



Interim Consultation Notice

**Benchmark Retail Cost Index for
Electricity: 2010-11**

October 2009

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SUBMISSIONS

Public involvement is an important element of the decision-making processes of the Queensland Competition Authority (the Authority). The Authority is releasing this Interim Consultation Notice as a first step in its review to calculate the Benchmark Retail Cost Index (BRCI) for 2010-11. Submissions are invited from interested parties concerning the Authority's proposed approach. The Authority will take account of all submissions received.

Written submissions should be sent to the address below. While the Authority does not necessarily require submissions in any particular format, it would be appreciated if two printed copies are provided together with an electronic version on disk (Microsoft Word format) or by e-mail. Submissions, comments or inquiries regarding this paper should be directed to:

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The **closing date** for submissions is 9 November 2009.

Confidentiality

In the interests of transparency and to promote informed discussion, the Authority would prefer submissions to be made publicly available wherever this is reasonable. However, if a person making a submission does not want that submission to be public, that person should claim confidentiality in respect of the document (or any part of the document). Claims for confidentiality should be clearly noted on the front page of the submission and the relevant sections of the submission should be marked as confidential, so that the remainder of the document can be made publicly available. It would also be appreciated if two copies of each version of these submissions (i.e. the complete version and excising confidential information) could be provided. Again, it would be appreciated if each version could be provided on disk. Where it is unclear why a submission has been marked "confidential", the status of the submission will be discussed with the person making the submission.

While the Authority will endeavour to identify and protect material claimed as confidential as well as exempt documents (within the meaning of the *Freedom of Information (FOI) Act 1989*), it cannot guarantee that submissions will not be made publicly available. As stated in s187 of the *Queensland Competition Authority Act 1997* (the QCA Act), the Authority must take all reasonable steps to ensure the information is not disclosed without the person's consent, provided the Authority is satisfied that the person's belief is justified and that the disclosure of the information would not be in the public interest. Notwithstanding this, there is a possibility that the Authority may be required to reveal confidential information as a result of an FOI request.

Public access to submissions

Subject to any confidentiality constraints, submissions will be available for public inspection at the Brisbane office of the Authority, or on its website at www.qca.org.au. If you experience any difficulty gaining access to documents please contact the office (07) 3222 0555.

Information about the role and current activities of the Authority, including copies of reports, papers and submissions can also be found on the Authority's website.

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1. INTRODUCTION

1.1 Context of this Interim Consultation Notice

Full retail competition (FRC) in Queensland energy markets commenced on 1 July 2007. With the introduction of FRC, electricity retailers were able to offer to supply electricity to all consumers, including those who were on notified (regulated) prices. Consumers taking up such an offer transfer from the notified price to the market contract price they have accepted from the retailer.

However, notified electricity prices remain an important feature of the Queensland electricity market. In particular, customers who are not offered a market contract or who choose not to accept an offer remain on a notified price. In addition, customers who have accepted a market contract may revert to a non-market contract at the notified price, subject to any contractual conditions that may apply.

While the Authority is in the process of reviewing electricity pricing and tariff structures, pursuant to a formal direction from the Premier and the Treasurer (the Ministers), the Authority has a current delegation under the *Electricity Act 1994* (the Electricity Act) to calculate the increase in the Benchmark Retail Cost Index (BRCI) and to apply it to existing notified prices to establish new notified prices to apply from 1 July 2010.

Therefore, until such time as the Authority is given an alternative remit, it is proceeding on the assumption that it will be calculating 2010-11 notified prices using the BRCI. In this regard, given the timing constraints facing the Authority, the Authority has decided to initiate a review under the existing BRCI process, to ensure that notified prices for 2010-11 can be set in time for the start of the next tariff year.

1.2 The BRCI approach

Under the Electricity Act, the notified price of electricity is to be adjusted annually according to changes in the cost of providing electricity. In particular, the rate of change in a BRCI is to be used to adjust notified electricity prices each year.

The BRCI approach to the determination of the notified price of electricity does not involve a calculation of the efficient retail price of electricity each year or any review of existing tariff structures. Rather, the existing electricity prices are escalated by the expected change in the underlying cost of supplying electricity to consumers (that is, by the change in the BRCI).

