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Mr Lew Owens
Chairperson
ESCOSA
GPO Box 2605
Adelaide SA 5001

Email: escosa@escosa.sa.gov.au

Dear Mr Owens

RE: Inquiry Into Retail Electricity Price Path: Draft Price Determination

NRG Flinders offers the following brief comments on the above price determination, on which ESCOSA has sought comment by 15 December 2004. NRG Flinders notes that ESCOSA is separately seeking comment on the draft report of the inquiry by 11 February 2005.

The majority of the issues raised by NRG Flinders in its comments to the inquiry appear to have been satisfactorily addressed in the approach outlined in the draft report, and reflected in the draft price determination. Consequently, NRG Flinders notes its broad support for the overall price framework proposed, which should provide the basis for continued transition to a competitive retail market.

NRG Flinders will reserve any further comments on the findings of the inquiry at this stage, and address specific issues related to the price determination.

In its previous comments to the inquiry, NRG Flinders commented on the need to ensure that appropriate allowance was made for pass through of significant uncontrollable cost events, while adopting reasonable cost allowances that allow scope for minor cost fluctuations.

Consistent with its earlier findings, ESCOSA has proposed in its draft price determination to allow for cost pass through in relation to changes in tax, regulatory reset events, reserve trader action and NEMMCO direction.



In relation to change in tax events, the draft report of the inquiry notes that pass through events would be expected to encompass any new levies, taxes, charges or responsibilities placed on AGL SA (p79).

However, a change in tax event has been defined in the draft price determination as an event applicable only to the electricity supply industry. Consequently, it is unclear that a new measure such as a broad-based greenhouse tax or emissions trading scheme (extending beyond the electricity industry) would be captured by the definition.

This appears to introduce an unwarranted element of uncertainty into the price path, given that this is arguably one of the more likely change in tax events in the foreseeable future.

In keeping with the apparent intent of this provision, NRG Flinders would therefore suggest that ESCOSA consider removing the limitation to tax events affecting only the electricity industry in the draft price determination.

This would remove any uncertainty over the treatment of material tax events genuinely outside the control of the retailer (noting that a range of existing taxes and charges is already excluded from the definition). More importantly, this would also reduce the risk that the price path would otherwise need to be reopened in such an event, which would be undesirable from all perspectives.

Should you wish to discuss this submission, please feel free to contact me on the number listed below.

Yours sincerely

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