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Wholesale Electricity Cost Investigation
Essential Services Commission of South Australia
GPO Box 2605
Adelaide SA 5001

Email escosa@escosa.sa.gov.au

RE: ESCOSA Draft Determination - 2011-2014 Electricity Standard Contract Price Determination (Wholesale Electricity Cost Investigation)

General Electric (GE) welcomes the opportunity to respond to the Essential Services Commission of South Australia's (ESCOSA) Draft Determination from its Electricity Standing Contract Wholesale Cost Investigation.

GE is an active investor, technology and services provider in electricity generation, distribution and use in Australia. Indeed, GE's involvement in major projects in Australia dates back to 1896.

In his July 13 2012 submission to ESCOSA, The Honourable Tom Koutsantonis MP - South Australia's Minister for Mineral Resources and Energy – stated:

“Importantly, the Commission must determine the methodology that best reflects the wholesale electricity costs that should apply in the South Australian market. I believe a key focus of the methodology should reflect what is in the best interests for South Australian electricity consumers”.

Indeed, the Draft Determination restates ESCOSA's primary objective – as per Section 6 of *Essential Services Commission Act 2002* – is to “protect the long term interests of South Australian consumers with respect to the price, quality and reliability of essential services”.

Significantly, the ESCOSA's Draft Determination states *"competitive market outcomes are in consumers' long-term interests"*.

In 2008, the Australian Energy Market Commission (AEMC) concluded "competition is effective for small electricity and natural gas customers". In refusing to accept AEMC's recommendation for the removal of price control, the then Minister cited ESCOSA confirmation that "the South Australian price determination provides for pass through of these costs".

In 2002 and 2004, ESCOSA relied on Electricity Purchase Cost (EPC)-based approach for single-year determinations, and again in 2005 for the first minimum three-year determination.

However, ESCOSA *"departed from its practice... arising from the severe drought conditions that then affected the operations of the National Energy Market"* in 2007 for the second three-year determination and fixed the standing contract price at the mid-point of a range set by an upper bound of an Long-Run Marginal Cost (LRMC)-based approach and lower bound of an EPC-based approach.

Similarly in 2010, ESCOSA departed from placing sole weight on an EPC-based approach *"due to policy uncertainties as to the introduction of a carbon emissions pricing scheme, leading to a fall in forward market liquidity"*. ESCOSA stated in 2010 that:

"An LRMC approach, which 'looks through' the contract market to determine the underlying costs of generation is considered a more robust methodology under current circumstances".

An LRMC approach appropriately recognises the capital required to provide electricity is a long term commitment.

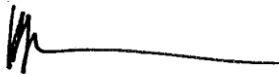
ESCOSA has summarized the arguments against reverting to the EPC-based approach on page 28 of the Draft Determination to be four-fold:

- it would discourage competition and/or investment;
- it ignores long-term costs and long-term supply arrangements;
- changing approaches mid-period increases regulatory risk; and
- insufficient liquidity exists in the market.

GE believes these arguments are valid and warrant further careful consideration by the Commission.

GE argues policy uncertainty, cited by the Commission in 2010 for the adoption of the LRMC, has not been remedied despite the enactment of the first tranche of Clean Energy Future legislation in late 2011 as referred to by ESCOSA on page 55. Since the commencement of the carbon price on July 1 2012, the Australian Government has announced the Contract for Closure program would not proceed and a carbon price floor would not be implemented as proposed for the first three years (2015 to 2018) of an Emissions Trading Scheme (ETS) with the linkage of the Australian and EU ETS from 2015. The Climate Change Authority is currently undertaking its first biennial review of the Renewable Energy Target. The Federal Opposition continues to pledge to withdraw the carbon-pricing mechanism and most associated programs if elected at the national election due in 2013.

For further information or clarification, please contact me on (07) 3001 4339 or kirby.anderson@ge.com.

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