



Public Forum Presentation

Review of Electricity and Gas
Regulated Retail Prices

4 December 2003





Presentation Outline

Introduction

Our customers

Our retail business

Our proposals

Concluding comments

Craig Murray

John Adams

Terri Benson

Craig Murray





Introduction

Craig Murray
Managing Director



Our business philosophy

- To *be 'Australia's leading utility business'*
- A strong commercial focus
- To balance price and service
- A commitment to providing sustainable regulated retail services in country and coastal communities



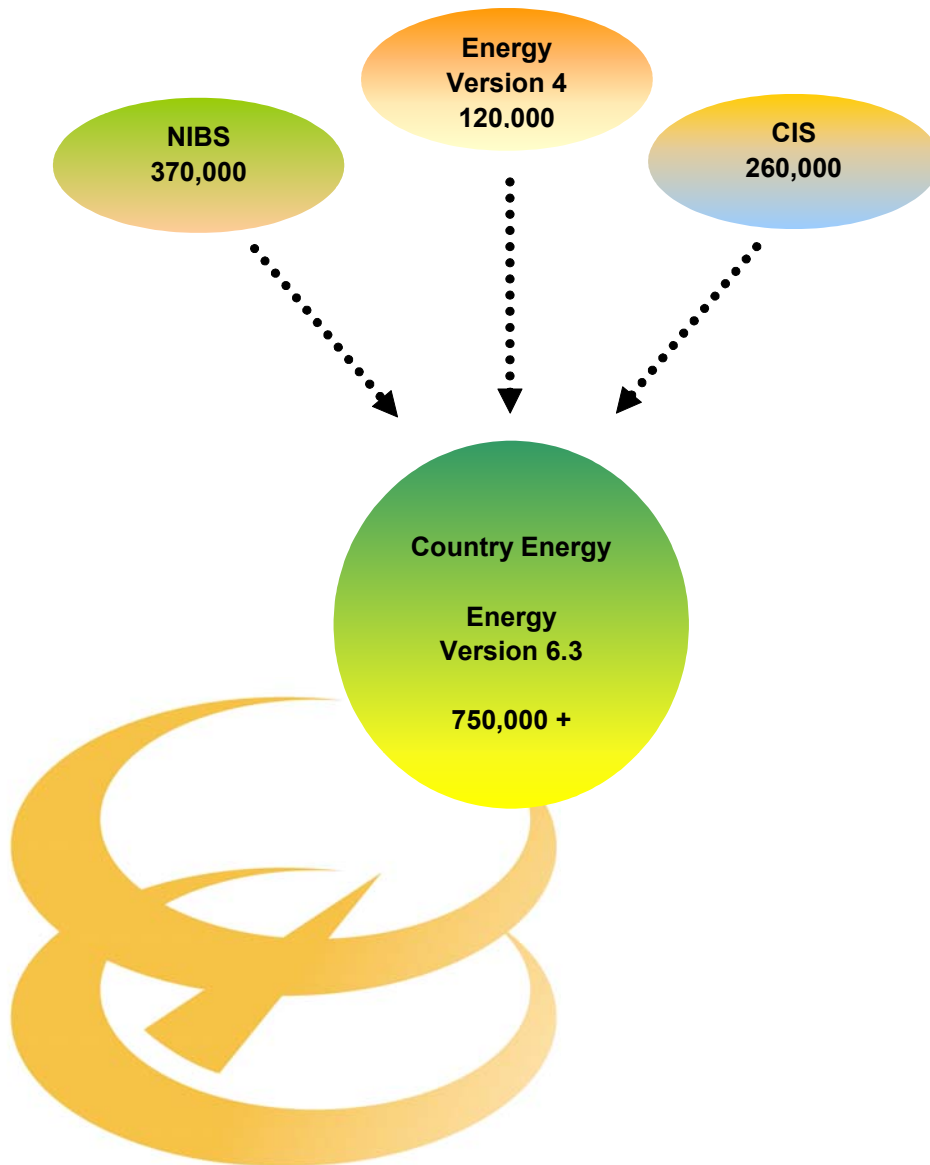


Our achievements

- Successful integration of three energy retailers
- Extensive customer consultation
- Moving to deliver price consistency
- Country Support
- Growing customer satisfaction



Development of a
single customer
information system, full
retail competition
systems and improved
customer services

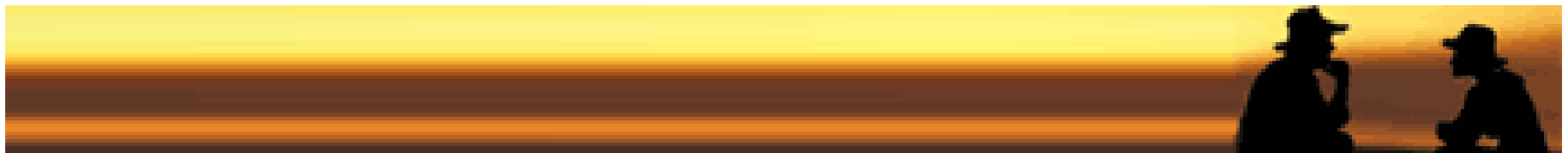




'Country Support'
introduced
Active community
consultation

**Focus on meeting
customer needs**

**Increasing customer
satisfaction**



Customer Service Principles

- Be Professional
- Take Ownership
- Display Empathy
- Be Innovative
- Escalate Issues





Our Priorities

Fair and equitable prices for customers
Balance between price and service
Higher levels of customer satisfaction





