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|  <p>QUEENSLAND CONSUMERS ASSOCIATION</p> | <p>A non-profit, volunteer organisation, advocating to advance the interests of consumers in Queensland</p> <p><i>Secretary: Max Howard PO Box 261 Corinda Q 4075 Telephone: 0419 678 395</i></p> |
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12 February 2010

**DRAFT SUBMISSION ON QCA DRAFT DECISION ON
BENCHMARK RETAIL COST INDEX FOR ELECTRICITY 2010-11**

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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.

Since the start of the calculation of the BRCI each year, the Association has considered it essential that consumer organisations have the opportunity, and ability, to participate in the consultations undertaken by the QCA.

Accordingly, the Association has participated as actively as its limited resources allow in each BRCI consultation process and made a submission on the consultation paper for the BRCI 2010-11. The Association is pleased to be able to make this submission on the draft decision.

GENERAL COMMENTS

As in previous submissions on the BRCI, the Association emphasises the importance of this exercise to every Queensland consumer and to the Queensland economy because of the impacts on the price of electricity for consumers on regulated tariffs and market contacts. The Association is also increasingly conscious of the impact of regulated tariffs on the substantial and increasing number of consumers who must purchase electricity from on-sellers required by law to not charge more than the regulated tariff.

The Association also reiterates the need to ensure that any changes in the BRCI are fully justified.

The Association's submission on the discussion paper recommended that the same methodology be used to calculate the BRCI for 2010-11 as was used for 2009-10, as revised in accordance with the Supreme Court judgement. This recommendation was based largely on the assumption that after 2010-11 either the BRCI will be replaced by another approach to the setting and adjustment of regulated tariffs or the BRCI approach and process will be significantly modified.

This is still the Association's position. However, it is also essential that the BRCI calculations for 2010-11 be as accurate as possible and take account of data changes, etc. Such an approach is required to ensure that consumers are fairly treated for 2010-11 and the base is sound if the BRCI process has to be used again for 2011-12.

The Association also emphasises that the results of the BRCI process can have huge impacts on the costs incurred by consumers and industry. For example, the draft decision estimates the total costs of providing electricity at \$5,916m in 2010-11. Although, this is not the exact total amount

small and large consumers might pay for electricity in 2010-11, it is indicative. So, only a 1 percent reduction in \$5,916m represents a potential cost saving for consumers of almost \$60m. This is massive relative to the additional costs likely to be incurred ensuring that the BRCI for 2010-11 is as accurate and fair to consumers as possible. Accordingly, the Association recommends that major changes be made to this BRCI process, including recalculation of the 2009-10 BRCI costs, if required due to changed circumstances, eg data changes, unavailability of proprietary models for calculations, etc.

SPECIFIC COMMENTS

Energy Costs

The Association has major concerns about the QCA's decision to apply modelling factors to the 2010-11 ACIL forecasts of LRMC and energy purchase costs.

The modelling factors, especially the factor applied to the energy purchase costs, have substantial impacts on the estimates for 2010-11. Therefore, it is essential that they be fully justified.

The Association questions whether any modelling factors should be used and, if they should, the validity of factors based only on the analysis of one year's data.

Customer Acquisition Costs

The Association has continuing concerns about how these costs are calculated in the BRCI and that they have increased so much in the BRCI for 2010-11.

The Association's concerns are with the data used to estimate the transfers between retailers, and from a standard to a market contract with the same retailer, and with the estimated individual cost of such transfers.

Data

The Association notes that there have been substantial changes to the available transfer data. The Association recommends QCA to undertake a full review of the data used for the 2009-10 and 2010-11 calculations. The review should also include consideration of transfers from market to standard contracts, which currently appear to be ignored.

Also, the Association emphasises that comparisons of transfer rates for the whole of Queensland and the whole of Victoria and South Australia are not valid because effectively consumers in the Ergon area do not have access to market contracts but in the other states there is competition throughout the state.

The Association also suggests that the QCA clearly define, and use consistently, any terms used to describe customers moving between and within retailers, for example transfer, switch, and churn.

Customer acquisition costs

The Association is concerned that the indexing of the 2009-10 per customer cost estimates makes no allowance for any cost reductions achieved due to more efficient marketing operations or changed marketing mixes.

Retail Margin

This has been kept at 5 percent of the total BRCI costs and is part of the current methodology. However, the Association is concerned that this approach is resulting in large increases in the size of the margin when there are significant percentage increases in the other components of the total BRCI cost calculations. The increase in this draft decision is \$40.3m. The Association is concerned that this increase may be much greater than any actual increases in incurred costs.