



20 October 2004

SUBMISSION ON QUEENSLAND COMPETITION AUTHORITY ISSUES
PAPER ON EFFICIENCY CARRYOVER MECHANISMS

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 all consumer groups.

The numerous topics discussed and questions asked in the Queensland Competition Authority's (QCA) Issues Paper of September 2004 on efficiency carryover mechanisms are extremely important to Queensland consumers because of their potential impact on the prices consumers are charged for, and the quality of services, received from infrastructure subject to economic regulation by the QCA, especially electricity.

Accordingly, the Association welcomes the opportunity to submit its views on these matters.

However, the Association's ability to produce a detailed submission on this extremely complex matter is severely restricted by the inadequacy of the public funding available for bodies like the Association to develop member skills and knowledge, employ staff, and to brief and employ consultants to undertake the detailed research required for such a complex topic.

The inadequacy of public funding in Queensland for consumer advocacy and research work on utility issues is in marked contrast with the situation in NSW and Victoria. NSW consumers benefit from the work of a publicly funded Utilities Consumers' Advocacy Program operated out of the Public Interest Advocacy Centre. Victorian consumers have the advantage of the publicly funded Consumer Utilities Advocacy Centre.

Until funding is available for the establishment of similar bodies in Queensland, or for the introduction of other effective arrangements, the ability of household consumers to participate effectively in public debate on this issue and other important matters will be severely restricted.

Due to the abovementioned resource restrictions, the Association's submission is limited to the following general comments:

GENERAL COMMENTS

1. An efficiency carryover mechanism appears desirable for relevant infrastructure, however any such mechanism must be well conceived, be efficiently implemented, and be adequately monitored to ensure that consumers benefit.
2. Any carryover mechanism must be accompanied by QCA: undertaking high quality and on going efficiency benchmarking exercises; appropriately valuing asset bases; authorising appropriate levels of capital and operating expenditure; and closely monitoring and measuring efficiency gains and losses
3. All considerations of the appropriate sharing of efficiency gains between consumers and the regulated businesses should recognise that consumer activities significantly influence the magnitude of efficiency gains and that these activities may reflect consumers incurring higher actual costs, cost shifting from the business to consumers or being prepared to make major behavioural and other changes. For example, efficiency in the electricity distribution business is influenced inter alia by changes in how consumers pay bills, obtain information, use call centres, report actual and potential problems, and modify/reduce demand (via better use of equipment, use of more energy efficient equipment and initiating/participating in a wide range of demand reduction, deferment and management activities). The Issues Paper appears to consider consumers to be only passive recipients of efficiency gains arising entirely from the efforts of the regulated businesses. In practice, as discussed above for electricity, consumers can and do play key roles in the generation of efficiency gains and often at significant personal monetary and other cost.
4. When considering the allocation of efficiency gains between consumers and regulated businesses account should be taken also of the costs to consumers of failure to provide satisfactory standards of service. For example, the outages and other problems experienced by many Queensland electricity consumers in January and February 2004 cost consumers huge amounts most of which was not recovered from compensation or insurance payments.
5. Clearly, as discussed in the Issues Paper, efficiency carryover can not be considered in isolation from required and achieved levels of service quality. Given the recent events in the electricity industry, the findings of the Somerville Report, and the importance of electricity to all consumers, it is essential that this matter be satisfactorily addressed by QCA before the start of the next 5 year regulatory period for the electricity distribution sector. Full account must be taken of any past operational, maintenance and capital under-expenditure causing substandard service quality.
6. When investigating the nature and source of efficiency gains, QCA should whenever practical and economic go beyond business averages and understand the main activities responsible for significant efficiency gains or losses. This will assist greatly decision making on the sources of the gains/losses and their allocation between consumers and the regulated businesses.

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