



Remade Final Decision

2008-09 Benchmark Retail Cost Index

June 2009

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PREAMBLE

The Authority released its Final Decision on the Benchmark Retail Cost Index (BRCI) for 2008-09 on 30 May 2008. At that time, the increase in costs between 2007-08 and 2008-09 was estimated to be 5.38%.

AGL (14 August 2008) and Origin Energy (1 September 2008) sought judicial review of the Authority's Decision. On 28 April 2009, judgment was handed down by the Supreme Court of Queensland (the judgment).

The judgment required the Authority to remake its 2008-09 BRCI Decision on a basis that is different, in two ways, from that followed in the Authority's original 2008-09 BRCI Decision. The differences relate to the method of calculating energy purchase costs and the use of updated data when the Authority is required to recalculate a previous decision due to a change in methodology.

The Authority has remade its Decision for the 2008-09 BRCI (Remade Decision) consistent with the judgment. As a consequence, the Authority now estimates that the change in the BRCI between 2007-08 and 2008-09 is 9.06%.

The Authority is required to apply this change in the BRCI to the notified prices that were in existence at the time it made its original 2008-09 BRCI Decision and to publish the resulting notified prices to apply in 2008-09. However, these higher notified prices will not take effect until 30 June 2009 and will be replaced by the 2009-10 notified prices (consistent with the Authority's 2009 10 BRCI Final Decision) from 1 July 2009. Hence, the impact of the increased prices as a result of the Remade Decision will not be felt until 2009-10.

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1. INTRODUCTION

The Authority released its Final Decision on the Benchmark Retail Cost Index (BRCI) for 2008-09 on 30 May 2008. At that time, the increase in costs between 2007-08 and 2008-09 was estimated to be 5.38%.

AGL (14 August 2008) and Origin Energy (1 September 2008) sought judicial review of the Authority's Decision. On 28 April 2009, judgment was handed down by Justice P McMurdo of the Supreme Court of Queensland.

The judgment, cited as *AGL Energy Ltd v Queensland Competition Authority & Anor; Origin Energy Retail Ltd v Queensland Competition Authority & Anor* [2009] QSC 90, is available from the Queensland Supreme Court registry website at: www.courts.qld.gov.au.

The judgment found that:

- (a) in working out the benchmark retail cost for both the relevant tariff year and the preceding tariff year, the Authority incorrectly calculated the purchase cost of energy on the basis of the load shape of the total State load and not the load shape of the National Electricity Market (NEM) load as defined under the *Electricity Act 1994* (the Act), being the total State NEM load less the load of customers directly connected to the transmission network; and
- (b) in working out the total benchmark retail cost for the preceding year, the Authority used data which had not been available when the year to 30 June 2008 had been the relevant tariff year, and which the Authority was not otherwise entitled to use.

On 14 May 2009, the court ordered that:

- (a) the 2008-09 Decision be set aside;
- (b) the Authority remake its 2008-09 Decision according to law and these orders;
- (c) the Authority recalculate the 2007-08 BRCI, and decide the BRCI for 2008-09, on or before 29 May 2009 ("Remade Decision");
- (d) the Authority calculate notified prices for the 2008-09 tariff year by reference to the Remade Decision, and, by gazette notice, publish those notified prices ("2008-09 Notified Prices");
- (e) the gazette notice referred to in the preceding order be in terms and be published so that the 2008-09 Notified Prices take effect immediately before the commencement of the 2009-10 tariff year; and
- (f) the Authority calculate notified prices for the 2009-10 tariff year by reference to the Remade Decision and the 2008-09 Notified Prices.

In summary, this Remade Decision takes account of the judgment by:

- (a) estimating the energy purchase costs of supplying the NEM load (as defined in section 91F(2) of the Act) based on the load profile of the NEM load, rather than the load profile of the total State NEM load as was done previously; and
- (b) for the calculation of the BRCI for the preceding tariff year (2007-08) in the context of the 2008-09 BRCI Decision, reverting to the estimates calculated for the 2007-08 BRCI Decision in terms of both the data used and the methods applied, except to the extent that

there had been a change in framework between Decisions and the data requirements of the new method are not available from the previous decision.

The relevant changes that have been made to the original 2008-09 BRCI Decision are identified in the following sections dealing with each cost element of the BRCI calculation.

In this Remade Decision, the Authority has not revisited the discussion or consideration of the issues presented in the original 2008-09 BRCI Decision but has focussed solely on those elements of the calculation of the BRCI that need to be amended as a result of the judgment and orders made by the Court.

This Remade Decision must be read in conjunction with the original 2008-09 BRCI Final Decision.

2. COST OF ENERGY

2.1 Changes Required

The judgment requires a number of changes to be made to the calculation of the cost of energy component of the Authority's original 2008-09 BRCI Decision. The changes relate to:

- (a) amending the cost of purchasing energy in both 2007-08 and 2008-09 to ensure that the costs are based on the profile in the relevant years of the NEM load as defined in the Act and not the total State NEM load as previously used; and
- (b) the use of updated data in respect of 2007-08 and the requirement to revert to the data used in the 2007-08 BRCI Decision, in lieu of the updated data for 2007-08 used in the 2008-09 BRCI Decision. This affects:
 - (i) Mandatory Renewable Energy Target (MRET);
 - (ii) Queensland Gas Scheme;
 - (iii) NEM fees; and
 - (iv) Ancillary Services.

2.2 Purchase Cost of Energy

For its 2008-09 BRCI Decision, the Authority changed the method used to calculate the cost of energy component. Under the new method, the Authority calculated the long run marginal cost (LRMC) of energy and energy purchase costs separately and applied a 50% weighting to each, thereby using each as equal inputs into the calculation of the cost of energy component.

In accordance with the judgment, the Authority has recalculated energy purchase costs for both 2007-08 and 2008-09 using the NEM load as defined in the Act rather than the total State NEM load.

To do this, the Authority had to develop "forecast" half-hourly load traces for 2007-08 and 2008-09.

The Authority released a Consultation Paper on 8 May 2009 regarding how it might construct the necessary NEM load trace forecasts for 2007-08, 2008-09 (and 2009-10 as the judgment has the same implication for the 2009-10 BRCI).

This was necessary because, firstly, the Authority had not previously developed half-hourly forecast NEM load traces for any of the years and, secondly, the method that CRA (the Authority's consultant) had used to develop a forecast NEM load trace while undertaking some alternate energy cost calculations in its 26 May 2008 Addendum report had been found to be flawed. Amongst other things, concern about the robustness of these estimates caused the Authority to choose not to adopt them when making its original 2008-09 BRCI Decision. This issue is discussed in more detail in the Consultation Paper which is reproduced at Attachment 1.

ACIL Tasman (ACIL) was engaged to develop the necessary load traces, which were then used by CRA to model forecast energy purchase costs. The approach adopted by ACIL was the same as it had outlined to the Court in the Judicial Review hearing.

