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

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SUBMISSION ON QCA'S DRAFT REPORT REVIEW OF ELECTRICITY PRICING AND TARIFF STRUCTURES – STAGE 1 AUGUST 2009

BACKGROUND

The Queensland Consumers' Association (the Association) is the peak body for consumer groups in Queensland. The Association's members work in a voluntary capacity. The Association is a member of the Consumers' Federation of Australia, the peak body for Australian consumer groups.

COMMENTS

General

Consumer Objectives

The Association's views and comments on the review and the draft report primarily reflect the following objectives:

- To ensure that regulated electricity prices are fair, relate closely to the cost of efficient provision, ensure adequate and reliable supplies, and contribute to the attainment of environmental goals.
- To ensure that price and tariff policies are complementary to other public energy policy objectives and instruments.
- To ensure that adequate transitional, adjustment and compensation/assistance measures accompany any major changes in policies likely to influence consumer prices and access to electricity.
- To ensure that there is adequate consultation with consumers on all policy and implementation issues and that consumers have sufficient resources to participate effectively in all consultation processes.

Terms of reference

The Association welcomes the government's decision to direct the QCA to undertake the review.

However, the terms of reference are deficient. For example, 1.1.4 should have also required the QCA to consider transitional/implementation issues for consumers as well as operational and system issues.

This deficiency, and others, must be addressed during subsequent consultations undertaken by government and QCA.

The Association is concerned that the set target date of 2010-11 is too ambitious for the start of any new price setting system and tariff structures. It will not allow sufficient time for adequate consideration of options and consultation with consumers and other stakeholders. As a result, there is a great risk that policies and procedures will be adopted which are not be in the best interests of consumers. It would be better to use the BRCI process for another year than hastily introduce a flawed new system.

Timetable

The requirement for the QCA to provide a final report by 31 August 2009 prevents the QCA from complying with the government's requirement to undertake "an open and robust consultation process and consider submissions within the timetable for the review and the report". The draft report was released for comment on 18 August 2009 and the closing date for submissions is 28 August 2009. This allows the QCA only 3 days to consider submissions and provides no opportunity for a post submissions workshop or further stakeholder commentary on submissions.

Inadequate time for consultation discriminates heavily against consumer organisations which lack the massive resources available to industry stakeholders and gives them insufficient time to try to obtain funding to employ consultants, consider consultants' reports, and consult with individual consumers.

The Association has recommended to the government that the reporting date be extended to 30 September 2009.

Irrespective of the government's decision on this request, the Association emphasises the need to allow adequate time for consultation on the matters covered by this review and subsequent policy and implementation decisions. As noted above, we consider that the target commencement date of 2010-11 is too ambitious and should be changed.

Many of the government's recent energy policy decisions, for example to introduce Full Retail Competition, to sell EnergexRetail's customers to the private sector, and to replace CPI based indexing of regulated tariffs with the BRCI, have been taken with no or very limited or inadequate consultation with consumers and other stakeholders.

It is essential that there be effective consultation, including allowing sufficient time for consumers to participate effectively in consultations, on the topics covered by this review the results of which have the potential to have major impacts on the wellbeing of very Queenslander. For household consumers the impacts will not only be on average prices, but also on different types of consumers, for example by total and time of electricity consumption and by geographic location. In addition, household consumers will be impacted via the effects on business costs and as taxpayers via the effects on government programs such as the payment of CSOs.

Effective consultation is also required to ensure that future policy decisions are informed by the best available information and ideas. This is an immensely complex matter with many ramifications. The review must be done well and policy decisions must take account of the longer term as well as short term issues and all of the numerous components of the electricity industry.

The Association also recommends that the Queensland government provide more resources for QCOSS to participate fully and effectively in consultations during the next 2 years on options, policy proposals and implementation plans (including transitional, adjustment and compensation provisions for consumers) from this and subsequent consultations and reviews.

Full Retail Competition

The terms of reference include supporting the continued implementation of full retail competition (FRC).

We are concerned that this policy objective is based on an unsubstantiated assumption that the benefits of FRC are exceeding the costs. Yet, we are unaware of any publicly available independent comprehensive study which looks at the costs and benefits, or indeed of any serious monitoring of the impacts of FRC in Queensland. We consider that work is urgently required on whether FRC is delivering enough benefits, and if not what can be done to improve the situation.

