



11 May 2012

2012 Annual Review of Regulated Electricity Retail Prices
Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB Post Office NSW 1230

CHANGES IN REGULATED ELECTRICITY RETAIL PRICES FROM 1 JULY 2012 – DRAFT REPORT

Alinta Energy (Alinta) appreciates the opportunity to comment on the Independent Pricing and Regulatory Tribunal's (the Tribunal) Draft Report on regulated electricity prices to apply from 1 July in NSW. Alinta through its subsidiaries (Alinta Energy Retail Sales and Alinta Sales) retails gas and electricity to over 700,000 customers nationally and operates nine power stations with more than 2,500MW of installed capacity.

Alinta understands the Tribunal is guided by the terms of reference, and the specific pass-through and materiality thresholds contained within the regulatory framework. Alinta believes that the decision by the Tribunal (or alternatively standard retailers) not to trigger the materiality threshold in regards to those operating costs associated with the introduction of the carbon tax (or alternatively to recognise the additional regulatory and legal costs associated with the carbon tax in some manner in the cost stack) is likely to underestimate the total cost impact of carbon for the 2012-13 financial year.

In the absence of the removal of price regulation in NSW Alinta is of the view that the materiality threshold component of the current framework needs to be revisited at some stage in the near future.

While the Authority has increased the wholesale cost component of the cost stack (by incorporating the cost of carbon in both estimates of the Long Run Marginal Cost of generation and the market based cost using a carbon inclusive approach), and have increased the network component of the cost stack accordingly, the decision does not accurately reflect the total cost pressures on retailers cost stack. The current regulatory framework is established so as to provide incentives for retailers to act efficiently in regards to their controllable costs, yet the margin within these controllable costs is diminishing. In addition, these directly controllable costs are becoming a smaller proportion of the allowed cost stack, thus further eroding margins for retailers operating in the NSW market. This is particularly relevant given the materiality threshold is set as a percentage of total revenue, rather than as a percentage of controllable costs.

The Tribunal notes that it has "observed that the pass-through assumptions made by other organisations have been highly variable depending on the characteristics of the market and the timeframe over which the impact of carbon is considered". The advantage of these alternative approaches are that they allow the regulator to include an allowance for the total cost of carbon pricing to the retailer. Alinta's first hand experience in preparation for the carbon tax legislation is that it has significantly impacted on the resourcing and expenditure for the business outside of simply factoring in its impact on wholesale prices.



If the Tribunal believes that the terms of reference for the determination, and the cost-pass through provisions and materiality threshold do not permit the Tribunal to allow for a reasonable level of retailer controllable costs within the cost-stack, then Alinta holds the firm view that the Tribunal needs to ensure that the allowable components within the cost stack are able to be set at a level that continues to promote the benefits of price competition to all consumers. Alinta believes that following the privatisation of the previously government owned retailers, that the future of the NSW energy market is at a critical stage.

Currently, Alinta does not intend to commit to entering the retail energy mass market in NSW due to the lack of margin available for 2nd tier retailers to be able to provide competitive offers to consumers.

Should you have any queries in relation to Alinta's submission, please do not hesitate to contact me on 02 9372 2653.

Yours sincerely

A handwritten signature in blue ink, appearing to read "Shaun Ruddy", written in a cursive style.

Shaun Ruddy
Manager National Retail Regulation