



TRUenergy Australia Pty Ltd  
ABN 96 071 611 017  
Level 33, 385 Bourke Street  
Melbourne Victoria 3000

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Essential Services Commission of SA  
GPO Box 2605  
Adelaide SA 5001

escosa@escosa.sa.gov.au

### **2008 Review of Retail Gas Price Path - Issues Paper**

Thank you for the opportunity to comment upon ESCOSA's *2008 Review of Retail Gas Price Path - Issues Paper*.

In response to the Commission's consultation on the review of electricity standing prices, TRUenergy submitted that, consistent with the NERA Consulting findings in the *Review of the Effectiveness of Energy Retail Market Competition in South Australia*, there is scope for a more light-handed approach to be adopted in the Commission's price setting arrangements.

However, despite NERA's finding that competition is effective, and the commitment for the review to inform the Commission's price setting approach, there was no evidence of any material impact of the NERA review upon the Commission's final decision on electricity.<sup>1</sup> Instead the Commission again relied upon the problematic assumption that consultants can precisely estimate the short to medium term costs of an energy retailer.

We do not accept this proposition, which is contrary to the rationale for the establishment of a competitive market. It is our view that the incumbent's proposal should be reviewed in the context of a more light-handed reasonableness test. Providing the proposal is absent of clear and demonstrable evidence of material error, and falls within the credible range, it should be approved. This would also provide a transitional approach to the eventual removal of price regulation, pending the outcome of the AEMC review.

Finally, we note that the customer transfer rates for South Australia gas are well below those for both the South Australian electricity and Victorian gas markets. The table below shows that across the past 18 months, transfers have been over 5% below those in the other two markets. It is a reasonable assumption that markets with similar retail margins should exhibit similar rates of customer churn. Therefore, given that the Commission considers that standard electricity tariffs have been set at efficient levels, and that the Victorian Government has a similar view with respect to Victorian gas standing offer tariffs, this indicates that South Australian regulated gas prices are currently below market-based levels and that

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<sup>1</sup> The Commission has made a slight adjustment to the wording of the second objective, although this appears to be of no consequence to the final decision.

a corresponding adjustment is required. It also strengthens the case for a light-handed regulatory approach in the current price setting determination.

<b>Market</b>	<b>Average Annualised Monthly Transfer Rate Jul06-Nov07</b>
South Australia electricity	23.9%
Victoria gas	22.7%
South Australia gas	17.6%

Please contact me on (03) 8628 1122 if you require additional information.

Yours sincerely,

**Graeme Hamilton**  
**Regulatory Manager**