

 <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 Telephone: 0419 678 395</i></p>
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10 February 2011

## **SUBMISSION ON QCA DRAFT DECISION ON BENCHMARK RETAIL COST INDEX FOR ELECTRICITY 2011-12**

### **BACKGROUND**

The Queensland Consumers' Association (the Association) is a non-profit organisation which exists to advance the interests of Queensland consumers. The Association's members work in a voluntary capacity and specialise in particular policy areas, including energy. The Association is a member of the Consumers' Federation of Australia, the peak body for Australian consumer groups.

Since the start of the calculation the BRCI each year, the Association has considered it essential that consumer organisations participate in the consultations undertaken by the QCA. Accordingly, the Association has participated as actively as its limited resources would allow in each BRCI consultation process. Therefore, the Association welcomes the opportunity to make this submission on the Draft Decision.

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### **GENERAL COMMENTS**

#### **Importance of the BRCI process to consumers**

The large increases in regulated electricity prices in recent years have resulted in more and more consumers experiencing difficulty paying their electricity bills.

Therefore, the Association again emphasises the need for the BRCI calculation process to ensure that the resultant percentage change in regulated electricity prices is fully justified.

### **SPECIFIC COMMENTS**

#### **Assumed retail margin**

As indicated in our previous submissions on this and other BRCI consultations, the Association is concerned that QCA's use of a fixed 5 percent margin applied to all other costs used in the BRCI calculations is resulting in excessively large dollar increases in retailer margins. For example, the final decision for 2010-11 resulted in the retail margin increasing by \$41.3 million – 16.3 percent and the draft decision for 2011-12 increased it by \$16.8 million - 5.8 percent. Because all other costs are increasing rapidly and they are fully incorporated into the regulated prices, the percentage retail margin should be reduced.

**Retail costs (including customer acquisition and retention costs)**

Although, retail costs are less important than energy and network costs, they are still significant. They accounted for \$578 million or 9.4 percent of the estimated total costs of \$6126.4 million used for the 2011-12 BRCI calculation in Table 6.1 of the draft decision.

Accordingly, it is important that every effort be made to ensure that the estimated retail costs are fully justified and reflect actual costs incurred.

The Association notes that the QCA proposes to no longer make a separate and detailed estimate of customer acquisition and retention costs (CARC) based on the numbers of customers changing retailer and changing contracts within a retailer. This is to be replaced by a base figure per customer incorporated into the other retail costs which will be adjusted by an escalation percentage related to changes in wages and the CPI.

The Association supports this changed approach but only as a short term measure and on the assumption that the BRCI process will be replaced with a new and better price setting process in the near future.

Nevertheless, the assumed base figure for CARC costs for 2010-11 of \$40.52 per customer will have a major impact on future costs and is derived from estimates based on the previous system. Therefore, the Association requests that QCA review this figure to ensure that it is a suitable and accurate base for 2010-11 from which to apply an indexing approach. If the base figure is not suitable or accurate it should be changed and the Association considers that this would be justified because there has been a change in methodology.

**Other matters**

The Association notes that the draft decision appears to assume that the market in SEQ is effectively competitive and that the extent and effectiveness of competition can be measured by the extent to which consumers change retailer and move from the standard contract to market contracts. The Association does not agree with these assumptions. For example, many consumers have been persuaded to take out market contracts which are inferior to the standard contract and many have changed retailer but not obtained any benefits. A detailed, independent and comprehensive study is needed to assess whether the market is effectively competitive and whether the costs of deregulation have outweighed the benefits.

The Association notes the draft decision defines and generally only uses certain words to describe particular situations, for example “switches” and “transfers” are defined in the footnote on page 27. This is very helpful and greatly assists understanding of this complex industry and process. However, the Association notes that in few places the draft decision also uses other words, for example “churn”, to describe identical or very similar situations. In the final decision these words should be removed or, if required, also be defined.