



*In reply please quote 4310069
Enquiries to Sean Kelly
Telephone 08 8204 1715*

ENERGY DIVISION
Level 8
11 Waymouth Street
Adelaide SA 5000

P O Box 1
Walkerville SA 5081

Mr Steve Edwell
Chairman
Australian Energy Regulator
GPO Box 520
MELBOURNE VIC 3000

Telephone: 08 8226 5500
Facsimile: 08 8204 1730

ABN 92 366 288 135

Dear Mr Edwell,

As you may be aware, the South Australian Parliament recently amended the *Electricity Act 1996* to extend the obligation on ETSA Utilities (ETSA) to act as the Retailer of Last Resort (ROLR) in South Australia until 30 June 2015. It is essential that South Australia has an effective RoLR scheme going forward. A key component of an effective scheme is the ability for ETSA Utilities to recover the costs of meeting its RoLR obligation in an economically neutral manner.

Over the past six months discussions have occurred between the Energy Division of the Department for Transport, Energy & Infrastructure, ETSA and the AER on the most appropriate cost recovery arrangements for ROLR post 1 July 2010. The Minister in his recent submission to the AER on the current pricing determination for ETSA has advised his support for ETSA's proposal that a RoLR event be allowed as a nominated pass through event for the 2010 to 2015 regulatory period.

In your letter dated 18 December 2009 you advised that the AER is prepared to consider a pragmatic approach to ETSA's cost recovery associated with its ROLR obligations. Accordingly, it is considered beneficial to outline the policy intent at the time the ROLR arrangements were first established and subsequently noting their continued relevance until national arrangements are agreed and implemented. Key elements include:

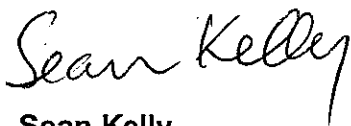
- While ETSA was the designated ROLR the regulator (ESCOSA) was given the power to direct retailers to provide retail services to ETSA to enable ETSA to meet its obligations. ETSA would not be expected to establish its own costly billing systems and market arrangements in advance of a ROLR event rather ETSA would put in place arrangements to efficiently manage costs at the time of a ROLR event. The clear intent was for ETSA to avoid significant establishment costs and the potential for large annual premium payments to cover wholesale market risks, particularly given the uncertainty over the scope, size, impact and timing of any ROLR event.

- It was accepted that there would be some establishment costs incurred in setting up arrangements with retailers for the provision of any necessary services. As you are aware ETSA has established arrangements with a major retailer in South Australia to manage and support ROLR customers when events occur. These arrangements proved to be very effective during the recent ROLR event in South Australia.
- Small ROLR customers would be charged an increased standing charge and the current regulated rate for energy used. Large ROLR customers would be charged cost reflective prices covering network, energy, retail, market related and administrative costs relevant to these customers. Any shortfall between the revenues received from ROLR customers and the ROLR costs incurred by ETSA would then be recovered across the entire customer base as a pass through. ETSA was to neither receive any gain nor incur any loss as a consequence of a ROLR event.
- The costs recoverable by ETSA would include their establishment costs, the actual costs of energy purchases whether from the pool or through an arrangement agreed with retailers, market related charges including AEMO fees, ancillary service charges etc, retail operating costs associated with billing and servicing ROLR customers and the costs associated with administering the ROLR event and its aftermath. It is accepted that the pass through of costs should be on the basis these costs are as cost efficient as is practicable in the circumstances of the ROLR event and no other requirement.

Accordingly, it is appropriate that the AER's consideration of ROLR arrangements for ETSA beyond 1 July 2010 continue with the principles outlined above.

Should you require clarification on matters raised in this submission please contact either Mr Vince Duffy on (08) 8204 1724 or me on (08) 8204 1715.

Yours sincerely



Sean Kelly
Executive Director Energy Division
Department for Transport, energy and Infrastructure

15 February 2010