Our retail business

John Adams
Group General Manager
Retail





Our retail business

Snapshot of the business

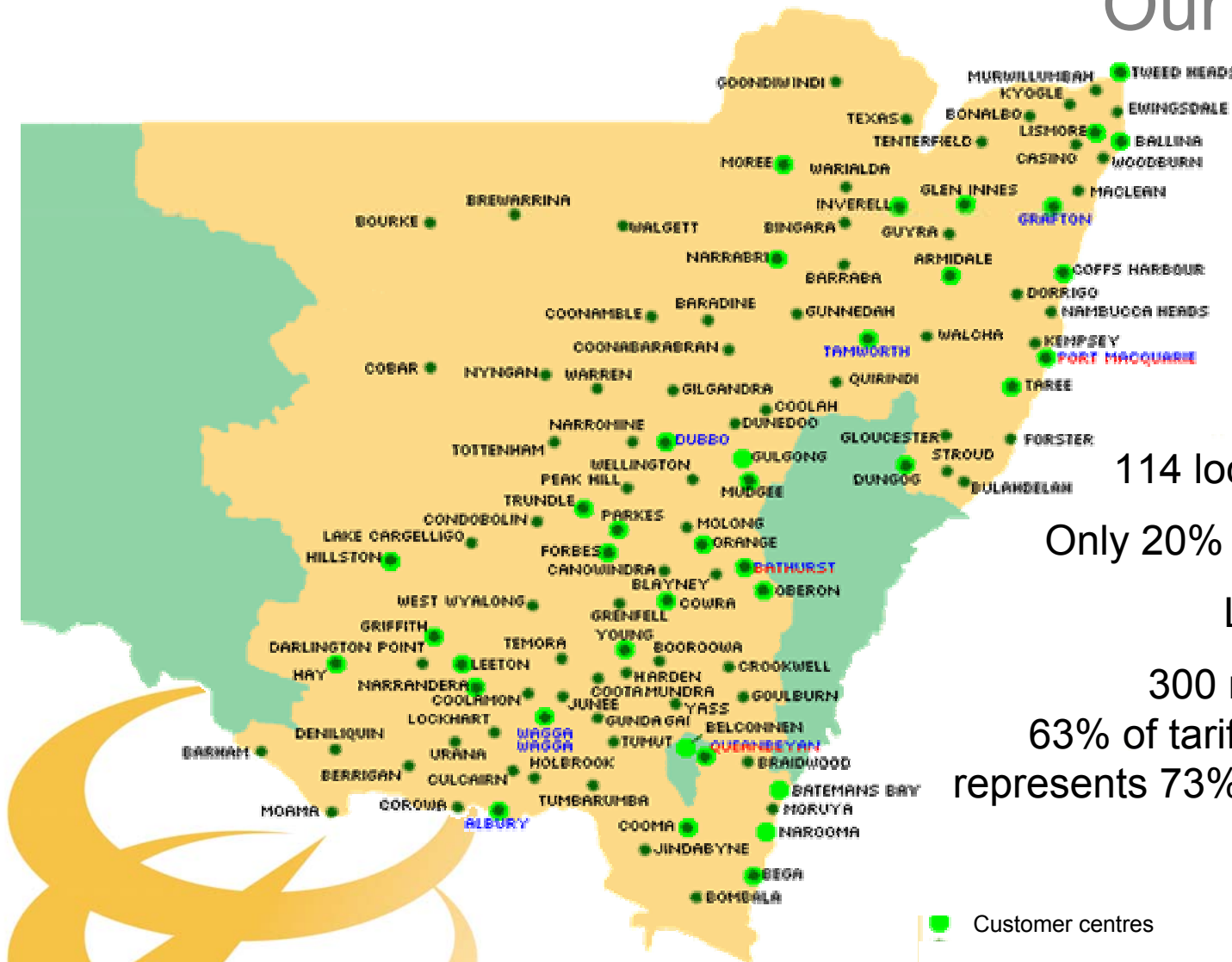
Impacts of full retail competition

What our customers want

Our priorities



Our supply area



Annual regulated revenue \$730 M

700,000 customers

75% of NSW

38 customer centres

114 local government areas

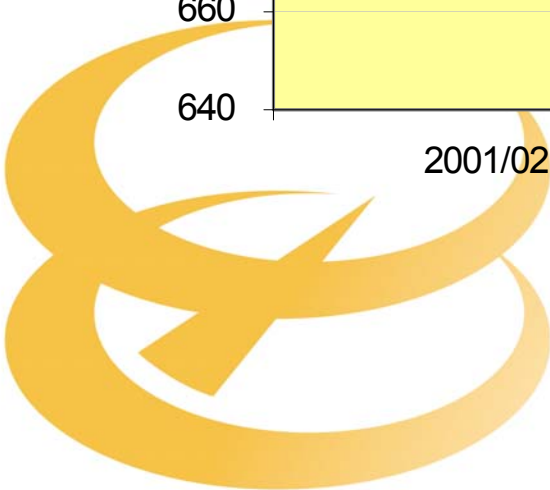
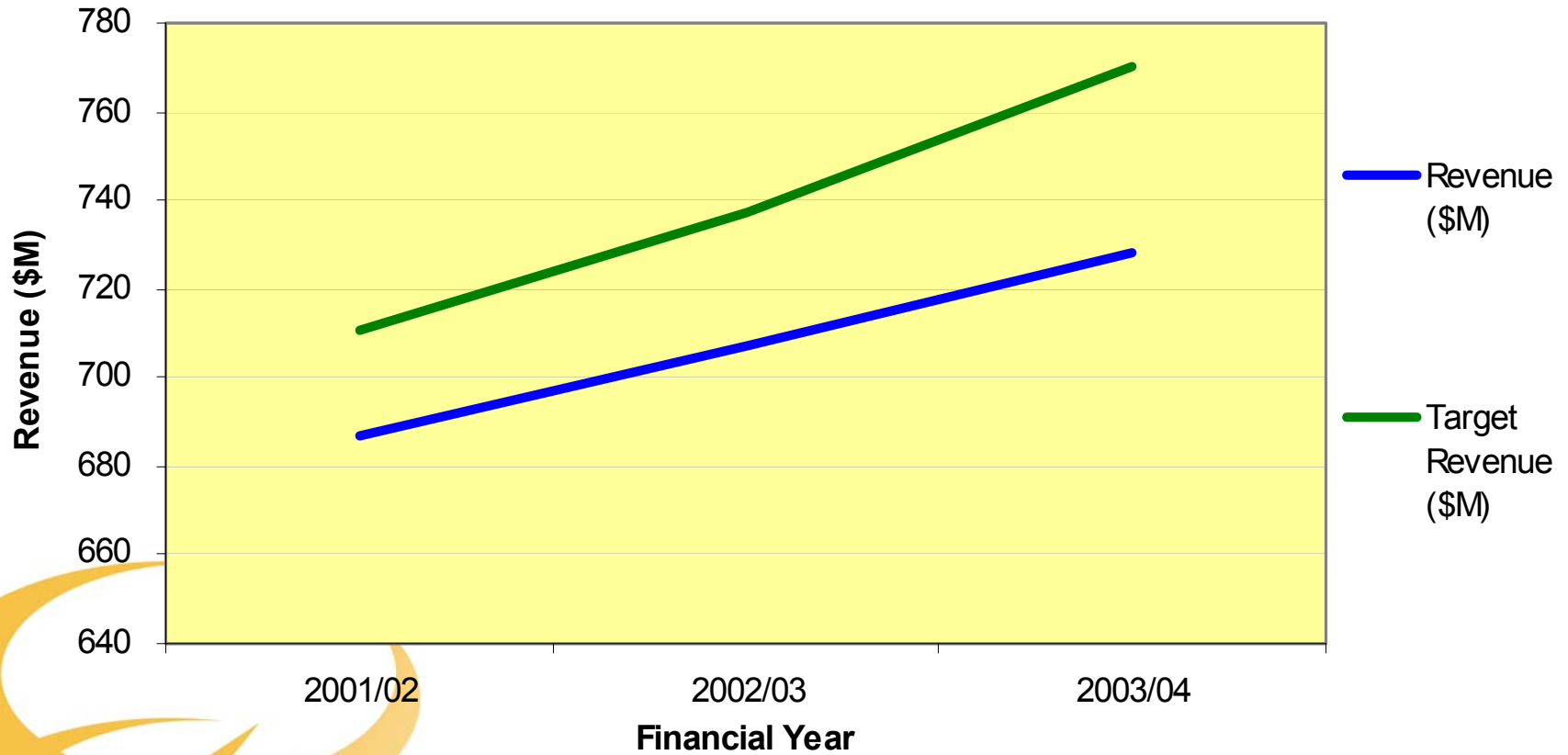
Only 20% of State consumption

Low customer density

300 regulated retail prices

63% of tariffs below target levels
represents 73% of total consumption

Regulated Retail Electricity



Our Gas business

Voluntary Pricing Principles apply to low-usage customers in ;

