



DED05/0396  
05MEN/0657

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

Dear Dr Walsh

Thank you for your letter of 7 October 2005 regarding the 2006 Review of Envestra's Distribution Gas Access Arrangement.

The Government established the Essential Services Commission of South Australia (ESCOSA) with a primary objective to protect the long term interests of South Australian consumers with respect to price, quality and reliability of essential services. ESCOSA therefore needs to find a balance between minimising prices to customers and ensuring businesses have sufficient resources to meet customer needs, particularly with regard to reliability and security.

The Government considers that the principles outlined in the Guidance Paper form a sound basis on which to conduct the Review.

I agree with ESCOSA's final guidance in relation to the allocation of the balance of the ex-gratia payment to Envestra for Full Retail Contestability (FRC), specifically that the balance should be allocated to consumers across each of the first three years in the second Access Arrangement Period in proportion to the annual FRC revenue requirement for those years, as published in the 2004 FRC determination.

The tariff schedules of the Proposed Revision indicate tariff increases in the vicinity of 8.6% over those set by ESCOSA for the 2005/06 year, when calculated on an equivalent GST basis. An increase of this magnitude will need to be fully justified in terms of genuine cost drivers and improved reliability and security outcomes for consumers. The interest of consumers requires ESCOSA to carefully analyse this proposal and ensure fair appropriate prices are set.

Envestra's formula for subsequent Haulage Reference Services tariff increases proposes, like the initial tariff increase, a Consumer Price Index (CPI) increase plus an additional amount up to 5.9%. The tariff increase for Port Pirie consumers in the range of 100 to 1,000 giga-joules also seems large. Accordingly, the Government considers such increases require detailed examination and full justification by Envestra to enable you to meet your legislative objectives.

The equity beta used by Envestra is in the range 1.00 to 1.10. This seems to be at the top end of recent decisions. In this regard, it is worth noting that the South Australian Government submission to the May 2005 review by ESCOSA of ETSA's Final Electricity Distribution Price Determination provided support for an equity beta of no more than 0.8, based on advice from Associate Professor Martin Lally of Victoria University of Wellington. ESCOSA's review decision was for an equity beta of 0.9, largely reflecting the need to provide regulatory consistency.

Thank you for this opportunity to make a submission to this stage of the Review of Envestra's Gas Access Arrangement.

Yours sincerely



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

21 November 2005