



11th May 2011

Regulated Retail Prices for Electricity 2001
Independent Pricing & Regulatory Tribunal
PO Box Q290
QVB Post Office NSW 1230

By email: ipart@ipart.nsw.gov.au

Review of Regulated Electricity Retail Prices from 1 July 2011 Draft Determination

Australian Power & Gas (APG) welcomes the opportunity to provide comments on the Independent Pricing & Regulatory Tribunal (IPART) draft determination on the changes in regulated electricity retail prices to take effect from 1 July 2011.

In the absence of the removal of price regulation, which is our preferred position on pricing, IPART must ensure regulated retail electricity prices are reflective of the cost to supply customers. APG remains concerned that price reflectivity is not being achieved under the regulated pricing regime.

Whilst we understand IPART is bound by its terms of reference, under which IPART is required by the NSW Government to set regulated electricity prices to enable Standard Retailers to recover the full, efficient costs of providing electricity to customers on these prices. Our concern is that by basing an assessment only on Standard Retailers costs this does not provide for a comprehensive market assessment of the true costs to supply customers.

There are significant cost differences and risks faced by non-standard (or 2nd tier) retailers that should be taken into consideration. This is particularly the case when reviewing energy costs given the lack of liquidity in the NSW electricity wholesale market.

To further enhance the level of competition in NSW (and whilst ever price regulation remains) a mechanism needs to be adopted to account for the costs and risks faced by non-standard retailers when determining regulated retail electricity pricing, given that such determinations are setting the ceiling level of electricity prices in NSW.



APG remains concerned at the level of retail margin and (retail) costs that have been allowed for in the determination. IPART needs to ensure an appropriate level of retail margin (head room) exists within the regulated retail tariff so as to further promote competition in NSW. This can only be achieved by giving due consideration to costs faced by all retailers and not just those faced by Standard Retailers.

APG welcomes IPART's proposed review of the 'Green' schemes to ensure they are cost effective. APG supports the proposal to close off the solar bonus scheme to new applicants. However we strongly reject the accretion that retailers obtain financial benefits from the current scheme. We discuss these concerns further in our submission.

In addition we do not agree with the view that the additional resource costs required to meet compliance with the GGAS Scheme targets should remain as zero. Again we discuss this issue further in our submission.

Whilst we support IPART's proposal to review customer assistance measures for those vulnerable customers impacted by price movements IPART must recognise that amendments to existing assistance schemes or the introduction of new assistance schemes will impose significant costs on retailers. Any such costs would be recovered from customers.

APG would welcome the opportunity to discuss our submission with you further. Should you have any questions or require any additional information regarding our submission I may be contacted on (02) 8908 2714 or via email at: sruddy@auspg.com.au

Yours Sincerely,

A handwritten signature in blue ink, appearing to read "Shaun Ruddy", written over a white background.

Shaun Ruddy
Manager Regulatory & Compliance
Australian Power & Gas

IPART Review of Regulated Electricity Retail Prices from 1 July 2011

Wholesale Energy Costs:

For the purpose of IPART's review energy costs have been taken to include,

- Purchasing electricity from generators on the wholesale electricity market,
- Complying with several green (or climate change mitigation) schemes, as required by the Federal and NSW Government.

Under the terms of reference for the 2010 determination IPART are required to set regulated retail electricity prices to enable Standard Retailers to recover the full, efficient costs of providing electricity to customers on these prices. In terms of assessing energy costs IPART reviews the costs each Standard Retailer incurs in buying electricity to meet the load and demand for its customers.

The costs incurred by Standard Retailers for purchasing wholesale electricity to meet the load and demand for its customers is not representative of the costs (and risk) incurred by all retailers operating in the NSW market.

The lack of liquidity in the NSW electricity wholesale market creates greater costs and exposures for 2nd tier retailers. We have long held the view that IPART's review needs to recognise this to ensure there is cost reflective pricing that will encourage further competition. 2nd tier retailers are exposed to greater purchase costs and security requirements than that of Standard Retailers. These costs are not captured as part of the review.

In our view this has the impact of under estimating the energy purchase costs of supplying electricity to customers in NSW.

Green Scheme Costs:

The Green Scheme cost allowance is meant to reflect the costs of complying with various mandated government schemes designed to mitigate carbon pollution. IPART's review of the cost of compliance with the schemes appears to be focused on the cost of compliance from a certificate cost perspective only.



For example in the case of GGAS the consultant's report states;

In order to calculate the cost to a standard retailer of complying with the GGAS, it is necessary to determine the emissions target for a standard retailer (or the number of NGACs a standard retailer needs to surrender) and the cost of obtaining NGACs to meet the emissions target.

