

CS

6th October 2006

Dr Michael Keating
Chairman
Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB POST OFFICE NSW 1230

Email: ipart@ipart.nsw.gov.au

Dear Dr Keating

REVIEW OF REGULATED RETAIL TARIFFS FOR ELECTRICITY 2007-2010

Macquarie Generation has reviewed the Tribunal's Issues Paper, *Review of Regulated Retail Tariffs and Charges for Electricity 2007 to 2010*, released in July 2006. Macquarie Generation considers that the terms of reference for the review provide adequate direction for the Tribunal to set regulated retail tariffs at appropriate levels by the end of the next determination period.

Macquarie Generation's main interest in the review is the allowance for regulated electricity purchase costs that IPART determines for each standard retail supplier. This allowance forms the basis of the regulated energy cost for the Electricity Tariff Equalisation Fund (EETF). If the regulated cost is set too low, Macquarie Generation faces the risk of a call from EETF to contribute funds during periods of insufficient reserves to cover payments made to standard retailers.

The NSW Government's announcement of the phase out of the EETF arrangement during the next determination period will shift the full responsibility for regulatory purchase price risk onto standard retailers. The standard retailers will have to negotiate hedging contracts for remaining regulated customers at prevailing market prices. By mid 2010, Macquarie Generation will have no regulatory obligation through EETF and would seek to maximise its financial position by negotiating the most favourable terms possible for a mix of hedging products with retailers supplying domestic and small business customers.

The terms of reference require the Tribunal to ensure regulated retail tariffs are at cost reflective levels for all small retail customers by 30th June 2010. The reference outlines a list of costs that the Tribunal is to take into account when making this assessment based on a building blocks approach. The Tribunal's assessment of energy purchase costs will be the most important component of this determination. If the Tribunal underestimates the allowance, standard retailers will face large financial risks and competition for small retail customers will remain less active in NSW than in other jurisdictions.

Dr Michael Keating, Chairman
Independent Pricing and Regulatory Tribunal

Macquarie Generation notes that IPART has appointed consultants to prepare advice on an allowance for electricity purchase costs based on an assessment of the long run marginal cost of electricity generation from a portfolio of new entrant generation to supply the load profile of customers remaining on regulated retail tariffs. The consultants were also asked to comment on appropriate allowances for hedging, risk management and transaction costs and how these costs should be built into the regulated energy allowance.

Macquarie Generation believes that it can most usefully contribute to the IPART review by responding to the work of the consultants, in particular the draft methodology paper setting out a proposed process for modelling energy purchase costs due out in late October 2006. Macquarie Generation will also comment in detail on the actual modelling results when they are made available.

Macquarie Generation holds a large amount of public and commercial market data that may be relevant to the review. Macquarie Generation invites IPART and the consultants to use this information as appropriate if it would help with the modelling work. Macquarie Generation is always available to assist the Tribunal with any part of the review process.

Macquarie Generation holds no major concerns with the process outlined in the issues paper. The terms of reference for the review oblige IPART to move regulated retail tariffs to fully cost reflective levels by 2010. As a general comment, Macquarie Generation would prefer to see an approach whereby energy costs reflect rates available in the relevant hedging markets over an approach that focuses on assumption sensitive cost of supply models. If IPART overestimates the regulated energy allowance, competition amongst retail suppliers would see customers move to commercial contracts at lower tariffs. Competition not regulation should provide the ultimate safeguard for customers through time.

Yours faithfully



J BECKWITH
A/MANAGER/MARKETING AND TRADING
