queensland council of social service inc
WORKING FOR A FAIR QUEENSLAND

11 October 2010

Mr Gary Henry
Queensland Competition Authority
GPO Box 2257
Brisbane QLD 4001

Dear Mr Henry,

RE: Response to the QCA Interim Consultation Notice on the Benchmark Retail Cost Index for electricity for 2011-12.

The Queensland Council of Social Service (QCOSS) welcomes the opportunity to comment on the Interim Consultation Notice on the Benchmark Retail Cost Index for Electricity for 2011-12.

The Authority proposes to follow the same process for calculating the 2011-2012 BRCI that it applied in the 2010-11 BRCI Final Decision. In view of the State Government's decision to defer any changes to the price setting methodology arising from last year's review of electricity pricing and tariff structures until 2012, we agree that it is appropriate to use the same methodology for the 2011-12 BRCI calculation. However, we remain concerned that the BRCI methodology does not allow sufficient scope to consider the social and economic impacts of electricity price increases on consumers. As noted in our submissions to previous BRCI consultation processes, the absence of any recognition of the impacts of pricing arrangements or the importance of ensuring affordable access to a basic amount of energy to meet non-discretionary needs is a major failing of the current price determination process and Queensland energy policy more generally.

Comments on the BRCI cost components are provided below.

Cost of Energy

In previous years, the cost of complying with the Queensland Gas Scheme has been estimated using the shortfall charge instead of the market price for Gas Electricity Certificates (GECs). Given that little market data was available when the first BRCI calculations were done, and what was available indicated that GECs were trading at close to the penalty price, we accept that this approach was justified at the time. However, the market price of GECs is now substantially lower than the shortfall charge. This reduction over time in the cost of GECs was not captured in the BRCI calculations, and has thus resulted in the cost of compliance with the Queensland Gas Scheme having been overestimated in recent BRCI calculations. In its report prepared for the 2008-09 BRCI calculation, CRA International recommended a transition to the use of market quoted prices in future BRCI calculations, but the Authority never implemented this recommendation. To compensate for the fact that the reduction in the cost of GECs from the penalty price to the current market price has not yet been taken into account in the BRCI calculations, QCOSS believes that the cost of compliance with the scheme should be recalculated based on market data in the BRCI calculation for 2011-12. It is also important that the Authority does not recalculate the GEC price for 2010-11 at the same time, as that would result in failure to capture the reduction in the GEC price in recent years. Rather, the BRCI calculation for 2011-12 must capture the large reduction already seen in the GEC price from the penalty price. This adjustment is long overdue.

In relation to the enhanced Renewable Energy Target (RET) scheme, we note that although there is currently no market data on the cost of Renewable Energy Certificates (RECs) under the enhanced RET, the scheme begins trading up to five months prior to the release of the BRCI final decision. It is therefore likely that some market data will be available for use in calculations for the Final Decision on the BRCI for 2011-12, if not for the Draft Decision. QCOSS urges the Authority to use market information in modelling the costs of compliance with the enhanced RET scheme to the greatest possible extent. QCOSS believes that it would be inappropriate for the Authority to use the penalty price instead, as it is likely that the penalty price will substantially exceed the market price.

Customer Acquisition Costs

QCOSS continues to hold concerns about the accuracy of the data used to estimate customer acquisition costs. We draw your attention to the comments made by Etrog Consulting in our submission on the 2010-11 BRCI Draft Decision, which argued that the AEMO MSATS data is likely to overstate the number of customers switching retailer in Queensland. While we recognise that adjusting the MSATS data presents difficulties, given the nature of electricity as an essential service and the pressure placed on consumers by price increases, it is crucial that the data used by the Authority does not lead to an overestimation of retail costs. QCOSS requests that its consultant be given access to AEMO MSATS data in order to be able to test the validity of the conclusions that are being drawn from that data. Without access to that data, it is difficult if not impossible for QCOSS to have confidence in the validity of the customer switching figures that drive the estimation of customer acquisition costs in the BRCI calculations.

QCOSS is also concerned that aggressive marketing by retailers and confusion about the distinction between standard and market contracts increase the likelihood that customer switching and transfer numbers do not reflect an efficient market. The Energy Ombudsman Queensland (EOQ) Annual Report for 2009-10, for example, shows that issues relating to transfers were the third most common category of complaint investigated by EOQ during the last financial year. Although marketing complaints have comprised only about 3% to 5% of investigations completed by EOQ in the past three years, complaint statistics published on the EOQ website suggest that only a small proportion of marketing complaints are investigated. The 2009-10 Annual Report shows that 95 marketing complaint investigations were completed during the year, whereas complaint statistics published on the website show that 834 marketing complaints were received in total. The statistics also show a growth in complaints relating to both marketing and transfers, with marketing complaints increasing from 6.62% of complaints received by the EOQ in 2009-10 to 8.36% in the first quarter of 2010-11, and transfer complaints from 5.73% to 7.07%. We note that the activities generating this increase in complaints are effectively paid for by consumers, with the 2010-11 BRCI including estimated total customer acquisition and retention costs of $81.5 million.

There is also anecdotal evidence to suggest that customers transferring from a standard retail contract to a market contract may in some cases be doing so unintentionally. QCOSS is aware of at least one instance in which a customer was transferred to a market contract when account details were changed, despite expressing an intention to remain on a standard retail contract. Information provided on retailers' websites also does not make it clear that customers can choose a standard retail contract: for example, both the AGL and Origin Energy websites provide links to energy offers from their home pages, but neither include information about the standard retail contract or regulated prices on these pages. Finding information about regulated prices and standard retail contract terms and conditions on the retailers' websites is difficult, even when searching specifically for this information. It is likely that some customers who would benefit more from the protections provided by a standard retail contract enter into market contracts because they do not have sufficient information about their options.

In light of the above concerns, QCOSS does not believe that estimates calculated using unadjusted MSATS data reflect efficient customer acquisition and retention costs. It is likely that any increase in customer switching and transfer rates will include switches and transfers occurring as a result of inappropriate marketing tactics. Accordingly, we suggest that estimates of the numbers of customers switching retailers or transferring to market customers be adjusted downwards in the 2011-12 BRCI calculation.

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Retail Margin

QCOSS notes that the approach of maintaining the retail margin at 5% results in retailers receiving a windfall when large increases in BRCI cost components, such as network costs, occur. We recommend that the QCA reviews whether the 5% margin is still appropriate.

We look forward to continuing to represent the interests of Queensland consumers in all energy related matters. If you would like any further information or to clarify any aspect of this submission, please feel free to contact me on 3004 6900.

Yours sincerely

[redacted]

John Mikelsons
Acting Director