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Dr Michael Keating AC
Chairman
Independent Pricing and Regulatory Tribunal
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Dear Dr Keating

I am writing in relation to the Draft Report of the 2009 Review of the Market-based Electricity Purchase Cost Allowance (the Review), released by the Independent Pricing and Regulatory Tribunal (IPART) on 12 March 2009.

The Draft Report indicated potential increases of between 18.5 and 21.5 per cent from 1 July 2009 for small customers on standard contracts. As noted in the Draft Report, these figures reflect draft increases to the retail and wholesale components of the regulated retail price determined by IPART, and also include draft increases to network charges which are regulated by the Australian Energy Regulator (AER).

As you would be aware, the global financial crisis is continuing to have a negative impact on NSW families and businesses. These draft increases were announced at a difficult time for many NSW residents, and the NSW Government is conscious of the impact a significant increase in electricity prices would have on both household and business customers.

The Government is therefore concerned to ensure that, when calculating the proposed increases in regulated retail tariffs from 1 July 2009, IPART has considered the impact of these proposed increases on household budgets, particularly in light of the current global financial crisis.

The Government is aware of the importance of ensuring that regulated prices are set at a level which allows standard retailers to recover their efficient retail operating costs and the cost of purchasing electricity from the wholesale market. If regulated prices are set below this level, this may lead to a California-style event where the ongoing financial viability of competitive electricity businesses is threatened.

This outcome would have significantly detrimental consequences for both NSW electricity customers and the NSW electricity sector as a whole. In light of these considerations, and as I have previously stated, the NSW Government will be bound by the independent decision of IPART regarding the level at which efficient retail and wholesale cost allowances for standard retailers are set.

However, the Government seeks IPART's strongest assurances that the increases to regulated retail tariffs proposed in the Draft Report are no more than are required to ensure the ongoing financial viability of the competitive NSW electricity businesses and fulfil the requirement for cost reflective regulated retail tariffs by 30 June 2010, consistent with the Terms of Reference issued to IPART.

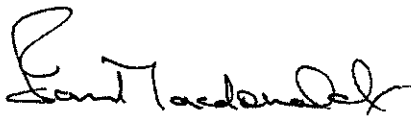
Furthermore, the Government would welcome IPART's views as to the most effective way in which the impacts of any price increases on small customers could be alleviated.

As you have noted, draft increases in the network component of the final regulated retail price (particularly the distribution network component) account for over half of the proposed overall increases. The Government is working closely with the AER and the distribution network businesses to examine any potential opportunities to lessen the price impact on electricity customers in 2009 and spread any increases more evenly over the five year regulatory period, without affecting the businesses' ability to undertake essential network maintenance and upgrades.

I would therefore stress that the Government is acutely aware of the current financial pressures on many NSW households and businesses, and is taking action to try to alleviate some of the pressure associated with a significant increase in the price of electricity. The Government also recognises the importance of an ongoing secure, reliable and efficiently priced supply of electricity supported by a robust and competitive market, which is essential to the continued wellbeing and viability of NSW communities and businesses.

I trust these comments will be considered by IPART prior to the finalisation of the Review.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ian Macdonald', written in a cursive style.

**IAN MACDONALD MLC
MINISTER FOR ENERGY**