- Bombala
- Cooma
- Culcairn
- Holbrook
- Temora
- Wagga Wagga

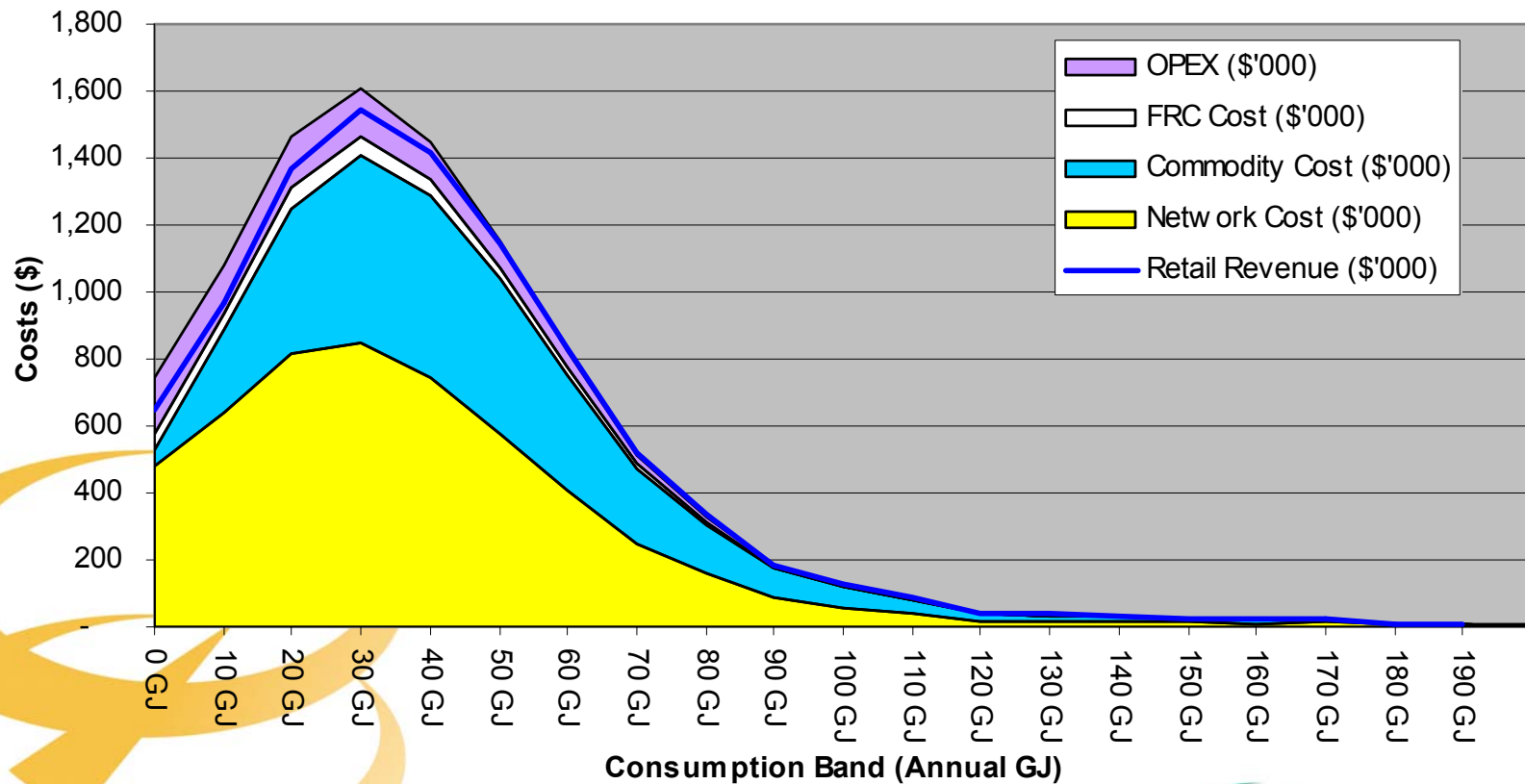


Historically low prices

Partially addressed during the last review, still more work to be done

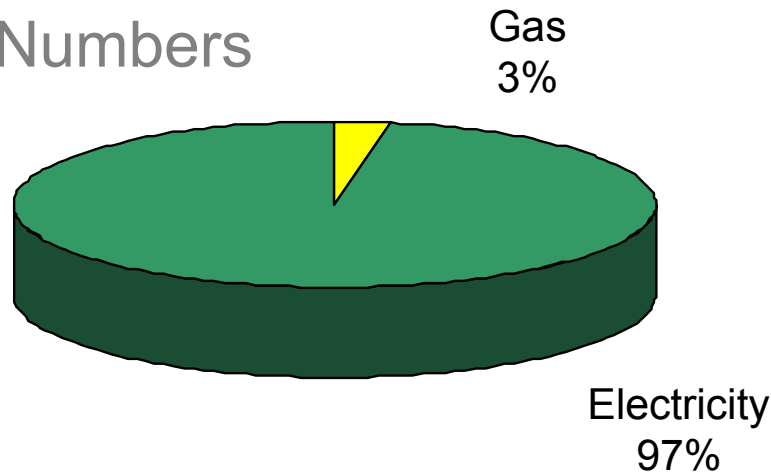
... \$10M annually in revenue (735 GJ)

2003 Base retail costs versus 2003 Revenue

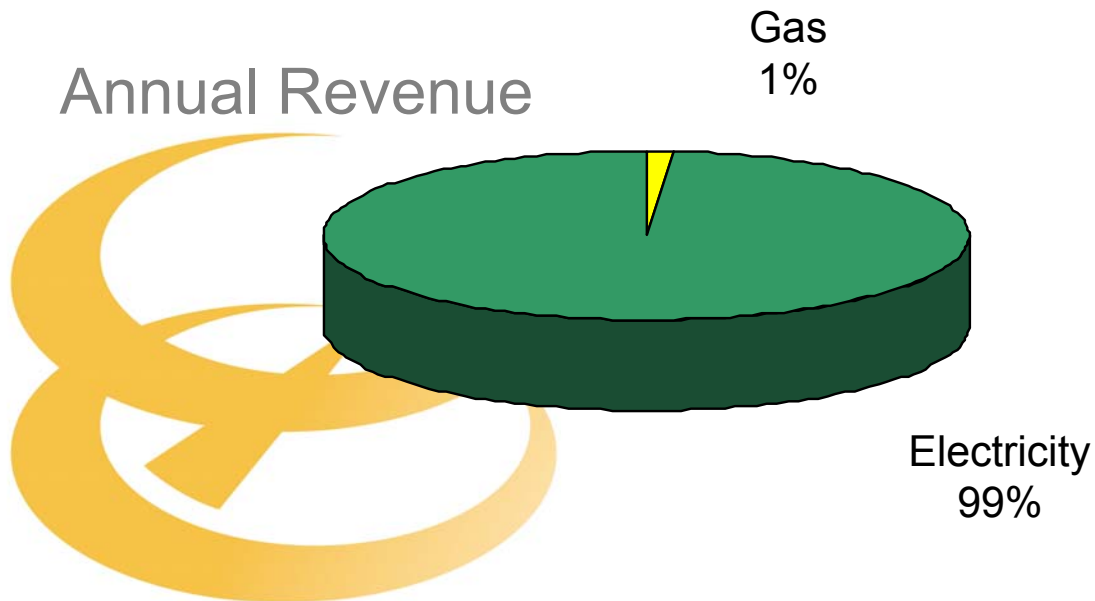


Gas vs Electricity

Customer Numbers



Annual Revenue



Understandably focus is on electricity but principles in most instances apply equally

Full Retail Competition ... what are the impacts

To date relatively low
activity levels and
impacts

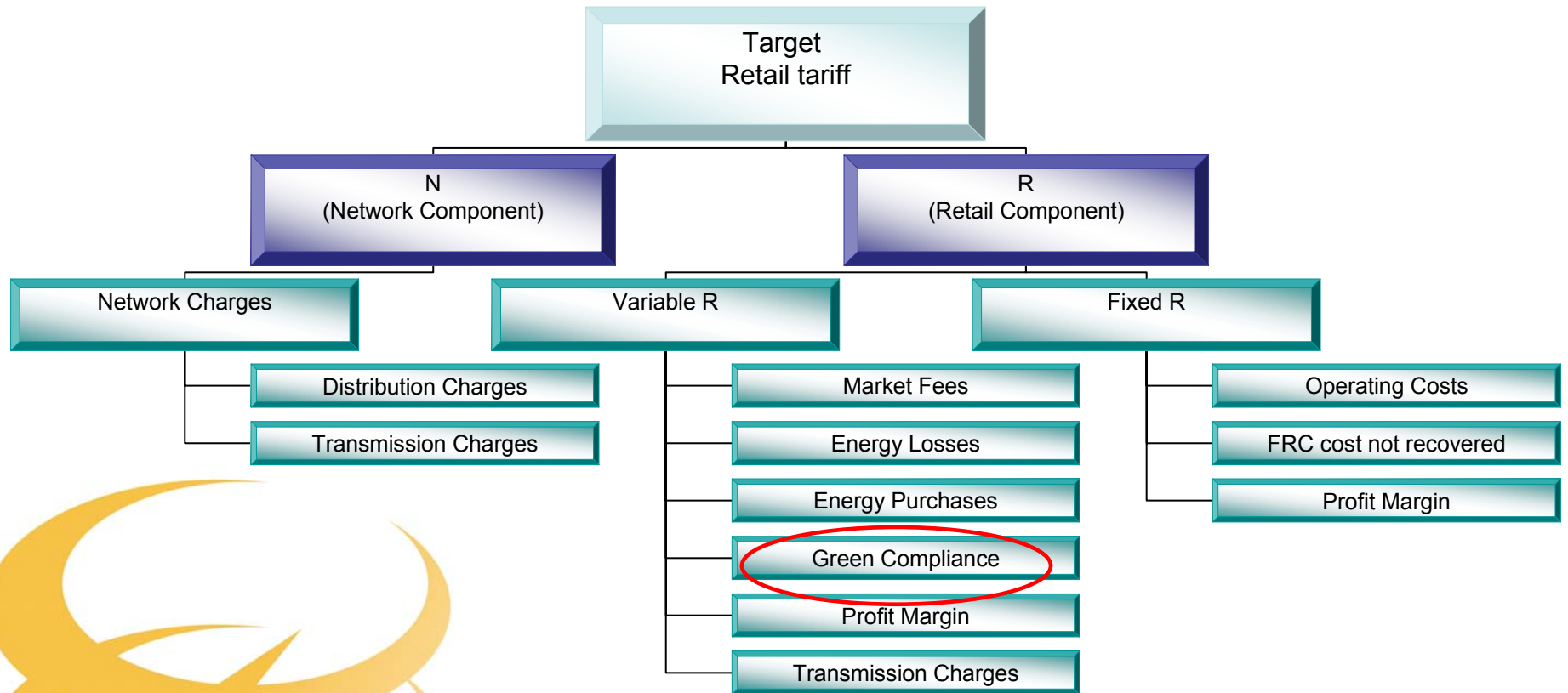
Regulated activities
actually increasing



