



17 November 2017

**SUBMISSION TO ACCC PRELIMINARY REPORT ON RETAIL  
ELECTRICITY SUPPLY AND PRICING**

**BACKGROUND**

The Queensland Consumers' Association (the Association) is a non-profit organisation established over 40 years ago and which exists to advance the interests of Queensland consumers. The Association's members work in a voluntary capacity and specialise in particular policy areas.

The Association is a member of the Consumers' Federation of Australia, the peak body for Australian consumer groups, and works closely with many other consumer and community groups.

The Association has been especially active for many years on energy issues in Queensland and nationally and is currently represented on the:

- Queensland Competition Authority's Consumer Consultative Committee
- Energy and Water Queensland Ombudsman's Advisory Council
- Energex Customer Council.

The Association is also a member of the Queensland Council of Social Service's Essential Services Consultative Group and the Queensland Energy Minister's Consumer and Industry Reference Group, and has also been a member of Origin Energy's National Consultative Customer Council.

The Association has participated in, and made numerous submissions to inquiries etc. on energy issues conducted at national level, in Queensland, and in other states.

The Association has a strong interest in policies and other arrangements which result in highly effective markets and especially the need for effective consumer protections and ongoing effective consumer demand created by many engaged consumers making well informed choices.

The Association made a submission on the Issues Paper and welcomes the opportunity to make this submission on the Preliminary Report. However, due to resource constraints, the submission is brief and addresses only a few issues.

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**GENERAL COMMENTS**

The Association agrees with the key findings of Preliminary Report, which largely confirm what the Association, other consumer /community groups, and the individual consumers have been saying for years viz. that:

- there is a severe electricity affordability problem and insufficient competition
- price deregulation has benefited some consumers and hurt others
- the retail market is exceptionally complex
- consumers face many difficulties and obstacles in engaging with the market.

The Association is particularly pleased that the Report recognises:

- The problems for consumers and market transparency caused by power retailers marketing plans largely in terms of % discounts off different base prices and subject to different terms and conditions.
- That, due to high standing offer and base prices, some consumers in south east Queensland are paying more than consumers in regional Queensland.
- That much more needs to be done to help consumers be more aware of energy costs and energy use and how to use this knowledge to lower energy bills.
- The problems and needs of vulnerable consumers.

The Association recognises that the Preliminary Report had to be completed quickly and before all relevant information was available and that consequently some information is not very up to date. However, the Association considers that the Final Report should contain the most up to date information available on key issues and wherever possible include data not only for 2016-17 but also for part of 2017-18. The latter is very important because of the major increases in retail prices in many jurisdictions that occurred on 1 July 2017.

It would also be helpful if in the Final Report there were greater consistency in the use, and clearer definitions, of concepts and terms such as “average”, “typical”, “representative”, etc.

## **SPECIFIC COMMENTS**

### **Chapter 1 Australia’s electricity affordability problem**

The Association considers that that the “average usage” figures in Table 1.1 should be reviewed. The figure for Queensland is much higher than is used by other organisations.

Regarding other inquiries into the retail electricity market, the Association suggests that the ACCC also consider the Queensland Competition Authority report on its monitoring of the south east Queensland market since 1 July 2016, which is due to be released soon, and its report on prices in south east and regional Queensland commissioned by the Minister in late October 2017.

### **Chapter 2 What has driven the increases in retail electricity prices**

Page 73 suggests that south east Queensland was only opened up to retail competition in July 2016. Retail competition commenced in July 2007 and July 2016 was just the end of the regulation of standing offer prices.

The Association considers that consideration retail profit margins should reflect the fact that only part of the retail price consists of costs over which the retailer has control and are subject to major risk. As shown in the Report, much of the retail price consists of regulated network costs.

The Report does not mention that the Queensland Competition Authority includes a 5% retail profit margin when setting standing offers prices for regional Queensland.

### **Chapter 3 How is the market functioning?**

The Association welcomes the detailed consideration of unregulated prices in south east Queensland and regulated prices in other parts of the state undertaken in Box 3.5 and encourages the ACCC to undertake further work on this important issue and include the results in its Final Report.

In this regard the Association also welcomes the ACCC’s interest in standing offer prices which the Association is concerned may often be well above the efficient cost of supply. This has negative impacts not only on consumers on standing offer tariffs but also those on the many market contracts with standing offer prices as the base prices. This problem could be increased by some recent policy proposals.

The Association requests that the ACCC undertake more work on standing offers, including the impact of the regulated standing offers in regional Queensland (on prices in south east Queensland) and the ACT. The cost and benefits of regulated prices for a no frills service should also be assessed.

The Association considers that more consideration should be given in the final report, and recommendations made, about the impacts on competition of the structure created by the sale of government owned retailers and subsequent mergers. For example, it is debatable whether the sale of Enegex's retail customers to only Orgin and AGL and the subsequent takeover by Origin of Integral, which was then the third largest retailer, was beneficial for competition in south east Queensland.

As indicated in the previous submission, the Association considers there should be increased scrutiny, and consumer participation in the assessment, of any proposed mergers or acquisitions of energy retailers. This would help ensure that the effectiveness of these already highly concentrated markets is not reduced by further concentration arising from mergers and acquisitions.