Simply put, ACIL forecast the total State NEM load and the load of directly connected customers separately and then deducted the directly connected customer load from the total

State NEM load to determine the NEM load as defined in the Act. On the other hand, CRA attempt to estimate the NEM load directly.

As discussed in the Consultation Paper, the Authority has formed the view that the ACIL method of constructing the load traces is sound and provides robust forecasts of the relevant loads.

Consistent with the judgment, despite actual half-hourly load data being currently available for both years, the load traces developed by ACIL for the Authority have been constructed using only the data and relevant demand forecasts that would have been available at the time the 2007-08 Decision and the 2008-09 Decision were each made.

The unit costs of purchasing energy that result from using the ACIL load traces differ from those which CRA outlined in its Addendum report on the 2008-09 BRCI, as shown in Table 2.1.

Table 2.1: Energy Purchase Costs 2007-08 and 2008-09 (\$/MWh)

	Original 2008-09 Decision (CRA Load Traces)			2008-09 Remade Decision (ACIL Load Traces)		
	2007-08	2008-09	% Change	2007-08	2008-09	% Change
Total State NEM Load (as per Final Decision, ie using updated data)	48.86	52.91	8.3%	na	na	na
Total State NEM Load (using old data as required by judgment)	43.89	52.91	20.6%	47.30	56.94	20.4%
NEM Load as defined in Act (as per Final Decision, ie using updated data)	49.06	61.53	25.4%	na	na	na
NEM Load as defined in Act (using old data as required by judgment)	46.07	61.53	33.6%	48.26	58.00	20.2%

The numbers in bold are the increase the Authority used in its original decision (8.3%) and the increase used in this Remade Decision (20.2%).

Different estimates using the same raw data are not unexpected as CRA and ACIL use different algorithms to develop load traces which are then input into the same CRA model to develop prices and unit rates. However, in this particular case, the load traces have also been constructed based on different raw data (ACIL used later data that was available at the time, but not used by CRA. ACIL also used Powerlink growth forecasts.).

As can be seen in Table 2.1, using the ACIL forecasts, there is a considerably smaller spread between small and large load costs. In other words, the directly connected customers have less of a dampening effect on the large load under the ACIL approach than under the CRA approach.

However, the Authority notes that CRA were unable to develop sensible 2009-10 small load forecasts using the methodology outlined in their 2008-09 Addendum report and were unable to replicate that report's results in respect of the 2008-09 BRCI. The Authority had previously declined to use the CRA approach because of concerns about its robustness.

The NEM load traces constructed by ACIL were released on the Authority's website on 19 May 2009.

No consultation was able to be undertaken on the corresponding price traces as time did not permit it. In this regard, neither the Act nor the Regulations require the Authority to make either price or load trace information available although it has done so in the early stage of the

2009-10 process, when time permitted, and the methodology was discussed in depth at that time.

On the basis outlined above, the Authority has calculated energy purchase costs of \$875 million for 2007-08 and \$1,074 million for 2008-09.

2.3 LRMC

The change in method for calculating LRMC in the 2008-09 BRCI Decision requires no reworking as a result of the judgment. While the load the Authority had used in this element of the cost of energy calculation was also questioned in the court case, the court upheld the approach the Authority had adopted. As the Authority had not used any updated data in this particular calculation, there is no need to make any changes to the original calculation of LRMC.

2.4 Other Energy Costs

As the Authority had used updated actual data in place of the previously available forecasts for each of the other energy costs when it recalculated the 2007-08 BRCI for the purposes of the 2008-09 BRCI, each of these input costs have been returned to the original forecast values available at the time the 2007-08 BRCI Decision was made. These are the costs relating to:

- (a) Mandatory Renewable Energy Target (MRET);
- (b) Queensland Gas Scheme;
- (c) NEM fees; and
- (d) Ancillary Services.

2.5 Comments from Stakeholders

In submissions and correspondence since the release of the Authority's Consultation Paper, AGL and Origin Energy have provided detailed comment and advice on the technical issues to be addressed in developing the forecast load traces using the ACIL method. ACIL has provided the Authority with advice on all the issues raised. ACIL has addressed each of these technical issues in preparing the report being released at the same time as this Remade Decision. The Authority has considered these issues in light of ACIL's advice and is of the view that the ACIL approach, and the forecast load traces derived from that approach, provide an appropriate basis for determining the cost of energy component.

2.6 Summary

Table 2.2 identifies all the original elements of the cost of energy calculation from the 2007-08 BRCI Decision, the changes that were made to each of these when the Authority recalculated the 2007-08 BRCI in its 2008-09 BRCI Decision, and how each of these have been amended in this Remade 2008-09 BRCI Decision.

Table 2.2 – Explanation of changes in the Remade Decision

<i>Cost of Energy Component</i>	<i>2007-08 estimate as reported in 2007-08 BRCI Decision</i>	<i>2007-08 estimate as reported in 2008-09 BRCI Decision</i>	<i>2007-08 estimate in Remade Decision</i>	<i>2008-09 estimate in Remade Decision</i>
Long run marginal cost (LRMC)	Not comparable. LRMC calculated on Qld standalone basis	\$761 million Change in methodology. The Authority moved to a 50/50 weighting of LRMC and EPC. LRMC calculated as QLD electricity generation integrated with NEM Data required for new methodology not available from earlier decision.	\$761 million The Authority has retained the new method. No change is necessary for the LRMC estimate.	\$789 million [Unchanged from original 2008-09 BRCI Decision]
Energy Purchase Cost (EPC)	Not comparable Energy Purchase Cost calculated on Qld standalone basis	\$886 million Change in methodology. 50/50 weighted component of energy cost component. Updated data on actual loads were used to replace forecasts for last part of the year.	\$875 million The Authority has retained the new method but recalculated EPC using unit cost based on NEM load only and using original load data.	\$1,074 million [\$980 million in original 2008-09 BRCI Decision]
Mandatory Renewable Energy Target (MRET)	\$39 million	\$38 million No methodological change. Updated cost data used.	\$39 million. The Authority has used the MRET cost data that was available at the time of 2007-08 Decision.	\$50 million [Unchanged from original 2008-09 BRCI Decision]
13% Gas Scheme	\$80 million	\$81 million No methodological change. Updated cost data used.	\$80 million The Authority has used the 13% Gas Scheme cost data that was available at the time of 2007-08 Decision.	\$85 million [Unchanged from original 2008-09 BRCI Decision]
NEM fees	\$12 million	\$12 million No methodological change. Updated cost data used.	\$12 million No apparent change due to rounding but the Authority has used the NEM fees cost data that was available at time of 2007-08 Decision	\$12 million [Unchanged from original 2008-09 BRCI Decision]
Ancillary Services	\$11 million	\$14 million No methodological change. Updated cost data used.	\$11 million The Authority has used the Ancillary Services cost data that was available at the time of 2007-08 Decision	\$14 million [Unchanged from original 2008-09 BRCI Decision]
Total Cost of Energy		\$1,792 million	\$1,778 million	\$2,025 million [\$1,930 million in original 2008-09 BRCI Decision]

After making the changes noted above, the calculation of the cost of energy component of the BRCI changes from the figures used in the 2008 09 BRCI Decision, shown in Table 2.3, to those for the Remade Decision, as shown in Table 2.4.