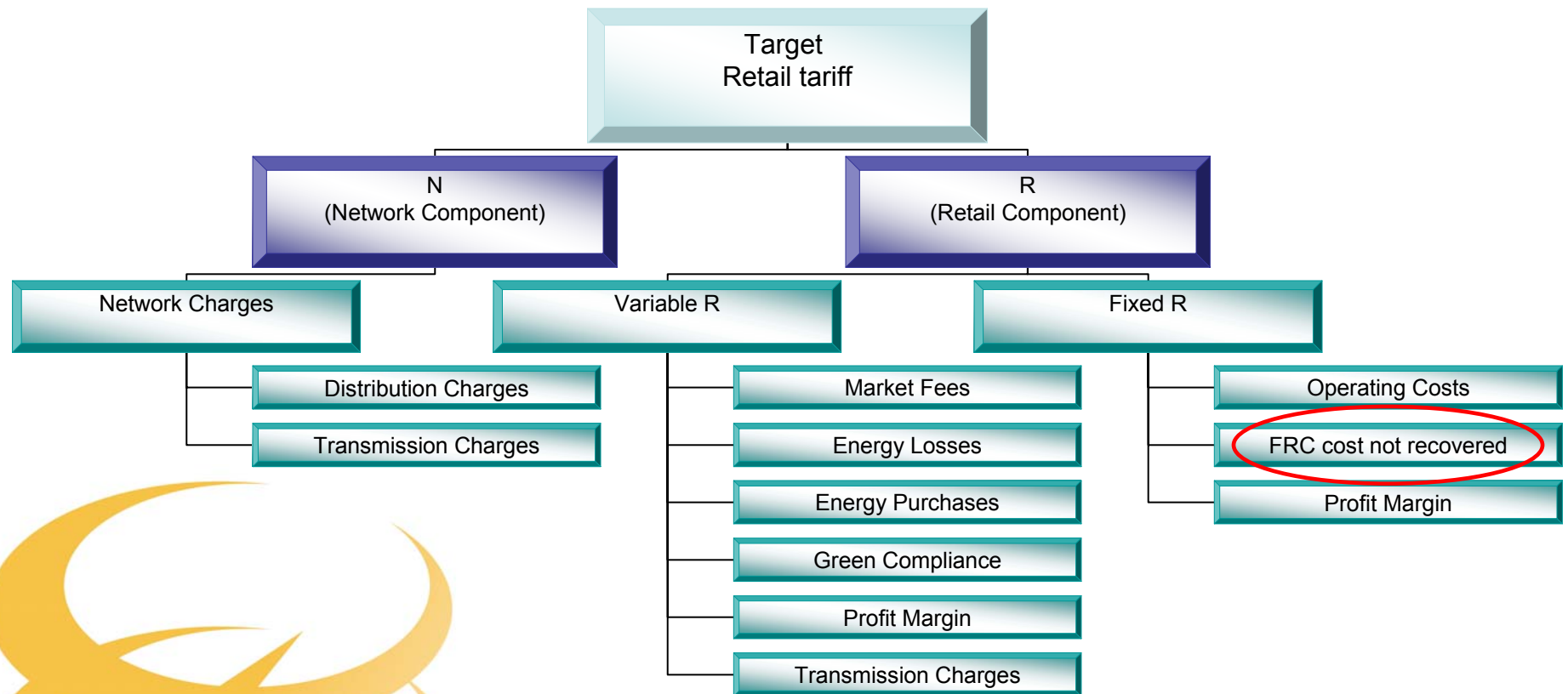
Need to mature our
understanding of long
term impacts

