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Dear Ms. Brakey,

Wholesale Electricity Costs

I understand that, as part of IPART's review of regulated electricity prices to apply from 1 July 2013, concerns have been raised by industry participants about certain aspects of Frontier Economics' wholesale electricity cost (WEC) model to be utilised by IPART. In particular, concerns have been raised about the load profiles produced by Frontier Economics' WEC model, with some participants referring to the load profiles that resulted from Frontier Economics' WEC modeling undertaken for the Essential Services Commission of SA (the Commission) in 2012.

It may be helpful to clarify the basis upon which Frontier Economics, and the Commission, derived the load profiles that supported the Commission's 2012 WEC review Draft Decision, and the further work that was undertaken by the Commission in investigating those load profiles in preparation for a Final Decision.

As you know, the Commission did not publish a Final Decision on the 2012 WEC review on the basis that the South Australian Government decided to deregulate energy prices. The following points summarise the issues and steps taken by the Commission in addressing the concerns raised by stakeholders about the load profiles used in the Draft Decision.

The load profiles used by Frontier Economics in its draft report¹ to the Commission were based on regulatory reporting data submitted to the Commission by electricity retailers pursuant to Energy Retail Guideline No. 2.

¹ The Frontier Economics report is available at
<http://www.escosa.sa.gov.au/Publications/DownloadPublication.aspx?id=2288&versionId=2409>.

Historical data reported by retailers on the relative contribution of off-peak controlled load consumption to total small customer consumption showed that off-peak controlled load sales represented around 16% of total small customer sales. The load profiles used in the Commission's Draft Decision were based on those retailer-reported data.

Subsequent to releasing the Draft Decision, and having regard to submissions made, the Commission sought independent data from SA Power Networks and AEMO, to check the validity of those retailer data.

Both SA Power Networks and AEMO data suggested that controlled load sales represent around 12% of total small customer sales (rather than the 16% reported by retailers).

While the Commission did not make a final decision on the 2012 WEC review, it is noted that the revised data produced load profile results that were materially below those contained in the Draft Determination.

The revised estimate of controlled load to total small customer load resulted in historical load shapes that exhibited average peak load at times when the Net System Load shape is peaking (i.e. during peak hours) as opposed to when the Controlled Load shape is peaking (i.e. during off-peak hours around midnight).

The revised information on the split between Net System Load and Controlled Load also resulted in a stronger correlation between small customer load and spot prices. As a result, the efficient hedge position had a greater degree of contract cover (reflecting the greater risk of high prices occurring at the same time as high load).

As a result of replacing the retailer data with more robust data sourced from SA Power Networks and AEMO, I was satisfied that the load profiles being generated through Frontier Economics' model were sound.

I trust this clarifies the manner in which the Commission was pursuing the load profile concerns raised in relation to the Commission's Draft Decision on the 2012 WEC review. The investigation into the issue confirmed that the anomalies in the Draft Decision load profiles resulted from inaccurate and unreliable data provided by retailers, rather than any inherent flaws in Frontier Economics' model.

Yours faithfully



Paul Kerin

Chief Executive Officer