

20 February 2009

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

Dear Dr Tamblyn

### **Review of Energy Market Frameworks in light of Climate Change Policies: 1<sup>st</sup> Interim Report**

Simply Energy welcomes the opportunity to comment on the AEMC's Review of Energy Market Frameworks in light of Climate Change Policies: 1<sup>st</sup> Interim Report.

Simply Energy agrees with the Commission's preliminary view that the current retail price regulation arrangements are not sufficiently flexible to be able to cope with the potentially large and rapid changes in retailer costs arising from the CPRS and other climate change policies. This is a significant concern for retailers.

Price regulation in jurisdictions other than Victoria imposes a significant risk to retailers' ability to pass through the costs of climate change policy to end consumers. Costs are expected to rise dramatically under the proposed CPRS and expanded RET. Where retailers are unable to pass through the full impact of these costs, their viability – and the competitiveness of the energy market – will be jeopardised. The ongoing viability of retailers is essential to ongoing investment in new renewable energy generation and infrastructure, and ultimately to the success of climate change policy.

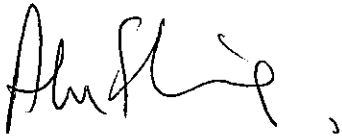
The removal of price regulation in jurisdictions where energy markets are competitive will be the most effective way to overcome these risks.

Recognising that removal of price regulation in all jurisdictions is unlikely before the implementation of the CPRS and other climate change policies, Simply Energy considers that steps must be taken to ensure that existing price regulation does not prevent a retailer from recovering the full cost of carbon.

In Simply Energy's view, the AEMC should look to develop a mechanism for the pass-through of carbon costs in each jurisdiction that still has regulated pricing. As set out in the submission made by the Energy Retailer's Association of Australia, this may include a set of principles to guide the regulation of energy retail prices (to take into account the cost of carbon) across jurisdictions. For example, accounting for the difficulty in determining in advance the likely cost impact of CPRS on retailers, the AEMC should consider the possibility of an ex-post price adjustment mechanism, or alternatively a fund whereby retailers would be 'compensated' if the market price for carbon turns out to be higher than that which was used in the tariff calculation. This could be funded, for example, from Government auction revenue to be allocated to households.

Simply Energy recommends the AEMC consult widely to develop a detailed and consistent approach to ensuring full carbon cost pass-through, and looks forward to involvement in this consultation process.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Alex Fleming', with a stylized flourish at the end.

Alex Fleming  
Legal & Regulatory Manager