



17 January 2019

**SUBMISSION ON QCA INTERIM CONSULTATION PAPER ON
REGULATED ELECTRICITY PRICES 2019-20**

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 brief submission.

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GENERAL COMMENTS

Scope of comments

Our comments relate only to household customers.

Potential pricing approaches

We support basing notified prices on the cost of supply in south east Queensland (SEQ). However, they should be based only on the cost of **efficient** supply in SEQ and should not be influenced by any implications for the government subsidy needed to meet the difference between the notified prices and the actual cost of supply.

Retail costs

We consider that new retail cost allowances for retailing in SEQ based on up-to-date market data should be used in the current exercise. We note also that we recommended this in our submissions on the 2018-19 exercise, but this was not accepted.

There is a now probably insufficient time to collect and analyse such information for the current price setting exercise and in the future the process may change considerably if the federal government's Default Market Offer (DMO) is implemented in SEQ.

Therefore, reluctantly, we support using the approach used in the 2018-19 price determination i.e. adjusting the retail allowances established in 2016-17.

However, we consider that retail allowances should not be increased by the CPI change unless there is evidence that costs have increased by this amount. In this regard we note that SEQ

retailers are increasingly seeking to reduce costs by encouraging or requiring consumers to have electronic billing and payment and contact with them, as well as to pay by direct debit.

The standing offer differential

We are not in favour of using the differential between standing and market offer prices in the SEQ market as the differential to apply to the process for regulating standing offer prices outside SEQ for 2019-20.

This is because we have major concerns about the extent to which standing offer prices in SEQ reflect the efficient cost of supply. For example, many SEQ consumers on standing offers are less price-sensitive and more loyal to their existing retailer than are market contract consumers and this is likely to be reflected in high standing offer prices.

Also, since standing offer prices are used by many retailers as the base from which discounts are offered for market contracts, there is an incentive for retailers to set the highest possible standing offer prices in order to be able to advertise high % discounts and other incentives.

We also have concerns about the validity of the delegation's assumption that a standing offer contract provides significant additional protections, and therefore value, for consumers compared to market offers.

For example, many market offers in SEQ now have no exit fee, prices are not normally changed more than once a year, and many have no fixed expiry date.

Therefore, for this determination we believe that any differential applied by QCA should definitely not be greater than the 5% applied for 2018-19 and should be considerably lower.

Because of the above issues, and the increased diversity of the types of market offers in SEQ and the declining proportion of SEQ consumers on standing offers, we also consider that before the start of the 2020-21 determination process there should be a comprehensive review of the current policy of linking the determined regional prices to standing offer prices in SEQ. And, account should be taken of any DMO calculated by the ACCC.

SEQ Default Market Offer (DMO)

When released by the federal government, and if implemented in SEQ, this could have major implications for the setting of regulated prices in regional Queensland.

However, given the uncertainties about when and how the DMO may be implemented for 2019-20, and the current delegation, we consider that the current system should continue to be used for setting regional prices for 2019-20.