

15 October 2007

Chief Executive
Queensland Competition Authority
GPO Box 2257
Brisbane Qld 4001.
Fax: 07-3222 05999

Dear Mr Hall

Re: Interim Consultation Notice Benchmark Retail Cost Index for Electricity: 2008-09.

The Centre for Credit and Consumer Law is an academic centre, hosted by Griffith University Law School. The Centre for Credit and Consumer Law was established in 2004 to be a source of expertise, and a centre of excellence on credit and consumer law issues. It has the overall objective of promoting the attainment of a fairer, safer, and more efficient marketplace for consumers and, in particular, for low income and vulnerable small end-users.

We welcome the opportunity to respond to aspects of this Index in a more amendable time frame than the previous Interim Consultation Notice for 2006-2008. In the absence of expert economic advice we are not in a position to comment on the theoretical framework. Our comments are generally confined to calculations relating to the cost of energy. We look forward to a time when energy consumer advocates in Queensland can have access to relevant expertise in order to address the information and resource asymmetry issues that small end-user advocates and their constituents face in responding to issues as fundamental as changes in electricity prices.

General comment

Our main concern arising out this index is that calculations of the change in the BCRI are undertaken in a fair and reasonable manner that does not result in significant cost imposts on consumers that challenge the affordability of what is an essential service. Individual consumers do not have a significant choice in what they pay for their electricity whereas large businesses are able to manage risk when prices are high. The significant price increase of 11.37% for 2007 was challenging for many Queensland consumers, particularly those on low incomes. Affordability is a key issue for low income families. ABS data for low-income families indicates that in 2003-04 51% of lone parents and 20% of couples could not pay their electricity or gas bill on time due to financial stress.¹

¹ ABS (2007) *Australian Social Trends*, p.53

Due to the haste by the Queensland government to introduce FRC in Queensland, coupled with their lack of willingness to canvass with stakeholders via the Energy Competition Committee the best possible methodology and model for the calculation of electricity prices, we cannot be confident that the Benchmark Retail Cost Index for Electricity (BRCI) is the best 'Index' possible for Queensland consumers.

Ultimately we believe that consumer interests should be placed more at the forefront of electricity regulatory/pricing arrangements than currently exists in Queensland. For instance we would seek the promotion of the long-term interests of consumers in regulation. This long-term interest is the central focus of the National Electricity Law objective which seeks *to promote efficient investment in, and efficient use of, electricity services for the long-term interests of consumers of electricity with respect to price...* In Queensland domestic electricity pricing arrangements will be a jurisdictional matter for some years to come – it is therefore important to get the methodology in the long-term interests of consumers' right.

Currently, in Queensland the long-term interests of consumers with respect to pricing is delegated to the Minister when he makes his decision on the BRCI. There does not appear to be specific scope within the *Queensland Competition Authority Act 1997* to evaluate the social impact of pricing arrangements (with the exception of pricing practices in relation to government monopolies). The lack of scope within the current BRCI evaluation arrangements to specifically take into account the social impact of pricing decisions, from a consumer perspective, is a limitation.

Cost of Energy

We have concerns about the calculation for the cost of energy. For instance if the calculations for energy costs in a particular year are forecast too high consumers will bear the brunt of these costs in the short term even though the costs for consumers will be smoothed out in the long-term. The likelihood of this scenario has been increased due to the high wholesale prices of electricity when the BRCI was being calculated for 2007-08 and incorporated in the energy purchase cost adjustments to recognise that mismatch between the LRMC and the actual cost of energy.

We believe that in the spectrum between the actual cost of energy and the long-range marginal costs that consumers needs will be better met with a clear focus on the LRMC and not the actual costs at the time of calculating the Index. Consumers are far less able to absorb significant price fluctuations as exhibited in the volatility of the wholesale electricity market prices.

Network Costs

We support suggested recommendations as outlined in the Interim notice. This includes the exclusion of isolated networks including Mt Isa from the calculation of the NEM load

We seek clarification on how the annual under- or over- recovery of prior year revenue in relation to distribution network costs will be addressed in relation to the BRCI? This issue was highlighted by the recent Energex Full Retail Competition Supplementary Cost Pass-

through Submission (October 2007) to QCA which over-estimated the cost pass-through by \$34.4 million dollars.

Retail costs and margin

As per our previous submission we re-state our opposition to the customer acquisition costs on the basis that in a competitive market these costs are redundant. Customer churn is something that all retailers have to bear in a competitive environment and no one retailer should benefit from Government funds because they lose customers. While we do not agree with the inclusion of this cost any customer acquisition cost should remain at the low end of possible costs.

Queensland load

We recommend the inclusion of the loads of unregistered embedded generators in the NEM load of Queensland. As the Origin Energy submission has stated, while not material at present, their load will become material in the future and needs to be quantified.

Total BRCI

We do not have any specific comments at this time but acknowledge that any changes in methodology that improve the current index for consumers would be welcome. However we note that any changes to the methodology for determining the cost of energy require a year's notice. This time frame will penalise consumers because the benefits of an improved methodology, in the form of improved pricing arrangements, will be delayed.

Yours sincerely,



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