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Electricity Standing Contract – Wholesale Electricity Cost Investigation
Essential Services Commission of SA
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Adelaide SA 5000
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Email: escosa@escosa.sa.gov.au

Dear Sir/Madam,

RE: Draft Methodology Paper Regulated Retail Electricity Prices 2012-13

Lumo Energy Australia Pty Ltd, (Lumo) would like to thank the Essential Services Commission of South Australia, (Commission), for the opportunity to comment and provide feedback on the Electricity Standing Contract – Wholesale Electricity Cost Investigation discussion paper. Lumo is supportive of the submission of the Energy Retailers Association Australia, (ERAA) of which Lumo is a member.

As stated in the discussion paper the Commission's primary objective is to:

...protect the long term interests of South Australian consumers with respect to the price, quality and reliability of essential services. It further discusses the requirement to:

...have regard to the need to ensure consumers benefit from competition and efficiency; and facilitate maintenance of the financial viability of regulated industries and the incentive for long term investment; and promote consistency in regulation with other jurisdictions.

With respect to these objectives Lumo remains committed to the assertion that the long term pricing interests of consumers is best served via the removal of retail price regulation. This ensures market forces set cost reflective pricing and drives innovation and competition.

Lumo is strongly of the view that reopening the wholesale electricity component at this time is inappropriate due to a lack of liquidity in the market.

Liquidity in the market helps foster competition which sends out market-determined price signals, puts downward pressure on retail energy prices and helps provide secure long term energy supplies.

Lumo disputes the commission's claim that wholesale market conditions have materially changed, with increased liquidity in the forward contract market. Whilst the exchange traded market has seen a slight uplift in liquidity through 2011 the turnover in South Australian contracts is still exponentially lower as a factor to underlying load compared to other States.

The continued uncertainty surrounding carbon policy and subsequent pricing has also again severely impacted the liquidity in contract markets. The liquidity issues that prevail result in a lack of depth to the contract markets and therefore the published forward price levels do not represent where a prudent retailer could hedge its customer load and any move to move towards using these as an input into the setting of regulated tariffs would be flawed and severely impact competition.



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The ongoing liquidity issues and subsequent wholesale risks faced by retailers in the South Australian market is no more evidenced than by the lack of competition from non-integrated retailers. Unlike other jurisdictions in the NEM, including those with regulated tariffs, the South Australian market has not sustained a highly competitive and diverse retail market primarily due to the unsustainable wholesale risks faced by those non-integrated retailers. By moving away from the existing LRMC approach to setting tariffs, the commission would only move to further reduce the diversity and competitiveness of the South Australian market.

As stated in the Australian Energy Regulator's State of the Energy Market 2011 paper:

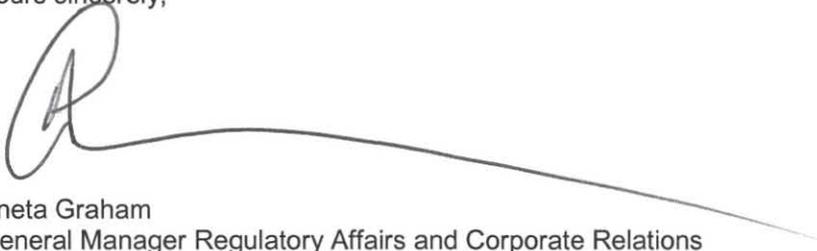
...significant vertical integration, poor liquidity in the market for electricity futures, and strategic bidding by the leading regional generator make South Australia a challenging market for potential new entrant generators and retailers.

Lumo would strongly disagree that these factors have materially changed given the inclusion of new wholesale challenges being through the increased penetration of intermittent wind generation and the retirement/periodic shutdown of base load plant.

It is imperative for the market to maintain a Long Run Margin Cost that is truly reflective of a three year price path and allows for new entrants into the market and an independent mix of generation. Whilst the discussion paper may perceive an immediate benefit in resetting the wholesale electricity purchase costs the long term outcome will have a detrimental impact on the overall market effectively exposing current retailers, stifling innovation, prohibiting new entrants and driving up the standing contract prices.

Lumo Energy welcomes the opportunity to participate in further discussion. Please contact Aneta Graham, General Manager Regulatory Affairs and Corporate Relations on 03 8680 6439 to discuss.

Yours sincerely,



Aneta Graham
General Manager Regulatory Affairs and Corporate Relations