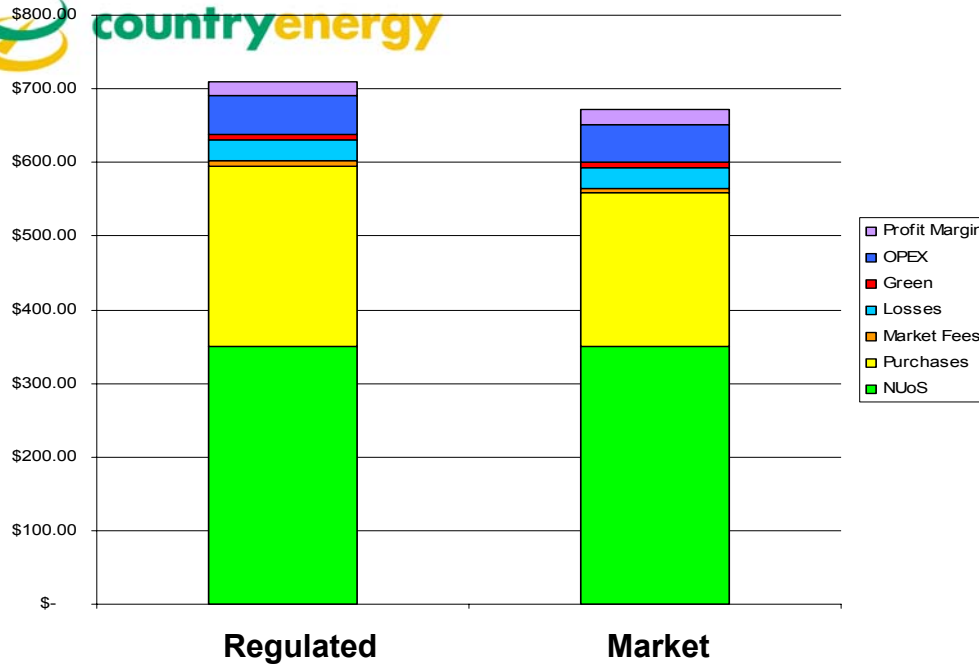


Building Blocks ... cost components



Building Blocks ... cost components

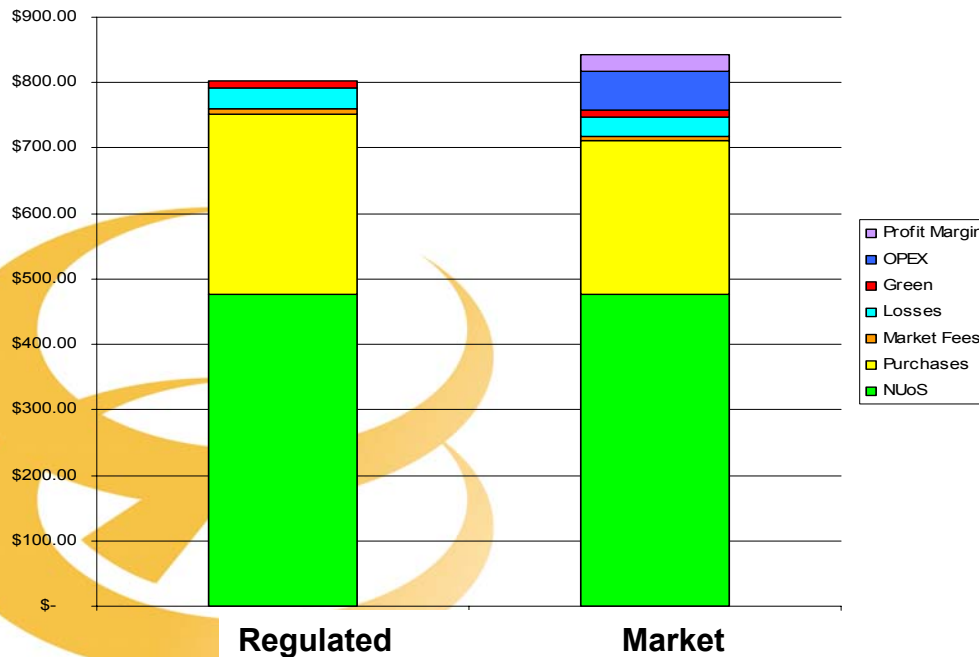




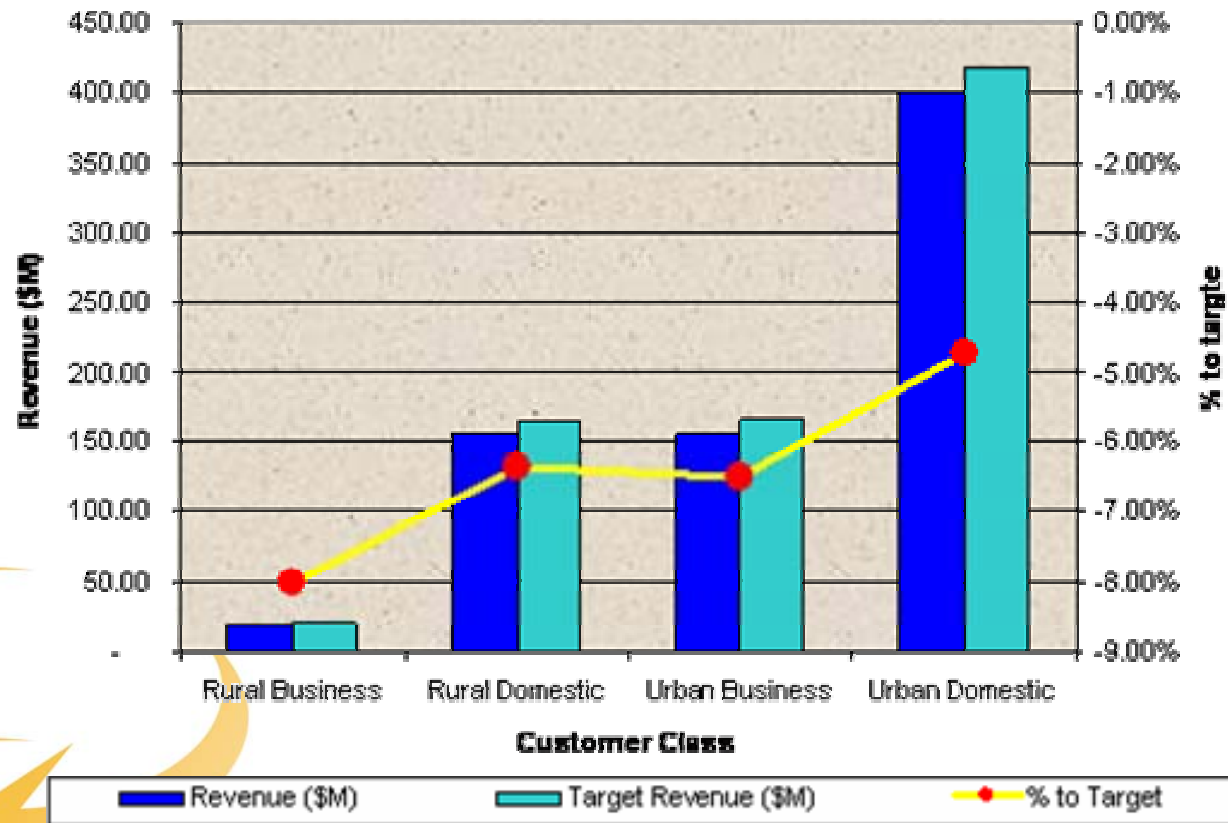
Appropriate Costs ... Network



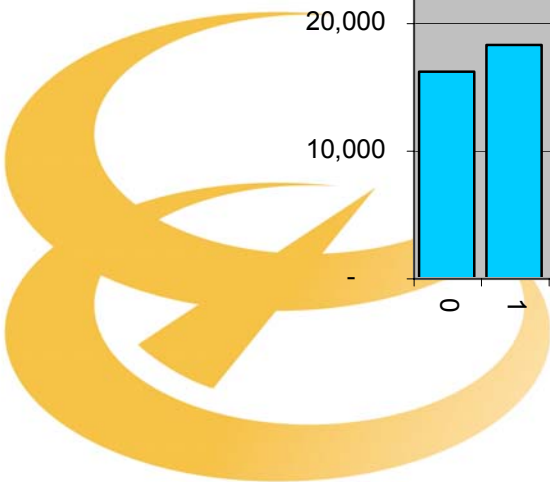
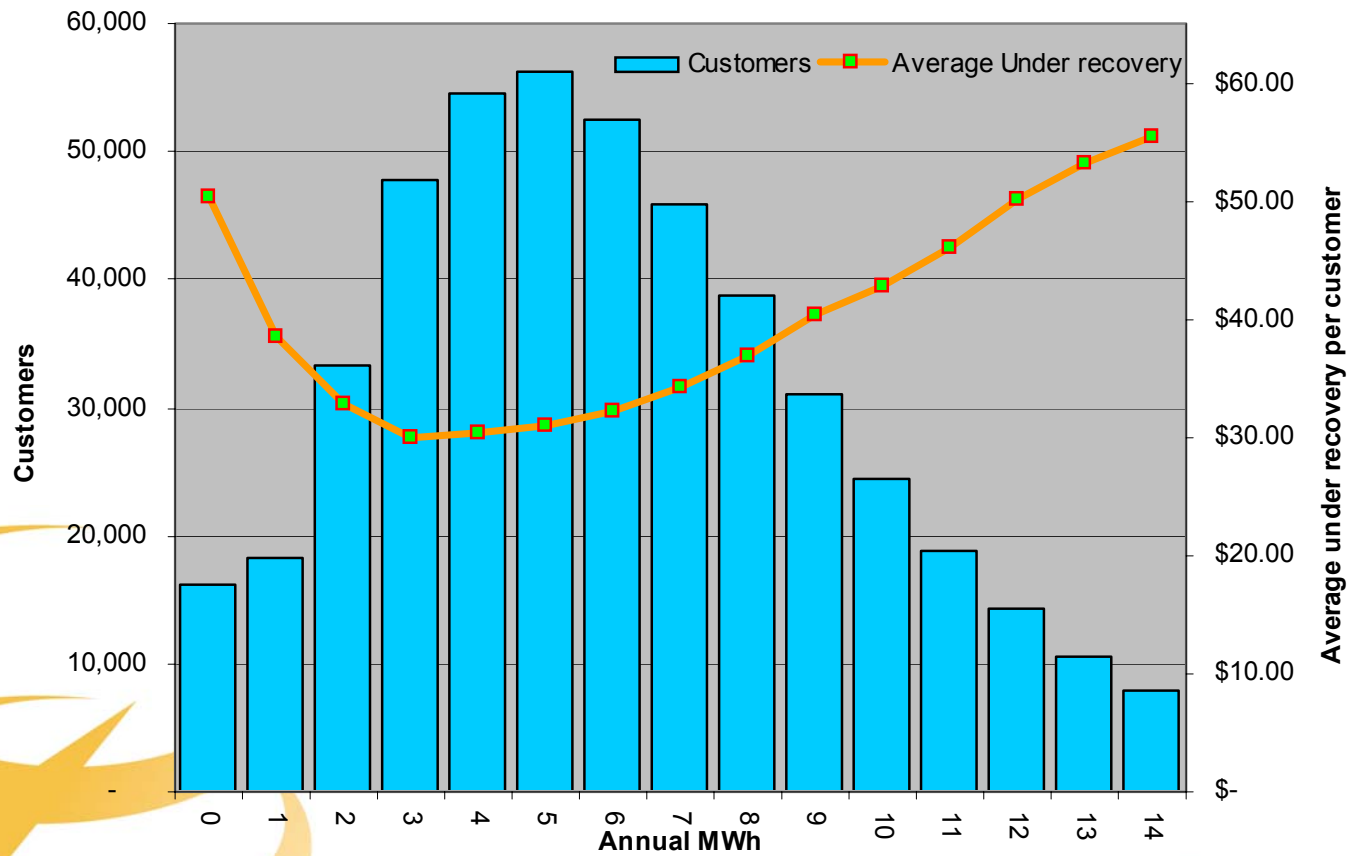
- Outcomes unknown
- Ability to pass through



Starting Point ... below target prices



Starting Point ... below target prices



Our customers ... customer research

Customer views obtained from

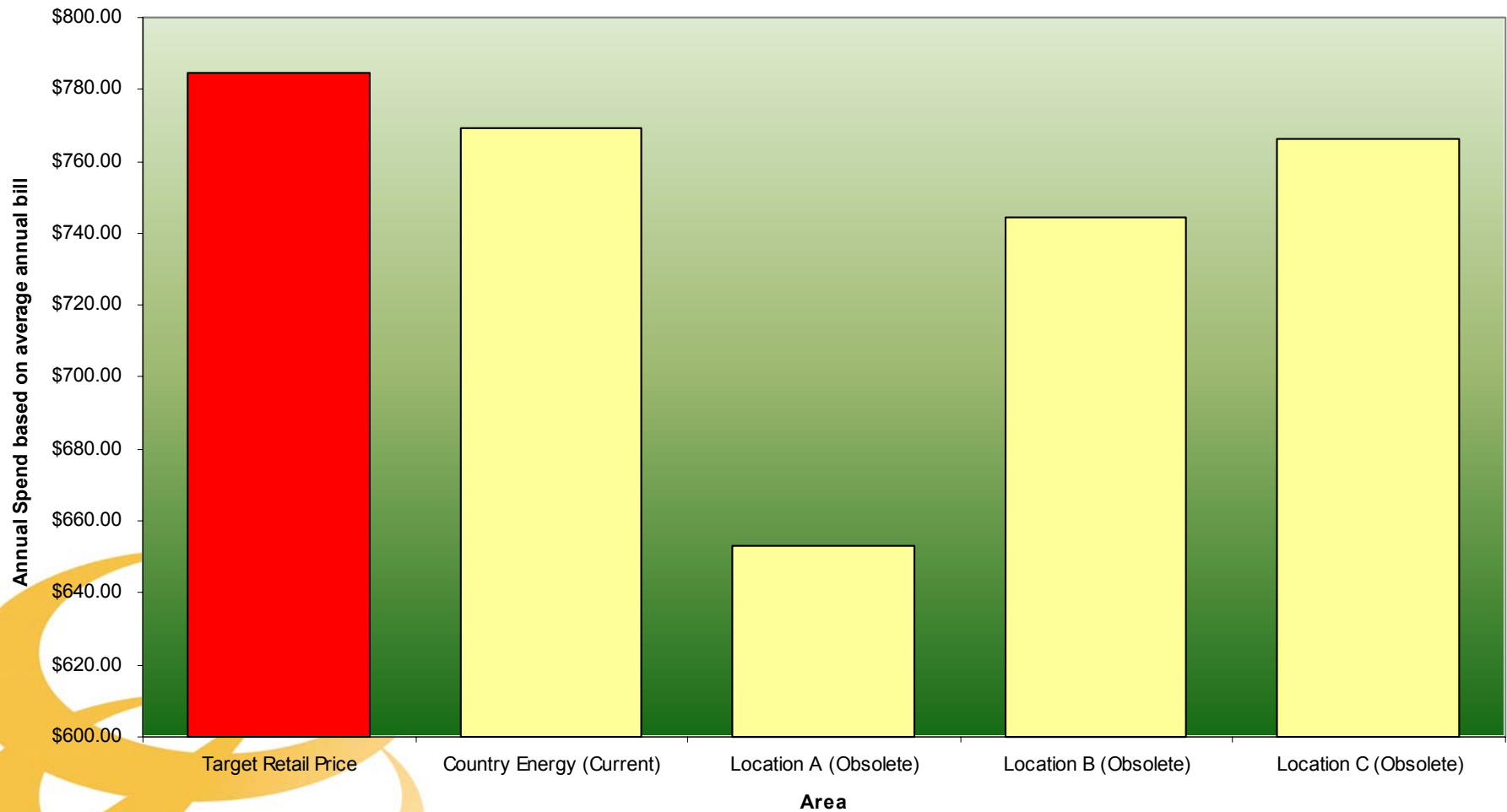
- Customer satisfaction surveys
- Customer council and rural advisory group
- Customer feedback
- Consultation with special interest and customer advocacy groups and organisations
- Customer research

