A non-profit, volunteer organisation, advocating to advance the interests of consumers in Queensland

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SUBMISSION ON QCA INTERIM CONSULTATION PAPER ON REGULATED RETAIL ELECTRICITY PRICES 2014-15

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 Energy Consumer Advocacy Project's Energy Reference Group and Origin Energy's National Customer Consultative Council.

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COMMENTS

Retail operating costs (ROC)

Approach to Estimating ROC

The Association considers that a bottom up rather than a benchmarking approach would better ensure that retailers are paid only for costs incurred and that these costs related to effective performance and took account of productivity improvements.

If a benchmarking approach is adopted it is essential that it does not lock in existing levels of performance and allows for improvements in productivity and changes in costs such as interest rates.

Customer Acquisition and Retention Costs (CARC)

The Association continues to oppose including any allowance for CARC, particularly since there is also an allowance for headroom.

If an allowance is included it should reflect actual costs which should be reducing, due to the decision of major retailers to stop expensive door to door marketing.

Retail Margin

The Association continues to be very concerned about the adoption of a % of total cost approach, which results in the $ margin automatically increasing when prices increase.

The Association also notes that retailer risk is reduced: if the regulated prices can be changed within the regulatory period, because retailers with customers on market contracts can change these prices to reflect changed market and other conditions, and the new price setting system is cost reflective not the indexation of prices not originally set to be cost reflective.

Headroom
The Association opposes the inclusion of a 5% allowance for headroom to encourage competition between retailers because:

- There is no competition for small customers between retailers in the Ergon area.
- A significant number of consumers in SEQ have shown that they do not want to move off regulated tariffs.
- In SEQ many consumers on market contracts pay the regulated price or receive a discount less than 5% of the total bill.
- Retailers wanting to gain market share should pay for this from their own resources until they have reach a scale large enough for them to operate at normal profit levels.
- Retailers can, and do, compete on more than price and should be encouraged to do so even more.
- Retailers can, and do, increase their market shares by aiming to acquire only or mainly customers likely to be of above average profitability.
- There is considerable scope for retailers to compete on price as a result of improved efficiency, reduced purchasing costs, etc.
- The market in SEQ would remain competitive without a 5% allowance for headroom.

The Association considers that a headroom allowance, plus a retail margin calculated as a percentage of total costs, and a CARC allowance provides retailers with excessive amounts of revenue and costs consumers far too much.