

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

14 April 2009

Dear Mr Cox

**Regulated Electricity Retail Tariffs - Review of Market Based Electricity Purchase Cost Allowance**

I refer to the Tribunal's draft report dated March 2009 on the review of the market based electricity purchase costs allowance (the Draft Report) to be included in the regulated electricity retail tariffs for 2009/10. Integral Energy welcomes the opportunity to comment on this important review.

Integral Energy notes the findings in the draft decision that the market-based electricity purchase cost allowance has exceeded the allowance provided for in the 2007 Determination on regulated electricity retail tariffs and charges for small customers (the 2007 Determination) by more than the 10 per cent threshold set out in the determination. IPART is therefore required to revise the allowance included in the retail prices from 1 July 2009.

Integral Energy also notes that, consistent with the methodology established in the 2007 Determination, the Tribunal has based its decision on advice from Frontier Economics which has found that the allowance for Integral Energy should increase from \$56.70 per MWh (\$09/10) in the 2007 Determination to \$65.00 per MWh (\$09/10).

Integral Energy supports the Tribunal's draft decision recognising that it is important for the Tribunal to fully implement the 2007 Determination. Regulatory certainty is an important part of the regulatory process and failure to fully implement the 2007 Determination would create uncertainty in regulated entities and undermine the integrity of the regulatory process.

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Contact: Mike Martinson Direct Phone (02) 9853 4375 Fax (02) 9853 6376  
INTEGRAL ENERGY ABN 59 253 130 878  
51 Huntingwood Drive Huntingwood NSW 2148  
[www.integral.com.au](http://www.integral.com.au)



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Integral Energy notes that the terms of reference for IPART's 2007 Retail Determination included the overarching aim that:

*...the Tribunal must consider the Government's policy aim of reducing customers' reliance on regulated prices and the effect of its determination on competition in the retail electricity market.*

Integral Energy is concerned to ensure that the regulated retail tariffs it offers are fair and reasonable and reflect the costs of operating in a volatile wholesale market.

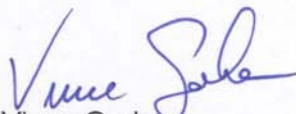
While recognising the impact that higher energy charges will have on regulated customers, Integral Energy considers that if regulated retail prices are set below cost reflective levels, customers will have the incentive to remain on regulated prices as the prices will be lower than what a retailer is able to offer through a competitive offering. This has significant implications for both the level of retail competition in NSW and ability to signal the costs of new generation.

If regulated prices are set below cost reflective levels then IPART's terms of reference with respect to reducing reliance on regulated retail tariffs by customers would not be met.

The decision on the electricity purchase cost allowance for 2009/10 will be critical to achieving competitive outcomes. The decision needs to reflect the role of regulated retail prices as safety net prices and the role of the market in "regulating" prices. To achieve commercial outcomes and support a competitive market, Integral Energy believes that the Tribunal should implement the market based electricity purchase cost allowance as provided in the draft decision.

Should you require any additional information or if you have any questions on the above please contact Mr Mike Martinson on (02) 9853 4375.

Yours faithfully



Vince Graham

**Chief Executive Officer**