Customer service tailored to customer needs

Customers accept the need for equity and price consistency

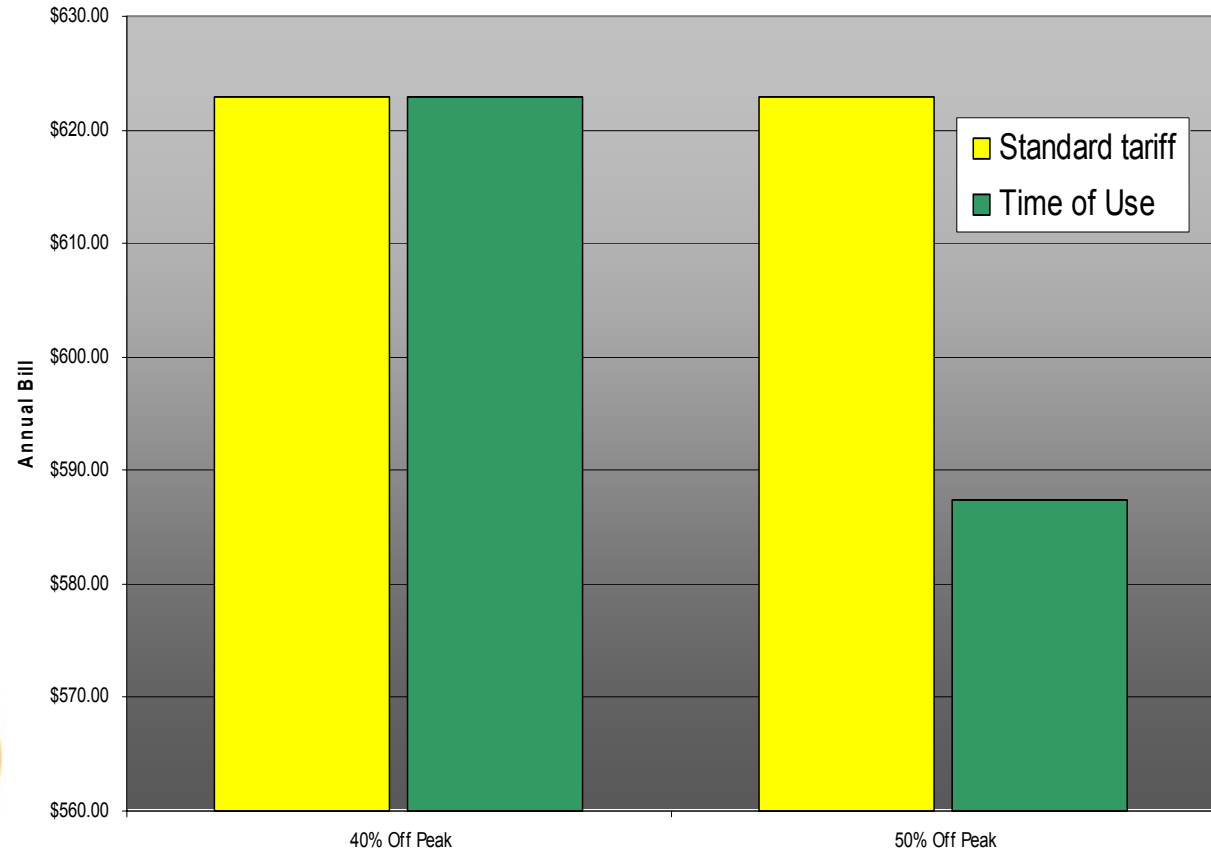
...and the opportunity to save money

Inequities ... 2003/2004



Demand Management and Price Signals

- Opportunity to reduce customer costs
- Retail prices need to reflect network price signals
- Correct economic signals come through cost reflective pricing