Table 2.3 - Original 2008 09 BRCI - Cost of Energy (c/kWh)

	2007-08 c/kWh	2008-09 c/kWh	Change (%)	Share of total costs 2007-08 %	Change in BRCI (%)
LRMC	2.10	2.13	1.51	18.2	0.27
Purchase cost	2.44	2.65	8.30	21.2	1.76
Other energy costs	0.40	0.44	9.14	3.5	0.32
Total Cost of energy	4.94	5.21	5.48	42.9	2.35

Totals may not add due to rounding.

Table 2.4 - Remade 2008 09 BRCI - Cost of Energy (c/kWh)

	2007-08 c/kWh	2008-09 c/kWh	Change (%)	Share of total costs 2007-08 %	Change in BRCI (%)
LRMC	2.10	2.13	1.51	18.5	0.28
Purchase cost	2.41	2.90	20.20	21.2	4.29
Other energy costs	0.39	0.44	11.54	3.4	0.40
Total Cost of energy	4.90	5.47	11.51	43.1	4.96

Totals may not add due to rounding.

3. NETWORK COSTS

3.1 Changes Required

The judgment requires a number of changes to be made to the calculation of the network costs component of the Authority's original 2008-09 BRCI Decision. The changes relate to the use of updated data in respect of 2007-08 and the requirement to revert to the data used in the 2007-08 BRCI Decision, in lieu of the updated data for 2007-08 used in the 2008-09 BRCI Decision. This affects:

- (a) Energex;
- (b) Ergon Energy; and
- (c) Powerlink.

3.2 Energex

In the 2008-09 BRCI Decision, the Authority updated its estimate for 2007-08 of Energex's non-distribution use of system (non-DUOS) revenue component in order to remove the residual capital costs related to the provision of the previously excluded non-DUOS services. This mirrored the Authority's treatment of these costs in calculating the approved aggregate annual revenue requirements (AARRs) for both distributors.

As required by the judgment, the Authority has used the \$806.5 million estimate of Energex's network cost from the preceding 2007 08 BRCI Decision in the Remade Decision.

3.3 Ergon Energy

As with Energex, the Authority updated its estimate for 2007-08 of Ergon Energy's non-DUOS revenue component to remove the residual capital related revenue and to correct two small errors in relation to operating costs associated with excluded non-DUOS services.

In addition, in accordance with the Minister's Certificate of Delegation in force for the 2008-09 BRCI, the Authority unwound the effect of re-smoothing Ergon Energy's AARRs which had been required in the previous year. The Authority also excluded Mt Isa network costs from the calculation of Ergon Energy's network costs as the Mt Isa network is not connected to Powerlink's transmission network and is not part of the NEM. These costs had been inadvertently included in network costs in the 2007-08 BRCI Decision.

As required by the judgment, the Authority has used the network cost estimate of \$761.1 million from the preceding 2007 08 BRCI Decision in the Remade Decision. This includes Mt Isa network costs and the effect of re-smoothing Ergon Energy's AARRs.

3.4 Powerlink

In the 2008-09 BRCI Decision, the Authority updated its estimate for 2007-08 of the TUOS charges Powerlink was expected to levy on Energex and Ergon Energy. This was done because the value originally used in the 2007-08 BRCI Decision was found to contain an error.

As required by the judgment, the Authority has also used the original transmission network estimate from the 2007-08 BRCI Decision of \$412.2 million.

3.5 Comments from Stakeholders

In correspondence and/or submissions, Origin Energy claimed that the Authority's proposed treatment of Mt Isa costs was not consistent with the judgment. Origin Energy argued that removing the Mt Isa costs from Ergon Energy's network costs constituted a framework change for the purposes of section 107(2) of the Electricity Regulation and that the Mt Isa costs should therefore be removed from both Ergon Energy's the 2007-08 network costs and from its 2008-09 network costs. This is what the Authority had done in its original 2008-09 Decision.

However, the Authority does not accept this view. The removal of Mt Isa costs from Ergon Energy's network costs does not represent a framework change but is rather the correction of an error. The Ergon Energy Mt Isa network is an isolated network, not connected to Powerlink's transmission network and therefore it does not form part of the NEM. The loads supplied over Ergon Energy's Mt Isa network do form part of the State NEM load or the defined NEM load. The Authority does not regulate the Ergon Energy Mt Isa network under the National Electricity Rules as it does the NEM connected Ergon Energy network. The inclusion of Mt Isa costs in the 2007-08 BRCI Decision was an inadvertent error.

The Authority is of the view that its treatment of these costs is consistent with the judgment and the treatment of other error corrections required by the judgment.

3.6 Summary

Table 3.1 identifies all the original elements of the network cost calculation from the 2007-08 BRCI Decision, the changes that were made to each of these when the Authority recalculated the 2007-08 BRCI in its 2008-09 BRCI Decision, and how each of these have been amended in this Remade Decision.

Table 3.1 – Explanation of changes in the Remade Decision

<i>Network Cost Component</i>	<i>2007-08 estimate as reported in 2007-08 BRCI Decision</i>	<i>2007-08 estimate as reported in 2008-09 BRCI Decision</i>	<i>2007-08 estimate in Remade Decision,</i>	<i>2008-09 estimate in Remade Decision</i>
Energex Distribution Network Costs (DUOS)	\$806.5 million	\$805.2 million No methodological change. Updated non-DUOS cost data used.	\$806.5 million The Authority has used the non-DUOS cost data that was available at the time of 2007-08 Decision.	\$875.0 million [Unchanged from original 2008-09 BRCI Decision]
Ergon Energy Distribution Network Costs (DUOS)	\$761.1 million	\$752.2 million No methodological change. Updated non-DUOS cost data, re-smoothed AARR and removed Mt Isa network costs.	\$761.1 million The Authority has used Ergon Energy's re-smoothed AARR that includes Mt Isa network costs and used non-DUOS cost data that was available at the time of 2007-08 Decision.	\$801.8 million [Unchanged from original 2008-09 BRCI Decision]
Transmission Costs (Powerlink and other TUOS charges)	\$412.2 million	\$417.1 million No methodological change. Corrected error in calculating Powerlink TUOS charge.	\$412.2 million The Authority has used the TUOS cost data that was available at the time of 2007-08 Decision	\$454.3 million [Unchanged from original 2008-09 BRCI Decision]
Total Network Costs	\$1,979.8 million	\$1,974.5 million	\$1,979.8 million	\$2,131.1 million [Unchanged from original 2008-09 BRCI Decision]

After making the changes noted above, the calculation of the network cost component of the BRCI changes from the figures used in the 2008 09 BRCI Decision, as shown in Table 3.2, to those for the Remade Decision, shown in Table 3.3:

Table 3.2 – Original 2008-09 BRCI Decision - Network Costs (c/kWh)

	<i>2007-08 c/kWh</i>	<i>2008-09 c/kWh</i>	<i>Change (%)</i>	<i>Share of total costs 2007-08 %</i>	<i>Change in BRCI (%)</i>
Distribution	4.29	4.53	5.41	37.3	2.02
Transmission	1.15	1.23	6.64	10.0	0.66
Total Network Costs	5.44	5.75	5.67	47.3	2.68

Totals may not add due to rounding.

