



queensland council of social service inc
WORKING FOR A FAIR QUEENSLAND

22 December 2008

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

Dear Mr Henry,

RE: Submission on QCA Draft Decision on the Benchmark Retail Cost Index for electricity for 2009-10.

I write in relation to the recently released Queensland Competition Authority (QCA) Draft Decision on the Benchmark Retail Cost Index (BRCI) for electricity for 2009-10. The Queensland Council of Social Service (QCOSS) welcomes the opportunity to comment on this decision and specific comments are included below.

The processes for estimating annual changes in electricity pricing including the flow on effect to other goods and services can have a major effect on household expenses, especially for low-income, disadvantaged and vulnerable households. As such these processes are a matter of critical importance to QCOSS.

QCOSS makes the following comments in regard to the draft decision.

Step change in energy generation costs

QCOSS supports the proposal to continue with the regression approach used in the 2008-09 Final Decision in determining the BRCI for 2009-10. QCOSS notes concerns amongst retailers that there has been a step-change in costs. However, we share the QCA's view that there is insufficient information to definitively state that such a change has occurred. In the absence of compelling data that a permanent fundamental cost increase in energy generation has occurred, QCOSS's view is that deviation from the established methodology is not warranted, including shortening the time series from 15 years down to 10 years. As the QCA Draft Decision identifies this would increase the weight given to recent price spikes in commodities. Extreme price spikes are often short lived, with prices reverting to average positions rapidly. Longer forecasting periods ameliorate the impact of short-lived spikes and allow for smoother price paths. This reduces price shocks for consumers, particularly low-income and vulnerable consumers who may struggle to accommodate large increases in electricity costs.

Inclusion of the Carbon Pollution Reduction Scheme (CPRS)

QCOSS supports the proposal to exclude costs associated with the introduction of the CPRS in determining the BRCI for 2009-10. As the draft decision rightly points out including the CPRS in the BRCI calculation would result in the BRCI reflecting costs that energy entities do not presently incur. Queensland consumers have already been subject to rising energy prices in the past two years, placing additional strain on household budgets. Increasing electricity prices contribute to many more consumers being unable to pay their bills on time, risking late penalties and/or disconnection. Higher electricity prices

also increase levels of consumer debt, at a time when debt is at record high levels. In QCOSS's view it is inappropriate for the BRCI calculation to incorporate non-existent costs, which are subsequently passed on to consumers.

Moreover there remains considerable uncertainty around the timing and specifics of the CPRS, including targets and initial carbon prices. While the release of the White Paper has provided greater certainty on some issues, the likely impact of the CPRS on electricity prices will not be clear until the final enabling legislation has been passed. Consequently any consideration of the price impacts of the CPRS and the manner in which carbon pass through is determined should be delayed until the final shape of the CPRS is bedded down. Additionally, extensive consultation with all stakeholders, including consumer representatives, should be undertaken prior to adoption of any model for carbon pass through in electricity pricing.

Maintenance of headroom

QCOSS is aware of the claims made by retailers with regard to headroom. QCOSS does not support the inflation of prices to encourage competition, particularly given the lack of evidence that competition has produced any demonstrable benefits for Queensland consumers. Additionally the inability to access information regarding levels of and changes in headroom significantly affects the capacity of QCOSS and other consumer organisations to evaluate and comment on claims made by retailers. QCOSS is of the view that consumers should not be penalized because energy entities are unwilling to provide information regarding headroom. As such QCOSS does not support any change to the existing methodology which would have long term implications without appropriate open and transparent consultation.

QCOSS remains to be convinced that retailers are unable to offer tariffs at a discount to notified prices without undermining their profitability. The 2008 World Energy Retail Market Ranking Report identifies Queensland as the 7th most active market in over 50 competitive energy retail markets worldwide. Given that switching behaviour is primarily driven by retailer marketing practices, this suggests that Queensland consumers remain attractive customers for retailers.

General Comments

QCOSS recognises that the manner in which the impact of the CPRS is factored into the calculation of electricity prices is not formally part of the QCA's current consultation, nor is re-examination of the BRCI methodology. These matters are primarily policy issues for Government. However the proposed introduction of the CPRS and need to consider the manner in which carbon pass through is determined presents an opportunity for re-examination of the methodology and model for the calculation of electricity prices. QCOSS, along with other consumer organisations, continues to consider that there is a strong case for a complete review of the BRCI approach. We remain to be convinced that this 'Index' is in the best interests of Queensland consumers, particularly low-income and vulnerable households struggling to afford and maintain access to what is an essential service.

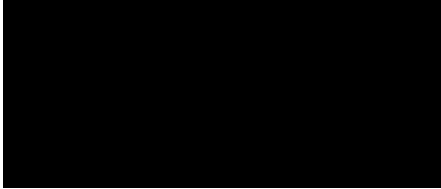
QCOSS is of the view that consumer interests should be given greater recognition and weighting in electricity regulatory and pricing arrangements than is currently the case in Queensland. Unlike other jurisdictions Queensland's energy policy, released in 2000 prior to the introduction of full retail competition in energy in Queensland, does not currently recognize the need to ensure access to a basic level of non-discretionary essential energy at an affordable price, particularly for vulnerable consumers. Similarly, in contrast to the specific recognition of the intent to maintain a reasonable retail margin in the calculation of adjustments to notified electricity prices, there does not appear to be scope within relevant legislation to consider the social impact of pricing arrangements and determinations. This is a major limitation of the current BRCI arrangements and of the policy context more broadly.

Without explicit acknowledgment of the need to protect vulnerable consumers and ensure access to a basic level of essential energy for all Queenslanders, policy responses to

address Queensland's ongoing energy needs and combat climate change risk overlooking the essential nature of electricity and the significant social and economic consequences of lack of access to basic levels of energy. Affordability and access to essential services for consumers must always be a prime consideration of policy makers.

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



Jill Lang
Director