

16 March 2012

Mr Nathan Petrus  
Director, Pricing and Analysis  
Essential Services Commission of South Australia  
Level 8, 50 Pirie St  
Adelaide SA 5000

Dear Nathan

**APPLICATION FOR A VARIATION TO THE 2011 – 2014 ELECTRICITY STANDING CONTRACT  
PRICE DETERMINATION DUE TO “SPECIAL CIRCUMSTANCES”**

Alinta Energy Retail Sales (Alinta) (on behalf of the Alinta Energy group of companies) appreciates the opportunity to comment upon the application from AGL South Australia Pty Ltd (AGL) to the Essential Services Commission of South Australia (the Commission) as a result of the Commonwealth Government's *Clean Energy Act 2011*.

Alinta is an active retailer in the South Australian energy market. It also owns and controls in excess of 30% of the generation capacity in the South Australian wholesale market through its Flinders power stations. Alinta is therefore well placed to comment on the impact of the *Clean Energy Act 2011* on electricity generation and the flow through impact upon retail customers in the South Australian electricity market. Alinta has been undertaking a significant amount of work prior to the commencement of a carbon price on 1 July 2012 to ensure a smooth transition under the new framework.

In making its determination on this matter, it's important that the Commission adjust the Relative Price Movement (RPM) cap in-line with the reasonable carbon costs faced by retailers. In this regard, Alinta is supportive of the methodology proposed by AGL which we believe represents a reasonable approach.

In considering the methodology proposed by AGL, the Commission should acknowledge that it is setting a cap which ultimately sets the upper bound of prices. Actual prices, particularly those which include a customer's discount, will generally sit well below this point. However, if the cap is set too low then retailers will be unable to compete with the regulated price. This will be to the detriment of the strong competition that currently exists and ultimately to the detriment of customers. On the other hand if the cap is set relatively high, competition will continue to thrive as retailers continue to offer prices below the cap while still covering their reasonable costs.

Alinta would also like to add that its own experience thus far mirrors the view from AGL that *“the carbon pricing mechanism will also lead to other increased costs for electricity generators such as managing their*

*compliance requirements with the mechanism and related legislation (i.e. monitoring, reporting, and verification of CO<sub>2</sub> emissions) and increased capital requirements associated with the purchase and surrender of carbon units.* Further, Alinta notes that the introduction of the Carbon scheme has resulted in increased operating costs from a retail perspective in regards to compliance and administration costs from the introduction of the *Clean Energy Act 2011*. These matters should be taken into account when considering AGL's proposal.

Should you require any further information in regards to Alinta's submission, please do not hesitate to contact me on 08 9486 3762.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'm/shepherd'.

Michelle Shepherd  
General Manager Regulatory Affairs