Table 3.3 – Remade 2008-09 BRCI Decision - Network Costs (c/kWh)

	<i>2007-08 c/kWh</i>	<i>2008-09 c/kWh</i>	<i>Change (%)</i>	<i>Share of total costs 2007-08 %</i>	<i>Change in BRCI (%)</i>
Distribution	4.32	4.53	4.72	38.0	1.80
Transmission	1.14	1.23	7.90	10.0	0.79
Total Network Costs	5.46	5.75	5.39	48.02	2.59

Totals may not add due to rounding.

4. RETAIL COSTS

4.1 Changes Required

The judgment requires a number of changes to be made to the calculation of the retail costs component of the Authority's original 2008-09 BRCI Decision. The changes relate to the use of updated data in respect of 2007-08 and the requirement to revert to the data used in the 2007-08 BRCI Decision, in lieu of the updated data for 2007-08 used in the 2008-09 BRCI Decision. This affects:

- (a) Retail Operating Costs; and
- (b) Customer Acquisition Costs.

4.2 Retail Operating Costs

In the 2008-09 BRCI Decision, the Authority used updated data on wage and price inflation in calculating retail operating costs.

As required by the judgment, the Authority has used the original retail operating cost estimate from the 2007-08 BRCI Decision of \$146 million (made up of \$127 million in general operating costs plus \$19 million in FRC related costs).

4.3 Customer Acquisition Costs

The calculation of customer acquisition costs for the 2007-08 BRCI Decision was based on a loss of scale due to the loss of customers in a competitive market. The Authority used an estimated cost of \$2 per customer spread over the total number of retail customers to account for costs associated with the loss of scale a representative retailer might experience. The amount of \$2 per customer was based on data from South Australia.

The Authority adopted a new method for the calculation of customer acquisition costs in the 2008-09 BRCI Decision. The new method was based on estimates of customer churn and involved allowing a cost per individual customer switching retailer of \$171.43 (in 2007-08 dollars) and a separate cost per individual customer transferring contracts with the same retailer of \$100.00 (in 2007-08 dollars). Under this new approach, which the Authority acknowledged at the time was a change of methodology, the Authority estimated the number of switches and transfers likely to occur in 2007-08.

As this was a new methodology and the Authority had not previously estimated the rates of switches or transfers, there was no directly comparable information available from the previous BRCI Decision capable of being re-used. Therefore, the Authority used the actual churn rates for 2007-08 in the 2008-09 BRCI calculation.

While the Authority did not expressly consider churn rates when making its original 2007-08 BRCI decision, the Authority accepts that, as pointed out by AGL in a recent submission attaching a report prepared on this matter by Frontier Economics¹, a decision on loss of scale implicitly makes an assumption regarding churn rates. As the Authority did not expressly consider churn rates at the time, it has reviewed the original 2007-08 Decision to determine the extent to which a churn rate was implicitly assumed and which could be used in this Remade Decision.

¹ Frontier Economics, Response on the calculation of CAC, 21 May 2009.

In this regard, in the same report in which CRA recommended the loss of scale approach and the allowance of \$2 per customer, CRA indicated that “a churn rate of 5% may be a reasonable benchmark for 2007-08”². In addition, in examples given by CRA at the same time of alternative approaches [to the approach eventually adopted] to calculating the cost of loss of scale, CRA used a 5% churn rate.

In its 2008-09 BRCI Decision, even though there was no reference to churn rate in either the 2007-08 BRCI Decision or in the Authority’s contemporaneous deliberations regarding its preparation, the Authority indicated that:

*This change in stance primarily reflected CRA’s view that the loss of scale approach used in the previous year was best suited to a situation where churn rates were relatively low (churn was assumed to be around 5% in calculating the BRCI for 2007-08) rather than the much higher actual level of 17% in 2007-08 or the 10% now anticipated for 2008-09.*³

While there is no certainty that 5% was the implicit churn rate associated with the Authority’s 2007-08 BRCI Decision to allow \$2 per customer for customer acquisition costs, the Authority is of the view that it is a reasonable estimate and its use is more consistent with the principles espoused in the judgment than the adoption of actual 2007-08 churn rates.

In this regard, the judgment placed particular emphasis on the object of the legislation being to arrive at new notified prices which involved “an increase from the prices originally fixed ... which was commensurate with increases in the relevant costs over that same period of years”⁴. The judgment also indicated that “it would not usually accord with the purpose of this regime to use new data simply because it is “actual” data rather than what had been forecast at the time of the original calculation”⁵.

In this Remade Decision, the Authority has adopted a churn rate in respect of 2007-08 of 5%, distributed between customer transfers and customer switches in the same proportions as used in the 2008-09 BRCI Decision. The Authority has also used the costs of switches and transfers estimated in that Decision.

On this basis, 2007 08 customer acquisition costs are estimated to be \$13 million in 2007 08.

4.4 Retail Margin

The retail margin was unchanged between the 2007-08 and 2008-09 BRCI Decisions, and has been held at that level in the Remade Decision. However, the dollar value of the margin will change according to any change in the value of the other cost components to which it is applied.

4.5 Summary

Table 4.1 identifies all the original elements of the retail cost component from the 2007-08 BRCI Decision, the changes that were made to each of these when the Authority recalculated the 2007-08 BRCI in its 2008-09 BRCI Decision, and how each of these have been amended in this Remade Decision.

