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17 November 2008

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### **Retailer of Last Resort – Draft Consultancy Report**

Thank you for the opportunity to comment upon NERA-AAR Draft Consultancy Report on the Retailer of Last Resort (ROLR).

TRUenergy supports the proposed provision of a voluntary ROLR appointment process in prescribed circumstances. Such an approach provides an opportunity, but not a reliance, on a market-based solution, and is consistent with encouraging competition in the retail energy market. It also has the potential to address debates regarding the costs and risks of the ROLR services with those factors internalised within the bidding process. We recognize that not all events will be conducive to a voluntary process, but the opportunity for its use should be encouraged.

TRUenergy also supports the provision of an ex-post cost recovery mechanism for the ROLR. As detailed in the report, predicting wholesale energy cost movements is problematic at the best of times, and particularly perilous in the context of a ROLR event. It is critical that in a mandatory appointment scenario, the ROLR does not incur costs for providing a service which benefits all market participants, including consumers.

Comments on specific sections of the paper with which we have concerns are detailed below.

#### *Large Customers*

TRUenergy agrees that it is impractical to disconnect all large customers of the failed retailer at the time of market suspension, and that it is preferable for those customers to have supply certainty for some period after the event. However, imposing a ROLR obligation for large customers is not only contrary to the universally adopted policy position that the obligation to offer to supply to apply should only to small customers, but also imposes significant financial risks upon the ROLR, despite the pool pass-through pricing proposal.

It is understood that the consultants expect that the pricing arrangements for large ROLR customers will provide those customers with a strong incentive to negotiate a market contract as soon as possible. The consultants also consider that those pricing arrangements provide the ROLR with adequate revenue protection for the period in which the large customer remains on the ROLR tariff.

However, dependant upon the prevailing wholesale market, and its position relative to available market contracts, it is possible that the large customer may choose to remain on the ROLR tariff for an extended period. Whilst the revenue position of the ROLR will be covered by the ROLR tariff, the ROLR will have a greater exposure with respect to both network business and wholesale market obligations.

In these circumstances we consider that it is reasonable that a ROLR is able to disconnect a large customer after a specified time, if that large customer has not entered into a market contract.

#### *ROLR Tariff for Small Customers*

The requirement for a ROLR to charge small ROLR customers the default ROLR's standing offer tariff will be a disincentive for other retailers to participate in the voluntary nomination process and provide a competitive bid in that process. It is likely that non-default retailers will not have a product which matches the tariff rates of the default retailer's standing offer. Building such a product will impose additional costs and may take several months to complete. A non-default retailer would either have to build the product in advance of a ROLR event (unlikely given the probability of it occurring) or do so immediately upon appointment. In the latter case, the period required to complete the build will differ across businesses and systems, but may extend beyond the 3 month ROLR period.

The likelihood of non-default retailers participating in the voluntary process, and providing competitive bids in that process, would be enhanced if retailers were able to utilise their own Standing Offer tariff as the ROLR tariff. Small customers could then be transferred directly to that tariff at the time of the ROLR event.

#### *Ex-post Cost Recovery*

TRUenergy strongly supports the ex-post recovery of additional costs. Indeed our potential support for any ROLR scheme is totally dependant upon such a mechanism. As argued by the consultants, the actual costs incurred by the ROLR, particularly wholesale costs, cannot be predicted in advance with any certainty, and the ROLR should not be penalised financially for undertaking a role which provides for the ongoing security of the market, for which all participants benefit.

However, we are concerned that the 3 month period for the cost review may be inadequate to capture all of the costs to which the ROLR is directly exposed as a result of the event. This is particularly the case if the ROLR is operating in a price regulated framework, and wholesale prices remain above the benchmark level upon which the retail price was struck (a likely scenario if high wholesale prices triggered the initial ROLR event). In these circumstances the standing offer may be below the market-clearing price, whereby there is no incentive for the ROLR

customer to transfer to a market offer, and the ROLR incurs additional costs beyond the 3 month period.

We recommend that an additional cost review be available 12 months following the ROLR event. Whilst the ROLR may be able to recover the costs as apart of an annual price review by the relevant regulator, it is not clear whether such an opportunity is currently available in all jurisdictions, or what precise arrangements will in place in any jurisdiction in the future.

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

Yours sincerely,

**Graeme Hamilton**  
**Regulatory Manager**