QUEENSLAND CONSUMERS ASSOCIATION

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

Secretary:
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SUBMISSION ON AEMC ISSUES PAPER: ADVICE ON BEST PRACTICE RETAIL PRICE REGULATION METHODOLOGY

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.

The Association welcomes the opportunity to make this submission which, due to lack of resources, can only be very brief.

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COMMENTS

TITLE

This advice is concerned only with price setting (not other forms of price regulation), so to ensure that the title accurately reflects the contents, the title of the final advice should include the words "price setting".

APPROACH TO ADVICE

The word "coherent" included in the objective is not sufficiently precise because it has many meanings. Precise words such as "logical", "consistent", "orderly", etc should be used.

SETTING REGULATED PRICES

The paper provides examples of the potential benefits of a nationally consistent and stable method for setting regulated prices but does not mention any benefits from setting regulated prices. Therefore, the Introduction should include examples of the benefits from setting regulated prices in various situations such as with and without retail competition. For example, when there is competition, setting regulated retail prices can be beneficial because it provides a common reference point against which retailers can quote market offers. This very helpful for consumers. It also ensures that consumers have access to prices that can not be changed at any time by a retailer.

Also, although a separate matter, set regulated prices are normally accompanied by standard terms and conditions which may differ significantly from those of market contracts.

1.1.1 BENEFITS OF A NATIONALLY CONSISTENT AND STABLE METHOD FOR SETTING REGULATED PRICES.

Set regulated prices benefit existing as well as new entrant retailers by also giving them common and widely understood prices against which to price their market contracts.

2.3.2 OBJECTIVE OF RETAIL PRICE REGULATION

This section should make clear that set prices should enable retailers to meet their statutory requirements regarding service quality, etc.

The retail operating cost component should not be set artificially high to help new entrants enter a market. New entrants may be well established energy retailers in other locations or be other large and well resourced companies. Also, while some costs for new entrants may be higher than for those already in the market, other costs may be lower. Artificially high prices may encourage new entrants who are unable to continue operating without such prices and it is always very difficult to later reduce high prices.

Depending on other policy objectives, wherever possible, set regulated retail prices should relate to an appropriate and largely homogenous area. At present, in Queensland, largely because of the uniform tariff policy, the same set regulated retail prices apply to both the Energex and Ergon distribution areas even though there are major cost and other differences between them, and only Energex's distribution costs are used in the retail price setting.

The Proposed objective of retail price regulation, the last dot point should be:
"Facilitate the development of **effective** competition in retail electricity markets where competition may be feasible **and beneficial**.

RETAIL OPERATING COSTS AND RETAIL MARGIN

As mentioned above, retail operating cost should be artificially increased to encourage new entrants.

Wherever possible retail operating costs should be estimated based on efficient actual costs and that there should be built in incentives for, or expectations, of productivity improvements.

Regulated prices should not be set at artificially high levels to encourage new entrants. In Queensland, this practice results in all small consumers in Ergon's area, where there is no competition, paying the high set regulated prices and higher CSO costs paid by the Queensland Government. Also, consumers in the Energex area who are on standard contracts, or on the many market contracts which require the payment of regulated prices, pay unnecessarily high prices.

The above effects are also influenced by the uniform tariff policy, and the payment of the Queensland Government's CSO to Ergon Energy rather than to reduce distribution charges for any retailer.

Customer acquisition and retention costs should not be included. And, if they are included they should as far as possible reflect expected actual costs and should include an incentive for, or expectation of, improved productivity. Without this, retailer innovation, for example greater use of online marketing, may be sub optimal and consumers may not receive any of the benefits which arise from improved productivity.

Any percentage margin should only be applied to the retailer's controllable costs.

Consumer choice of retailer and type of contract is not entirely price driven. Service quality is also an important consideration for many consumers as also are the terms and conditions of contracts. For example, charges for early termination of a market contract can be a disincentive for consumers to enter into some market contracts and if incurred can significantly reduce the value of some contacts for some consumers, for example low consumption consumers.