² p15, CRA Addendum Report, June 2007

³ p41, Final Decision on 2008-09 BRCI, May 2008

⁴ p33, para 96 of the judgment

⁵ p33, para 96 of the judgment

Table 4.1 – Explanation of changes in the Remade 2008-09 BRCI Decision

<i>Retail Cost Component</i>	<i>2007-08 estimate as reported in 2007-08 BRCI Decision</i>	<i>2007-08 estimate as reported in 2008-09 BRCI Decision</i>	<i>2007-08 estimate in Remade Decision, in accordance with the judgment</i>	<i>2008-09 estimate in Remade Decision</i>
Retail operating costs	\$146 million (\$127.0 million operating costs + \$19 million FRC Costs)	\$147 million (including FRC Costs) No methodological change. Updated benchmarked operating costs with actual CPI and wage price inflation	\$146 million The Authority has used CPI and wage price inflation forecast that was available at the time of 2007-08 Decision.	\$156 million [Unchanged from original 2008-09 BRCI Decision]
Customer Acquisition Costs (CAC)	\$4 million CAC estimated as \$2 per customer based on loss of scale approach.	\$53 million Change in methodology. Customer acquisition and retention costs estimated as: <ul style="list-style-type: none"> \$171.43 per customer transferring to a new retailer; and \$100.00 per customer transferring to a new contract with the same retailer. Churn rates were not considered by the Authority in making the 2007-08 BRCI Decision. Actual churn rates for 2007-08 were therefore used	\$13 million The Authority has retained the new method. No change is necessary for the CAC estimate. While churn rates were not considered by the Authority in making the 2007-08 BRCI Decision, the Authority has accepted a 5% churn rate as being consistent with the decision made in 2007-08 re \$2 per customer for loss of scale	\$51 million [Unchanged from original 2008-09 BRCI Decision]
Retail Margin	\$229 million Based on 5% of total BRCI costs	\$209 million No methodological change. Based on 5% of total BRCI costs	\$206 million Based on 5% of total BRCI costs, the value will change depending on total BRCI costs.	\$230 million [\$225 million in original 2008-09 BRCI Decision]
Total Retail Costs	\$379 million	\$409 million	\$365 million	\$437 million [\$432 million in original 2008-09 BRCI Decision]

After making the changes noted above, the calculation of the retail cost component of the BRCI changes from the figures used in the 2008 09 BRCI Decision, shown in Table 4.2, to those for the Remade Decision, shown in Table 4.3.

Table 4.2 – Original Retail Costs from 2007-08 to 2008-09 (c/kWh)

	<i>2007-08 c/kWh</i>	<i>2008-09 c/kWh</i>	<i>Change (%)</i>	<i>Share of total costs 2007-08 %</i>	<i>Change in BRCI (%)</i>
Operating Costs	0.41	0.42	3.99	3.5	0.14
Customer Acquisition/Retention Costs	0.15	0.14	-5.13	1.3	-0.07
Retail Margin	0.58	0.61	5.38	5.0	0.27
Total Retail Costs	1.13	1.17	3.51	9.8	0.34

Totals may not add due to rounding.

Table 4.3 – Remade Retail Costs from 2007-08 to 2008-09 (c/kWh)

	<i>2007-08 c/kWh</i>	<i>2008-09 c/kWh</i>	<i>Change (%)</i>	<i>Share of total costs 2007-08 %</i>	<i>Change in BRCI (%)</i>
Operating Costs	0.40	0.42	4.56	3.6	0.16
Customer Acquisition/Retention Costs	0.04	0.14	283.42	0.3	0.90
Retail Margin n	0.57	0.62	9.06	5.0	0.45
Total Retail Costs	1.01	1.18	17.11	8.9	1.52

Totals may not add due to rounding.

5. ELECTRICITY LOAD

Subsequent to publishing the original 2008-09 BRCI Decision, the Authority became aware that a significant directly connected customer had not been identified by Powerlink in any of the preceding years and, as a result, the NEM loads calculated by the Authority in those years had been larger than it should have been.

However, as the Authority was not aware of this at the time the original decision was made, it can not correct for this in the Remade Decision. It will be addressed in the 2009 10 decision.

The judgment did not require any changes to be made regarding the Authority's calculation of the electricity load used as the denominator in the BRCI formula.

Accordingly, no changes have been made to the estimates of the relevant NEM loads for 2006 and 2007 from those used in the original 2008-09 Decision (or the original 2007-08 Decision). The relevant NEM loads are as shown in Table 5.1.

Table 5.1 – Remade 2008 09 BRCI Decision – NEM Load (GWh)

	<i>2006 calendar year</i>	<i>2007 calendar year</i>	<i>Change (%)</i>
Gross NEM load of Queensland	45,862	46,727	1.9%
Less exclusions	9,599	9,687	0.9%
NEM load of Queensland	36,263	37,040	2.1%

Totals may not add due to rounding.

6. REMADE 2008-09 BRCI DECISION

The Authority's Remade Decision is that the benchmark retail cost increased from 11.37 c/kWh in 2007-08 to 12.40 c/kWh in 2008-09, an increase of 9.06%. This increase in the BRCI between years is to be applied to the notified prices that existed prior to the original 2008-09 BRCI Decision (now set aside) being implemented.

6.1 Cost components for 2007-08 and 2008-09

In the preceding Chapters, the Authority set out its original and amended estimates of the cost components of the BRCI. These are summarised in Table 6.1 and Table 6.2.

Table 6.1 – Original 2008-09 BRCI Decision

	2007-08	2008-09	Change (%)
Cost of energy (\$million)	1,792	1,930	7.7
Network costs (\$million)	1,975	2,131	7.9
Retail costs (\$million)	409	432	5.7
NEM load (GWh)	36,263	37,040	2.1

Totals may not add due to rounding.

Table 6.2 – Remade 2008-09 BRCI Decision

	2007-08	2008-09	Change (%)
Cost of energy (\$million)	1,778	2,025	13.9
Network costs (\$million)	1,980	2,131	7.6
Retail costs (\$million)	365	437	19.6
NEM load (GWh)	36,263	37,040	2.1

Totals may not add due to rounding.

6.2 BRCI for 2007-08 and 2008-09

Table 6.3 provides a summary of the BRCI components and total BRCI from the Authority's original 2008-09 BRCI Decision. Table 6.4 contains a summary of the BRCI components and the total BRCI in this Remade Decision:

Table 6.3 – Original 2008-09 BRCI Decision

	2007-08 c/kWh	2008-09 c/kWh	Change (%)	Share of total costs 2007-08 %	Change in BRCI (%)
Cost of energy	4.94	5.21	5.48	42.9	2.35
Network costs	5.44	5.75	5.67	47.3	2.68
Retail costs	1.13	1.17	3.51	9.8	0.34
Total BRCI	11.51	12.13	5.38	100.0	5.38

Totals may not add due to rounding.

Table 6.4 – Remade Decision

	<i>2007-08 c/kWh</i>	<i>2008-09 c/kWh</i>	<i>Change (%)</i>	<i>Share of total costs 2007-08 %</i>	<i>Change in BRCI (%)</i>
Cost of energy	4.90	5.47	11.51	43.1	4.96
Network costs	5.46	5.75	5.39	48.0	2.59
Retail costs	1.01	1.18	17.11	8.9	1.52
Total BRCI	11.37	12.40	9.06	100.00	9.06

Totals may not add due to rounding.

ATTACHMENT 1: CONSULTATION PAPER 2009-10 BRCI



Consultation Paper

**Benchmark Retail Cost Index for
Electricity: 2009-10**

8 May 2009

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SUBMISSIONS

Public involvement is an important element of the decision-making processes of the Queensland Competition Authority (the Authority). The Authority is releasing this Consultation Paper as part of its decision making process regarding the calculation of the Benchmark Retail Cost Index (BRCI) for 2009-10. Submissions are invited from interested parties concerning the use of the NEM load (which is defined in the legislation as excluding customers directly connected to the transmission network) to calculate the purchase cost of energy. The Authority will take account of all submissions received by the due date.

