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Retailer of Last Resort -- Review of Current Jurisdictional Arrangements and Development of a National Policy Framework

The Energy Supply Association of Australia (esaa) welcomes the opportunity to comment on the report prepared by Allens Arthur Robinson and NERA Economic Consulting on the National Policy Framework for the Retailer of Last Resort (RoLR) scheme.

esaa is the peak industry body for the stationary energy sector in Australia and represents the policy positions of the Chief Executives of over 40 electricity and downstream natural gas businesses. These businesses own and operate more than \$120 billion in assets, employ 49,000 people and contribute \$14.5 billion directly to the nation's Gross Domestic Product.

esaa fully supports the development of a national framework for the RoLR arrangements to promote consistency across the current jurisdictional regimes for electricity and gas. Ensuring a consistent and robust framework is a particular priority as the energy supply industry enters a period of transition driven by the need to meet Federal Government climate change objectives.

The introduction of the Federal Government's proposed Carbon Pollution Reduction Scheme (CPRS) by 2010 in particular will have significant implications for the ongoing viability of energy retailers. Unless regulated retail tariffs are sufficiently flexible to allow for the full pass-through of CPRS related price increases, retailers could find their profit margins adversely impacted. Further, depending on the final features of the CPRS, there is a risk that the scheme could trigger substantial write-downs in the value of large generation assets reducing the ability of some generators to act as counterparties in financial hedge contracts with energy retailers. This could in turn increase the risk of retailers being exposed to the electricity spot market and increase the risk of retailer failure.

Retailer failure could have a significant impact on the efficient operation of energy markets. esaa notes the approach outlined in the paper is to consider the need for emergency intervention mechanisms outside of the RoLR scheme such as administered prices caps or Government directions. While such an approach may be justified on the grounds of ensuring ongoing market viability, given the potentially

intrusive nature of such mechanisms esaa considers they should be developed in close consultation with industry and considered only as last resort measures.

The RoLR scheme will be implemented as part of the proposed National Energy Customer Framework (NECF) being developed by the Ministerial Council on Energy's (MCE) Standing Committee of Officials. The exposure draft for the Law and Rules for the NECF is expected for further consultation before the end of the year, with implementation of the NECF by no later than 30 September 2009 consistent with the 13 December 2007 MCE Communiqué. esaa notes that this timeframe is particularly challenging given the proposed introduction of the CPRS in 2010 and encourages the MCE to ensure the RoLR framework is delivered in a timely manner to enable continued confidence in the secure operation of energy markets going forward.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Brad Page', with a stylized flourish at the end.

Brad Page
Chief Executive Officer