

 <p>QUEENSLAND CONSUMERS ASSOCIATION</p>	<p>A non-profit, volunteer organisation, advocating to advance the interests of consumers in Queensland</p> <p><i>Secretary: Max Howard 33 Dracon Street Regents Park Q 4118 Telephone: 0419 678 395</i></p>
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23 February 2005

SUBMISSION TO THE QUEENSLAND COMPETITION AUTHORITY'S DRAFT DETERMINATION ON REGULATION OF ELECTRICITY DISTRIBUTION

BACKGROUND

The Queensland Consumers Association welcomes the opportunity to make a submission on this draft determination.

The Association is the peak body for consumer groups in Queensland and is a member of the Consumers' Federation of Australia, the peak body for all consumer groups.

The Association's members work in a voluntary capacity and the Association receives no public funding. Consequently, the Association unable to prepare a lengthy and detailed submission even though although electricity distribution is vitally important to Queensland consumers and the Association is extremely interested in the numerous and complex issues.

The Association considers that public funding (provided in other states) is required urgently for research and advocacy for household consumers on electricity and other energy issues in Queensland. This would increase the capacity of household consumers to prepare submissions to QCA and to participate more effectively in other public debates and consultations on electricity and other energy policy issues.

In view of the above, this submission is brief and consists of some general comments followed by comments on specific parts of the draft determination.

COMMENTS ON DRAFT DETERMINATION

GENERAL

The regulation of electricity distribution services has numerous major short and long term effects on the well-being of all household consumers (via prices, taxes, service quality, etc). Accordingly, it is essential that QCA's final determination results in the delivery of affordable, cost effective (non gold plated), customer focussed services, and achieves on going improvements in real efficiency and productivity i.e. not reduce service quality or cost shifting to consumers.

The Association is concerned that the QCA may be unduly influenced by current Government policies on, and arrangements for, the prices paid for electricity by domestic consumers. QCA must take full account of the possibility that these policies and arrangements may change. For example, Full Retail Contestability (FRC) could be introduced. QCA should ensure also that its final determination does not discriminate against household consumers because of the current Government pricing and Community Service Obligation (CSO) policies and arrangements and is FRC neutral.

The Association recognises the numerous uncertainties associated with the next regulatory period and the consequential need to build some flexibility into the new arrangements. However, QCA must ensure that consumers, and other non-distributor stakeholders, are consulted adequately about significant changes required after the final determination, for example changes in demand forecasts, proposed cost pass throughs, and increases in approved capital and/or operating expenditure.

Furthermore, to monitor progress with implementation of the final determination and to prepare for the next, QCA should increase the on going involvement of a wide range of stakeholders by, soon after 1 July 2005, establishing a consultative committee consisting of representatives of relevant organisations to meet at least 6 monthly and to be kept informed about, and monitor, developments.

SPECIFIC

Capital and operating expenditure forecasts

The Association notes that QCA is providing the distributors with the opportunity to submit revised capital and operating cost forecasts prior to the preparation of the final determination and that other stakeholders will be allowed to comment if this is likely to lead to significant changes in QCA approved revenue requirements. The Association supports this approach and wishes to be involved in any such consultations. The Association understands that the QCA has received these revised forecasts and recommends that they be placed immediately on the QCA web site for consideration by interested parties. This will keep other stakeholders up-to-date on this vital matter and will also facilitate any subsequent consultation required on revised revenue requirements.

The Association supports QCA's position that customers should not pay distributors twice for the same work and therefore supports reductions in distributor revenue caps for the value of underspending in the previous period when these resulted in failure to deliver the quality of service required by, and envisioned in, the previous determination.

The Association recommends QCA to consider, and address in the final determination, the appropriate treatment of rebates paid by distributors to consumers for failure to meet guaranteed service levels (GSLs) and of other similar payments (including compensation payments) At this stage, the Association considers that rebates etc should not be regarded as allowable expenditure for revenue cap determination purposes. This approach will ensure that distributors have a strong financial incentive to achieve all service quality standards.

The Association notes that distributors have, as required, submitted estimates of capital and operating expenditure against the three tiers proposed in the QCA's previous decision on incorporating a service quality incentive scheme into the next regulatory arrangements. Given QCA's decision to not proceed with this scheme, the Association recommends QCA to review the advantages and disadvantages of maintaining this requirement.

Compliance Monitoring and Reporting

Effective reporting and monitoring of compliance is a vital component of regulation. Accordingly, the Association is concerned that these may not have been satisfactory during the current regulatory period and supports the QCA's proposals for improved arrangements during the next period.

Prices

The Association has considered the estimates of price increases likely to result from the revenue caps in the draft determination and noted the QCA's request for stakeholder comment. This is difficult because the Association is conscious that these price estimates may differ significantly from those in the final determination. However, the Association is concerned that Ergon's prices could increase by 2.9 per cent per annum in real terms i.e. after adjustment for inflation with a 12.4 per cent increase likely in 2005-06. There appears to be a strong case for smoothing price increases over the regulatory period to avoid a major increase in any one year.

Furthermore, the Association considers that decisions on overall and annual changes in distribution prices should not be influenced by the Government's current policy on constraints on increases in retail electricity prices.

Pricing Constraints

The Association does not support the removal of all side constraints on annual price movements for franchise customers. All customers types should be treated equally and all should have side constraint protection.

Pricing Approval Process

The Association considers that the distributors' proposed Pricing Principles Statements and proposed amendments should be made available to the public on the QCA's web site prior to approval by the QCA. This will to allow stakeholders to monitor, and where appropriate comment on, significant issues before final QCA approval. Ideally, the same process should be followed for the prices proposed by the distributors.

Service Quality Incentive Scheme

The Association supports the QCA's decision to delay the introduction of its Service Quality Incentive Scheme. However, the Association continues to attach high priority to this matter and recommends that in addition to closely monitoring relevant issues including the Government's GSLs, QCA should initiate (no later than 1 July 2009) a formal review of its proposed scheme. The review should include stakeholder consultation.

The Association continues to recommend that:

- any proposals by distributors for expenditure on Tier (b) and (c) activities include clear evidence of customer support, and
- further work be undertaken on the need for, and feasibility of, service quality standards for non-reliability aspects of power quality, for example surges, dips and momentary interruptions to supply.

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