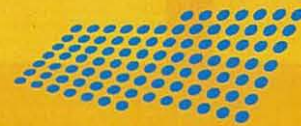


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11 February 2009

Mr. Brian Parmenter
Chairperson
Queensland Competition Authority
GPO Box 2257
Brisbane QLD 4001

Email: electricity@qca.org.au

Dear Mr. Parmenter,

Re: Draft Decision Benchmark Retail Cost Index for Electricity 2010-11

EnergyAustralia welcomes the opportunity to comment on the Queensland Competition Authority (QCA) Interim Consultation Notice on Benchmark Retail Cost Index (BRCI) for Electricity 2010-11. We recognise the importance of this review with the outcome of the price setting process significantly impacting on the ongoing viability of the Queensland electricity market.

It is recognised that the QCA is bound by the current BRCI framework, however, Energy Australia is of the view that even under this methodology regulated tariffs in the Queensland electricity market must be set at cost reflective levels, and to not do so effectively restricts market competition.

Network Costs

In Stage 1 of the Review of the Review of Electricity Pricing and Tariff Structures, the QCA recommended the removal of network costs from the bundled retail tariff. Energy Australia supports this recommendation and is of the view that this removal needs to be implemented as part of the 2010-11 BRCI Determination so that network costs at an individual tariff level are directly passed through and the BRCI is used only to monitor changes to costs that are directly attributable to the retailer only. A direct pass through of Network charges would ensure appropriate cost reflectivity of network charges to customers, maintain retailer headroom and prevent situations where retailers have to absorb network cost increases.

Energy Purchase Cost Allowance

EnergyAustralia supports the QCA's decision to exclude any consideration of CPRS in the calculation of the BRCI for 2010-2011. We consider this to be the appropriate approach given the ongoing uncertainty around the implementation of CPRS.

We would like to reiterate our view that the energy cost component of the BRCI should be more heavily weighted towards the actual cost of purchasing energy rather than a 50/50 weighting between the Long Run Margin Cost and the energy purchase cost. The wholesale energy market is volatile and an equal

weighting of LRMC and energy purchase cost does not adequately reflect this volatility. In our view this creates an inappropriate level of risk for retailers to manage which may impact on market participation and competition.

Retail Margin

As part of the direction to the QCA dated 24 June 2009, the Queensland Government stated that "*prices should also support the continued implementation of full retail competition with sufficient headroom to foster a competitive electricity market. Headroom should remain relatively stable and the Queensland Government policy of enabling small market customers to revert to notified prices should not result in a retail entity providing customer retail services to small non-market customers at a loss*". Energy Australia submits that a 5% retail margin does not adequately reflect the risks or the cost levels faced by retailers and as such does not encourage a competitive retail electricity market within Queensland. A margin at the upper end of the range of margins accepted by Regulators in other jurisdictions is more appropriate if these Government objectives are to be met.

I trust this submission will assist the QCA in preparing its Final Decision on the BRCI for 2010-11. Please contact EnergyAustralia's Executive Manager – Energy Pricing, Catherine Marshall on (02) 9269 7256 should you have any questions.

Yours sincerely,

A black rectangular redaction box covering the signature of Mike Bailey.

Mike Bailey
Executive General Manager Retail