

22 May 2002

Dr Tom Parry  
Chairman  
Independent Pricing and Regulatory Tribunal  
PO Box Q290, QVB Post Office  
SYDNEY NSW 1230

Dear Dr Parry

### **Mid-Term Review of Retail Price Regulation**

I refer to the forum on the Mid-Term Review of Retail Price Regulation held on May 3 and the Tribunal's stated willingness to consider further submissions on issues arising from the forum. EnergyAustralia would like to take the opportunity to provide additional comments to the Tribunal regarding the social implications of EnergyAustralia's pricing proposals.

For the majority of its customers (that is, those on the domestic single rate tariff only) EnergyAustralia has proposed a price increase in line with CPI. For business customers who do not also receive supply on an off-peak tariff, EnergyAustralia has proposed a price increase in line with the side constraints in the initial Determination. Given that EnergyAustralia has not increased its prices for these customers for two years, EnergyAustralia believes that these proposals are both reasonable and necessary given the increasing costs faced by its regulated business. It is important to note also that the price increases proposed by EnergyAustralia will continue to leave its customers with considerably lower prices than customers in other states and of other NSW businesses.<sup>1</sup>

The current Determination would not allow EnergyAustralia to implement the pricing proposals described above. EnergyAustralia believes that the target tariff mechanism, used to determine allowable price changes, is not appropriate in its current form as it does not reflect the true costs faced by the business and it promotes cross-subsidies between different classes of customers. EnergyAustralia has proposed revisions to the benchmark costs used to calculate the target tariff and has proposed the creation of a separate business target tariff that recognises the higher costs associated with supplying business customers. The ability of EnergyAustralia to implement its pricing proposals discussed above is dependent upon IPART addressing the flaws in the calculation and application of the target tariff.

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<sup>1</sup> For example, EnergyAustralia's domestic single rate tariff is on average 30% lower than the Victorian businesses and 15% lower than other NSW businesses, and EnergyAustralia's general supply single rate tariff is on average 45% lower than the Victorian businesses and 15% lower than other NSW businesses.

At the forum, all industry participants agreed that an increase to regulated tariffs was necessary due to the high underlying costs in the electricity market. Whilst the Public Interest Advocacy Centre (PIAC) did not endorse any increases to regulated tariffs, PIAC's representative at the forum acknowledged that the increases proposed by EnergyAustralia may well be a reasonable outcome from the mid-term review. In light of this broad agreement, EnergyAustralia urges that the Tribunal make a determination that is flexible enough to allow reasonable outcomes to be achieved.

EnergyAustralia has also proposed that it increase its off-peak tariffs by greater than CPI in order to improve the cost-reflectiveness of these tariffs and to send appropriate pricing signals with regard to the use of electric hot water systems. As was stated at the forum, off peak prices set too low will artificially encourage the use of electric hot water systems at the expense of the more environmentally friendly solar or gas systems. EnergyAustralia's experience with its solar hot water initiative in the past year has shown that, for all but a few customers, there are not sufficient pricing signals in the market at the moment to encourage the conversion of hot water systems from electric to solar.

The current Determination, with a single target for controlled load tariffs, encourages the convergence of EnergyAustralia's Off Peak 1 and Off Peak 2 tariffs to a level that is below the true cost of supplying the energy. EnergyAustralia has therefore proposed new, cost reflective targets for these tariffs. The current Determination also however restricts the ability of standard suppliers to increase prices beyond CPI in order to 'catch-up' to cost reflective targets. For this reason, EnergyAustralia has proposed that an additional 3% be allowed in the side constraints of customers receiving supply on an off-peak tariff.

EnergyAustralia is committed to ensuring that low-income households are not significantly impacted by the price increases it has proposed. While EnergyAustralia is firmly of the belief that increases above CPI are necessary for off peak tariffs, it also recognises that there may be low income households in need of assistance as a result of these increases. For this reason, EnergyAustralia is working with PIAC, who has expressed sympathy for greater recovery of off peak hot water tariffs, to put in place arrangements that will assist low income off peak customers in meeting the additional costs of their electricity after 1 August this year.

EnergyAustralia would be pleased to discuss these comments at your convenience. Should you require further information or assistance, please feel free to contact Graeme Lees on 9269 2317.

Yours sincerely

George Maltabarow  
**General Manager, Finance & Corporate Secretary**