Outcomes for customers

Terri Benson
Group General Manager
Regulatory Affairs





Outcomes

The current framework

The principles

The options

The outcomes





The Principles that are needed

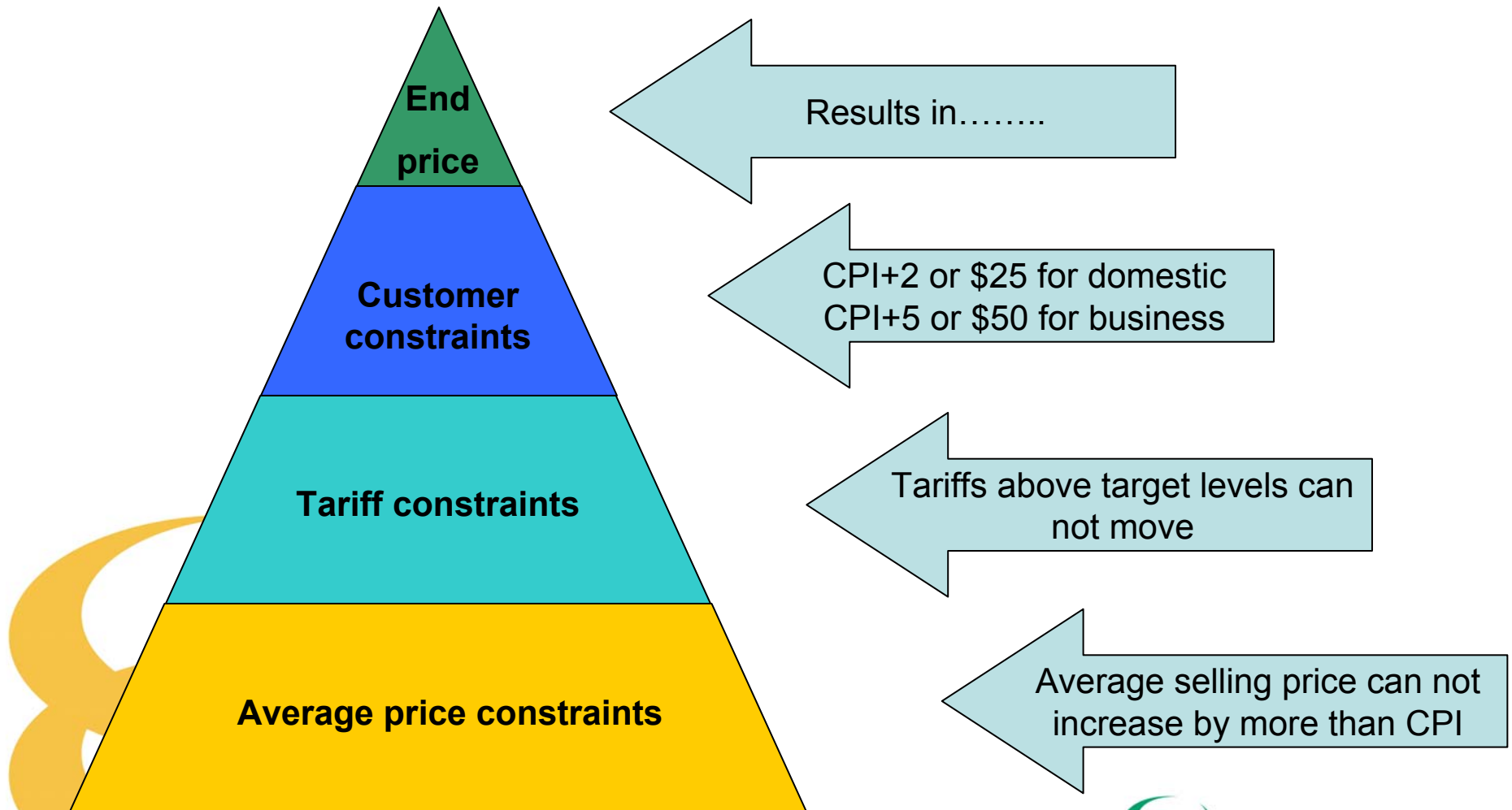
Equitable and efficient price outcomes

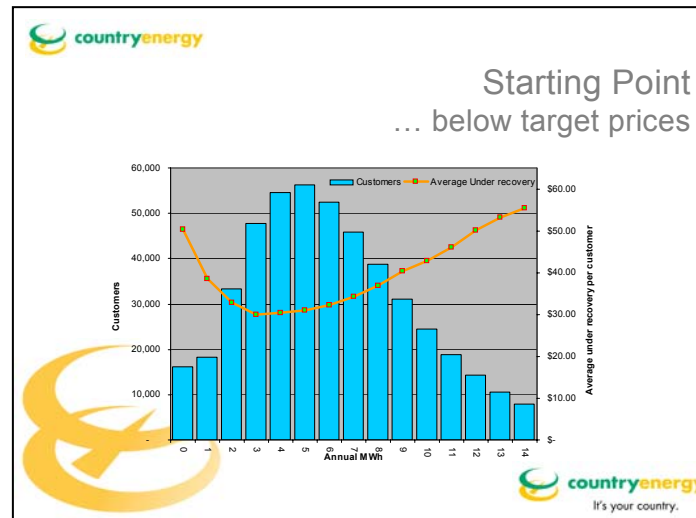
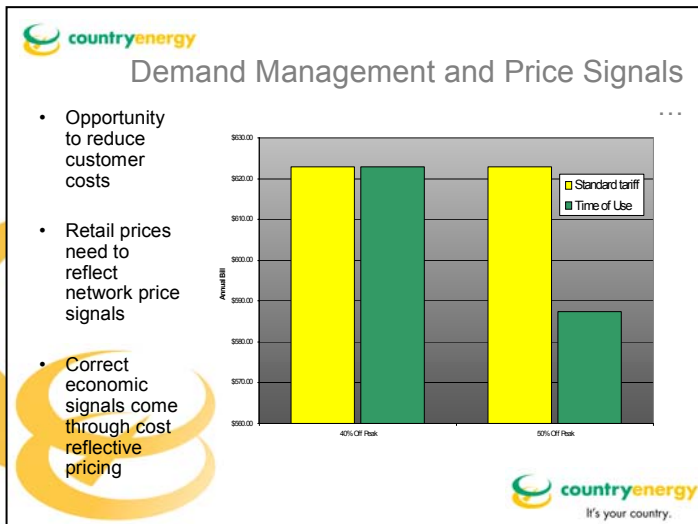
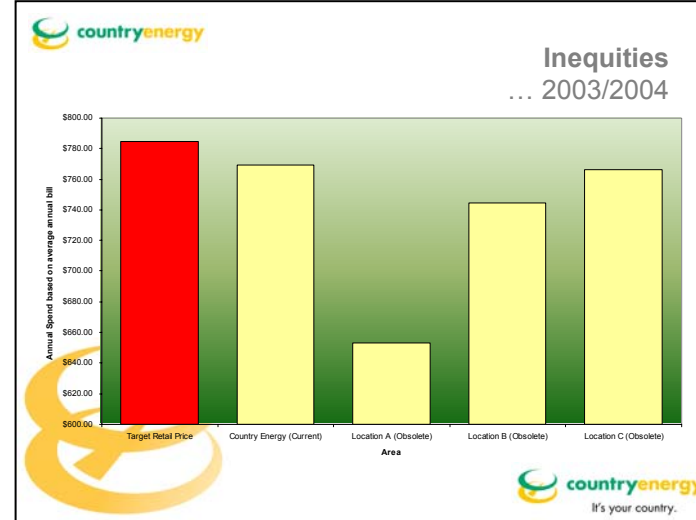
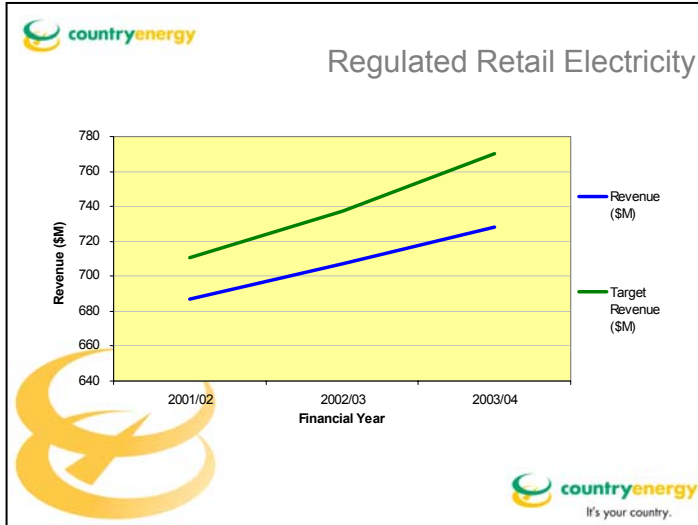
Tariff structures that preserve pricing signals and create opportunities for customer savings

Cost reflective prices



Current Framework ... the multiple layers





Country Energy's Proposal

Remove the overall CPI cap

Remove individual tariff constraints

Link network pricing outcomes

Provide flexibility in side constraints

Protect customers through agreed price constraints

... to achieve a fair transition to equitable and cost reflective prices

Pricing constraint should link network and regulated retail prices

$$\text{Allowed increase}_{04/05} = \text{CPI} + \left\{ \left(\frac{N_{05} - N_{04}}{N_{04}} - \text{CPI} \right) \times \left(\frac{\text{Network Revenue}}{\text{Regulated Retail Revenue}} \right) \right\} + R_{05}$$



Outcomes

... drivers of pricing outcomes

A number of factors will determine price outcomes

- Distribution network review outcomes (50% of final price)
- Energy purchases (40% or more of the final price)
- Application of retail side constraints

Additional variables include

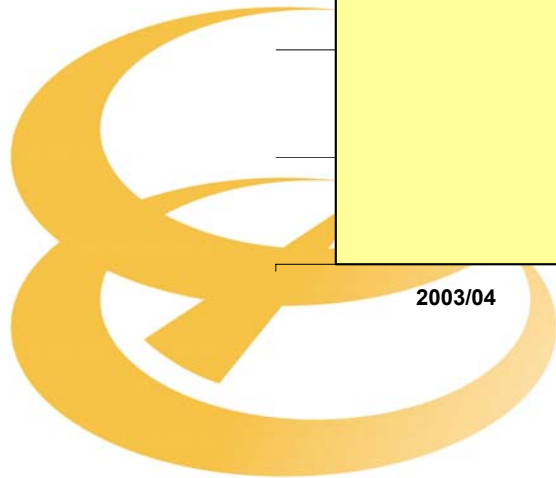
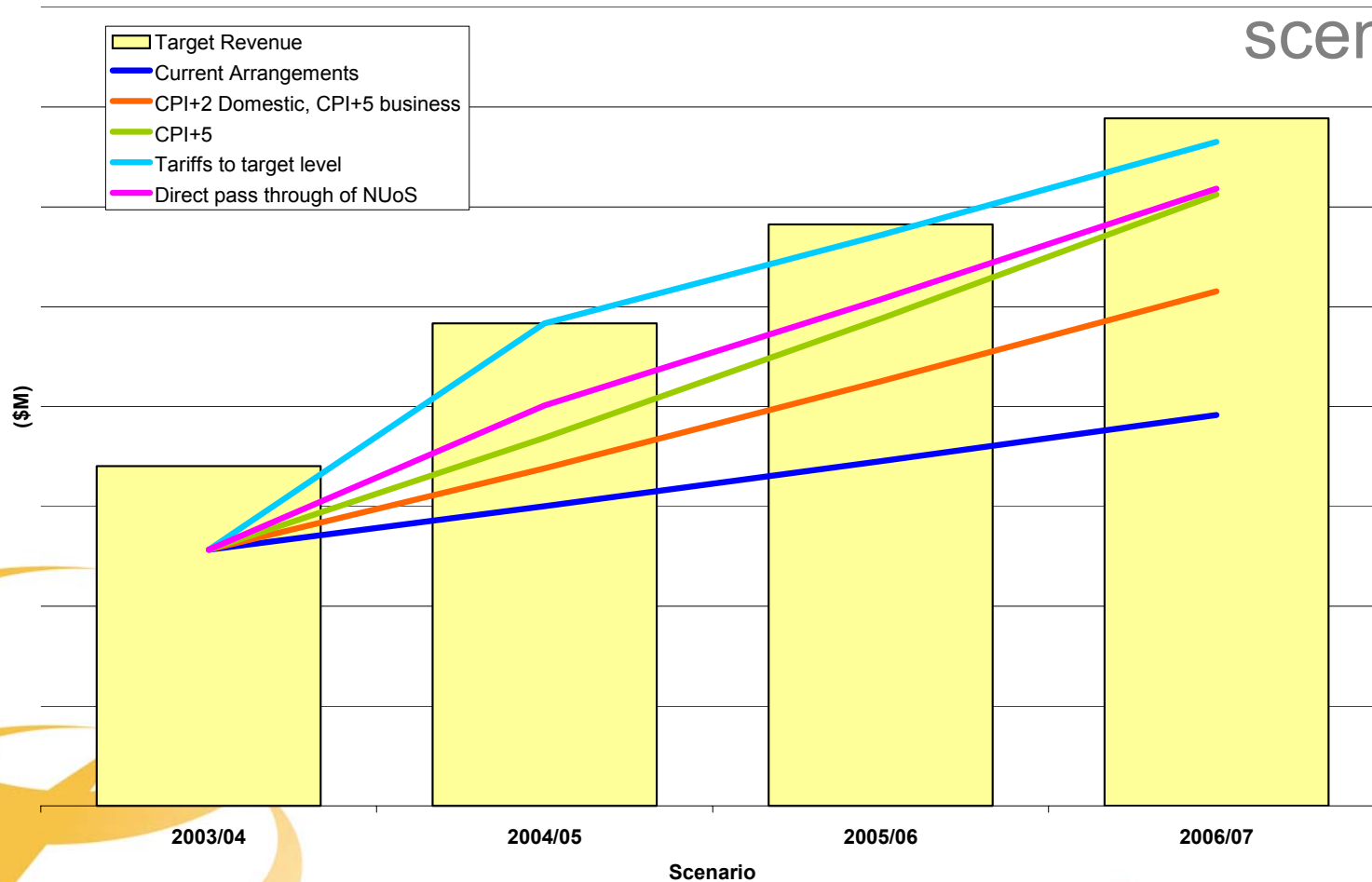
- Market costs
- Green compliance
- Operating costs and net margin

