

12 July 2013

Attention: The Project Leader
Best Practice Retail Regulation Method
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Electronic submission: lodged online via www.aemc.gov.au

Dear Sir/Madam

RE: Issues Paper: Best Practice Retail Regulation Methodology

Momentum Energy welcomes the opportunity to provide the following comments in relation to the Australian Energy Market Commission consultation on Best Practice Price Regulation Method.

Momentum Energy believes that the regulation of retail energy prices remains a significant hurdle to increasing the level of competition, innovation and customers taking greater responsibility for their energy usage. The approach to the regulation of prices has generally improved over time, however an overriding issue to setting prices effectively, is the propensity for parties to intervene in the determination to reduce the uplift on energy prices. Rather than addressing issues of energy affordability through the regulation of retail energy prices, governments should address these issues through transparent community service obligations, such as concessions and rebates.

While Momentum believes there is merit in establishing a common methodology for the regulation of retail prices it is important to note that this will not necessarily result in the regulators determining exactly the 'right' price for that market, due to the subjective nature of price determinations. As well as this, market and regulatory conditions are different in each jurisdiction and will also vary over time. This means that any methodology will need to be relatively high-level as against prescriptive, and subject to review so that where necessary it is updated to take account of such differences.

In assessing what the ultimate retail price should be in any market it is important to recognise the asymmetric risks of regulators not making sufficient allowance for the costs and risks borne by retailers. Consequently, the detriment to customers of increasing prices too much is far outweighed by the impact of retailers withdrawing from the market or ceasing marketing, or worse still failing altogether. Even in circumstances where regulated prices are substantially raised, any additional margin should be competed away by new entrant retailers.

Momentum Energy understands that the AEMC was initially asked to provide advice to the Standing Committee on Energy and Resources following its December 2012 Meeting. Since then we have witnessed a number of developments associated with the phasing out of price regulation including the commencement of retail electricity price deregulation in South Australia and the Queensland Government announcement that it will remove retail electricity price regulation in South East Queensland by 1 July 2015. As a result of these developments particularly in South Australia the drive towards phasing out price regulation all

together has increased, reducing the requirement for a standard methodology. While Momentum believes this work on a best practice price regulation method should continue, it should not take precedence over the removal of price caps all together.

Wholesale Energy Costs

The wholesale energy component represents the largest component of any determination which retailers have some control over. The setting of the wholesale component is complicated by the volatility of the wholesale market and the approach taken by the retailer to hedge its risk. Although the setting of the wholesale component has generally improved, especially with the introduction of 're-openers' to take account of volatility in the wholesale market, there remains some issues with ensuring a sufficient allowance is made.

Momentum Energy supports the use of a LRMC floor for calculating wholesale energy costs because it is the levelised cost of meeting an increase in demand over an extended period of time. This is therefore likely to result in determining a wholesale cost which is closer to the actual cost of investing in new generation compared with a market based approach which is a single point in time.

As an emerging retailer, Momentum Energy would also note that the general trend towards vertical integration has reduced supply of contracts across the NEM, reducing liquidity. Contract liquidity should therefore be considered as part of any determination as it will ultimately influence what offers retailers make to customers.

Retail Operating costs and competition allowance

In assessing the retail costs of any regulated pricing determination Momentum is strongly of the view that using a new entrant approach is likely to better reflect the actual costs of a new entrant retailer. Given that most regulators and governments recognise that regulated price determination should be done in a way which encourages new entrant retailers it makes sense to assess the cost of a new entrant rather than an incumbent.

Timing of the Small-scale Renewable Energy Scheme (SRES)

As a principle Momentum is strongly of the view that any retail pricing determination should ensure the costs associated with any government scheme are fully passed through to the end customer. Momentum Energy believes the way the costs of the SRES are determined by the Clean Energy Regulator creates additional risks for retailers in passing through the costs of the scheme to end customers. While it would not advocate any regulator reassessing the costs of the SRES scheme more than once every 12 months, Momentum is firmly of the view that retailers should not be left short changed from a scheme which is imposed on them by government.

Form and duration of controls

Momentum supports an approach whereby price determinations are made for a period of three years. Given the significant resources retailers and regulatory authorities commit to these determinations, Momentum is of the view that if a three year price path has been set in an effective way, there may not always be a need for the price to be reassessed in the second and third years, unless there has been a substantial movement in any of the components.

In order to assess whether a three year price path should be re-opened it is important that the methodology clearly identifies the circumstances in which the original decision will be able to be reassessed. Given the identified risks associated with wholesale market volatility such as with a flexible carbon price, it is fundamental that there are tolerance bands to allow for such movements. Equally, changes in law, movement in the price of any of the environmental components or changes in network tariffs should allow a retail determination to be re-opened to ensure retailers are not left out of pocket.

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