

19 October 2012

Essential Services Commission of South Australia
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Business
Council of
Australia



**2011-2014 Electricity Standing Contract Price Determination –
Wholesale Electricity Cost Investigation**

A clear commitment was made by the Council of Australian Governments, when they amended the Australian Energy Market Agreement in June 2006, for all jurisdictions, including South Australia, to remove retail price regulation where competition was found to be effective.

This commitment remains in place. However, to date only Victoria has removed retail price regulation.

The Australian Energy Market Commission's *Review of the Effectiveness of Competition in Electricity and Gas Retail Markets in South Australia* in 2008 found that competition in South Australia's electricity and gas retail markets was effective.

Given this, and in particular the time that has elapsed since the decision, it is disappointing to note that South Australia has not yet removed all retail price regulation. There is no good reason for prices to continue to be regulated given that competition was found to be effective.

The Business Council of Australia therefore calls on South Australia to remove retail price regulation as soon as practicable.

The capital associated with the provision of electricity is of a very long-term nature.

In a market context, prices should reflect the efficient costs of the provision of the service. In general, prices should therefore cover long-run marginal costs and also reflect their time of use.

Given that South Australia still employs regulated prices, we would argue that long-run marginal costs, rather than short-run marginal costs, should be used in the determination of wholesale electricity costs.

Regards

A handwritten signature in black ink, appearing to read 'M Tarrant', written in a cursive style.

Maria Tarrant
Deputy Chief Executive