically important proposed tariff structures and prices for 2012-13. This lack of transparency for a major cost component is a major weakness with the current process.

The Association recognises that the regulation of network and distribution costs is now primarily the responsibility of the AER and the federal government but considers that the Queensland government can still can play important roles in this area, for example via its ownership of the transmission and distribution entities and its requirements for network reliability.

The Association also considers there should be a review of Ergon's zone charging system and to increase cost reflectivity of charges in some parts of the East Zone so that some consumers, for example in the Toowoomba area, can obtain offers of market contracts as occurs in the Energex area.

Energy Costs

The Association recognises the importance of these costs and how they are estimated but has no specific comments on this matter. However, the Association understands that it will be dealt with in some detail in QCOSS's submission.

Representative retailer

The Association supports the approach proposed by QCA, that the representative retailer should be an incumbent not a new entrant.

In relation to several matters dealt with on this in the Draft submission the Association makes the following points:

- There are many references to "competition" but the focus is almost entirely on price driven competition. This approach fails to recognise that consumers are also interested in quality of service and innovation.
- The number of customers switching retailer is not necessarily a good indicator of the effective level of competition and fails to recognise that many consumers can obtain significantly lower prices by changing contracts with their existing retailer. Indeed, the Association considers that retailers to make customers more aware of the options they offer, not just when they become aware that a customer is considering moving to another retailer or after they have done so. There is also a case for more public education about this.
- The Association's position on competition remains as stated in the submission on the Draft Methodology Paper. "the only true measure of the effectiveness of competition is the extent to which consumers are better off and this has not been assessed by QCA. We also consider that often switching between retailers: occurs as a result of high pressure,

misleading and deceptive sales tactics used by door to door and tele marketers, locks consumers into long term contracts, and results in some consumers being worse off. We also note that many consumers on market contracts are unaware that they are on such contracts, some of which provide no price advantage over the regulated tariffs and can result in consumers incurring additional fees and charges and being exposed to the risk of unregulated changes in prices."

- The reference on p 44 to the number of market customers in SEQ fails to take account of the fact that some such customers are paying the regulated tariffs even though they are not on standard contracts. The Association suggests that the QCA seek information from retailers, especially from the incumbents, about the number of such customers.

Retail operating costs (ROC)

Approach to Estimating ROC

The Association considers that a bottom up rather than a benchmarking approach would better ensure that retailers are paid only for costs incurred and that these costs related to effective performance and took account of productivity improvements.

If a benchmarking approach is adopted it is essential that it does not lock in existing levels of performance and allows for improvements in productivity.

Customer Acquisition and Retention Costs (CARC)

The Association continues to oppose including any allowance for CARC, particularly if, as proposed by QCA, there is also an allowance for headroom.

The reasons for the Association's opposition to a CARC allowance include that: many consumers are in areas where competition between retailers is not possible, many consumers in SEQ have voluntarily chosen to not move from standard to market contacts, and there is a very high level of consumer dissatisfaction with, and detriment caused by the dominant and high cost form of marketing, door to door selling.

Also, the proposed CARC of $43.27 (GST exclusive) per customer throughout Queensland represents a significant cost per customer and is a large proportion of the proposed total ROC.

The Association also notes that on page 52 QCA acknowledges that the current CARC component may be "generous".

Furthermore, the Association considers that if there is to be a CARC allowance it needs to recognise that methods used by acquire and retain customers and the cost of such methods can, and do, vary greatly between retailers and over time. This means that it is not cost reflective to simply index a current base allowance for CARC dominated by the cost of expensive door to door marketing.

Therefore, the Association considers that if there is to be a CARC allowance it should take account of, and encourage, greater use of lower cost and, from a customer perspective, less intrusive and better methods.

The Association also considers that door to door marketing is likely to increase in cost and decline in importance due to: greater use of do not knock stickers by consumers, increased requirements on door to door marketers to comply with mandatory and voluntary standards of conduct, and the possible introduction of a national do not knock register to operate similarly to the very successful do not call register for telemarketing.

