



Energy Retailers Association
of Australia Limited

18 July 2012

Essential Services Commission of SA
Electricity Standing Contract – Wholesale Electricity Cost Investigation Discussion Paper
GPO Box 2605
Adelaide SA 5001

By email: escosa@escosa.sa.gov.au

Dear Sir/Madam

RE: Electricity Standing Contract – Wholesale Electricity Cost Investigation Discussion Paper

The Energy Retailers Association of Australia (ERAA) welcomes the opportunity to provide comments on the Electricity Standing Contract – Wholesale Electricity Cost Investigation Discussion Paper (the Discussion Paper).

The ERAA is the peak body representing the core of Australia's energy retail organisations. Membership is comprised of businesses operating predominantly in the electricity and gas markets in every State and Territory throughout Australia. These businesses collectively provide electricity to over 98% of customers in the National Electricity Market (NEM) and are the first point of contact for end use customers of both electricity and gas.

Under the *Competition and Consumer Act 2010 (Cth)*, the ERAA is not permitted to share or discuss information within the Association in relation to prices and the mechanisms for setting prices. We refer to the individual submissions of our members to comment on any price-specific issues including the questions raised in the Discussion Paper and strongly recommend that ESCOSA has due regard to these submissions. It is within this context that the ERAA provides the following comments on the Discussion Paper.

The ability of retailers to offer market contracts is predominantly driven by the most influencing factor in the development of an effective energy market - the prevailing standing contract price. This issue and related considerations are well summarised in the Discussion Paper:

If estimates are too high, standing contract customers will pay too much, although those who have signed market contracts may receive prices more in line more with efficient costs, to the extent that retailers compete with each other. If the forecasts are too low, standing contract customers may receive short-term benefits although, in the long-run, retailers may not compete robustly and the benefits of competition (innovation, low-cost offerings) may disappear, again, leaving the customers paying more than they should.¹

¹ Essential Services Commission, *Electricity Standing Contract – Wholesale Cost Investigation Discussion Paper*, June 2012, p. 1.

The ERAA has always maintained that best way to manage these risks and uncertainties whilst protecting consumer's interests is for the full removal of retail price regulation, as was achieved in Victoria in 2009. Given the current South Australian regulatory framework, the retail electricity market in SA is highly competitive as indicated by the high level of churn, the number of active retailers and the extent of discounting. Sufficient headroom is essential to ensure robust competition continues. The ERAA has concerns that changing the methodology to determine wholesale electricity purchase costs will lead to a reduction in retail competition in South Australia which will not be in the long term interests of consumers.

Retailers employ a variety of approaches to manage their wholesale energy costs including long dated power purchase agreements so that market based costs may not necessarily reflect retailers' costs. As shown in Table 3 of the Discussion Paper, the implied futures contract prices traded through d-cypha Trade demonstrate the characteristics of an irrational and illiquid market contract.² This illiquidity is accentuated by the uncertainty of the carbon pricing scheme continuing as the federal opposition has declared its intent to repeal the legislation should it win the next federal election in 2013.

Whilst, the ERAA acknowledges that some stakeholders advocate that standing contract prices be set at a level to protect vulnerable customers that have not elected to go onto market contracts, the ERAA believes that addressing issues surrounding vulnerable customers is a shared responsibility of governments, energy retailers, community groups and individuals. However, these issues should be considered separately from pricing. It is important that the issues relating to a small proportion of customers are not used to set prices for the whole retail electricity market.

Should you wish to discuss the details of this submission further, please contact me on (02) 9241 6556 and I will be happy to facilitate such discussions with my member companies.

Yours sincerely



Cameron O'Reilly
Chief Executive Officer
Energy Retailers Association of Australia

² FY2015 peak rate of \$55.8/MWh , is clearly lower than the off-peak rate of \$67.64/MWh.