

 <p><b>QUEENSLAND CONSUMERS ASSOCIATION</b></p>	<p><b>A non-profit, volunteer organisation, advocating to advance the interests of consumers in Queensland</b></p> <p><i>Secretary: Max Howard PO Box 261 Corinda Q 4075</i></p> <p><i>Telephone: 0419 678 395</i></p>
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20 July 2008

**SUBMISSION ON QCA INTERIM CONSULTATION NOTICE ON  
ON THE BENCHMARK RETAIL COST INDEX FOR ELECTRICITY  
(BRCI) FOR 2009-10**

**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 welcomes the opportunity to made a submission on the QCA's interim consultation notice on the BRCI for 2009-10.

The Association has played a very active role in the BRCI process during the last two years despite being a volunteer-only body. It has done so to ensure that the consumer voice is heard. The Association considers that its involvement has added considerable value to the process. For example, it was the only body to suggest how the calculation of customer acquisition/retention costs could be improved and this was taken up by the QCA in the final decision on the BRCI for 2008-09.

The Association will continue to play as active a role as possible in the BRCI process. However, the Queensland government made a very welcome decision recently to provide funding for the QCOSS to employ an energy consumer advocate. Therefore, the Association expects that the QCOSS advocate will be able to take the lead role in consumer research and advocacy on BRCI issues very soon.

**COMMENTS AND RECOMMENDATIONS**

**General**

The interim consultation notice emphasises that a major feature of the current process is the need for it to be completed by 1 December 2008 rather than, as in previous processes, several months later.

The Association is unaware of any formal indication by the Government of any reasons for the changed date. However, the Association is assuming that the decision might reflect a wish to review the BRCI system early in 2009 to take account of impending major policy changes, like emissions trading, and the experiences of the BRCI process in recent years. The Association

strongly supports the need for such a review for the reasons given in its supplementary submission on the draft decision on the BRCI for 08-09.

The Association recognises that the truncated period for the 09-10 BRCI process will put considerable pressure on the QCA and notes that in the interim consultation notice the QCA indicates that the shortened time frame will not allow robust consideration of, and adequate consultation on, changes to methodology. The QCA has indicated also that it is inclined to calculate the BRCI using the same method it used for 08-09 and to rule out method changes which would initiate a recalculation of the 08-09 BRCI.

Although appreciating the QCA's situation, **the Association does not agree that changes to methodology or recalculation of the 08-09 BRCI should be ruled out.** Given the impact of the BRCI on the cost of electricity to consumers directly and indirectly, the Association considers it essential to ensure that the calculations are robust and accurate. If this requires changing the methodology or recalculating the 08-09 BRCI, this should be done. The cost of getting it wrong will be far greater than making necessary changes to methodology and calculations. The Association discusses this further below.

### **Cost of energy**

The Association notes that in the final decision on the BRCI for 08-09 the QCA stated on page 2 *“the Authority has decided to continue with the 55/50 weighting used in the draft decision at least for the time being. While supportive of the 75/25 argument, the Authority was concerned about the robustness of the the LRMC calculation because of the current legislative restrictions on its calculation.”*

The Association welcomes the QCA's support for a 75/25 weighting of LRMC and the purchase cost of energy in the calculation of the cost of energy and the concerns about possible legislative restrictions affecting its use.

However, the Association does not agree that this is a sufficient reason to use a 50/50 weighting. This is a key cost component in the BRCI. **The QCA should urgently request the Government to make the legislative changes needed for the QCA to be able to use a 75/25 weighting.**

### **Recalculation of the 08-09 BRCI**

**The Association considers that the 08-09 BRCI should be recalculated.**

This is required by the legislation if there is a significant methodology change, for example use of a 75/25 rather than a 50/50 weighting for LRMC and purchase cost of energy.

However, it is also essential to ensure that the 08-09 BRCI is as accurate as possible even if there is no significant methodological change.

This is because the BRCI process has departed completely from the original concept which assumed that forecast errors would self correct over time and consequently the previous year's BRCI would not be recalculated to correct for forecasting errors.

The QCA recognised this situation in the final decision on the 08-09 BRCI when on page 53 it stated *“Forecasts, by their very nature, will be unlikely to exactly match actual outcomes. The size of these errors can be significant depending on the nature of the actual movements in the variable being forecast. To knowingly persist with such errors will not result in a robust estimate of the change in costs between years.”*

The need for recalculation of the 08-09 BRCI is increased by the likelihood that the estimate of the 09-10 BRCI will be much more inaccurate due to having to be calculated earlier.

**Timetable for 09-10 BRCI**

**The Authority considers that a stakeholder workshop should be held after the closing date for comments on the consultant's second report and before the QCA's final decision.**

Such a workshop will be particularly beneficial for consumer researchers and advocates but also of value to other stakeholders. It will allow detailed face to face discussion of outstanding issues prior to QCA's final decision making process. Such a workshop held for the 08-09 BRCI was extremely beneficial to the consultation process.

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