Energy Retailers Association of Australia

The Reliability Standard and Settings Review

12th February 2009

About the Energy Retailers Association of Australia (ERAA)

- Peak body representing electricity and gas retailers in the national energy markets – 14 full members and 6 associates
- Members include large incumbent and new entrant retailers – mostly privately owned
- National coverage including WA – cover vast majority of Australian customers
- Members have over 11 million customers – more than 3 million gas customers
- Most member companies are “dual fuel”

Market Price Cap – Retailer implications

- Members have differing views about the desired level of the MPC; these will be put in individual submissions.
- Collectively, the ERAA has identified possible retailer implications from any MPC increase:
  - Potential increased market volatility: Adverse impacts may include:
    - Greater prudential burden.
    - Potential reductions in generator contracting: Liquidity impacts.
    - Premature market exit: implications for competition.
    - The viability of smaller retailers as the MPC increases.
  - Drivers for investment are complex – current approach may oversimplify
    - Some members note that the current MPC appeared to be delivering sufficient investment to meet the 0.002% USE standard.
    - Contract market seen as a key investment driver. More exploration of contract / spot linkages warranted.
    - Accept conceptual link that and MPC too low may limit investment – but note that the increased risk profile of a high MPC may also be counterproductive.
- More comprehensive consideration of these impacts is required.

Cumulative Price Threshold

- ERAA sees the CPT is a key component of the market framework:
  - A clear statement of its objective is warranted for market certainty
  - ERAA's view:

    The CPT should limit the possibility of cascading financial collapse of the industry due to extreme events outside the market design envelope.

- ROAM's consideration of the CPT is unclear and potentially insufficient.
  - What, if any, analysis was performed by ROAM and/or the Panel on the CPT?
  - Why is setting the CPT at some ratio to the MPC (eg. x15) the right methodology?

- A CPT recommendation backed by solid rationale and robust analysis is required.

Retail Pricing Implications

- An MPC increase is likely to lead to higher contract premiums, that would ultimately need to be reflected in retail tariffs.
- Retail price regulation that prevents adequate pass-through threatens retail competition.
- Regulated retail tariffs need to be adjusted to ensure the benefits of competition are not suppressed.

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