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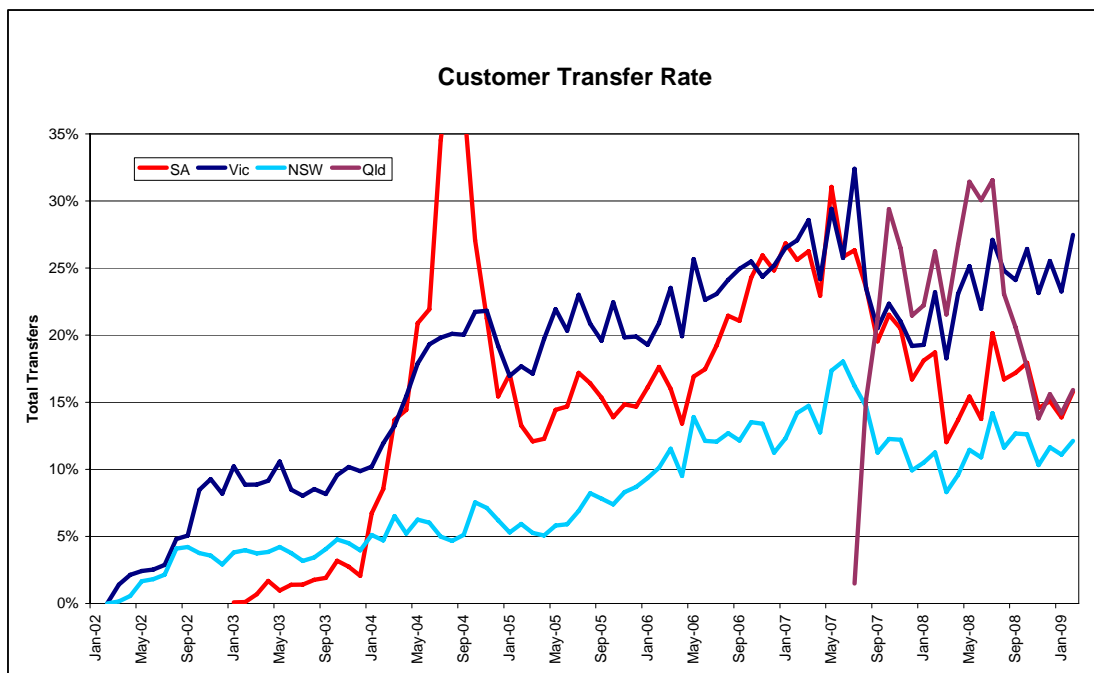
Review of market based-based electricity purchase cost allowance
 Independent Pricing and Regulatory Tribunal
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Market-based electricity purchase cost allowance – 2009 review

Thank you for the opportunity to comment upon the Tribunal's 2009 review of the market-based electricity purchase cost allowance.

New South Wales is the least successful state in facilitating a competitive retail energy market, as shown in the graph below. It is TRUenergy's experience that this is due exclusively to the continued suppression of regulated tariffs below market-based levels. As other jurisdictions have recognised, the longer retail tariffs are suppressed, the greater the threat to energy security and the greater the eventual adjustment required to provide for a sustainable retail energy market.



The Frontier Economics report into the 2009 energy cost allowance confirms that the 10% upper threshold to trigger a re-opener has been breached, and recommends increases in the allowance in accordance with estimates derived

from its proprietary models. However, the report also shows that Frontier's modeling has underestimated the potential increase in wholesale costs compared to estimates based on d-cypha Trade data.

In the Tribunal's 2007 Price Determination the use of d-cypha data was rejected on the grounds that it was unrepresentative and unreliable. However, in the 2009 retail price determinations conducted by the Queensland Competition Authority and the ACT Independent Competition and Regulatory Authority, both regulatory authorities regarded d-cypha data as sufficiently robust to justify its use in calculating forward wholesale energy costs. We also note the Tribunal's comments in the Draft Decision (page 2) that "*trading in electricity future contracts has expanded considerably and d-cypha indexes are more likely to be representative of future electricity wholesale prices.*"

The Tribunal has defended the continued use of the Frontier modeling estimates, in preference to the d-cypha data, on the grounds of "investor confidence" with regard to the need for regulatory consistency with the original price determination. However, investor confidence would be best served by the most rapid transition of regulated tariffs to levels which facilitate a competitive retail market, which, in this case, would be through the use of the d-cypha data.

Please contact me on (03) 8628 1122 if you require additional information.

Yours sincerely,

Graeme Hamilton
Regulatory Manager