The method for calculating many components of the BRCI are set out in the Electricity Act and the Electricity Regulation 2006 (the Electricity Regulation). In broad terms, the BRCI for a particular year is calculated by dividing the total cost of supplying electricity by the relevant load for the preceding calendar year. The total cost of electricity is required to include the following elements:

- (a) the cost of energy;
- (b) retailers' costs (including an appropriate retail margin);
- (c) network costs; and
- (d) any other relevant costs (for example, government fees).

The Electricity Act allows the Minister for Mines and Energy (the Minister) to delegate the calculation of the BRCI to the Authority. The current delegation issued to the Authority, dated

3 June 2009, requires the Authority to calculate the BRCI, apply the annual change in the BRCI to notified prices and publish these prices.

Therefore, in the absence of a further delegation to the contrary, the Authority will gazette 2010-11 notified prices by 1 June 2010. The Certificate of Delegation can be viewed on the Authority's website (www.qca.org.au/electricity-retail/).

1.3 Consultation

The timetable for the 2010-11 BRCI process is as follows.

- Interim Consultation Notice issued 23 October 2009;
- Submissions on Interim Consultation Notice close 9 November 2009;
- Draft Decision released late December 2009;
- Submissions on Draft Decision close early February 2010; and
- Final Decision released and prices for 2010-11 gazetted by 1 June 2010.

In accordance with the above timetable, submissions will be sought from stakeholders regarding any matters stakeholders consider relevant to the Authority's calculation of the BRCI for 2010-11.

Stakeholders will also have an opportunity to respond to a Draft Decision to be released by the Authority prior to the Authority making its Final Decision on any change in the BRCI for 2010-11.

1.4 Relevant documents

In addition to the 3 June 2009 Ministerial delegation noted previously, the following references provide important information regarding the legislative framework that the Authority is required to consider in calculating the Benchmark Retail Cost Index.

The *Electricity Act 1994* can be obtained from:

- <http://www.legislation.qld.gov.au/legisln/current/e/electricA94.pdf>

The Electricity Regulation 2006 can be obtained from:

- <http://www.legislation.qld.gov.au/legisln/current/e/electricR06.pdf>

The Authority's Final decision on the BRCI for 2009-10 can be obtained from:

- <http://www.qca.org.au/files/ER-NEP0910-Final-QCA-FinalDec-0609.PDF>

2. BRCI CALCULATION

2.1 2008-09 and 2009-10 BRCI calculations

Following release of the Authority's 2008-09 BRCI Final Decision, AGL (14 August 2008) and Origin Energy (1 September 2008) sought a judicial review of that Decision. On 28 April 2009, judgment was handed down by Justice P McMurdo of the Supreme Court of Queensland (the judgment).

The judgment, cited as *AGL Energy Ltd v Queensland Competition Authority & Anor; Origin Energy Retail Ltd v Queensland Competition Authority & Anor* [2009] QSC 90, is available from the Queensland Supreme Court registry website at www.courts.qld.gov.au.

The Authority's 2008-09 BRCI Decision was remade in accordance with the judgment and the Authority's 2009-10 BRCI Decision was made on a basis that also accords with the judgment.

2.2 2010-11 BRCI

The Authority proposes to adopt the same methodology in calculating the BRCI for 2010-11 as it used in 2009-10. The Authority considers this approach will ensure that the 2010-11 BRCI is consistent with the recent judgment and the associated orders.

In preparing the remade 2008-09 BRCI Decision and the 2009-10 BRCI Decision, CRA International (CRA), with input from ACIL Tasman (ACIL), provided expert advice on the cost of Energy component of the BRCI.

For the 2010-11 BRCI, the Authority has engaged ACIL to provide expert advice on the cost of Energy component of the BRCI. ACIL constructed forecasts of the National Electricity Market (NEM) load traces for the remade 2008-09 BRCI Decision and the 2009-10 BRCI Decision. They have also provided input cost estimates during recent BRCI reviews. Their appointment will provide a degree of continuity in the calculation of energy costs between years.

The Authority will require ACIL to replicate as best they can the 2009-10 energy cost calculations that were produced by CRA and then apply the same approach to calculating the 2010-11 energy cost component.

As the Authority proposes to otherwise follow the same process for calculating the 2010-11 BRCI as was adopted in 2009-10 following the judgment of the court, interested parties are referred to the Authority's 2009-10 BRCI Final Decision for a comprehensive description of the process to be followed.

The Authority seeks comments from stakeholders on any aspects of the approach previously adopted in 2009-10 which they believe need to be changed in calculating the BRCI for 2010-11.