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Government of South Australia

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Dr Pat Walsh
Chairperson
Essential Services Commission of South Australia
GPO Box 2605
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Dear Dr Walsh

Thank you for the opportunity to provide comment on AGL SA's (AGL's) Application for a Special Circumstances Review of the Electricity Standing Contract Price Determination 2011 – 2014 by the Essential Services Commission of South Australia (ESCOSA).

The Energy Markets and Programs Division (the Division) remains committed to facilitating a competitive retail energy market whilst continuing to ensure there are sufficient protections for customers who remain on the standing contract. It is essential that any price rises are fully justified and provide sufficient certainty to enable electricity customers to make informed choices.

With this in mind, the Division remains concerned that the methodology AGL has proposed to estimate its wholesale carbon costs that apply to the Standing Contract is inconsistent with the methodology used in the price determination.

In its application, AGL has used a NEM-wide carbon intensity of existing generation plant, which would be likely to overstate the carbon price impact in South Australia given its lower carbon intensity electricity supply. This is inconsistent with the price determination's "greenfield" portfolio assumptions. The most recent Commonwealth data indicates that the carbon intensity of South Australia's electricity supply is around 0.68 tonnes / MWh.

Accordingly, the Division consider it would be prudent for ESCOSA to apply a more consistent methodology in considering the appropriate adjustment to the tolerance band as a result of the introduction of a carbon price.

Another potential approach that appears more consistent with the price determination would involve using the carbon intensity of South Australia's generation plant.

Should you wish to discuss these issues please contact Ms Rebecca Knights, Director of Energy Markets in the Energy Markets and Programs Division of the

Department for Manufacturing, Innovation, Trade, Resources and Energy on
telephone 8204 1715.

Yours sincerely



Vince Duffy
EXECUTIVE DIRECTOR
ENERGY MARKETS AND PROGRAMS DIVISION

15 March 2012