momentum
The power of natural thinking
Hydro Tasmania

12 December 2012

Attention: Richard Owens
Australian Energy Regulator
Level 5, 201 Elizabeth Street
SYDNEY, 2000

Dear Sir

**RE: Electricity Market Financial Resilience – Options Paper**

Background

The National Energy Customer Framework (NECF) proposes a different set of arrangements in the event of a retail failure whereby there will be three categories of Retailers of Last Resort. They are the Default ROLR, generally a "local" retailer, along with additional firm and non-firm ROLR who may, if required, nominate to bid in and take customers. Concurrent to the NECF proposals above, the AEMC paper proposes options to mitigate against financial market contagion, ie cascading retailer failure. These options fall broadly into either the relaxation of credit support, or the establishment of end user co-insurance funds,

Relaxation of Credit Support

Business failure is an unfortunate part of any market. Whilst the risk of a retailer failing is historically low, and the potential for retailer contagion is even lower, the consequences of retailer failure are compounded by electricity's status as an essential service.

The AEMO proposes to protect the ROLR from the increased and sudden costs of posting additional credit support when they are assigned tens or hundreds of thousands of customers from the failed retailer. Risk allocation is designed to minimise the financial risk (and therefore cost) to retail customers.

Several options propose to relax credit support. Relaxing credit support immediately following a RoLR event has one of two effects to more or less an extent. The effects are:

- The Generator bears the risk that the designated RoLR fails and does not pay AEMO for energy which will result in AEMO short paying generators, and;
- The Distribution and transmission businesses bear the risk that the RoLR fails and does not pay network charges.

Momentum Energy does not believe that policy options requiring an adjustment of the financial settings in the market should be considered. This is because of the broader implications these options, such as capping the spot price, will have on all market participants.

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Industry (end user) co-insurance funds

The creation of an industry co-insurance fund may be seen by policy makers as a simple solution to reducing the risk of financial market contagion, but it is not without its problems. Adding an additional charge to every customer's bill given the debate around rising energy prices is unlikely to be well received. Additionally, how the money is administered could be difficult, especially as the potential for such a large pool of money to simply be set aside and not used for other purposes is unlikely. Finally, if the fund was to be disbanded, or was oversubscribed, there could be difficulties in finding a way to demonstrate that the money had been 'returned' to customers.

Momentum also believes that the industry co-insurance fund option unfairly discriminates against retailers which implement risk mitigation strategies and prudent customer choice. Whilst this option does not interfere with the financial settings of the market, and is the easiest charge to pass through end users, it risks establishing a precedent in which measures such as co-insurance schemes are applied by energy policymakers in other unrelated circumstances, such as hardship funds or technology support funds.

Thank you for the opportunity to contribute to this important consultation. Should you or your staff wish to discuss this matter further please feel free to give me a call on (03) 8612-6471.

Yours sincerely

Alastair Phillips
**General Manager Regulatory and Compliance**