Queensland Council of Social Service

Submission to Queensland Competition Authority

Interim Consultation Paper on Regulated Retail Electricity Prices for 2014-15

10 September 2013

About us

The Queensland Council of Social Service (QCOSS) is Queensland's peak representative body for the community services industry. For more than 50 years QCOSS has been a leading force for social change to eliminate poverty and disadvantage. With more than 600 members, QCOSS supports a strong community service sector.

QCOSS is funded by the Department of Energy and Water Supply and Department of Justice and the Attorney-General for an energy consumer advocacy project in Queensland. The purpose of this project is to advocate on behalf of Queensland consumers and particularly vulnerable and low income households in relation to energy matters. This work is supported by an advisory group involving other key consumer groups in Queensland.

Introduction

QCOSS welcomes the opportunity to provide a submission to the Queensland Competition Authority's (QCA) Interim Consultation Paper on Regulated Retail Electricity Prices for 2014-15. We note this is the second year in the three year delegation period set by the Minister for Energy and Water Supply and that the Delegation remains the same as for 2013-14.

Impact of price increases on affordability

QCOSS maintains that access to electricity is crucial to enable consumers to maintain an adequate standard of living, support health and wellbeing, and participate in social and economic life. For this reason, we believe issues such as affordability and equity are relevant to the regulation of electricity prices.

The regulated electricity prices that came into effective from 1 July 2013 represent a significant increase in electricity bills for many Queenslanders, including many low income and disadvantaged households. The QCA's own modelling demonstrates that a low consumption household could face an increase of 25 per cent in their electricity bills in 2013-14. This substantial price increase, combined with the lack of adequate and appropriately targeted concessions and support arrangements for disadvantaged and vulnerable consumers in Queensland, is likely to result in financial hardship for many customers. QCOSS urges the QCA to consider the impact of significant price increases on these households in setting the prices for 2014-15, consistent with the transitional arrangement specified in the Delegation to rebalance the fixed and variable components of the standard regulated residential tariff (Tariff 11).

The QCA should also monitor and publish statistics that can provide insights into the impact of price increases throughout 2013-14, such as disconnection for non-payment and hardship statistics, and should make decisions in the methodology that will minimise the impact of price increases wherever possible.

QCOSS also recommends that the QCA refer to the NSW Independent Pricing and Regulatory Tribunal (IPART) Final Report on Changes in Regulated Electricity Retail Prices from 1 July 2012[1], which not only explains their final decision regarding regulated electricity prices for NSW customers, but also provides analysis of the impact of price increases on customers. This includes specific analysis of the impact on low-income customers as well as recommendations for changes to government policy and customer assistance measures to limit electricity price increases in the longer term and alleviate their impact on vulnerable consumers in the short term.

Methodology

The QCA has not provided detailed information about the proposed methodology for determining regulated prices in the Interim Consultation Paper. However, we understand that the Delegation remains unchanged from last year and thus the approach adopted in 2013-14 is quite likely to be maintained. QCOSS would therefore like to reiterate our previous comments to the QCA that it is critically important that electricity price increases are both fully justifiable and minimised to the greatest extent possible. The methodology adopted by the QCA to determine regulated prices must be defensible and based on the most accurate market data.

We retain the views expressed to the QCA in our previous submission[2] to the QCA's 2013-14 determination including:

- that the allowance for Customer Acquisition and Retention Costs (CARC) in the retail component of the electricity prices should be removed (or at least substantially reduced); and
- that the inclusion of an allowance for 'headroom' in addition to the retail margin and CARC to calculate the retail component of regulated prices is unnecessary and excessive.

Customer Acquisition and Retention Costs (CARC)

The inclusion of an allowance for CARC implicitly suggests that there is effective competition in the Energex area because an efficient retailer would only expend funds on CARC if that were the case. However due to the Uniform Tariff Policy, Ergon Energy customers also pay for CARC even where there is no effective competition and therefore no expenditure on CARC activities. We also note that a number of retailers have recently ceased door-to-door marketing in response to customer complaints and that discontinuing this costly form of marketing is likely to reduce retailers' CARC. Our previous submission set out further reasons to support our view that the level of CARC is too high, and should be lower if it is to be retained. It is our view that the CARC should be removed in recognition of these facts (or at the very least greatly reduced to a level lower than in other Australian states).

[1] http://www.ipart.nsw.gov.au/files/a73eff3a-91ba-4150-b90d-a06f00a603a2/Final_Report_-_Changes_in_regulated_electricity_retail_prices_from_1_July_2012.pdf
[2] http://www.qca.org.au/files/ER-QCSS-DDSub-RREP201314-0313.pdf

Allowance for Headroom

QCOSS disagrees with the inclusion of an allowance for additional 'headroom' in addition to the retail margin and CARC. Headroom effectively sets regulated prices higher than the cost of supply to encourage retailers to enter the market with the expectation that this will create greater competition and ultimately put downward pressure on non-regulated prices. This suggests effective competition cannot be achieved if regulated prices are set at cost-reflective prices that include a reasonable profit margin. This does not appear to be economically efficient or consistent with the overall transition to more cost-reflective price signals.

In our view, including an allowance for headroom will result in:

- short term additional costs incurred by all consumers until competition drives prices down (and then only to the level at which they would have been without headroom);
- no additional longer term benefits in improving customer service or lower prices than would have been achieved without headroom; and
- longer term ongoing additional costs for those customers who remain on price-regulated tariffs – either because they have no other option (including Ergon Energy customers who do not have access to competitive offers) or because they have chosen to do so or lack awareness or understanding of the other options available to them.

Calculating the effects of changes in carbon policy on wholesale energy purchase costs

There may be uncertainty regarding the wholesale energy purchase costs following potential changes to the Commonwealth Government's carbon policy post the federal election. QCOSS' view is that the wholesale energy purchase costs included in the regulated retail electricity prices paid by customers should reflect the actual costs incurred by an efficient retailer. If there is potential for real reductions in costs to retailers due to changes in carbon policy, this should be reflected in the prices paid by consumers. We therefore recommend the use of accurate market data to determine an efficient retailer's costs where possible.

QCOSS appreciates the opportunity to provide comments on the QCA Interim Consultation Paper. We look forward to participating in the public workshops to be held by the QCA in early February 2014, and continuing to work productively with the QCA to represent the interests of Queensland consumers and to ensure the best outcomes for Queensland consumers throughout the determination process. For further information, or to clarify any aspect of this submission, please contact Carly Allen, Team Leader Low Income Consumer Advocacy on 07 3004 6909 or email carlya@qcoss.org.au.

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