

The Hon Patrick Conlon MP
Member for Elder

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2007/11637/01

Dr Patrick Walsh
Chairperson
Essential Services Commission of South Australia
GPO Box 2605
ADELAIDE SA 5001

Dear Dr Walsh

I refer to the Issues Paper released by the Essential Services Commission of South Australia (ESCOSA) as part of its inquiry into the Origin Energy Standing Contract Price Review for the period 2008/09 – 2010/11.

As you have acknowledged in your Issues Paper, further consultation will be undertaken following the release of a Draft Inquiry Report and Draft Determination. It is my intention to provide a further response at that stage, once I have had an opportunity to further review your analysis and any submissions received from interested parties.

I provide the following preliminary comments on the Issues Paper for your consideration.

As I have consistently stated since the commencement of the price path regime, one of the key objectives of this approach is to provide small customers with some price certainty in order that they may make informed choices regarding gas contracts, thereby enabling them to take advantage of the competitive retail market.

I am pleased that since the commencement of full retail competition in 2004 many customers have indeed taken advantage of this opportunity.

There will always be customers who for whatever reason remain on or return to the standing contract. It is for this reason that we must ensure that 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.

With respect to the Origin proposal for the retailer cost allowance, I note from ESCOSA's recent Annual Performance Report that Origin has failed to meet Energy Retail Code targets with regard to call centre responsiveness. I believe Origin's performance in this areas does not justify an increase in retailer operating costs and would advise against ESCOSA allowing an increase for this item.

ESCOSA should give particular consideration to Origin Energy's claims for outstanding FRC and fixed costs to ensure over-recovery of these costs does not eventuate. I also see merit in allowing Origin to recover these costs from its total customer base rather than have standing contract customers disproportionately paying for these costs, as they are also required for Origin's market contract customers. It is important that ESCOSA adopts an approach that balances the interests of the retailer, market contract customers and standing contract customers.



Minister for Transport
Minister for Energy
Minister for Infrastructure

12th Floor, Roma Mitchell House
136 North Terrace
Adelaide SA 5000

GPO Box 2969
Adelaide SA 5001
DX 154

Tel 08 8226 1210
Fax 08 8226 0844

Most energy companies in Australia are diversified across energy sources and segments within the energy industry. It is reasonable to expect that this organisation structure provide scale economies in the operation of the various energy businesses. It is my view that this should be reflected in ESCOSA's considerations so that gas standing contract customers receive some benefit from this organisational structure.

It is also my view that this diversification across energy sources does not necessarily mean that costs and risks faced by a gas retail business are as great as Origin claim. I therefore can see no justification for any increase in retail margins proposed by Origin. Although I do expect ESCOSA with the assistance of its consultant, to further analyse this figure.

I also suggest ESCOSA be cautious to not allow Origin to effectively recoup any of the losses it purports to have incurred in the previous price path that Origin did not seek to recoup through the normal pass through application procedures.

In addition to the cost factors identified above, tariff rebalancing has the potential to significantly impact low consumption standing contract customers. It is important that any tariff rebalancing proposal from Origin Energy is rigorously tested by ESCOSA so that the impact on low consumption customers is kept to a minimum.

I thank you for the opportunity to comment as part of this consultation process and I look forward to the release of your Draft Report and Determination later in 2008.

Should your officers wish to discuss any element of this submission further please contact Mr Kym Jervois, Director, Retail and Demand Management, Energy Division on 8204 1669.

Yours sincerely



HON PATRICK CONLON MP
MINISTER FOR ENERGY

21 December 2007