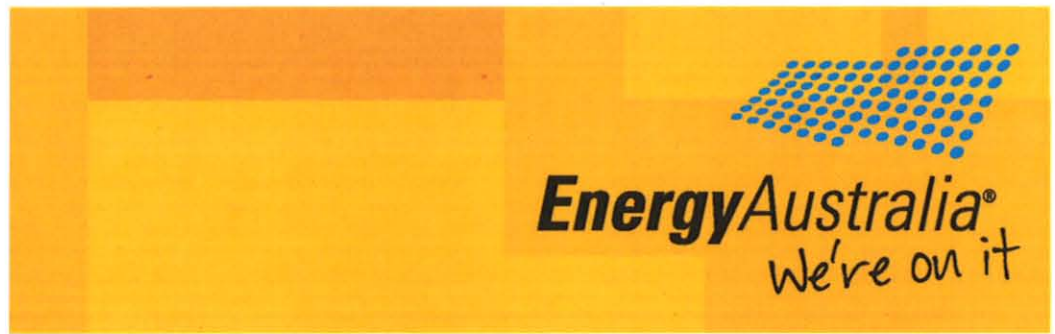


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28 August 2009

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

Email: electricity@qca.org.au

Dear Mr. Parmenter,

Re: Draft Report on Review of Electricity Pricing and Tariff Structures – Stage 1

EnergyAustralia welcomes the opportunity to comment on the Queensland Competition Authority (QCA) Draft Report on the Review of Electricity Pricing and Tariff Structures – Stage 1.

EnergyAustralia agrees with the conclusions of the QCA's Draft Report but has some concerns with the approach being proposed by the QCA.

EnergyAustralia has concerns with the speed in which the QCA is conducting its review. In particular, the tight timetable which the QCA is working to provides limited time to conduct a thorough review and does not allow adequate consultation with stakeholders. Further it is necessary that an adequate lead time be allowed to enable Retailers to make any necessary system changes arising from the review.

Energy Costs

The proposed move away from a hybrid LRMC and energy purchase cost approach to a market based energy purchase cost approach is generally supported by EnergyAustralia. However, our position is that the LRMC should still be used but as a floor to the energy purchase cost, this approach is consistent with that taken in other jurisdictions.

Retail Operating Costs

EnergyAustralia believes that customer acquisition and retention costs should be factored into the notified prices in Queensland in order to maintain effective competition. Most other jurisdictions include an allowance for acquisition and retention costs with the exception of the ACT which has some unique characteristics.

Retail Margin

If the QCA is to use benchmarking to set the retail margin it is important that the benchmarking take into account all the risks that a retailer in Queensland faces.

Network Costs

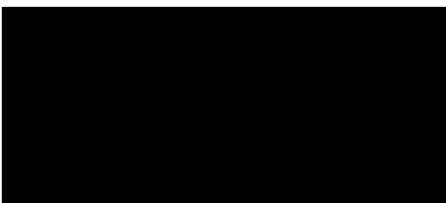
While EnergyAustralia supports the pass through of network costs we have concerns about the manner in which the QCA intends to implement this. EnergyAustralia seeks further clarification from the QCA regarding how it intends to have a pass through of network costs based on the AER Draft Decision when generally the development of actual network tariffs does not occur until after the Final Decision.

The Draft Report proposes an automatic review if the AER Final Decision on network charges is materially different from the draft decision. EnergyAustralia has concerns around the suitability of a process that requires a re-opener before commencement. This results in increased uncertainty from a retailer's perspective as the implication is that retailers will need to absorb any network increases in the first instance in order to ensure "price stability". In our view this is inconsistent with the Direction's requirements for cost-reflective tariffs.

Further the Draft Report proposes that as part of an N + R cost build up approach the network costs be included as a separate line item on a customer's bill. We note that Queensland would be the only jurisdiction with this requirement for small customers. EnergyAustralia estimates that the cost of making the necessary changes to its billing system would be significant from both a financial and time perspective and would lead us to question our participation in the Queensland market. We also question why at a time when the industry is moving towards national consistency that such a change would be necessary. It is not necessary to have the network charges as a separate line item in order to have a pass through of the network charges which appears to be part of the QCA's argument.

I trust this submission will assist the QCA in preparing its report to the Minister. Please 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