



18 January 2016

**SUBMISSION ON QCA INTERIM CONSULTATION PAPER ON
REGULATED RETAIL ELECTRICITY PRICES FOR 2016-17**

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 is also a member of the Queensland Council of Social Service's Essential Services Consultative Group.

The Association welcomes the opportunity to make this submission.

The contact person for this submission is: Ian Jarratt, email ijarratt@australiainmail.com

GENERAL COMMENTS

This submission only addresses issues that have a direct impact on residential customers.

The Association notes the statement in the Minister's letter that "regulated prices in regional Queensland for small customers should broadly reflect the expected prices for small customers standing offers in SEQ".

The Association agrees with this objective, however it is essential that QCA estimate the expected prices for SEQ consumers on standing offers based on the costs of an efficient representative retailer, not the prices that retailers are likely to charge if standing offer prices are deregulated in SEQ on 1 July 2016.

This is important because in other states it seems that post deregulation standing offer prices have been well above the retailers' costs of supply and that retailer margins on standing offers have increased.

It is unacceptable to consumers if the new approach to setting Queensland regional regulated standing offer prices results in unjustified increases in 2016-17.

The Association welcomes QCA's decision to undertake a comprehensive reassessment of the retail operating costs (ROC) and retail margin components of the regulated prices structure. However, it is essential that this does not result in any unjustified price increases.

The Association also considers that QCA's decisions on regulated prices should not be influenced by the extent to which these may affect the government subsidy paid to Ergon to maintain the Uniform Tariff Policy.

SPECIFIC COMMENTS

Use of network tariffs

The Association supports continuing the approach adopted in 2015-16 ie using Energex tariffs structures for flat and controlled-load tariffs, and for other tariffs using Ergon tariff structures adjusted to reflect SEQ price levels.

The Association notes that the Paper indicates that Energex and Ergon each intend to introduce a new controlled load tariff details of which are not yet available and that they will be only available in conjunction with a residential demand tariff.

The Association requests that details of these proposed new tariffs, and any others, be included, together with QCA's proposed regulated prices and the basis for them, in the Draft Determination.

Definition of "efficient" retailer

The Association supports the QCA's current definition.

ROC and retail margin

The Association notes that several approaches are possible to the definition and calculation of the "retail margin" and that it is unclear how "cost of capital" will be calculated and included in any estimates of ROC or retail margin.

The Association emphasises the need for the review of ROC and retail margin to fully consider and clarify these matters and to ensure that there is no double counting.

In submissions on previous QCA price setting exercises the Association has indicated its concerns about the inclusion or magnitude of allowances for Customer Acquisition and Retention Costs (CARC), headroom, and the retail margin. The Association will review its position on these matters following the release of the results of the QCA review of ROC and retail margins.

Fixed and variable components of tariffs

The Association emphasises the need for these to be accurately and fairly allocated given that they have major impacts on the bills of different types of consumers and on incentives to change consumption.

In this regard the Association requests that the review of ROC establish the extend to which any significant retail costs, for example financing costs, are volume related and take these into account when deciding whether to continue to regard all retails costs as fixed and to add them to the daily charge.

Advice on estimation of efficient retail operating cost and margin

In general, the Association supports the approaches proposed in the ACIL Allen report, including the collection and analysis of information relating to Victoria, NSW, South Australia and Queensland, and on market not standing offer contracts. However, the Association notes that the usefulness of bottom up approach depends entirely on sufficient relevant retailers voluntarily supplying the required information.

Updating ROC and retail margin estimates

The Association will finalise its position on this matter following the release of the results of the QCA review of ROC and retail margins. However, if some form of indexing is proposed the Association strongly supports incorporating a productivity adjustment factor into any annual escalation formula for ROC. It is also important that the retail margin be closely examined annually to ensure that full account is taken of changes in factors that influence it.