In this regard we caution against the use only of statistics on the numbers of consumers who have moved from regulated tariffs to market contracts or the numbers who have changed retailer. We note that in a recent CHOICE survey (March 2009) of consumers in Q, NSW, Vic and SA, 66% of respondents who had changed retailer rated their satisfaction with the new retailer about the same as with the old one.

We also note that in many respects, and for many consumers, regulated tariffs and the tariffs available from a market contracts are not perfect substitutes. There are significant differences in consumer transaction costs, terms and conditions of payment, late payment fees, price certainty, etc.

We also note that information asymmetry between consumers and retailers frequently makes this a less than perfect market, and that the number of retailers active in the market is not necessarily a meaningful or accurate way to assess the extent to which the market is effectively competitive.

Finally, the terms of reference seem to be based on the assumption that FRC will continue to be available only to small consumers in the Energex distribution area. We note that changes to the charging practices of Energex and Ergon or the definition their boundaries could have major effects on the areas where FRC can effectively occur. As in previous submissions to QCA and government, we question why consumers in Tooowomba are unable to get offers of market contracts when consumers just a few km away in the Energex area can and do.

<u>Specific</u>

Due to lack of time and resources we confine our comments to only a few of the detailed issues arising from the draft report.

BRCI

We agree with most of the conclusions about deficiencies with the BRCI process and consider that a better system is needed. However, the QCA’s proposals require further detailed consideration by consumers. Unless, a demonstrably superior system can be developed and implemented after satisfactory consultations with consumers and other stakeholders, the BRCI methodology used for the 2009-10 determination, or slightly modified if required, should be used again for 2010-11

Cost recovery and reflectivity

We wish to emphasise that price alone is a very blunt policy instrument for products like electricity which is an essential service and for which there is generally a low price elasticity of demand.

We note also that full cost reflectivity is rarely achieved in any business operation, for both practical and customer relations reasons. And, there is considerable non cost reflectivity in charges made in other parts of the electricity industry, for example distribution charges.

We note also references in the draft report to time of use metering and charging and emphasise the need to ensure that any decisions to go down these policy paths must be based on a careful assessment of costs and benefits and impacts on various groups of consumers.

We also emphasise that any moves to full cost recovery and greater cost reflectivity are likely to have massive impacts on many household consumers. Accordingly, these paths should only be adopted if they can be conclusively shown to be in the best long term interests of Queensland consumers and if adequate transitional and compensatory arrangements are in place.

Options for changing tariff structures

The use of tariff structures to influence consumption levels and patterns must take account of, and be complementary to, other policies with similar aims and recognise the low price elasticity of demand of many consumers and the fact that electricity is an essential service.

This includes numerous policies, including distribution revenues and charges which for the next regulatory period will be the responsibly of the AER.

We do not support introducing any sunset clause for very small business customers having access to regulated tariffs and being required to move to market based contracts in the Energex or the Ergon distribution areas. Many such businesses are equivalent to large households in their energy consumption and ability/willingness to incur the transaction costs associated with assessing, adopting and monitoring the competitiveness of market contracts.

Proposed pricing methodology for Queensland

We note that the preferred approach to price setting is the N+R cost build up approach.

We recognise some of the benefits of this approach but are particularly concerned about the impact of network pass throughs on the uniform tariff policy.

We consider it essential to have a reopening mechanism so that there is as rapid as possible adjustment to prices when costs change significantly (up and down). We oppose strongly discretionary reopening by retailers. We question whether + or – 10% (presumably relating to some given time period) is appropriate for energy costs which have such a large impact on electricity prices. A smaller % for energy costs and 10% for other costs seems more appropriate.

Uniform Tariff Policy

We are uncertain how this would work in detail under the proposed new arrangements and do not have the time or resources to investigate this further at the moment. But, we consider it is a vitally important matter which must be dealt with satisfactorily in the future, especially the use only of SEQ (Energex) data for the calculation of R and the proposed pass through of network costs.

Customer acquisition costs

These should be considered to be a part of normal business marketing costs and not be a separate item for cost estimation. We are particularly concerned that if they are a separate item the focus will be on recovering costs from high cost door to door selling. We consider this a form of marketing which often does not result in well informed decision-making by consumers and we do not support any cost estimates which might encourage greater use of this method.

Retail headroom

We oppose the inclusion of any specific amount to provide headroom. New entrants to the market, as in any other market, should be able to fund from their own resources the cost of market entry and the acquisition of sufficient market share required to become profitable.

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