ETSA Utilities

Delivering energy to South Australians

18 October 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 – Discussion Paper released in September 2004.

Section 2.1 Overview

The price path proposed by AGL as shown on Page 9 of the discussion paper is potentially misleading because the underlying assumption is that network charges are stable and that any increase would be passed through to customers. ESCOSA has noted that as network costs make up almost half of the retail price, the proposed CPI price path would allow almost double CPI increases in controllable costs during the period. ETSA Utilities believes that only AGL controllable costs should be shown in terms of percentage change in the price path and associated charges. Costs that are pass through amounts should be omitted to ensure a transparent view of AGL's request is shown.

Section 3.2 - Price Path Provisions

ETSA Utilities considers that the price determination should be delayed until March 2005, taking effect 1 July 2005 for the following reasons:

- this will provide adequate time for consultation on the draft determination consistent with the distribution price determination process;
- it will require only a single adjustment to customer prices arising from the retail and distribution price determinations as well as the annual transmission price reset rather than a separate adjustment for each; and

- distribution and retail tariffs can be designed with an understanding of both of their structures, combined impacts and ramifications.

Section 3.4.1 – The Instrument of Control

AGL's costs for default contract customers will vary as customer churn occurs. Some customers will transfer to market contracts with AGL, whilst others will transfer to other retailers as Tier 2 Customers. AGL's costs incurred will result from five key areas:

1. An operating cost per customer ($ per customer pa) for customers retained;
2. An average $/MWh for all residual load profile customers ($/MWh residual profile);
3. An average $/MWh for all controlled load profile customers ($/MWh controlled load profile);
4. Network charges (transmission and distribution) paid to ETSA Utilities; and
5. NEMMCO fees.

Ideally, any revenue control for AGL SA would recognise each of these variable cost components, to ensure the level or type of churn that may occur does not affect AGL's financial position. A five factor revenue control will cover any level of shift from business, large residential, small residential and residential/hot water. The operating cost, $/MWh residual load and $/MWh controlled load could be subject to a common CPI related constraint. Such an approach ensures that the headline CPI related arrangement reflects costs under the direct control of AGL and excludes those that are 'passed through'. Actual billings issued would recover this level of revenue. Note that bills issued should be controlled, not bills paid as AGL is given a reasonable allowance for bad debts within the variable cost structure above.

It would be inappropriate to use a CPI related control on the total customer price ($/MWh as discussed in the Discussion Paper) because of two reasons:

1. It would include some costs that will rise or fall outside of these controls (eg network prices, NEMMCO fees); and
2. The simple price control will not reflect the change in cost structure incurred by any mix change to default contract customers (eg where a particular segment such as small residential with hot water remain on default contracts).

Section 3.4.5 Flexibility for Re-balancing

ETSA Utilities believes that the existence of cross subsidies provides an opportunity for cherry-picking of the more profitable customers for transfer to market contracts.

ETSA Utilities supports the introduction of flexibility in re-balancing of tariffs such that cross subsidies and changes in costs can be addressed over time. A movement of up to 5% from the underlying average would be a reasonable cap, possibly expressed in the form of a maximum price control of (CPI – X + 5%).

ETSA Utilities understands that tariff re-balancing may affect customers who have a limited ability to pay for energy. There is no definitive link between a customer's ability to pay and their level of energy consumption. Energy tariffs are a blunt instrument to carry out social equity policy and would result in poorly targeted outcomes across the customer base. Such policies are best undertaken by Governments who decide which customers receive additional assistance in meeting their energy payments. Once the decision is made, the Government can support people through the use of concessions.

Section 4.5 – Interstate Benchmarking

The charts for domestic tariffs (5,000 kWh pa) and business tariffs (10,000 kWh pa) show that the retail component in South Australia is similar to that in Victoria and that the residential network charges are higher in South Australia (particularly residential). ETSA Utilities is unsure of the build-up of this graph, but is concerned that an excluded service charge for meter reading in Victoria averaging $17.50 pa has been omitted (this is part of the pass-through network tariff in South Australia). ETSA Utilities is also concerned as to whether correct comparisons have been applied in the business chart, as we understand a Victorian DB is 5% higher than ETSA Utilities. This is not apparent in the chart. There may be a different treatment of GST or some other factor.

ETSA Utilities business distribution prices continue to be competitive with the average Victorian DB prices. ETSA Utilities does expect that, on average, our network prices will be higher than Victoria for small customers for several reasons, including:

- High transmission charges resulting from poor load factor, low population density and major generation located more remotely from customers than in Victoria.; and
- High distribution charges resulting from poor load factor and low population density per kilometre of line. Note that the usage per residential customer is likely to be lower in South Australia than Victoria because of our milder climate, whilst the peak capacity required by each household driven by summer air-conditioning will be higher.

Both of these factors will increase the average price per MWh.

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

Yours sincerely

Eric Lindner
General Manager Corporate Affairs