



Energy Retailers Association  
of Australia Limited

11 February 2010

Queensland Competition Authority  
GPO Box 2257  
Brisbane QLD 4001

electricity@qca.org.au

Dear Sir/Madam,

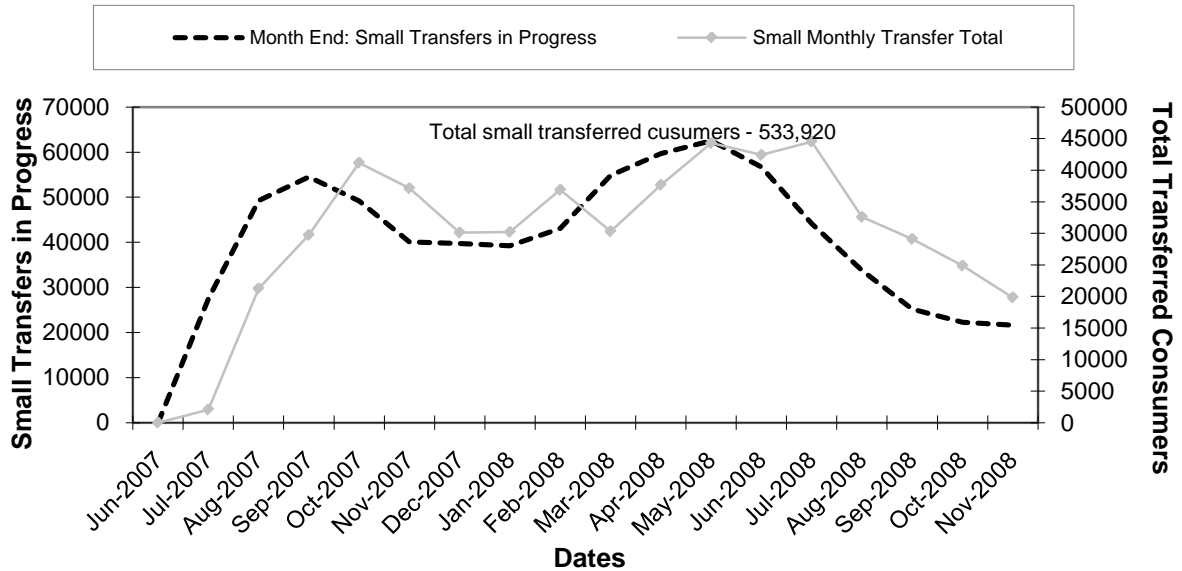
**Re: Draft Decision on the 2010-11 Benchmark Retail Cost Index**

The ERAA is an independent association representing retailers of electricity and gas across Australia. This includes both incumbent retailers and a number of second-tier providers, who collectively provide electricity to over 98% of customers in the NEM and are the first point of contact for end-use customers for both gas and electricity.

In general, it is not the ERAA's policy to comment on the actual size of draft pricing determinations, other than to make the point that regulated prices must be cost reflective. Moreover, it is the ERAA's view that the only guaranteed way to ensure cost reflective pricing is to follow Victoria's lead and use retail competition and price monitoring to ensure prices are efficient and consumers are protected.

The members of the ERAA have significant experience in competitive energy markets across the NEM, and are very familiar with the issues faced by regulators in determining appropriate pricing mechanisms within a dynamic environment. We therefore refer you to the individual submissions of the ERAA's members for an assessment of the adequacy or not of the draft BRCI determination for 2010-2011.

As stated, it is the ERAA's view that regulated retail prices must be cost reflective and allow for sufficient head room so that retail competition can thrive. At June 30 2008, one year after FRC commenced in Queensland, competition in the Queensland energy market was thriving: An internal report for the ERAA prepared by PWC showed market penetration by second-tier retailers had reached just under 10%; approximately 12% of small customers had elected to enter into market contracts; and customer churn in the ENERGEX network area reached 29%. Following implementation of a BRCI in July 2008 that - in the industry's view - did not reflect costs, activity in the market dropped away, as can clearly be seen in the following graph.



Source: NEMMCO - Retail Market Data

The ERAA’s member companies remain interested in the Queensland market and are therefore watching this current BRCI process with interest. It is important that this process is allowed to run in a manner that provides confidence to new retailers that the price setting process is transparent, independent and fair.

Once this current BRCI process is complete, the ERAA urges the QCA to continue its review into whether the BRCI is the right methodology for the long term. The ERAA holds the view that price regulation is inefficient, stifles price and service competition, and suppresses product innovation. The ERAA strongly believes that competition represents the best form of consumer protection and therefore any pricing framework should encourage competition in the Queensland energy market.

Yours sincerely

**Cameron O'Reilly**  
Executive Director  
ERAA