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### **CRA Second Draft Report - Benchmark Retail Cost Index 2009/10**

Thank you for the opportunity to comment upon CRA's second draft report for the *Benchmark Retail Cost Index 2009/10*.

#### *Energy costs*

TRUenergy supports CRA's recommendation to adopt the step change, rather than updated regression, energy cost estimates. The ACIL Tasman results clearly show that the 2009/10 costs as identified in the step change analysis fall outside the reasonable variation limits of the regression analysis. For example, the 2009/10 regression estimate for black coal is \$2,177 kW installed, compared to the step change estimate of \$2,291, a difference of \$144. Given that the standard deviation of black coal estimates in the regression analysis is \$46, the step change estimate is 2.5 standard deviations from the regression estimate.

Overall, for three of the four plant types the difference between the regression and step-change estimates are more than two standard deviations from the regression estimate, ie outside the 95% confidence limit. The only exception, brown coal, is close to that limit at 1.7 standard deviations. On this basis the regression analysis does not represent a reasonable estimate of actual costs for 2009/10, and consequently the step change costs should be adopted in the BRCI calculation.

	Capital Costs (\$kW installed) – CRA Tables 7, 11		Difference (\$kW installed)	Standard Deviation of Regression Estimates	# Standard Deviations Step Change value is from Regression value
	Regression	Step Change			
Black Coal	2,177	2,291	144	46	2.5
Brown Coal	2,434	2,520	86	51	1.7
CCGT	1,214	1,313	99	27	3.7
OCGT	832	985	153	18	8.4

### *Customer Acquisition Costs*

TRUenergy broadly supports CRA's approach to calculating customer acquisition costs. However, we query the estimate of "*transfers to a market contract with the same retailer*". The ESCOSA data upon which the estimate is based only measures transfers from a standard contract to a market contract, and not transfers from one market contract to another market contract. TRUenergy does not report to ESCOSA the number of internal market contract transfers, and we are not aware of any data being available upon which such an estimate could be based.

Given the lack of data, and the absence of any basis upon which the number of market-market transfers could be estimated, we recommend that customer acquisition costs be solely based on the number of transfers between retailers.

In addition, we have been concerned in the past with CRA's predictions of customer transfers for the forthcoming year, and the subsequent correction of that estimate in the base calculation for the following year. To avoid the need for any predictions and corrections, we recommend that the BRCI calculation uses the customer transfer rate for the preceding 12 month period as at the data cut-off date, with no subsequent corrections for the actual transfer rate. Although the resulting input will be a statistical lag, such an approach removes the need for any predictions, and avoids the impact of subsequent data corrections.

Please contact me on (03) 8628 1122 if you require additional information.

Yours sincerely,

**Graeme Hamilton**  
**Regulatory Manager**