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27 July 2004

Mr Lew Owens
Chairman
Essential Services Commission of South Australia
GPO Box 2605
Adelaide SA 5001

Dear Lew

Thank you for the opportunity to comment on the Issues Paper entitled 'Inquiry into Retail Electricity Price Path' dated June 2004.

Business SA is the leading voice of business in South Australia and represents many thousands of South Australian businesses ranging in size from micro business / sole proprietor to large multi-nationals, all of whom require electricity as an essential input into their business operations.

Business SA has previously provided comment to the Essential Services Commission of South Australia (ESCOSA) on electricity pricing issues, in particular the 2004 Electricity Standing Contract Price discussion paper of October 2003. Our comments to this inquiry reflect the position that Business SA presented to the 2004 Electricity Standing Contract Price inquiry.

We have reviewed the contents of the Issues Paper and would like to make the following comments:

1. Business SA believes that where possible, all competitive markets should operate unrestricted by government intervention. The exception to this is where market failure or market immaturity has been demonstrated as detrimental to consumers. While Business SA does not believe that market failure has occurred in the electricity market, we do believe that the market is immature and requires some government intervention to protect consumers and promote increased levels of retail competition through the provision of reasonable headroom for the incumbent retailer. We believe that market maturity will be demonstrated by adequate supply side response to consumers. Reasonable headroom allows the incumbent retailer's operations to be commercially viable and increases the opportunity for new retailers to enter the market.

On this basis, Business SA supports the retail electricity price path to provide a minimal level of protection for consumers as long the following conditions are met:

- the price determination provides sufficient headroom in the retail market to encourage greater competition
- all consumers, regardless of whether domestic or business are treated equally:



2. Both wholesale and retail electricity prices have demonstrated their ability to fluctuate over time. It is important that any price path contains the ability to monitor and be amended to reflect changes in the electricity market.

As the price path will be set for three years, we believe that there should be a mechanism put in place to allow yearly reviews of the price path and to adjust where necessary. These yearly reviews should consider changes in contract prices reflecting either increases or decreases in the price of electricity.

3. While Business SA is cautious about the use of a prudent retailer model, we believe that the ESCOSA has demonstrated its ability to implement this model appropriately to achieve the outcomes required.

However, it may be appropriate that the ESCOSA undertake a review of the prudent retailer model against real data. This could be achieved by a review of AGL's contracts following the determination based on the prudent retailer model. We accept that a review of this nature may potentially raise inconsistencies between the two models, however serious inconsistencies should result in a review of the prudent retailer model and the ESCOSA's process.

4. All of the objectives contained in the Issues Paper concentrate on the supply side of the electricity market. Since electricity is a commodity that can not be stored, much of the efficiency must be gained from the demand side of the market. Business SA believes that the price path should include a pool analysis tool to determine issues such as risk and load factor. Demand Management has an impact on the pool price and should reduce the risk element for retailers in the market. The retail electricity price should reduce to reflect a reduction in the risk element. Furthermore, the pricing models must include parameters such as reward for good behaviour by the demand side such as reduced usage, improved efficiency and predictable usage patterns.

Overall, Business SA is comfortable with the introduction of a retail electricity price path for South Australia, with a consideration of the points made above. Business SA is also supportive of the maintenance of reasonable headroom in the electricity market to encourage and promote increased competition in the electricity retail market.

Yours sincerely,

Peter Vaughan
Chief Executive Officer