



7 February 2008

Dr John Tamblyn
Chairman
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

e-mail: submissions@aemc.gov.au

Dear Dr Tamblyn,

Second Draft Report: Review of the Effectiveness of Competition in Electricity and Gas Retail Market in Victoria

Thank you for the opportunity to provide comments on the Commission's Second Draft Report on the Review of the Effectiveness of Competition in Electricity and Gas Retail Market in Victoria. Our comments relate to the specific proposals recommended in Section 4 of the report, which aim to provide assurance that customers seeking electricity or gas supply access can find a participant to act on their behalf to achieve this access.

1. Summary of the Commission's Anticipated Scenario

In Section 4.2.1 the Commission recognises that there may be customers who "by virtue of their personal circumstances or the perception that they are unprofitable to serve may not ...be able to access full benefits of competition". That is: certain customers may not be able establish a relationship with a Retailer to act on their behalf to get their premise energized, without some form of obligation on a Participant(s) to offer to supply.

In Section 4.2.1.3 the Commission is specifically discussing the possible options for new connection in these circumstances.



SP AusNet understands the situation is:

1. A customer seeks to have a new premises metered, connected, and energized; and
2. The customer has approached a number of Retailers and they have been unwilling to establish a contract and to act on the customer's behalf to submit the necessary B2B request to the Distributor for these actions to be carried out. This is because the Retailers approached either:
 - are concerned re the customers debt history (their "personal circumstances") and the ability to recover establishment and ongoing costs, and/or
 - assess the customers potential load shape/level does not provide sufficient income under any of the Retailer's standard tariffs to allow recovery within a reasonable period of the establishment costs including the trading risks of a new load with unknown profile not specifically covered by the Retailers standardised contracts.

2. SP AusNet Assessment of Scenario

Unless many Retailers have access to details that show the customer is very unattractive under the first dot point immediately above, SP AusNet presumes that that at least one, and most likely more, of the many available Retailers would be anxious to establish contracts.

As stated in the Commission's paper, there is potential that a small Retailer may not want to be bothered in quoting as it knows that its cost model, with limited customer base over which to "smear" fixed new connection process costs, will make a tariff with sufficient allowance to recover its new connections costs totally unacceptable. However a larger Retailer should have incentives to strike a general tariff which recognises these costs given that the scenario follows the removal of retail price controls and hence cost reflective pricing would apply. This may even include a new connections loading but presumably would be struck to not dissuade the customer and would be subject to competitive pressures from other larger Retailers.

SP AusNet presumes that the Customer's access to the proposed default new connection arrangements would then be restricted to Customers who, despite approaching a number of Retailers, are genuinely unable to get a supply agreement. That is, Customers seeking to gain supply through the default new connections provider arrangements would not include those that are just unhappy with paying a new connections loading. The number of Customers in this circumstance should hence be very small.

3. SP AusNet Assessment of Options for Default New Connections Arrangements

(i) Distributor Tender Model

Although notionally a Customer can currently come to the Distributor directly to arrange metering and connection, practice is that the Distributor will not energise until a Retailer is in place. Further, by far the most common arrangement is for the Customer to not approach the Distributor at all, but for the Retailer to take actions on behalf of the Customer to arrange for



the complete meter install, connection, and energisation process. This is the process supported by the industry B2B process and was discussed in our submission to the MCE consultation through the Retail Pricing Working Group's Working Paper No2. In that submission SP AusNet expressed the view that at the Rules level it should be recognised that this is the default approach and that any ability for the Customer to approach the Distributor should be conditional rather than a "normal" alternative.

The involvement of distributor's in the engagement of a retailer has the potential to lead to alternative routes for new customers and it would be difficult to enforce the conditions under which this should occur, for example, determining genuine inability to engage with a Retailer. It also raises questions regarding the responsibility and accountability of the Distributor for the outcome of the auction, including on-going issues between the connected party and the Retailer selected through this process. As the Distributor would have coordinated the selection process the Customer may consider that billing and disconnection issues, for example, should be addressed to the Distributor.

SP AusNet hence considers the Distributor auction model to be counter to the best practice benchmark approach as it necessitates the Customer making contact with a Distributor directly hence circumventing the intended protocol for establishment of relationships. It would also involve the Distributor establishing additional Customer contact arrangements and the other required processes, and these would need to be relatively rigorous as they would be impacting directly on Customers' access to essential services. However they would be under-utilised based on our assessment of the scenario. Further the cost of establishing and managing this function is unlikely to be recovered from the auction fees (refer further comment re likely "return" below) and we consider it more likely to be a cost, rather than a revenue, in the distribution pricing determination process.

If the Customer has failed through their reasonable endeavours to secure a Retailer then presumably the Customer is an extremely poor Retailer risk, and the chances of a Retailer actually paying money (or even volunteering) to take such a Customer on are very small. The very conditions which have resulted in the Customer being forced to take up the default new connection arrangement would also mean that it is unlikely that there will be rigorous bidding for the right to supply.

(ii) Host Retailer (or Defined Area) Model

SP AusNet is not convinced that the process of assigning a Retailer or Retailers to act as the supplier of default new connection arrangements is as difficult as outlined on p34 of the Commission's Report. We do not consider that this needs to be subject to detailed analysis but rather that the assignment of the default new connection providers could be made based on an understanding of the desired outcome.

SP AusNet cannot provide any insight on the relative sizes of retailers on other networks, nor can we provide specific detail or even general summaries of Customer numbers of Retailers operating on our network.

We therefore provide a hypothetical example:



On a network the host Retailer has in excess of 50% of the customers and the largest 2 Second Tier Retailers have 20% and 10%. The Regulator could use a number of ways of deciding on the threshold for the obligation being assigned to a retailer. If the threshold in this hypothetical network was set at say:

- 30%, the Host would be the only provider for a relatively long period (this would continue the Host Retailer model)
- 20%, there would be two default providers immediately
- 15%, the host and dominant Second Tier Retailer would be the only providers for a period until other Retailers “grew” to this level.

Other options are possible and generating these options (using current arrangements across all networks) and assessing the likely outcome should demonstrate that an approach which provides for customers to directly secure a retail relationship is entirely practical. This would also be consistent with the approach adopted in relation to retailer of last resort.

4. Conclusion

The conclusion from our analysis of the options presented by the Commission whereby new connection customers may opt to establish a relationship with a participant to secure connection is that:

- the **distributor auction model** has a number of issues and would not be the most effective and cost efficient arrangement; and
- the **defined area model** with a customer number threshold set to achieve a pragmatic outcome is consistent with relationship protocols in use, simple to establish and therefore entirely practical.

We thank you again for the opportunity to provide comment on the draft report. We would be pleased to discuss any queries you may have.

Kelvin Gebert
MANAGER REGULATORY STRATEGY & COMPLIANCE



