

 <p>QUEENSLAND CONSUMERS ASSOCIATION</p>	<p>A non-profit, volunteer organisation, advocating to advance the interests of consumers in Queensland</p> <p><i>Secretary:</i> <i>Max Howard</i> <i>PO Box 261</i> <i>Corinda Q 4075</i> <i>Telephone: 0419 678 395</i></p>
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8 December 2011

SUBMISSION ON QCA DRAFT METHODOLOGY PAPER
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 contact person for this submission is: Ian Jarratt, email ijarratt@australiainmail.com

GENERAL COMMENTS

Although not the responsibility of QCA the Association wishes to state publicly that:

- The delegation and terms of reference should have covered a longer time period than just 1 year.
- There is insufficient time until 1 July 2012 for any new arrangements (including government assistance schemes for consumers) to be put in place, consumers to adjust to the new arrangements, and for consumer education to be undertaken.

Regarding the QCA's responsibilities the Association considers that:

- The methodology must ensure that regulated prices are as cost reflective as possible and that any price increases for consumers are fully justified and minimised. (The Association notes that the Final Decision for the 2011-12 BRCI estimated the cost of supplying electricity in 2011-12 would 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.)
- If possible, the methodology used to set 2012-13 prices should be suitable for use in subsequent years.
- Any new tariff structures and prices should be phased in to enable consumers to make informed choices about future tariffs, contracts, alternative sources of energy, consumption levels, etc.
- 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.

SPECIFIC COMMENTS

Representative retailer

We support the approach proposed by QCA.

We emphasise the need to assume that the representative retailer has achieved a sufficient size to be efficient. To achieve such size, new entrants can not expect regulated prices to be set high enough to cover their initial additional costs incurred to gain sufficient market share and can not expect to not have to operate at a loss while doing so.

We agree with the QCA's conclusion that the market in SEQ is competitive, but have concerns about the use of simplistic measures of this such as the rate of switching of customers between retailers and the number of consumers on market contracts. As indicated in previous submissions, 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.

Retail costs

We do not support the estimation of retail operating costs by simply indexing a benchmark amount which includes an allowance for Customer Acquisition and Retention Costs (CARC).

CARC costs are a significant, and potentially very variable, cost item and should be treated separately.

CARC costs, estimated for the 2011- 12 BRCI calculations at \$41.91 per customer, added \$85.4 million to the estimated total cost of electricity supply and accounted for 32% of retail operating costs.

Also, the methods used by acquire and retain customers and the cost of such methods can and do vary greatly. We are concerned that the present allowance to be indexed is based a fixed set of assumptions about the methods to be used and their costs and particularly that they are currently based on the assumption that a high proportion of customers will be acquired by the use of expensive door to door marketing.

We consider that the price setting system should take account of, and if possible encourage, greater use of lower cost and, from a customer perspective, less intrusive and better methods.

Also, customers in the Ergon area have to pay for some of the CARC costs even though there is no effective competition for small customers in the Ergon area.

Setting the R component of retail tariffs

We appreciate QCA's recognition of the potential for substantial negative effects on some classes of consumers of a significant increase in the fixed charges on consumer bills.

We are very concerned about the implications for low consumption low income consumers of the proposal to treat 75% of retail operating costs as fixed costs.

Transitional arrangements

We consider that there is insufficient time for consumers to understand and make well informed and considered decisions in response to the new arrangements which are likely have major negative impacts on many consumers.

Accordingly, we urge QCA to careful consider these matters and recommend appropriate transitional arrangements.