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**Government
of South Australia**

08MEN/0616

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Dear Dr Tamblyn

I refer to the Australian Energy Market Commission's (AEMC) Review of the effectiveness of competition in electricity and gas retail markets in South Australia which concluded with the release on 18 December 2008 of the Second Final Report.

I appreciate the time and effort both you and your staff have put into the review process and meeting with me over the course of its development.

I acknowledge the AEMC has provided an additional level of detail in the Final Report for a number of the recommendations contained in the draft report. It is currently the Government's intention to retain price regulation for both the electricity and gas markets in South Australia.

The submissions received by the AEMC show differing views on the level of effective competition in the South Australian energy market. I note that 33% of electricity and 38% of gas small customers remain on standing contracts with regulated prices. Before accepting a recommendation to remove price controls, the Government would want to see less polarisation of stakeholder views regarding effective competition.

The AEMC's approach appears to have a strong focus on the needs of retailers. The public confidence achieved by independent oversight of retail pricing is considered to be especially important at a time of implementing major change, such as will occur with the commencement of the Commonwealth Government's Carbon Pollution Reduction Scheme (CPRS), expanded Renewable Energy Target (RET) and the current global financial crisis. The existing framework for regulating retail energy prices in South Australia is crucial to safeguarding the interests of the public during this current period of uncertainty. I recognise that the long term viability of retailers is important to deliver safe, reliable and cost effective energy over the longer term.

The AEMC has raised concerns with the flexibility of current retail price regulation arrangements to deal with potentially significant cost increases associated with the CPRS and expanded RET.

Ministers agreed at the Ministerial Council on Energy meeting of 12 December 2008 to propose to the Council of Australian Governments that it amend the Australian Energy Market Agreement to specify that where retail price regulation exists, regulated retail energy prices shall allow for the pass-through of energy cost increases associated with the CPRS.

The Standing Contract regulatory framework in South Australia has been responsive to even large cost adjustments. The Essential Services Commission of South Australia has confirmed that the South Australian price determination process provides for pass through of these costs.

In conclusion the South Australian Government does not accept the AEMC's recommendations for the removal of price control at this time.

Yours sincerely



**HON PATRICK CONLON MP
MINISTER FOR ENERGY**

6 April 2009