



MEDIA RELEASE

Wednesday 9 May, 2007

New Regulated Qld Electricity Prices – Promoting competition

The draft decision on notified retail electricity prices to apply to regulated customers from 1 July, 2007 announced yesterday by the Queensland Competition Authority (QCA) is a first step in the right direction, according to the Energy Retailers Association of Australia (ERAA). In the view of the Association the draft decision goes some way to recognising the impact of current wholesale energy prices on the industry and the significant investment occurring in infrastructure.

The 2007-8 notified prices, the first to be determined on the basis of a new Benchmark Retail Cost Index (BRCI) established last year through amendments to the Electricity Industry Act of 1994, have been introduced at a critical time as Queensland counts down to the introduction of Full Retail Contestability (FRC) from 1 July, 2007.

The cost index upon which the new prices were set looks at such things as movements in the wholesale cost of energy, network tariffs, retail industry costs and industry margins. Wholesale costs and network tariffs amount to some 90% of the retail price to consumers.

“While at first glance the price increase of 9.98% looks significant, it comes off a low base and reflects rising spot and forward wholesale electricity prices in the National Electricity Market (NEM) stemming from a tightening of the supply-demand balance across the NEM, due in part to the water shortages and increased network costs associated with substantial and crucial investments in the transmission and distribution systems”, the Executive Director of the ERAA, Mr Cameron O’Reilly said.

“That said, provided the final decision allows a fair margin for retailers, the uniform tariffs may provide scope for retailers to offer better deals through market contracts once FRC kicks off in the middle of the year.”

With over twenty electricity retail licenses issued in Queensland in the lead up to FRC, consumers will have plenty of opportunity to shop around for a market

Cont'd

contract that meets their needs if they do not want to stay on the regulated price.

“The key to the next stage in the implementation of FRC in Queensland are regulated prices that allow sufficient margin for new market entrants to come in and offer competitive contracts and products to consumers”, Mr O’Reilly said.

“Yesterday’s decision, to the extent that it marks a shift towards cost reflective pricing may take us some way towards that objective, although the QCA will need to keep the situation in the wholesale market under constant review”.

“The wholesale market is a volatile one and having regulators attempt to judge the cost base of retailers over extended periods of time is complex, difficult and risky – potentially a very hit and miss exercise.”

“Ultimately we believe the market will be most effective when price caps are removed and market based pricing is adopted across the board”, Mr O’Reilly said.

In time the ERAA looks forward to making that argument in the context of the Ministerial Council on Energy (MCE) and Australian Energy Market Commission’s (AEMC) reviews of effective competition in all jurisdictions - including Queensland.

About ERAA

The Energy Retailers Association of Australia (ERAA) is the peak industry body representing retailers of electricity and gas in Australia’s National Electricity Market (NEM) and national gas market. Member companies operate in all the States of Australia and have over 11 million customers. The members include AGL, Origin Energy, Truenergy, Energy Australia, Integral Energy, Country Energy, Aurora Energy, Australian Power & Gas, Horizon Power, Synergy Energy and ActewAGL.