Written submissions should be sent to the address below. While the Authority does not necessarily require submissions in any particular format, it would be appreciated if two printed copies are provided together with an electronic version (Microsoft Word format on disk) or by email. Submissions, comments or inquiries regarding this paper should be directed to:

Queensland Competition Authority

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Brisbane QLD 4001

Telephone: (07) 3222 0555

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Submissions must be received by cob **19 May 2009**.

Confidentiality

In the interests of transparency and to promote informed discussion, the Authority would prefer submissions to be made publicly available wherever this is reasonable. However, if a person making a submission does not want that submission to be public, that person should claim confidentiality in respect of the document (or any part of the document). Claims for confidentiality should be clearly noted on the front page of the submission and the relevant sections of the submission should be marked as confidential, so that the remainder of the document can be made publicly available. It would also be appreciated if two copies of each version of these submissions (i.e. the complete version and another excising confidential information) could be provided. Again, it would be appreciated if each version could be provided on disk. Where it is unclear why a submission has been marked “confidential”, the status of the submission will be discussed with the person making the submission.

While the Authority will endeavour to identify and protect material claimed as confidential as well as exempt documents (within the meaning of the *Freedom of Information (FOI) Act 1989*), it cannot guarantee that submissions will not be made publicly available. As stated in s187 of the *Queensland Competition Authority Act 1997* (the QCA Act), the Authority must take all reasonable steps to ensure the information is not disclosed without the person’s consent, provided the Authority is satisfied that the person’s belief is justified and that the disclosure of the information would not be in the public interest. Notwithstanding this, there is a possibility that the Authority may be required to reveal confidential information as a result of an FOI request.

Public access to submissions

Subject to any confidentiality constraints, submissions will be available for public inspection at the Brisbane office of the Authority, or on its website at www.qca.org.au. If you experience any difficulty gaining access to documents please contact the office (07) 3222 0555.

Information about the role and current activities of the Authority, including copies of reports, papers and submissions can also be found on the Authority’s website.

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1. BACKGROUND

The Authority released its Draft Decision on the Benchmark Retail Cost Index (BRCI) for 2009-10 on 2 December 2008. At that time it estimated the increase in costs between 2008-09 and 2009-10 to be 13.63%.

On 14 August 2008 AGL and subsequently Origin Energy (on 1 September 2009) sought a judicial review of the Authority's 2008-09 BRCI Final Decision. On 28 April 2009, judgment was handed down by Justice P McMurdo of the Supreme Court of Queensland (the judgment).

The judgment, cited as *AGL Energy Ltd v Queensland Competition Authority & Anor; Origin Energy Retail Ltd v Queensland Competition Authority & Anor* [2009] QSC 90, is available from the Queensland Supreme Court registry website at www.courts.qld.gov.au.

As the method used in the 2009-10 BRCI Draft Decision was essentially the same as that used in the 2008-09 Final Decision, the judgment has implications for the 2009-10 decision.

In its judgment, the Court found that:

- (a) in working out the benchmark retail cost for both the relevant tariff year and the preceding tariff year, the Authority did not form a view of the likely total costs to be incurred during that year to purchase energy to supply the NEM load of the State for that year, as required by s92(1) of the Act; and
- (b) in working out the total benchmark retail cost for the preceding year, the Authority used data which had not been used in working out that cost when the year to 30 June 2008 had been the relevant tariff year, and which the Authority was not otherwise entitled to use in this decision.

The Supreme Court has not yet made orders in relation to the 2008-09 process. It is possible the orders will require the Authority to recalculate the 2008-09 BRCI to reflect the Court's findings.

1.1 Changes resulting from judicial review of the 2008-09 BRCI

The 2009-10 BRCI Final Decision needs to be made on a basis that reflects the Court decision and differs from that proposed in the Authority's Draft Decision.

This will require the Authority to arrive at an estimate of the cost of purchasing energy to meet the NEM load in isolation rather than basing its estimate on the unit cost of meeting the total State NEM load as had been done previously.

The Authority considers this change of approach should be treated as a framework change⁶ to ensure the comparability of BRCI numbers between the two years in question. This will require the BRCI for 2008-09 (the previous tariff year) to be recalculated using the new approach to estimating the purchase cost of energy. However, consistent with the second part of the judgment, the Authority will make no other changes to the way in which the 2008-09 BRCI number is calculated or to the data that was used in that calculation (other than substituting the NEM load for the State load).

⁶ While the changes required may or may not strictly constitute a change of framework for the purposes of section 107(1) of the Electricity Regulation, the Authority considers that this change is similar in effect to a change in framework and therefore should be treated in a like manner to ensure the comparability of BRCI numbers between the two years in question.

As the Authority proposes a change to the calculation of the 2009-10 BRCI from that previously indicated, it invites submissions from interested parties on the proposed changes. Submissions should be received by the Authority no later than 19 May 2009.

1.2 NEMMCO load data for 2007 and 2008

The Authority is also taking this opportunity to advise interested parties of its estimate of the NEM load to be used as the denominator in calculating the 2009-10 BRCI. In the Draft Decision it was noted that Powerlink had identified an additional Transmission Node Interconnector (TNI) that is directly connected to the transmission network and should therefore have been excluded from the calculation of the NEM load. Previously, Powerlink had not advised the Authority that this particular TNI was a directly connected customer.

2. PROPOSED METHOD FOR FORECASTING ENERGY PURCHASE COSTS BASED ON THE NEM LOAD

The total State NEM load of Queensland comprises the loads of two broad classes of electricity consumers. There are a small number of consumers that draw their electricity directly from the Powerlink transmission network (“directly connected customers”) while the vast majority of customers draw their electricity from the distribution supply networks of Energex and Ergon Energy. The (Queensland) “NEM load” is defined in the Electricity Act as the load associated only with those customers connected to a distribution supply network.

Previously, the Authority had estimated the cost of purchasing energy to meet the NEM load based on a unit cost of purchasing energy to meet the entire State NEM load. The judgment requires that the Authority calculate the cost to purchase energy to meet the smaller NEM load directly.

2.1 Forecasting the Queensland NEM load

The “2008-09 CRA Addendum” approach

The starting point for this review is CRA’s 2008-09 BRCI Addendum Report of 26 May 2008, *Calculation of the Benchmark Retail Cost Index for 2007-08 and 2008-09* (available from the Authority’s website). In that Addendum Report, CRA provided an estimate of the unit cost of purchasing energy based on the entire State NEM load and an alternative based on the smaller NEM load for the 2008-09 tariff year. As can be seen from Table 2.1, the estimated unit purchase cost based on the NEM load was significantly higher than that based on the total State NEM load, as was the resultant estimate of the change in the BRCI. However, CRA expressed concerns about the comparability of its NEM load estimate for 2008-09 with its estimate for 2007-08.

