

30 July 2004

Mr Lew Owens
Essential Services Commission of South Australia
MAC Building
Level 8, 50 Pirie Street
ADELAIDE SA 5000

Dear Mr Owens

Inquiry Into Retail Electricity Price Path – Issues Paper

Thank you for the opportunity to comment on the Inquiry into Retail Electricity Price Path – Issues Paper released in June 2004.

As the subject of the Issues Paper relates to the retail electricity industry ETSA Utilities is limited in the comments we feel qualified to make.

ETSA Utilities' major issue is with Section 5 – Price Path Establishment and Section 5.1 in particular. The question raised by the Essential Services Commission of South Australia (ESCOSA) is

What form of regulation/price path formula should the Commission adopt?

What correction factors and rebalancing parameters, if required, should the Commission consider or allow?

ETSA Utilities understands the principle of establishing standing contract prices that will apply for a number of years to give those small customers who opt not to accept market contracts some certainty on the electricity prices they can expect in the medium term.

ESCOSA has indicated in Section 4.2.4 that in accordance with regulatory practice elsewhere, 100% of network charges will be passed through in retail prices. ETSA Utilities supports this as the correct interpretation and it is readily achievable if network charges are structured in line with the relevant determination on standing contract prices. This arrangement will ensure that network pricing signals are passed through to all customers, and prevents the potential for customers to bypass network charge changes if standing contract prices were fixed in total.

There will also be occasions where expenditure is required by the distributor that is not foreseen at the time of setting distribution charges eg FRC and OMS during this initial regulatory period. In addition decisions made by the ACCC on transmission prices will impact on the TUOS pass-through.

ETSA Utilities believes that allowing a pass-through for these type of events is required in determining standing contract prices to ensure equity with market contract customers. If there is no pass through allowed the retailer will absorb the cost and the standing contract customers will not see the increase. This reduces the benefits of price signals, as the final customer is not affected. The pass-through arrangement also prevents the retailer from receiving a windfall gain/loss.

If you have any questions please contact Mr James Bennett, Manager Regulation on 8404 5261.

Yours sincerely

Eric Lindner
General Manager Corporate Affairs