



**Government  
of South Australia**

10MEN/2179

Mr John Hill  
Acting Chairperson  
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Dear Mr Hill

Thank you for the opportunity to comment on the Essential Services Commission of South Australia's (ESCOSA) Origin Energy Standing Contract Price Review Issues Paper.

There will always be customers who remain on or return to the standing contract. For this reason ESCOSA must ensure the standing contract price is fully justified and meets the key objective of protecting consumers' long term interests with respect to price, quality and reliability of supply.

In its submission Origin claims that wholesale gas prices will move towards export Liquefied Natural Gas netback price parity from January 2014 causing the Annual Contract Quantity and therefore wholesale costs to increase significantly. Given its impact on retail prices ESCOSA needs to carefully assess Origin's claims regarding wholesale gas prices.

ESCOSA must verify Origin's retail cost data claims and consider appropriate evidence before making its final decision. Consideration should also be given to setting Customer Acquisition and Retention Costs based on the marginal cost of acquiring the customer. Evidence suggests market activity tends to be on a dual fuel basis. It is also expected that ESCOSA will closely examine interstate and other relevant data in order to establish a fair retail margin level.

I note that ESCOSA proposes to use the building block approach and focus on the controllable costs of a prudent retailer supplying South Australian gas standing contract customers. The gas retail industry faces lower levels of competition and medium-term volatility compared to electricity retailers. The building block methodology seems reasonable for setting gas standing contract prices. The benefit of the pass-through provisions is to limit the re-opening of the price path during the course of the price determination and this must be balanced with the need for price certainty for consumers.

Whilst Origin is not proposing any rebalancing element to the price path this level of additional protection in particular for lower consumption groups, is still warranted. The current Electricity Price Determination contains such a rebalancing control.

Should your officers wish to discuss any element of this submission further please contact Ms Rebecca Knights, Director Energy Markets, Energy Division of the Department for Transport, Energy and Infrastructure on telephone 8204 1715.

I look forward to the release of ESCOSA's Draft Report and Determination.

Yours sincerely

A handwritten signature in black ink, appearing to read 'P. Conlon', written in a cursive style.

**HON PATRICK CONLON MP**  
**MINISTER FOR ENERGY**

28 December 2010