

4 June 2010

Mr James Cox  
Chief Executive Offer  
Independent Pricing and Regulatory Tribunal  
PO Box Q290  
QVB Post Office NSW 1230

Dear Mr Cox

**ActewAGL's Voluntary Transitional Pricing Arrangement 2010-13**

ActewAGL wishes to record our latest discussions with the Independent Pricing and Regulatory Tribunal (IPART) on the form of regulation to apply to ActewAGL, and ActewAGL's proposed voluntary transitional pricing arrangement (VTPA) for 2010-13.

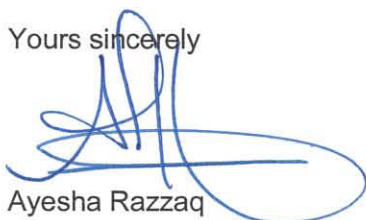
In IPART's draft report on regulated retail tariffs and charges for gas in New South Wales for 2010-13 in April 2010, IPART advised that "For ActewAGL, our draft decision is to reject its proposed VTPA on the grounds that its costs are not consistent with the costs that an efficient and prudent retailer would incur in supplying small retail customers. We seek a revised proposed VTPA from ActewAGL that is consistent with its efficient costs over the regulatory period."

In its revised VTPA, ActewAGL noted and contested this conclusion on the basis that its cost claim in October 2009 reflected market-based retail costs for an efficient wholesale gas provider in ActewAGL's regions. Nevertheless, ActewAGL submitted a revised VTPA that applied a lower wholesale gas cost in expectation this could be agreed with IPART.

ActewAGL is therefore disappointed with IPART's decision to reject this revised proposal for a wholesale gas cost of \$7.31/GJ, and instead retain its draft decision of \$7.11/GJ as this outcome runs counter to the spirit and intent of the VTPA approach.

However, given our clear and stated preference for the removal of price regulation in a competitive retail gas market, and recognising this transition must involve a lighter handed form of regulation such as the VTPA process, we accept IPART's final decision and accept a wholesale gas cost of \$7.11/GJ from 1 July 2010.

Yours sincerely



Ayesha Razzaq  
General Manager Retail