What are not being considered are the administrative compliance costs that accompany these mandatory schemes. Significant costs are incurred by retailers in the administrative compliance aspects of these schemes. Costs are incurred as a result of obligations associated with;

- Transferring & surrendering of certificates,
- Managing and assessing liabilities under the schemes,
- Managing annual returns (annual energy acquisition statements)
- Costs of independent audit reviews and assessments of participant's compliance with the scheme.

These costs need to be accounted for, not only for GGAS but for the ESS and Federal Government Energy Efficiency schemes. In the particular case of the GGAS scheme these additional cost alone would suggest that the additional resource / administration costs required to meet the GGAS target should not remain as zero as has been suggested in IPART's draft determination.

Solar Bonus Scheme Costs:

APG strongly disagree with the assertion that retailers receive a financial benefit from the solar bonus scheme. The major beneficiary from the scheme is the electricity distribution companies who receive benefit as a result of (potential) differed investment otherwise required to meet demand.

The solar bonus scheme is not something that was initiated by nor supported by retailers. The scheme creates significant administrative costs and compliance burden on retailers in the form of;

- Additional compliance monitoring and reporting obligations,
- The requirement to have enhanced customer management systems to cater for complex billing and account reconciliation requirements,
- The need for additional contractual documentation to cater for the solar bonus scheme,



- Additional training and education requirements for customer management staff,
- Additional customer collateral (brochure and website) information so as to provide customers with information about the scheme.

All of which adds significant cost to service customers with solar systems. It must also be recognised that in addition to the above costs incurred by the retailer they will also see a reduction in available revenue as a consequence of a customer having a solar system.

In the draft determination IPART seek to make comparisons with the scheme currently operating in the ACT. It is not appropriate for IPART to draw such comparisons given the significant differences in market structure between the ACT and NSW.

In the ACT the retailer and distributor are not separate entities as they are in the remainder of NSW. This is a significant difference when assessing the apportionment of costs and perceived benefits.

APG is supportive of IPART's proposal that the NSW solar bonus scheme be closed to new participants. We also support the periodic evaluation of all green schemes to ensure they remain cost effective. Any such evaluation must include all cost associated with the scheme including retailer administration and compliance costs.

In addition we support IPART's proposal to eliminate the solar credits multiplier from the RET scheme. This would be a prudent measure to reduce the costs of the scheme.

LRET / SRES Costs:

The splitting of the RET scheme into the LRET & SRES has imposed significant costs on retailers, costs that must ultimately be passed through to end use customers. We are pleased to see IPART's recognition of retailers increased liability under the LRET & SRES and the inclusion of these costs, (from 1 January 2011) in the proposed price changes.



We do however remain concerned at the disjoint between the price setting timeframe and that of the timing for setting the Small-scale Technology Percentage (STP) used in determining retailer liability under the SRES scheme.

Whilst the Office of the Renewable Regulator (ORER) has released non-binding estimates of the STP for 2012 & 2013 their continues to be a level of uncertainty for retailers as to their liability and whether the recovery of this liability will be adequately accounted for in future pricing determinations.

The retrospective nature of setting retailers liability, in that ORER has until the 31st March (in the applicable liability year) to publish the actual STP, is of significant concern for retailers.

Retailers cannot be exposed to compliance cost where there is the potential that they may not be able to fully recover these costs. IPART will need to ensure these additional costs are adequately accounted for in future determinations.

Retail Costs / Retail Margin:

APG remain of the view that whilst ever retail costs are being assessed based on Standard Retailers only there will be a lack of recognition of the true cost to supply customers. The lack of recognition of the true cost of supply has flow on impacts for retail margin and head room. Where IPART fails to identify the true cost of supply under a regime where a price cap exists, the retail margin / head room will be diminished. Potentially to the point where it is no longer viable for a retailer to operate in the NSW market. Head room needs to be sufficient so as to promote competition and ensure retailers achieve a reasonable rate of return after the recovery of costs.

APG would reiterate our preferred position that price regulation should be phased out in NSW. The removal of price regulation will allow market forces to set reflective pricing that accounts for the true costs of supply.

We have seen price regulation removed in Victoria which has allowed the contestable retail energy market to flourish. This is supported by the *Vaasaett Global Think Tank* review of world energy customer switching rates in which Victoria lead the world in electricity customer switching.



Customer Assistance Measures:

Whilst APG supports IPART's recommendation to enhance customer assistance measures we would caution IPART that any changes to existing support schemes will require retailers to make changes to their customer management and billing systems. Any changes will impose costs on retailers that will need to be recovered.

This is especially the case for the introduction of any new schemes such as the proposed "Family Energy Rebate". Whilst this is due to commence 1 July 2012, retailers will incur significant costs making system changes in readiness for its commencement.

These costs must be factored in to the assessment of retailer's costs.