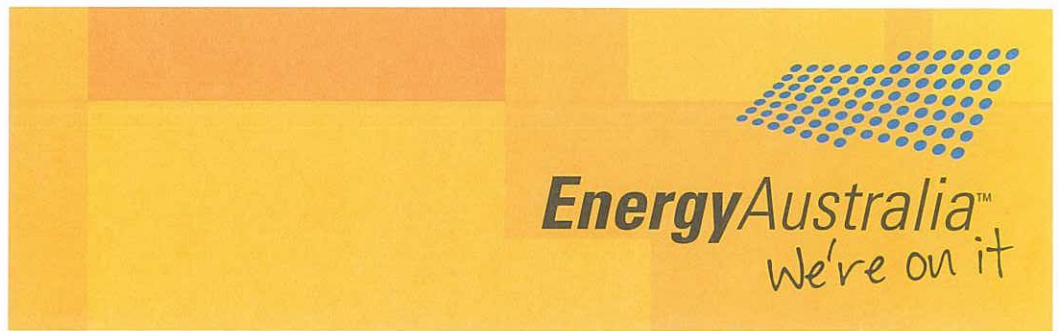


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4 April 2008

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

By email: electricity@qca.org.au

Dear Mr Parmenter,

Draft Decision – Benchmark Retail Cost Index for Electricity: 2008/09

The purpose of this letter is to inform the Queensland Competition Authority (QCA) of EnergyAustralia's support of the overall findings and recommendations contained in ACIL Tasman's "Energy costs for Queensland electricity tariffs in 2007/08 and 2008/09" report (prepared for AGL Energy). In particular, EnergyAustralia considers that the inputs used in the CRA modelling should be updated to reflect the latest capital costs as presented in ACIL Tasman's report.

Based on EnergyAustralia's experience the market for EPC (engineering, procurement and construction) contracts has tightened significantly in the last 12 months, reflecting increased global demand for new power stations and higher input costs. EnergyAustralia believes that to preserve the integrity of the calculation methodology as defined in the legislation and as set out by QCA in their initial reports¹, current costs must be included in the modelling, rather than out of date costs.

Failing to use current costs in the modelling would result in an understated Long Run Marginal Cost (LRMC), which when used as an input into the Benchmark Retail Cost Index (BRCI), would diminish any headroom for competition in the retail tariffs. EnergyAustralia notes that the stability of headroom is a policy objective defined in the Certificate of Delegation issued by the Minister for Mines and Energy (16 March 2007)² to the QCA, and to which the QCA is obliged to consider in determining the BRCI.

¹ CRA – Calculation of the Benchmark Retail Cost Index for 2007-08 and 2008-09 (24 January 2008) and the Queensland Competition Authority Draft Decision Benchmark Retail Cost Index for Electricity: 2008-09 (February 2008).

² Under the *Electricity Act 1994* and *Electricity Regulation 2006*.

While EnergyAustralia recognises that the QCA has a commitment to finalise its decision by the end of the month and provide a recommendation to the Minister by 9 May 2008, EnergyAustralia considers that it is critical that the LRMC inputs used in the BRCI are representative of the current market environment.

Should you require any further information or have any questions relating to this submission, please do not hesitate to contact Philip Dixon-Flint, Regulatory Strategy Manager Wholesale on 02 9269 2317.

Yours sincerely,



Nicholas Convery
Executive Manager Retail Regulation (Acting)