Table 2.1: 2008-09 EPC and BRCI, impact of using the small load

Component of BRCI	2008-09 BRCI Final Decision (total State NEM load)	2008-09 CRA Addendum approach (NEM load)
Energy Purchase Costs (\$MWh)	\$52.91	\$61.53
Total Benchmark Retail Cost Index (% change over 2007-08)	5.38	9.22

Source: CRA 2008, Table 16, Table 7.2 & Table 26.

The Authority asked CRA to calculate an energy purchase cost for 2009-10 using the same methodology as it had adopted to arrive at its estimate of energy purchase costs based solely on the smaller NEM load and presented in its Addendum Report of 26 May 2008.

When CRA attempted this exercise it found that the resulting half-hourly NEM load estimates this method produced contained numerous and significant errors in terms of the relative size of half-hourly load estimates for the NEM load and the excluded directly connected customers. CRA concluded that the methodology it had used to arrive at the alternative purchase cost estimates in its May 2008 Addendum Report was flawed.

Flaws in the CRA 2008-09 Addendum approach

For 2008-09, CRA had estimated the smaller NEM load by extrapolating the NEM load shape for 2007-08 (which included actual data for the second half of 2007 and forecast data for the

first half of 2008) while allowing for forecast peak demand and total energy consumption in 2008-09. This meant that the NEM load was estimated by selecting energy and peak demand growth rates that were consistent with observed historical growth in this load, and spreading the energy consumption growth in such a way as to emulate the load shape observed in the historical data.

Using the same methodology for 2009-10 based on known load data for 2007-08 and most of 2008-09, when CRA compared its estimates of the NEM load with the estimates of the total State NEM load, it discovered that, in a significant number of half-hour periods (around 1,600 half hourly observations), the estimated smaller NEM load was larger than the total State NEM load, often by a considerable margin. Clearly this is not plausible because it would require a negative load for those customers directly connected to the transmission network. This result was not evident in the load forecast by CRA for 2008-09 in its May 2008 Addendum Report but, as the method used was the same, CRA concluded that the approach was flawed and recommended an alternative be developed.

The “CRA ratio” methodology

In light of the above, CRA concluded that estimating the small load in isolation from the total load was not appropriate. Given the reported results of applying this approach for the 2009-10 BRCI process, the Authority agrees.

Instead, CRA suggested an approach based on its estimate of the historic ratio of the NEM load to the total State NEM load for each half-hour in the year with the resulting ratios applied to the forecast total State NEM load to arrive at the half hourly smaller NEM load.

In other words, under the CRA ratio approach, the smaller NEM load is estimated assuming the historical ratio of NEM load to total State NEM load is maintained in each half hour. In this way it is mathematically impossible for the smaller load to exceed the larger State NEM load (the problem observed above). However, the Authority was concerned that this approach required an assumption that there will be a continuation of historically observed ratios between the two loads in every half hour. It is not clear that this is a realistic assumption.

ACIL Tasman critique of CRA small load methodologies

Given the issues noted above and the Authority’s concerns about the assumptions required under the ratio approach, the Authority also sought an opinion from ACIL Tasman (ACIL) as to the best way to forecast the NEM load for use in estimating energy purchase costs. In this context, the Authority asked ACIL for its views on the problem identified by CRA and the alternative approach suggested by CRA to solve the initial problem.

2008-09 Addendum Report methodology

ACIL considered that, given the observed result reported by CRA above, applying CRA’s method for estimating the NEM load used in its May 2008 Addendum Report, and which formed the basis for calculating the alternate estimates of purchase costs in that Addendum Report, would not provide a robust forecast of the required half-hourly load. ACIL concluded that the errors CRA had observed appeared to be the result of not specifying a minimum level of demand in its model when forecasting the half-hourly load.

CRA ratio methodology

ACIL was also of the view that, while the ratio approach suggested by CRA would solve the mathematical problem experienced in forecasting the 2009-10 NEM load using the May 2008

Addendum Report methodology, the increase in the total State NEM load should not be assumed to be the same as the increase in the smaller NEM load in each half-hour period and that to do so would be likely to lead to an overestimate of the growth in maximum demand for the NEM load.

2.2 ACIL Tasman method

ACIL recommended an alternative approach to forecasting the NEM load for 2009-10 which it believed overcame the problems observed by CRA with its May 2008 Addendum Report methodology, without requiring the assumption of constant ratios of half-hourly demand incorporated in CRA's suggested approach.

The ACIL Tasman methodology

ACIL proposed a methodology for forecasting the smaller NEM load which is briefly described in the following steps. ACIL provided a paper - *Forecast Load Traces, May 2009* - describing its proposed method which has been released at the same time as this Consultation Paper.

Step 1: Forecast the total State NEM load for 2009-10

Load forecasts are generally based on historical half hourly data for the total national NEM load adjusted to reflect forecasts of likely future peak demand and total energy consumption. Forecasts of future peak demand and energy consumption are provided annually by NEMMCO in its Statement of Opportunities (SOO). The SOO includes forecasts of summer and winter peak demand and annual energy consumption for each of the NEM jurisdictions (Queensland, NSW, Victoria, South Australia and Tasmania) for the current year and the following nine years. The latest SOO forecasts were released in October 2008 and covered the ten years from 2008-09 to 2017-18.

Since the 2008 SOO forecasts were prepared and released, much has changed in the economic environment underlying those forecasts and the generally accepted view of likely future economic activity. As a consequence, it is generally accepted in the industry that the 2008 SOO forecasts no longer provide a good guide to future electricity demand. As these forecasts were prepared in more optimistic economic times, before the "global financial crisis" and the attendant world wide economic slow down, it is likely that the forecasts for 2009-10 and, at least, the following few years, over-estimate both demand and consumption. It may be that more up to date forecasts would also show lower load factors as well and that these two things might offset each other to some extent. However, the Authority has been unable to source any alternative estimates of acceptable quality of future demand and annual energy consumption to use in place of the existing 2008 SOO forecasts.

ACIL's forecasts for the total State NEM load in 2009-10 are therefore based on forecasts of summer and winter peak demand and annual energy delivered from the transmission network as published by Powerlink in its 2008 Annual Planning Report (which are consistent with the 2008 NEMMCO SOO forecasts of scheduled generated summer and winter peak demand and scheduled sent out annual energy) and the latest NEMMCO half-hourly load data for each Queensland TNI up to 31 March 2009.

Step 2: Forecast and subtract the 2009-10 load of customers directly connected to the Powerlink transmission network

The forecast of the 2009-10 load of customers directly connected to the Powerlink transmission network has also been based on the Powerlink 2008 Annual Planning Report. The Annual Planning Report provides 10 year forecasts of summer and winter peak demand and annual

energy consumption based on low, medium and high economic growth scenarios for the transmission network in total. The report also provides summer and winter peak demand forecasts for customers directly connected to the transmission network.

Like the NEMMCO 2008 SOO forecasts, the Powerlink forecasts (released in June 2008) also fail to capture the impact of the substantially different economic climate now affecting the current and future outlook for electricity demand. However, the Authority has again been unable to source any more recent, reliable data to use instead of the existing Powerlink forecasts. It is also worth noting that more recent forecasts for the Queensland load alone would not be able to be used without similar contemporaneous forecasts for the rest of the NEM jurisdictions.

