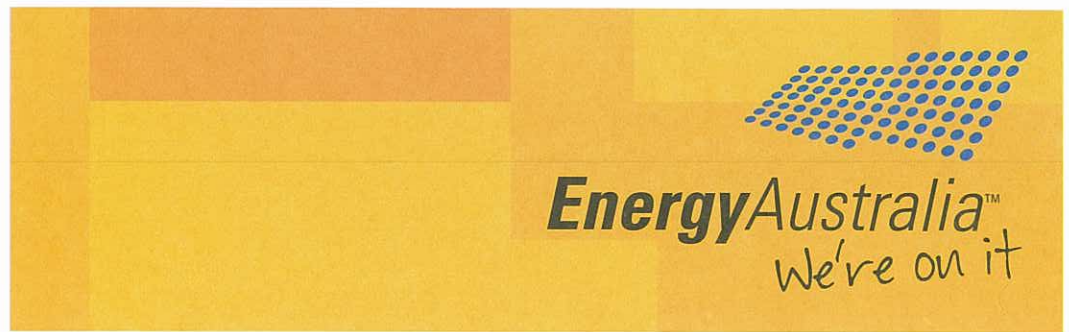


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29 February 2008

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

Email – electricity @qca.org.au

Dear Mr Parmenter

Draft Decision Benchmark Retail Cost Index for Electricity 2008 – 2009

EnergyAustralia welcomes the opportunity to comment on the Queensland Competition Authority's (QCA) *Draft Decision Benchmark Retail Cost Index for Electricity 2008 – 2009*.

EnergyAustralia is generally supportive of the proposed increase in the BRCI, however, we feel that the magnitude of the increase is inadequate as the calculation of the BRCI still does not fully reflect the actual costs associated with the purchase of energy faced by a retailer. Further it is noted that the majority of the increase in the BRCI is driven by the increase in the Network Costs.

Energy Costs

EnergyAustralia is supportive of the concept of using the actual cost of purchasing energy in calculating the cost of energy. While EnergyAustralia appreciates that the QCA is required to assess the Long Run Marginal Cost (LRMC), we feel that the weighting between LRMC and the actual cost of purchasing energy should be more heavily weighted to the actual cost of purchasing energy. Such an approach would be consistent with maintaining the policy objectives outlined in the Minister's delegation, particularly in an environment where the LRMC is falling while the actual cost of purchasing energy has increased (and has increased again since the release of the QCA's draft decision).

EnergyAustralia also notes that there has been a significant increase in the Renewable Energy Certificates (REC) rate which appears to have only been partly carried through by CRA International (CRA) to the calculation of the Mandatory Renewable Energy Target (MRET) cost for 2008-2009. The REC rate used by CRA in its MRET calculations appears to be in the order of \$10/MWh lower than that quoted in the AFMA data. We assume that this will be corrected when the calculation is redone as part of the final report.

Network Costs

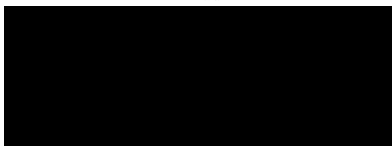
EnergyAustralia supports the QCA's approach to reflect the final assessment of Energex's FRC cost pass-through in the Final Decision on the BRCI.

Retail Margin

The QCA's Draft Decision makes reference to CRA suggesting that a retail margin of 5% is appropriate based on the margins accepted in different jurisdictions and the reduced risk to retailers due to the QCA's proposal in determining the cost of energy. EnergyAustralia is of the view that the proposed retail margin still does not adequately reflect the risk or costs levels faced by retailers due to the use of LRMC in setting the Energy Costs.

I trust that this submission will assist the QCA's approach in determining the BRCI for 2008-09 and ask that you contact EnergyAustralia's Executive manager – Energy Pricing, Catherine Marshall on (02) 9269 7256 should you have any questions.

Yours sincerely



Mike Bailey
Executive General Manager - Retail