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Review of Gas Standing Contract Prices: Issues Paper
Essential Services Commission of SA
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Review of Gas Standing Contract Prices 2008/09 – 2010/11 Issues Paper, November 2007

AGL Energy Limited (AGL)¹ welcomes the opportunity to provide comments to the Essential Services Commission of SA (the Commission) on the 'Review of Gas Standing Contract Prices 2008/09 – 2010/11 Issues Paper' (Issues Paper).

AGL notes that in determining the form of regulation and setting the prices from 1 July 2008, the Commission is to have regard to specific objectives as set out in the Essential Services Commission Act 2002, including to have regard to the "protection of the long term interests of South Australian consumers with respect to the price, quality and reliability of essential services" at the same time as to "promote competitive and fair market conduct". These objectives can be achieved by ensuring that prices are set at cost reflective levels and that market conditions are such that continue to promote competition in the gas market.

Under the Australian Energy Market Agreement, the Commonwealth and the State and Territory governments have agreed to phase out retail price regulation for electricity and natural gas where effective competition can be demonstrated.

As outlined by the Commission in its Issues Paper, competition in the gas market has continued to increase since full retail competition commenced in 2005 with 56%² of small gas customers taking their supply under a market contract as at 30 June 2007. The number of gas retailers entering the SA gas market has also increased significantly during this time. It is AGL's expectation that this level of competition will continue, and that, following its review of the effectiveness of competition in the SA gas market the Australian Energy Market Commission (AEMC) will conclude that there is effective competition and will therefore recommend the removal of retail price regulation. This review is expected to commence in 2008. AGL therefore strongly recommends that a mechanism is provided for in the final

¹ AGL is one of Australia's leading integrated energy companies. Drawing on 170 years of experience, it includes retail and merchant energy businesses, power generation assets and an upstream gas portfolio. AGL has Australia's largest retail energy and dual fuel customer base. This includes customers supplied with gas and electricity through AGL's joint venture partnership with ActewAGL. AGL has a diverse power generation portfolio including base, peaking and intermediate generation plants, spread across traditional thermal generation as well as renewable sources including hydro, wind, landfill gas and biomass. One of Australia's largest renewable energy producers, AGL is looking to further expand this position by exploring a suite of low emission and renewable energy generation development opportunities.

² ESCOSA, Review of Gas Standing Contract Prices 2008/09 – 2010/11 Issues Paper, pg. 9

determination that will allow the removal of retail price controls prior to 30 June 2011 should the AEMC make a recommendation for the removal of gas retail price regulation in SA.

In addition to the views outlined above, AGL has the following comments:

Form of regulation – The form of regulation adopted by the Commission should enable tariffs to be cost reflective and remove any remaining cross subsidies between customer classes. AGL supports a weighted average price cap on the 'retail costs component' of tariffs with full pass through of transmission/network charges as the form of regulation.

Tariff Rebalancing – In the current determination the Commission has opted for a 'secondary control' to limit the extent to which any individual gas standing contract tariff can increase in each year. AGL does not support limitation being placed on individual tariffs and believes that such side/secondary constraints may inadvertently result in cross subsidies. However, should the Commission determine that additional constraints are necessary AGL suggests that these are limited to the retail component of the tariff with all non retail components passed directly through to the end user and that any side constraints should be broad enough so as to enable any required rebalancing to occur to ensure cost reflective retail tariffs.

Retail operating costs – An allowance for retail operating costs should be set at a level that includes all costs in attaining, retaining and servicing customers in a competitive market. AGL agrees with Origin Energy that as a result of increased competition in the SA market, their customer base for allocation of costs may have diminished. Therefore, actual operating costs per customer may have incurred some increase which is directly attributable to the reduction in the customer base to which costs can be allocated.

Retail margin – The margin proposed by Origin Energy of 13% is, in AGL's view, at present, reasonable compensation for the investment in the gas industry and the risks of providing retail services. However, AGL notes that the actual achievement of an appropriate margin by a retailer is very much dependent upon realistic cost recovery allowance. AGL therefore concludes that it is imperative that full recovery all cost components that form retail tariffs is essential to ensure continuing investment in the gas industry and to promote retail competition.

AGL looks forward to assisting the Commission in its review. For any enquiries in relation to this submission please contact Carol Lydford, Manager Regulatory Development on (02) 9921 2511 or carol.lydford@agl.com.au.

Yours sincerely,

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