

 <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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11 October 2010

## **SUBMISSION ON QCA INTERIM CONSULTATION NOTICE 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 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 would allow in each BRCI consultation process.

The Association hopes to also participate in the process for 2011-12 and welcomes the opportunity to make this submission on the Interim Consultation Notice.

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### **GENERAL COMMENTS**

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

The large percentage increases in regulated electricity prices in recent years combined with higher levels of unemployment, increases in other costs of essential services, etc. have resulted in more and more consumers experiencing difficulty paying their electricity bills.

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

#### **Consultation process**

It is much easier for the Association and other consumer organisations to participate in the BRCI process when the consultation also includes workshops. Workshops help to reduce the massive resource and information imbalance between industry and consumers and facilitate the preparation of written submissions by consumer organisations.

Accordingly, the Association recommends that the QCA include workshops in the consultation program for the calculation of the BRCI for 2011-12.

### **BRCI methodology**

The Association notes that QCA proposes to adopt the same methodology used to calculate the BRCI for 2010-11.

The Association supports this approach in general. But, QCA must to be prepared to modify the methodology if this is necessary to obtain the most accurate estimate of the changes in costs between 2010-11 and 2011-12. Depending on the significance etc of such changes QCA should be prepared to recalculate the 2010-11 cost estimates.

### **SPECIFIC COMMENTS**

#### **Assumed retail margin**

As indicated in our submissions on previous BRCI processes, the Association is concerned QCA's use of a fixed 5 percent margin applied on 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. When all other costs are increasing rapidly, the percentage retail margin should be reduced.

#### **Customer acquisition and retention costs**

Although, some significant changes were made to improve the estimation of these costs in the final decision on the BRCI for 2010-11, the Association remains concerned that the process may still be overestimating these costs which in the last decision increased to \$80.1 million<sup>1</sup>.

Specifically, the Association requests QCA to ensure the accuracy and relevance of all data used for its forecasts of likely customer switches between retailers and transfers<sup>2</sup> to other contracts within retailers.

For example, the Association notes that although in the final 2010-11 BRCI decision QCA states that the AEMO MSATS data has been improved, AEMO<sup>3</sup> notes that the new statistics may not reflect all consumer transactions taking place in MSATS and, due to the different ACNs used by some organisations within the same company, the statistics may not accurately reflect transfers by ownership structure.

Therefore, the Association recommends that QCA further examine the accuracy of this data to ensure that it is fully appropriate for the tasks to be undertaken.

The Association also notes, and requests QCA to investigate, that the AEMO statistics could include significant numbers of transfers of customers returning to their original retailer after having transferred to another retailer for only a short time. The Association understands that it is common for the original retailer to contact transferring customers to

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<sup>1</sup> The Association also notes the high level of public interest and concern about this figure, and that these costs are included in the BRCI process, following the release of last BRCI decision.

<sup>2</sup> Terms used by QCA but which can be confusing given that “transfers” is also widely used to refer to customers transferring between retailers as is “churn”.

<sup>3</sup> Interpreting Retail Transfer Statistical Data , AEMO August 2009

try to get them to reverse their decision. If the number of such transfers back to the original retailer is significant they should be treated separately because the cost of getting a customer to return to the original retailer will normally be much lower than the cost of acquiring a completely new customer.

The Association also suggests that QCA examine as part of any review of the accuracy and relevance of switching and transfer data used in the BRCI process:

- transfers from market to standard contracts within the same retailer - currently these appear to be ignored, and
- new connections made for builders/developers for the construction of new buildings and subsequent switches and transfers initiated by the initial occupants– these may be inflating the number of switches and transfers in the data and the costs for retailers may be substantially lower than incurred with other categories of switches and transfers, especially the former.

The Association also requests QCA to examine the estimated cost per customer for switches and transfers. In particular, the assumed cost of \$108.90 per customer transferring from a standard contract to a market contract with the same retailer during 2010-11 seems particularly high. Also, the Association remains concerned that simply applying index based increases to the previous year's per customer cost estimates do not take into account, or provide incentives for, cost reductions arising from efficiency gains or significant changes in the mix of marketing methods used.