



6 April 2008

**SUPPLEMENTARY SUBMISSION ON QCA DRAFT DECISION ON
 THE BENCHMARK RETAIL COST INDEX FOR ELECTRICITY
 (BRCI) FOR 2008-09**

BACKGROUND

The Queensland Consumers' Association (the Association) is the peak body for consumer groups in Queensland. The Association's members work in a voluntary capacity. The Association is a member of the Consumers' Federation of Australia, the peak body for Australian consumer groups.

The Association made a detailed written submission on the QCA's draft decision and participated actively in the workshop held on 27 March 2008.

The Association lacks the resources to make a supplementary submission as detailed as those of some industry stakeholders. However, in view of the importance of the BRCI to all Queensland consumers, and continuing concerns about the ability of the current concept and process to meet the needs of Queensland consumers for an efficient, equitable, and robust system for adjusting regulated electricity tariffs, the Association makes the following comments and recommendations.

COMMENTS AND RECOMMENDATIONS

General

The Association is surprised and concerned that there appears to be so many different views about the intent, adequacy, etc of the legislation etc governing the BRCI methodology and calculations by the QCA. Accordingly, the Association recommends strongly that in its final decision that the QCA should clearly indicate its views on these matters and recommend appropriate changes to the legislation, etc.

The Association is also very concerned about the government's new requirement that the BRCI calculation process for the 2009-10 regulated tariffs be completed by 1 December 2008. This will have major negative impacts on the quality of the consultation process, and on the availability of actual price and other data. It will also mean that the 08-09 BRCI will have to be recalculated to ensure comparability with the 09-10 BRCI.

The Association considers that there is a very strong case for a complete review of the concept of the BRCI and the methodology prior to the start of the 2009-10 consultation process. However,

this is unlikely to be possible unless the government is prepared to extend the final date for the completion of the process. Assuming that the date is not extended, the Association strongly recommends the QCA to convene a stakeholder workshop as soon as possible after the completion of the current process. This should at least allow for further considered examination of the numerous issues which have arisen during the current process.

The Association would also expect that the government would be prepared to participate actively in such a workshop and not be just an observer.

Assuming that a complete review can not be undertaken before the completion of the next BRCI process, the Association recommends that the government commission a full review of the approach (about which there was virtually no prior consultation with stakeholders and certainly none with consumers) and, if the approach is to be continued, the detailed methodology.

Network charges

As recognised in the Association's submission, these account for a large proportion of the BRCI calculated each year and the resultant annual change to be applied to regulated tariffs.

The Association supports the submissions by some organisations representing business consumers recommending that the government should reduce these impacts by providing appropriate subsidies for the upgrading of the distribution networks of Energex and Ergon necessitated by significant under investment in prior years.

The Association notes that the introduction, without prior consultation, of the concept of changing regulated tariffs in line with changes in cost of supply resulted in the government breaking clear commitments that consumers would not have to pay for the costs of upgrading and that power prices would continue to be increased only by the CPI.

- On 24 July 2004, in a media statement in relation to the cost of implementing the recommendations of the report *Electricity Distribution and Service Delivery for the 21st Century*, the Premier "assured the people of Queensland any increases in tariffs would only be in line with CPI" and "if extra money is required to upgrade the system then it will be made available by the government".

The Association further contends that:

- If the government wanted to change the system for annual changes to the regulated tariffs, subsidies on distribution charges should have formed part of transitional arrangements to ease the burden of the policy change on consumers
- The CSO paid to Ergon to operate the uniform tariff scheme in its area provides no compensation to consumers in the Energex area for the policy change.

Customer acquisition and retention costs

The Association retains reservations about whether these should be included in the BRCI calculations at all.

However, if they are to be included it is important that:

- They are not taken into account also anywhere else in the BRCI calculations.
- There is a realistic and robust system which takes account of any significant differences in the costs of various customer acquisition and retention activities.
- Queensland rather than NSW cost data is used.
- The best possible information on numbers of customers acquired or retained are used.

Regarding the latter, the Association draws attention to the fact that the NEMMCO statistics used in the CRA report are only for transfers between retailers. They do not include customers who change contracts within a retailer, or new connections. Both are currently important, especially in SE Queensland, and the relative and absolute importance of all types are likely to change significantly as FRC evolves and market conditions change. The Association understands that statistics on intra-retailer contract changes and new connections are available. If so, they should be used.

The Association's assessment of the main types of customer changes which may influence acquisition and retention costs is presented below.

CUSTOMER CHANGE TYPES LIKELY TO INFLUENCE BRCI RETAILER COSTS

CUSTOMER CHANGE TYPES	COMMENTS/NOTES
<u>1. Existing Connections (excluding move in/out)</u>	
Change retailer	High costs? (need max marketing effort) In NEMMCO churn statistics
Stay with retailer but change contract	Low costs? (mainly internal paperwork) Not in NEMMCO churn statistics
<u>2. Move in/out</u>	NEMMCO statistics can provide total move in/out
Change retailer	High costs? (need maximum marketing effort) In NEMMCO churn statistics
Stay with retailer but change contract	Low costs? (mainly internal paper work) Not in NEMMCO churn statistics
<u>3. New Connections</u>	
Select a retailer	Costs? (may vary greatly between retailers depending on marketing effort needed. Area retailer may have lower costs if regarded as the default retailer initially) Not in NEMMCO churn statistics. May often rapidly become a Type 1, esp. if usual initial arrangement is with an incumbent retailer on a regulated tariff.

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