

**EXECUTIVE SUMMARY TO THE
REVIEW APPLICATION IN RESPECT OF
THE ELECTRICITY STANDING CONTRACT PRICE
DETERMINATION PUBLISHED ON 23 DECEMBER 2004**

1. The Review Application

- 1.1 The review application is an application for a review ("**Review Application**") lodged on behalf of AGL South Australia Pty Limited ("**AGL SA**") in respect of the Electricity Standing Contract Price Determination published on 23 December 2004 ("**the Price Determination**") by the Essential Services Commission of South Australia ("**the Commission**").
- 1.2 The Price Determination only applies to the regulated safety net standing contract and does not apply to residential and small business customers who choose to enter into a market contract to purchase their electricity. AGL SA is the only electricity retailer in South Australia which is required to provide customers with the option of choosing the regulated safety net standing contract.
- 1.3 AGL SA seeks a review of the Price Determination in respect of parts of the Price Determination that relate to wholesale energy costs, retail operating costs and retail margin, and consistency with statutory requirements and objectives.

2. Background to the Review

- 2.1 The Commission was required by the Government to investigate standing contract prices that will apply from 1 January 2005 for a period no less than three years. In doing so, the Commission has assessed the prudent electricity costs that AGL SA will have to incur to satisfy its standing contract obligations in South Australia for that period. Key elements of prudent costs are wholesale energy costs, retail operating costs and retail margin.
- 2.2 AGL SA has consistently supported this process and worked with the Government and the Commission with the object of providing certainty for standing contract customers and the energy industry over the medium term by ensuring that the standing contract prices reflect the costs and risks of satisfying the standing contract obligation. AGL SA recognises that these matters are important to achieving the inter-related objectives of protecting the long term interests of consumers and ensuring that a financially viable energy industry is maintained in South Australia.
- 2.3 As a part of the formal process which led to the making of the Price Determination, the Commission published in June 2004 an Issues Paper in relation to the Inquiry into Standing Contract Retail Electricity Price Path.
- 2.4 In response to the Issues Paper, AGL SA provided to the Commission a Proposal for Retail Electricity Standing Contract Prices for January 2005 – June 2008 ("**the AGL Proposal**"). Central to the AGL Proposal was that retail electricity prices for standing contracts be varied as follows:

	January – June 2005	July 2005 – June 2006	July 2006 – June 2007	July 2007 – June 2008
Retail Price Change %	CPI	1.3%	CPI	CPI

2.5 AGL SA believed (and continues to believe) that the AGL Proposal would achieve the appropriate balance between the inter-related objectives of protecting the long term interests of consumers and ensuring that a financially viable energy industry is maintained in South Australia .

2.6 AGL SA's submissions in the Review Application are in line with the submissions presented to the Commission in the AGL Proposal.

3. The Reasons for the Review Application

3.1 AGL SA acknowledges the role of the regulated safety net standing contract, and it is important that the prices payable under the standing contract appropriately reflect the costs of and risks associated with supplying electricity to standing contract customers.

3.2 Having completed a thorough assessment of the Price Determination, AGL SA is concerned that the standing contract prices determined by the Commission do not appropriately reflect the costs of and risks associated with supplying electricity to standing contract customers.

3.3 In making the Price Determination, the Commission decided not to accept the AGL Proposal. AGL SA remains firmly of the view that the AGL Proposal would achieve the appropriate balance between the inter-related objectives of protecting the long term interests of consumers and ensuring that a financially viable energy industry is maintained in South Australia. As a result, AGL SA has lodged the Review Application and has asked the Commission to reconsider its decision not to accept the AGL Proposal.

4. The legislative basis for the Review Application

4.1 The right to review a price determination is given by the *Essential Services Commission Act 2002* ("the **ESCA**"). This is the same Act that creates the Commission and sets out its powers, functions and duties. AGL SA has a window of 10 days from the publication of the Price Determination in which to apply to the Commission for a review. The Commission has a period of 6 weeks in which to consider an application for review. By the Review Application, AGL SA has initiated this statutory review process.

5. The Grounds for Review

5.1 The aspects of the Price Determination which AGL SA seeks to be reviewed are wholesale energy costs, retail operating costs and the allowable margin.

5.2 **Wholesale energy costs**

- (a) AGL SA believes that the Commission's assessment of the wholesale cost of energy for the period January to June 2005 is based on an inconsistent treatment of information given to the Commission before the Price

Determination was made. The information relates to the costs AGL SA incurs in purchasing electricity from the wholesale electricity market. AGL SA believes that the premiums relating to cap contracts have been given a treatment inconsistent with the Commission's treatment of like costs in subsequent years. AGL SA also believes that the Price Determination does not appropriately reflect the risks associated with the wholesale purchase of electricity for supply to standing contract customers, including changes in weather conditions, customer consumption, and the high degree of volatility in the South Australian wholesale electricity market. AGL SA seeks a consistent treatment of the wholesale energy costs component in each year of the Price Determination.

5.3 ***Retail operating costs***

- (a) AGL SA has also requested that the Commission reconsider its adoption of an average consumption of 7.4 MWh per annum and asks that the figure of 7.0 MWh, for average consumption be reinstated, which figure underpinned the submissions made by AGL SA prior to the release of the Price Determination in the AGL Proposal.
- (b) In adopting the figure of 7.4 MWh per annum, the Commission has used data which is three years old. AGL SA's view is that the Commission should use the most up-to-date data available which demonstrates that there have been changes in customer consumption over the last three years and that 7.0 MWh per annum is the appropriate figure.

5.4 ***Retail margin***

- (a) AGL SA notes the Commission's revised methodology for calculating AGL SA's retail margin and seeks to ensure relativity with the previously accepted methodology (ie a retail margin of not less than 5 per cent of the bundled standing contract price).