Hon. Patrick Conlon BA LLB (Hons) MP

Minister for Infrastructure

Minister for Energy

Minister for Emergency Services

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Mr Lew Owens
Chairperson
Essential Services Commission of South Australia
Level 8, 50 Pirie Street
ADELAIDE SA 5001

Dear Mr Owens

I refer to the recently released "Inquiry into Retail Electricity Price Path Draft Final Report" and "Draft Price Determination" as provided under cover letter dated 30 November 2004. I note copies were also provided to the Treasurer. As the Minister for Energy, the Treasurer has requested I also respond on his behalf.

While this submission responds to both the Draft Inquiry Report and Draft Price Determination, I reserve the right to provide a further response to the Draft Inquiry Report prior to the February 2005 deadline, depending on the outcome of the Final Price Determination, as scheduled for release prior to 1 January 2005.

As has been publicly stated, the proposed price path will provide electricity consumers with some relief from the high prices that have plagued them largely as a result of the previous Government's flawed privatisation process. Further, by setting a three-year price path, South Australian small customers will finally receive greater price certainty over the medium term. This in turn will assist them in comparing their electricity costs under the standing contract regime, with the available market contracts and enable them to take advantage of the competitive retail environment.

The above notwithstanding, I do make the following comments on the Draft Price Determination and Draft Inquiry Report:

Price Path Period

The Government is concerned that the draft price determination is only to apply until 31 December 2007, thereby creating a period of misalignment with the annual price adjustments for ETSA Utilities.

I had anticipated the price path would cover the period to 30 June 2008, hence the terms of reference sought an investigation into the prices that will apply from 1 July 2005, for a period of no less than three years (ie to 30 June 2008). In effect, making a 3 ½ year price path from 1 January 2005. This is also consistent with the amendments made to the *Electricity Act 1996* by the *Statutes Amendment (Electricity*

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and Gas) Act 2004. In setting this timeframe, the Government was cognisant of the distribution pricing reset period, which covers financial years and so was intending to eliminate the need for ESCOSA to make bridging price determinations, as is necessary for the period 1 January to 30 June 2005.

Accordingly, I suggest that ESCOSA should consider a 3 ½ year price determination, so as to avoid multiple price adjustments within a single year.

Actual vs Prudent Controllable Costs

As a general observation, in drafting the terms of reference for the inquiry, the Government was particularly conscious of the need for the inquiry process to concentrate on the controllable costs of a prudent retailer and the benchmarking of these against AGL's actual controllable costs for the price path period. I raise the question as to whether too great a reliance has been placed on AGL's actual controllable costs.

Tariff Rebalancing Formula

I note the draft determination details the obligation upon AGL to ensure the standing contract charges to residential customers and those standing contract customers utilising off-peak hot water, regardless of their annual electricity consumption, is no more than CPI+4% greater than the applicable charge under that retailer tariff. The proposed cap is the greater of CPI+4% or $40 in the case of other non-residential tariffs applicable to small customers.

I do not see a case for there to be a distinction between the various small customer tariffs and rebalancing, if allowed, should focus on small customers as a class. Should ESCOSA still maintain the need for some distinction, it is imperative that residential customers as a class not experience tariff increases of more than CPI given the price increases residential customers have already experienced in recent years.

Pass-Through Events

I do not see any justification for including the instigation of Reserve Trader arrangements by NEMMCO and any costs this may generate, as a pass-through to the retailer's controllable costs and hence to standing contract prices. The risk of NEMMCO intervening in the market through Reserve Trader is a risk which retailers operating in the National Electricity Market are well aware of and would be expected to account for in managing risk through their contracting and hedge positions. Including such an occurrence as a pass-through event would amount to "double counting" where the retail margin already includes a risk premium.

I therefore consider that the contingency for such an event is already accounted for in the retail margin and the various risk premiums approved by ESCOSA.

Retail Margin

Thank you for your considerable effort in the preparation of the Draft Price Determination and Draft Inquiry Report and for the opportunity to provide comments.

Yours sincerely

HON PATRICK CONLON MP
MINISTER FOR ENERGY

16th December 2004