Regulatory Fees

The Association understands that there will be a reduction in the relevant QCA's functions from 1 July 2012 and had expected that the cost of regulatory fees for 2012-13 would have been reduced.

Fixed and Variable Components
The Association agrees that the number of customers can have a significant effect on a retailer's costs. But there are also many other influences including the quality of service, the retailer's efficiency, and customer type.

Also the Association notes that treating all the costs as fixed provides no incentive for reductions in consumption. And, this approach results in very large increases in the bills of consumers with very low levels of consumption.

The Association favours a 75% fixed and 25% variable cost approach.

Retail Margin
The Association continues to be very concerned about the adoption of a % of total cost approach, which results in the $ margin automatically increasing when prices increase.

The Association also notes that retailer risk is reduced: if the regulated prices can be changed within the regulatory period, because retailers with customers on market contracts can change these prices to reflect changed market and other conditions, and by the proposed new system being explicitly cost reflective not the indexation of prices not originally set to be cost reflective.

If a % retail margin is to be used the Association considers it should be 5% or lower, not the proposed 5.4%.

Cost Reflective Retail Tariffs and Prices
The Association considers that the fixed costs represented by network and retail operating costs are too high and in the case of Tariff 11 produce an increase of over 200%. The Association is also very concerned about the extremely large increases in off peak electricity prices (30% for tariff 31 and 26% for tariff 33) the reasons for which do not appear to be given in the Draft Determination other than that they are due to "the new prices more accurately reflecting the cost of supply". The Association considers that in its final determination QCA should reduce the fixed costs in the network and retail costs and increase the variable costs, and either better justify, or reduce, the off peak prices.

Competition Considerations
Headroom
The Association opposes the inclusion of an allowance for headroom to encourage competition between retailers.
The Association notes that the Draft Determination indicates that headroom is not provided for in NSW or South Australia regulated price arrangements and also submits that:

- There is no competition between retailers in much of Queensland and many consumers in SEQ have shown that they do not want to move off regulated tariffs.
- Retailers wanting to gain market share should pay for this from their own resources until they have reach a scale large enough for them to operate at normal profit levels.
- Retailers can, and do, compete on more than price and should be encouraged to do so even more.
- Retailers can, and do, increase their market shares by aiming to acquire only or mainly customers likely to be of above average profitability.
- There is considerable scope for retailers to compete on price as a result of improved efficiency, reduced purchasing costs, etc.

The Association also considers that if the QCA proceeds with a headroom allowance the proposed 5% allowance is far too high, especially when combined with the proposed 5.4% retail margin, and $43.27 per customer CARC allowance. Combined these provide retailers with excessive amounts of revenue and cost consumers far too much.

Transitional Arrangements

The Association notes that QCA considers it is constrained by the Delegation from consideration of whether any transitional arrangements are needed for consumers not on farming and irrigation tariffs and in the Draft Decision highlights that transitional arrangements for other consumers would be at odds with ensuring that prices are cost reflective.

However, in the Issues Paper QCA noted the importance of consumers having enough time to “make informed decisions about the impact of any changes on their bills”. The Association agrees that this is a very important matter for consumers which should have been addressed via transitional arrangements involving either a delay in the start of the new system or a phased introduction.

If such transitional arrangements can not be put in place, the Association considers that in its final report QCA should emphasise the need for a coordinated consumer education program by government and industry to increase consumer awareness of the new system, likely implications on bills, and ways in which consumers might be able to minimise adverse effects.

Accounting for Unforseen or Uncertain Events

The Association considers that Queensland government should ensure that, if there are significant changes in costs, etc, QCA has the ability to revisit its final decision after 1 July 2012 and before the next mandatory review. However, the Association emphasises that this should apply to significant cost decreases as well as increases and that what constitutes a significant change should be clearly specified.