

Mr Nathan Petrus
Director, Pricing and Analysis
Essential Services Commission of South Australia
GPO Box 2605
Adelaide SA 5001

By email escosa@escosa.sa.gov.au

29 August 2012

Dear Nathan,

This letter is a clarification of SACOSS' position on key issues raised in the AGL supplementary submission to the ESCOSA Electricity Standing Contract – Wholesale Electricity Costs Review. SACOSS is extremely keen to ensure that the SACOSS position is always accurately represented and to the greatest extent possible, clearly understood.

As you know, SACOSS has maintained a strong level of interest in the Wholesale Electricity Costs Review. SACOSS has engaged repeatedly with ESCOSA on this and related issues over the past months. SACOSS made a substantial submission to the Commission's Electricity Standing Contract – Wholesale Cost Investigation Discussion Paper¹.

On August 27th, 2012 ESCOSA published a supplementary submission from AGL Energy. The AGL Energy supplementary submission is a response to the issues raised in submissions to the Discussion Paper. The SACOSS submission and one of its consultant reports (by Carbon + Market Economics) are the only submissions referred to explicitly in the supplementary submission.

SACOSS now offers the following submission so as to be sure the Commission is clear about our position and where necessary clarify the matters raised in the AGL Energy supplementary submission:

1. Role of standing contract price in a competitive market

AGL Energy paraphrase the SACOSS submission in the second paragraph of their supplementary submission, when they write (in AGL Energy's words): "*SACOSS has argued that the existence of headroom in the current standing contract tolerance band has not delivered value for South Australian customers.*" This summary is an inaccurate representation of the position SACOSS presented and outlined in our submission.

In practice the SACOSS submission emphasises that, regardless of methodology, the process of setting electricity standing contract prices invokes a need to, not just ensure some headroom exists, but to make a judgement on how big it needs to be.

¹ Submissions are available from <http://www.escosa.sa.gov.au/projects/178/electricity-standing-contract-wholesale-electricity-costs.aspx#stage-list=1> SACOSS made a submission with two consultant reports attached. The consultant reports are available from the same website as separate files.

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Further, the SACOSS submission indicates that SACOSS fully understands the role of headroom in ensuring competition develops. However, it does further clarify that SACOSS believes that this role has now expired as evidenced by the virtual freezing of standing contract customer numbers since mid-2009.

The point we would reiterate is that these 'sticky customers' for various reasons, are not seemingly going to move so why should they have to continue to pay, in AGL's words, the "cap to market prices"?

2. Regulated WEC methodology and data

The AGL supplementary submission refers to the SACOSS Submission where SACOSS states:

"As stated in the June 2010 SACOSS submission to ESCOSA's Electricity Standing Contract Price Path Inquiry, SACOSS interprets the dominance of vertical integration as a market response: physical hedges are obviously more cost effective for retailers than contract based hedges."

In their supplementary, AGL Energy appears to again have misunderstood the point being made by SACOSS.

SACOSS accepts that vertical integration is a 'natural' response from the market. The point is however, that it is so 'natural' in the current SA market that the 'prudent and efficient retailer' used in these regulatory processes should be characterised as being vertically integrated. The process is not about innovative new entrants – it is about the mass market and the four businesses that occupy over 90% of it.

3. Level of Competition in the SA retail market

In light of the above comments, SACOSS is extremely concerned that invalid conclusions may be drawn about our view of competitive markets and the role of industry regulation.

In this context, it is important to reiterate the SACOSS view of competition, as first noted in our previous SACOSS submission (page 7):

"Competitive markets accompanied by targeted and effective interventions to preserve access for the vulnerable are accepted as the basic architecture of a sustainable arrangement and SACOSS is committed to pursuing this."

In closing, while the AGL Energy supplementary submission also provides a critique of the CME report, SACOSS is of the view that the robustness and strength of the CME findings speak for themselves, and indeed, that they highlight the nature and extent of the problem with which the Review is concerned.

Yours sincerely,



Ross Womersley
Executive Director