QCOSS Queensland Council of Social Service

12 April 2019

Charles Millsteed,
Chief Executive Officer
Queensland Competition Authority
GPO Box 2257
BRISBANE QLD 4001

Dear Charles,

Regulated retail electricity prices for 2019-20: Draft Determination

Thank you for the opportunity to make a submission to the Queensland Competition Authority's (QCA) Regulated Retail Electricity Prices 2019-20: Draft Determination published on 28th February 2019.

We welcome that the QCA has determined draft estimates that show decreases for typical bills for small residential customers. For a 2019–20 bill the typical household on the main residential tariff (tariff 11) is projected to be $1,340 (GST incl.) for the year— a 4.1 per cent decrease from the 2018–19 bill of $1,398 (GST incl.). We note that this does not include metering service charges which also appear on the bill. To fully understand the impact on customers' bills these charges should also be presented.

While this is good news QCOSS's view is that, as the economic regulator, the QCA must seek out prudent and efficient costs and ensure that regulated prices in regional Queensland do not result in customers paying a cent more than they should have to. There is no room for complacency when it comes to the cost of living. In our recent report *QCOSS living affordability in Queensland*[1], we found that cost-of-living pressures are increasing, with affordability concerns cited as the leading issue for many households. This included that energy costs remain a key issue for the community. Therefore, we encourage the QCA to seek out cost savings where possible.

In this letter, we would like to highlight two areas where, in our view, more cost savings can be made. These include:

- The Indexing of Retail Costs.
- The Standing Offer Adjustment.

In previous submissions to the QCA on regulated prices since 2016-17, QCOSS view has been that efficient retail costs should not increase year-on-year by the consumer price index (CPI). Instead, QCOSS has proposed that efficient retail costs should be indexed downwards to reflect increased efficiencies that reflect changing retailer practices in Southeast Queensland (SEQ) especially relating to online services such as e-billing and direct debit.

The QCA has stated that it needs additional evidence of such efficiencies and how they are being captured on an annual basis, and that the retail costs are trending downwards. Consumer groups do not have access to detailed retail costs and it is more appropriate that the QCA collect this information and establish the trends in retail costs. We recommend that the only way that these

[1] https://www.qcoss.org.au/living-affordability-queensland

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efficiencies can be identified is for QCA to redo the 2016-17 calculation of efficient retail costs for 2019-20. Going forward the Queensland Government should direct the QCA to do this for the determination each year commencing with regulated prices for 2020-21. It is not sufficient to rely on retail costs for 2016-17 and continue to index them. This risks not including accumulated efficiencies in regulated prices and will continue year after year to result in regulated regional prices above levels that would be consistent with the UTP.

The second issue we would like to highlight is the standing offer adjustment. We acknowledge that the QCA is required to set prices in accordance with the requirements of the Electricity Act and the delegation from the Minister of Natural Resource Mines and Energy "the Minister" of 17 December 2018.

We are pleased that standing offer prices in the SEQ market no longer provide an appropriate reference point for setting prices in regional Queensland as acknowledged in the Minister's cover letter to the delegation. However, we are disappointed that the Government is still including a standing offer adjustment to regulated prices. This new standing offer adjustment is based on the view that standard contracts provide additional value to customers compared to market contracts, for example, through additional protections gained in the terms and conditions of standard contracts.

Our overall view is that we do not agree that a standing offer adjustment be included in regulated prices for regional Queensland. However, if it is to be included, then our view is that such value is low, and less than the seemingly arbitrary five per cent standing offer adjustment that is suggested by the Minister's letter. Such an adjustment factor can only be determined by either a comprehensive and representative survey and/or at a minimum some statistical analysis to work out a robust value for these protections, noting that many retailers, and in particular, the larger ones also provide these protections to some market offer customers too.

QCOSS has engaged the services of David Prins at Etrog Consulting to make a more extensive submission in response to the Draft Determination, and this includes more detail on these two issues as well as a number of other issues. We attach the Etrog Consulting report to this cover letter as part QCOSS's submission.

In addition to comments on the QCA's draft determination, we would also like to take this opportunity to highlight the need for consultation on the delegation from the Queensland Government to the QCA for regulated prices 2020-21. The setting of regulated prices for regional Queensland next year will coincide with the start of the next regulatory period, where network prices and structures will be set based on the approved Queensland Tariff Structure Statement for 2020-2025, on which consultation is currently taking place. We encourage the Queensland Government to consult with consumer and community stakeholders in the development of the pricing delegation to the QCA for 2020-21 notified prices. This consultation should include consideration of possible direction on what network tariffs to apply, as well as the associated assignment policy.

We thank you for your consideration of this submission in determination of the final regulated prices for regional Queensland 2019-20. Should you have any comments or queries please contact Ms Carly Hyde, Policy Lead on 07 3004 6909.

Yours sincerely

Mark Henley
Chief Executive Officer