The Association considers that the retail market is excessively complex for many consumers to participate in effectively and notes that it is likely to get even more complex as distributor tariffs and charges become more complicated.

#### **Chapter 4 The consumer experience**

As indicated in the Association's previous submission and confirmed by the Preliminary Report, there is a great lack of reliable data on what consumers on market contracts are actually paying, also on how they came to be on these contracts and the extent to which they are able to meet the terms and conditions. Therefore, we encourage the ACCC to undertake further in-depth research on these topics.

We agree with the ACCC's comments about the factors which may reduce the incentive for consumers to incur search costs. In addition we note that for many consumers on a "reasonable market offer" the savings achievable from trying to get an even better deal from their current or another retailer may be small.

In this regard we also draw the ACCC's attention to the results from AEMC surveys on the savings consumers need off the entire bill to consider switching (it is not clear if this is for switching within or between retailer). The Association considers that the required savings are high relative to the actual savings available to many consumers and that more work is required on this topic, including whether the required savings differ substantially between switching contract with a retailer or switching retailer. It would also be very informative to consider separately the option of seeking a better deal within the existing contract, for example by asking for a higher discount or lower base price. The Association considers that there are likely to be substantial differences in the required savings between these options.

Information from such research would better inform many policy decisions, especially those seeking to increase consumer engagement in the market.

Regarding status quo bias, the Association considers that this may also be influenced by situations in which the customer places a very high value on the quality of service provided their retailer. For example, someone who had experienced difficulty paying the bill may value very highly the benefits obtained from participating in their retailer's hardship program.

It is also important to recognise other significant barriers to some consumers changing retailer, including:

- The potential for the loss of high solar FIT rates and government concessions arising from a non allowed change in the name of the person on the account.
- For customers in debt to the retailer, loss of access to the current hardship program/payment plan arrangements and the debt becoming immediately payable.

The Association considers that lack of consumer trust in retailers is a major impediment to the effective functioning of the market. In this regard the Association considers that consumer trust and confidence would be improved by the introduction in other jurisdictions of a compensation scheme for consumers wrongfully disconnected as a result of retailer error similar to that which has been operating in Victoria for many years. Such a scheme would also provide an incentive for retailers to

minimise the number of errors that result in wrongful disconnection. Therefore, the Association asks the ACCC to consider including this in its final report.

Regarding conditional discounts etc., the Association considers that these should only reflect the actual costs incurred by the retailer by customer non-compliance with terms and conditions. This would increase transparency and comparability, is fairer, and will result in greater competition based on prices and costs. It is also an extension of the provision of the recent federal legislation on surcharging for use electronic payment methods (credit and debit cards, etc.) that the charge should reflect only the actual cost.

The Association also considers that any energy retailer wishing to impose additional costs (or loss of benefit, etc.) on customers for late payments should do so primarily by charging a fair interest rate applied to the amount unpaid and the time the bill remains unpaid. Where appropriate in conjunction with a fixed actual cost related fee, this is the fairest way to charge for late payments. It is widely used by businesses, including by telcos (some of which also have minimum amounts before any charges apply).

The Association also considers that energy retailers should be required to provide individual customers with information about any proposed changes in prices at least 10 business days prior to the start of the proposed change. This will increase consumer awareness of proposed changes and is likely to significantly increase consumer interest in considering whether they can get a better deal from their existing, or another, retailer. It will also reduce the extent to which retailers may decide to change prices to compensate for restrictions on the amounts they can charge for customer non-compliance with terms and conditions.

In Queensland, this is required for all energy contracts, except those involving a regulated tariff, but only if the proposed change is an increase. However, we consider that it should apply to any change not just to increases. Currently this is not included in the proposals being considered as a result of the Prime Minister's recent discussions with energy retailers.

The Association does not support retailers being allowed at the end of a contract period to move customers, without explicit informed consent, to the nearest matching market offer not the standing offer, if the customer does not make a choice. This is partly because market contracts come with numerous terms and conditions significantly different to standing offer contracts, including that prices and charges can be changed at any time.

The Association welcomes the ACCC's recognition of the opportunities for energy efficiency to help consumers reduce bills and requests that this be included in the final report, including appropriate recommendations. In this regard the Association considers that much more can and should be done to assist consumers to know about: how much electricity appliances use, how to use appliances more efficiently, and annual and seasonal consumption. For example, if annual consumption is used for cost indication/comparison purposes, to increase consumer awareness of this figure it should be shown very prominently on bills and other relevant communications with consumers.

## **Chapter 5 Where to from here?**

The Association is generally supportive of the ACCC's proposed approach to the preparation of its final report.

However, the Association considers that a shift to a principles based regulatory framework may not best serve the long term interests of consumers, especially for major policy objectives such as consumer protection, disconnection, competition, price transparency, energy efficiency, and sustainability. The experience with other industries has been that a principles based approach can result in worse outcomes for consumers, (including much more inconsistent service quality, provision of information, etc.) and problems for regulators and others in monitoring, assessing and ensuring compliance.