Establishing the principles is the first step

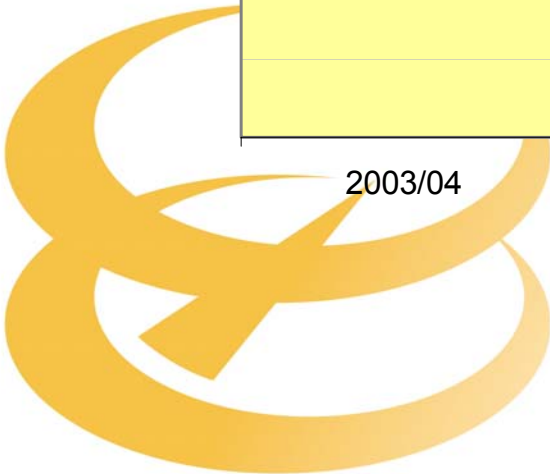
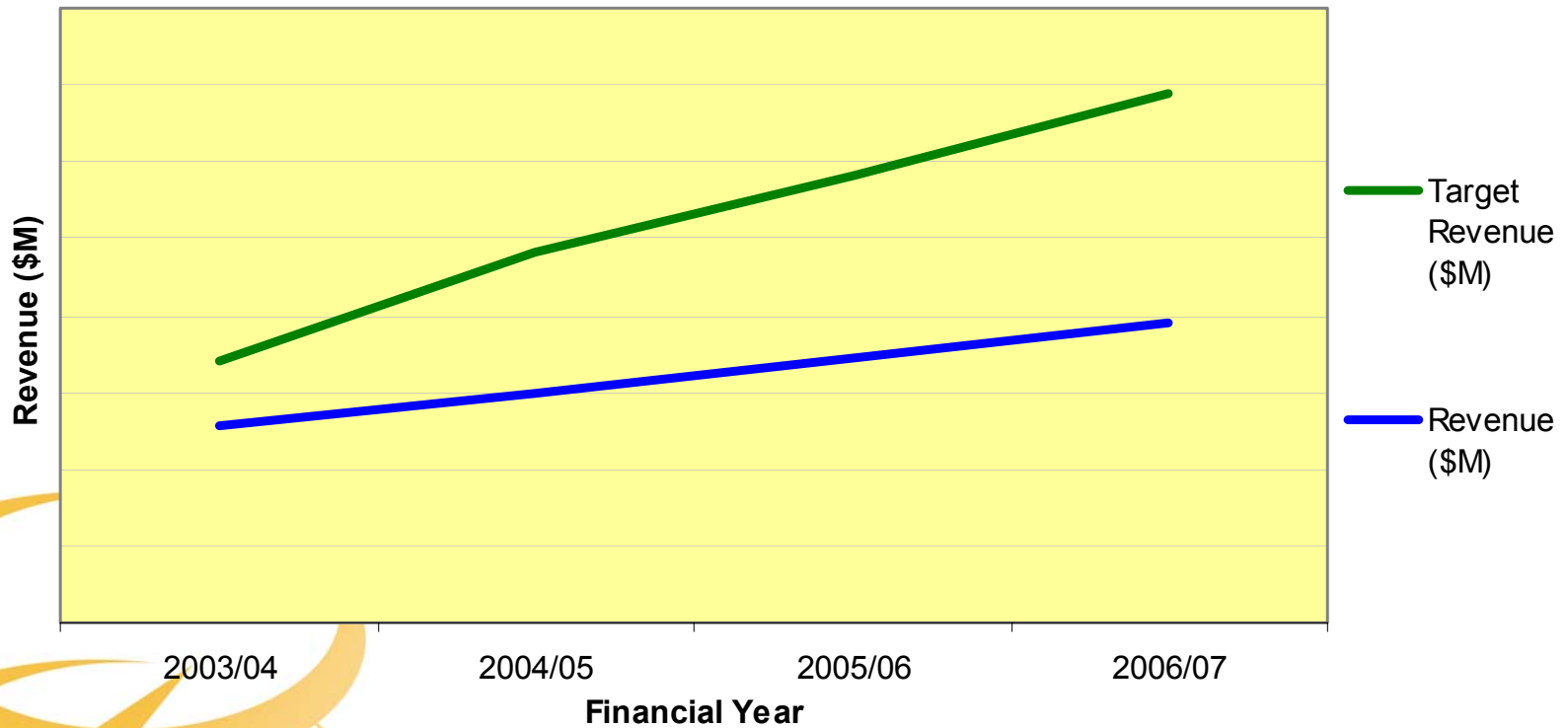


Outcomes

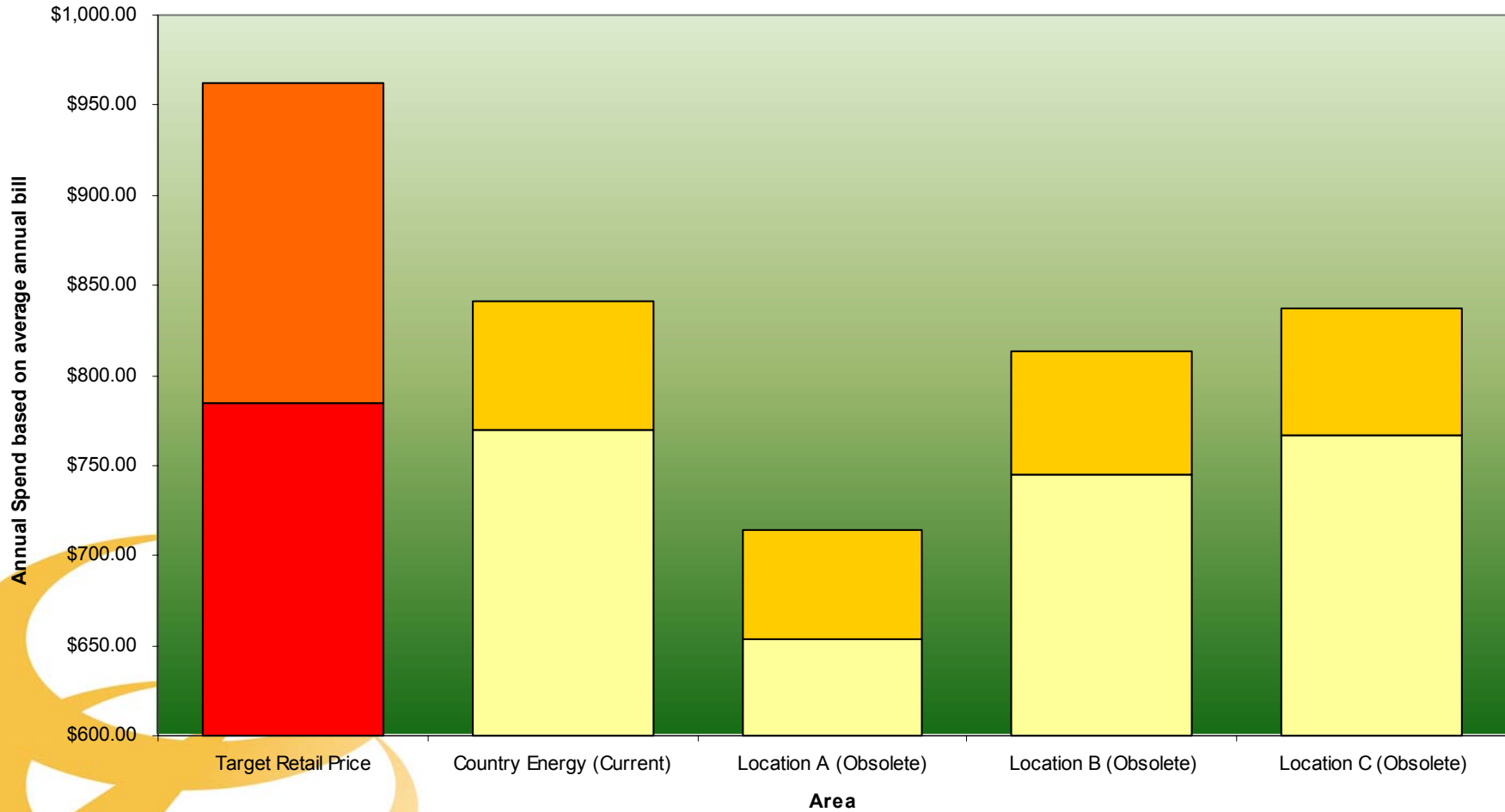
... revenue requirements and scenarios



Without appropriate pricing inequities will continue



Inequities ... 2006/2007





Concluding comments

Craig Murray
Managing Director



Concluding comments

Our submission proposes an approach that delivers

- Equitable pricing outcomes
- IPARTs objectives

...within a simplified pricing framework

...with outcomes acceptable to our customers





Questions

