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## **Global Settlement and Market Reconciliation**

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Thank you for the opportunity to provide a submission in response to the rule change proposal ERC0240 Global Settlement and Market Reconciliation.

Momentum Energy is a 100% Australian-owned and operated energy retailer. We pride ourselves on competitive pricing, innovation and outstanding customer service. We retail electricity in Victoria, New South Wales, South Australia, Queensland, the ACT, and on the Bass Strait Islands. We offer competitive rates to both residential and business customers along with a range of innovative energy products and services. We also retail natural gas to Victorian customers.

Momentum Energy is owned by Hydro Tasmania, Australia's largest producer of renewable energy.

Momentum provides in principle support to investigate the possibility of introducing global settlements. However, thorough analysis of the costs and benefits associated with this proposal should be identified prior to progressing the rule change.

Momentum believe that the fundamental reallocation of risk associated with this reform may not be insignificant. It is unclear to Momentum how the costs associated with the proposal have been calculated and we do not believe that the benefits have been sufficiently demonstrated. Whilst the rule change process may provide a quantification of the associated costs and benefits, the potentially negative implications (in conjunction with uncertainties stemming from other market reforms) provides strong justification for further, robust and in-depth analysis prior to progression. Whilst there is a clear opportunity to align this reform with the implementation of the five-minute settlement rule change, this does justify proceeding with it for the sake of convenience in the absence of compelling rationale to do so.

Momentum would philosophically agree that from a pure economic perspective, cross subsidies are rarely desirable. Their removal may however not lead to greater overall efficiency. Cross subsidies are a fact of life in the retail energy industry at both the consumer level where those in a position to pay for their energy consumption with relative ease cross subsidise the provision of hardship assistance to those customers who are facing financial difficulty. Similarly, at a more macro level, Tier 1 retailers with an incumbent base have a higher proportion of customers paying standing offer tariffs which can cross-subsidise their

acquisition activities or cover the costs associated with their position in the regulatory landscape such as the current UFE allocations.

Policy makers have long recognised the benefits of incumbency and the economies of scale which exist within the retail energy market. Most recently the Energy Security Board has recognised that smaller retailers face unique challenges and have, in their detailed design document developed a threshold for smaller participants to ensure barriers to entry are minimised and that effective competition can flourish. Considerations such as this are more important now than ever before as the industry is at a crossroads with the prospect of regulation in some states which has the potential to re-concentrate the market with the tier 1 retailers. Not only should additional imposts on challenger retailers be minimised at this time, but in the potential worst case scenario of a return to significant market concentration the net result is that local retailers will once again be liable for the overwhelming bulk of UFE changes due to their market share, all but obviating the need for this reform.

If you wish to discuss this submission in further detail, please contact Joe Kremzer on (03) 8651 3565 or email [joe.kremzer@momentum.com.au](mailto:joe.kremzer@momentum.com.au)