QCOSS Queensland Council of Social Service

20 March 2014

Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235
Submitted online at www.aemc.gov.au

AEMC Ref: RRC0001

Dear Commissioners,

Re: Retailer price variations in market retail contracts

The Queensland Council of Social Service (QCOSS) is Queensland's peak representative body for the community services industry. For more than 50 years QCOSS has been a leading force for social change to eliminate poverty and disadvantage. With more than 600 members, QCOSS supports a strong community service sector.

QCOSS is funded by the Queensland Department of Energy and Water Supply and Department of Justice and the Attorney-General to undertake an energy consumer advocacy project. The purpose of this project is to advocate on behalf of Queensland consumers and particularly vulnerable and low income households in relation to energy matters. This work is supported by an advisory group involving other key consumer groups in Queensland.

QCOSS supports the proposed rule change to prohibit price changes during a fixed term contract, and welcomes this opportunity to outline the reasons for our support in this submission. We would like to thank the AEMC for meeting with Queensland consumer groups in Brisbane on 13 March 2014 to discuss the proposed rule change. We found this session very informative and are pleased that the AEMC is actively engaging and consulting with stakeholders in this way.

The Queensland Government has indicated that it intends to remove price regulation in South East Queensland in 2015, subject to certain preconditions being met. These preconditions include ensuring that there is sufficient competition, improved consumer engagement in the market, and establishing an effective regulatory framework. The government also intends to take measures to improve retail competition outside South East Queensland.

Currently the base price of most market offers in South East Queensland closely follows the regulated tariff. However, there have been two notable incidents where decisions by retailers to significantly increase the prices charged under fixed term market contracts (independently of changes in the regulated tariff) drew a negative reaction from Queensland consumers. QCOSS is concerned that the removal of price regulation in South East Queensland, and the movement of retailers into parts of Queensland where costs are likely to be higher, could increase the risk of Queensland customers being induced by retailers to enter contracts with a low initial price and subsequently an increased uncompetitive rate.

Significant increases in electricity prices over several years, along with the highly publicised incidents of market price increases, have generated a degree of cynicism and a view among some consumers that the energy market is skewed in favour of retailers. The current rules relating to price changes appear to support this perception as energy retailers are permitted to:

- increase the price they charge during a fixed contract period
- charge an exit fee if the customer responds to the price increase by switching retailers, and
- make price changes before notifying customers.

Consumers would rarely, if ever, encounter similar conditions when purchasing other services.

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This situation creates both practical and psychological disincentives for consumers to engage in competitive retail markets. An exit fee on top of the costs of consumption may be unaffordable for many consumers. Although a sufficiently large price increase may result in costs that outweigh the amount of the exit fee, if consumers do switch retailers they face the risk that their new retailer will also increase the price, thereby eliminating the benefit of switching. There is also less reason for consumers to investigate other offers and participate in the market if they believe the benefits negotiated may be withdrawn at any time.

QCOSS also has concerns about the poor quality and accessibility of information about market offers and the capacity of vulnerable consumers to understand the complexities of the energy market. These issues are discussed in more detail in QCOSS's recent submission to the AEMC 2014 Retail Competition Review.

QCOSS believes that prohibiting price changes during a fixed period contract will promote an efficient competitive market and further the development and application of consumer protections, by:

- improving the transparency of information about prices available to consumers when entering into a fixed period contract
- providing price certainty to customers considering entering a fixed period contract
- reallocating risk from consumers to retailers, who have greater capacity to manage risk
- addressing a perceived imbalance in the market, thereby improving consumer confidence and willingness to engage.

It is our view that these benefits are likely to lead to improved consumer engagement in the market.

While QCOSS acknowledges the possibility that retailers are likely to offer higher upfront prices under fixed price contracts, we agree with the analysis of the rule change proponents that increased transparency is likely to promote more efficient pricing. We note also that consumers would likely have the choice between higher prices with less risk under a fixed period contract, or lower prices but greater risk under an evergreen market contract in which prices could be changed at any time. This rule change would allow consumers to indicate their preference through the choices they make in the market.

Finally, we note that while the National Energy Customer Framework does not currently apply in Queensland, the Queensland Government has indicated that it intends to implement it as part of its 30 Year Electricity Strategy. Therefore this rule change proposal is highly relevant to Queensland consumers.

If you have any questions or would like to discuss any aspect of this submission in further detail, please contact Carly Allen, Team Leader, Low Income Consumer Advocacy by phone on 073004 6900 or by email at carlya@qcoss.org.au.

Yours sincerely

Mark Henley
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