

# Retail Roundtable – Synopsis of outcomes

## 10 August 2009 (Melbourne)

On 10 August 2009, a roundtable meeting consisting of officials from the AEMC and representatives from energy retailers was held in Melbourne. The purpose of the meeting was to discuss and consider the draft findings and recommendations for Retail Issues outlined in the Review of Energy Market Frameworks in light of Climate Change Policies 2<sup>nd</sup> Interim Report ([www.aemc.gov.au](http://www.aemc.gov.au)).

The following key themes were the focus of the roundtable discussion:

- the need for increased flexibility in existing retail price regulatory frameworks at least in the early years of operation of the CPRS;
- approaches/methodologies to estimating future wholesale energy/carbon costs, including retailer views on the development of forward markets;
- the provision of information to inform regulator decision making; and
- the allowance of expanded RET costs in regulated retail prices.

### Increased Flexibility in Retail Price Regulatory Frameworks

Participants discussed the recommendations for increased flexibility and the possible implementation models proposed by the AEMC in the Review's 2<sup>nd</sup> Interim Report. The following issues were raised by retailer representation:

- Where retail price regulation is maintained the overarching purpose should be related to setting a maximum "safety net price" rather than aiming to determine an efficient price for the market. Participants suggested that any overpricing will be eroded by competition, whereas retailers have no opportunity to recover costs if regulated prices are set too low.
- Flexibility in existing retail price regulation frameworks is a key element to managing the expected impacts of CPRS.

➤ The trigger for a price review should be event driven rather than based on a set time period i.e. 6 months. It was noted that six monthly reviews may be too infrequent to prevent retailer businesses facing substantial stress and potentially exiting the market.

➤ Implementation should focus on a retailer led model (Model 2). It was noted that this approach would ensure the efficient management of wholesale energy/carbon cost risk. Participants also noted that this method would allow for a more accurate retrospective appraisal of costs by regulators.

➤ The proposal for a regulator led model (Model 1) may not effectively deal with the levels of uncertainty and expected volatility in the market following the introduction of CPRS - an alternative approach to allow for additional flexibility may be for existing frameworks to allow a retailer to present a case for a price review where prices are substantially outside the original forecast.

### Wholesale energy/carbon cost forecasting approaches/methodology

Participants discussed the current approaches/methodologies used by regulators to forecast the wholesale energy cost component of retail prices. In addition, participants discussed the need for improved information to support such forecasting. The following key issues were noted:

➤ Markets for forward hedging products have not yet emerged and that liquidity in such markets may be limited for some time. This will limit retailers' ability to effectively manage risk.

➤ Key risks of greater uncertainty, increases in volatility and limited forward markets are likely to create additional challenges for regulators when forecasting future wholesale energy/carbon costs.

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- Availability of information to regulators from both public sources and/or retailers was raised. However, it was noted that the usefulness of information was dependent on how it was interpreted and applied by regulators. Participants considered that better interpretation and application of information may potentially be achieved by regulators adopting a more consultative approach with retailers.
- Importance of ensuring that the national approach for Retailer of Last Resort (under the proposed National Customer Protection Framework) is implemented in a timely manner.

### Allowing for expanded RET costs in regulated retail prices

- Participants noted that the penalty price of RECs should be at a minimum the effective price used by price regulators when considering the costs of the expanded RET.

### Next Steps

Next steps include:

- Review by the AEMC of outcomes of all stakeholder views/roundtables and submissions; and
- Development of the Final Recommendations on this issue which will be provided to the MCE as part of the consolidated Final Report for the Review of Energy Market Frameworks in light of Climate Change Policies on 30 September 2009.

# List of Participants

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AEMC

AGL

Aurora Energy

Country Energy

Energy Australia

Energy Retailers Association of Australia

Ergon Energy

Horizon Power

Infratil Energy Australia

Integral Energy

Origin Energy

Red Energy

Simply Energy

Synergy

TRUenergy

Victoria Electricity