As a result, ACIL relied on the existing Powerlink forecasts and applied these to actual half-hourly load data provided by the Authority for each of the individual connection points supplying directly connected customers to arrive at a forecast 2009-10 half-hourly load for directly connected customers.

By subtracting this half-hourly load for directly connected customers from the half-hourly total State NEM load developed at step 1, ACIL produced a half-hourly load profile for the smaller NEM load to be used in estimating energy purchase costs in the calculation of the 2009-10 BRCI.

2.3 Calculating energy purchase costs

As noted at the outset, the object of this exercise is to produce estimates of the cost of energy component of the 2009-10 BRCI based on meeting only the smaller NEM load. The preceding discussion develops an approach to forecasting that load. Once developed, that NEM load forecast is then used by CRA in the same way as has been discussed previously in the Authority's Draft Decision on the 2009-10 BRCI and set out in detail in CRA's 2009-10 Second Final Report that accompanied the Draft Decision to arrive at an estimate of the unit cost (in \$MWh) of purchasing energy to meet the NEM load in 2008-09 and 2009-10.

In essence, that process involves estimating the number and value of peak and flat swaps and cap payments that would be required so that:

- (a) flat swaps are purchased up to the 80th percentile of the off-peak load;
- (b) peak swaps are purchased up to the 90th percentile of the peak load; and
- (c) \$300 caps are bought beyond the cover of swaps to cover up to 105% of the maximum peak load.

The hedge book is constructed as per the CRA methodology set out in its 2009-10 Second Final Report that accompanied the Authority's 2009-10 BRCI Draft Decision and uses a probabilistic framework whereby forecasts are blended at a ratio of 30% (10POE), 40% (50POE) and 30% (90POE) to construct the hedge book of a sample retailer.

2.4 Recalculating the 2008-09 energy purchase cost

As noted above, the Authority considers the change in method for calculating the energy purchase cost component of the 2009-10 BRCI to be of sufficient magnitude to warrant recalculating the 2008-09 energy purchase cost component on a consistent basis. As the Authority did not develop a forecast of the half-hourly NEM load for 2008-09 (as it had not been required under the approach used by the Authority at the time) and the method used by CRA in its May 2008 Addendum Report has been shown to be flawed, the Authority also asked

ACIL to apply the same approach outlined above in relation to 2009-10 to develop a half-hourly NEM load profile for 2008-09.

In undertaking this exercise, and consistent with the second part of the court decision, ACIL constructed the 2008-09 load profile based on information that would have been available at the time of the 2008-09 Decision. Essentially, ACIL used the 2007 NEMMCO SOO forecasts of peak demand and annual energy consumption and actual load data for the 2007 calendar year.

2.5 The Authority's position

The Authority proposes to adopt the approach to forecasting the half-hourly NEM load developed by ACIL to arrive at a NEM load profile for 2008-09 and 2009-10. CRA will use the load profiles developed by ACIL to:

- (a) recalculate the 2008-09 energy purchase cost component of the BRCI; and
- (b) to calculate the 2009-10 energy cost component of the BRCI consistent with the recent judgment.

3. CALCULATING THE NEM LOAD DENOMINATOR FOR 2007 AND 2008

3.1 Requirements under the Act

The Electricity Act requires that the BRCI be determined by dividing the total benchmark retail cost for the relevant tariff year by the NEM load for the previous calendar year, in order to determine the unit cost of supplying electricity, expressed in c/kWh.

All stakeholders agree that the appropriate classification of the load for this purpose is the State NEM load excluding customers directly connected to the transmission network.

For the 2009-10 BRCI, the relevant NEM load is that for calendar year 2008. At the time the Authority released its Draft Decision, part of this year was necessarily forecast. The estimate of the 2008 NEM load at that time was 36,437,000 MWh (see Table 5.1 of the Authority's 2009-10 Draft Decision).

3.2 2009-10 Draft Decision

Unidentified directly connected customer

In its 2009-10 Draft Decision, the Authority advised all parties that Powerlink had identified an additional TNI as being a directly connected customer to the transmission network, which it had not previously identified as such. This meant that the load from that particular TNI should have been excluded from previous calculations of the NEM load.

As this advice was received from Powerlink only shortly before the Authority's Draft Decision was due to be released, the Authority decided that it would not remove this particular TNI, which accounts for about 2% of the total Queensland load, for the 2009-10 Draft Decision. Instead, the Authority advised that it would resolve this issue in its 2009-10 Final Decision by removing this TNI load from both the 2007 and 2008 calculations of the NEM load so that the denominators in the BRCI formula would be constructed on a consistent basis.

There were no objections to this approach in submissions received in response to the Authority's Draft Decision.

Apportioning part of a TNI to the NSW grid

Subsequent to the Draft Decision, the Authority also identified that a portion of one TNI load, which passes through a Queensland TNI but then flows into the New South Wales grid, should also be excluded from the NEM load calculation. In the adjustments noted below, the Authority has also removed the NSW portion of this load from the NEM load calculated for both 2007 and 2008 to be used in the 2009-10 Final Decision.

3.3 2009-10 Final Decision

The 2008 load for the denominator in the 2009-10 Final Decision

Table 3.1 shows the NEM loads that the Authority used in its Draft Decision and the NEM loads that it intends to use as the denominators for calculating the 2009-10 BRCI in its Final Decision.

Table 3.1: 2008 Queensland Load (MWh) – 2009-10 Draft and Final Decisions

Load	Draft Decision 2009-10	Final Decision 2009-10
	2008 Load (Partially forecast data)	2008 Load (Full year actual data)
Total State load	45,978,000	47,367,386
Less directly connected customers previously identified	9,541,000	9,733,992
Less TNI not previously identified and portion of load flowing to NSW not previously removed	na	782,504
NEM load for 2008	36,437,000	36,850,890

Sources: NEMMCO and Powerlink.

Adjusting the 2007 load to ensure consistency in the denominator

Table 3.2 shows the change in the Authority's estimate of the 2007 actual NEM load after aligning the excluded TNIs in both years.

Table 3.2: 2007 Queensland Load (MWh) – 2009-10 Draft and Final Decision

Load	Draft Decision 2009-10	Final Decision 2009-10
	2007 Load	2007 Load
Total State load	46,727,000	46,726,276
Less directly connected customers previously identified	9,687,000	9,686,561
Less TNI not previously identified and portion of load flowing to NSW not previously removed	na	780,856
NEM load for 2007	37,040,000	36,258,859

Sources: NEMMCO and Powerlink.

3.4 The Authority's position

For the 2009-10 Final Decision, the Authority proposes to calculate the NEM load for 2007 and for 2008 to be used as the denominator in calculating the 2009-10 BRCI as set out in Tables 3.1 and 3.2 making the adjustments noted to correct for a previously unidentified directly connected customer and to remove a portion of the load from one TNI that flows into the NSW grid.