

A few  
words.

**24 August 2011**

Mr Tom Leuner  
General Manager  
Markets Branch  
Australian Energy Regulator  
GPO Box 520  
Melbourne VIC 3001

AGL

By email: [AERInquiry@aer.gov.au](mailto:AERInquiry@aer.gov.au)

Dear Mr Leuner

**AER Draft RoLR Framework - July 2011**

AGL Energy Limited (**AGL**) welcomes the opportunity to provide comments on the draft Retailer of Last Resort (**RoLR**) Framework published by the Australian Energy Regulator (**AER**) in July 2011.

AGL is generally supportive of the AER approach to RoLR, however, we continue to question the practicality of a scheme which contemplates expressions of interest and additional RoLRs. We remain to be convinced that this approach is necessarily the most appropriate, given that RoLR events generally occur with little notice.

Given that AGL has previously provided comments in earlier consultations on the AER's approach to RoLR arrangements under the National Energy Customer Framework, we have sought to limit our comments in this submission to the RoLR cost recovery scheme and the RoLR plan.

Our response to the AER's approach on these two issues is in Attachment A.

Should you require clarification of any of the points raised in this submission, please contact Anna Stewart, Manager Energy Policy and Strategy, on 03 8633 6830.

Yours sincerely



**Beth Griggs**  
**Head of Energy Markets Regulation**

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- > Gaining accreditation under the National GreenPower Accreditation Program for AGL Green Energy®, AGL Green Living® and AGL Green Spirit
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## Attachment A

### RoLR cost recovery

#### **Costs recoverable under a RoLR cost recovery scheme**

The AER notes that it considers it 'reasonable that the recoverable preparation costs be limited to a default RoLR's efficient costs'. AGL seeks clarification on how the AER will judge a RoLR's costs to be efficient. In some regulatory contexts, 'efficiency' of costs is judged by comparing a cost against a predetermined benchmark. AGL is concerned that as each retailer has different systems and processes, comparing these actual costs against a benchmark could disadvantage a retailer's ability to recoup the actual costs incurred.

AGL submits that the AER needs to acknowledge that it will not always be possible in times of extreme urgency for the costs associated with a RoLR to be as low as they may be in other situations – in other words, the concept of 'efficiency' must be considered in the context of the circumstances in which the RoLR event has occurred.

The AER states that it will consider 'longer-term revenue' in some circumstances. It is unclear to AGL how this will be practically applied when a RoLR requests ex-post cost recovery. This suggests a large number of assumptions will be made about customer retention in a RoLR event (which could be significantly different to normal rates of customer retention) and the costs and revenues associated with customers over a longer period of time. AGL is of the view that this approach could operate to transfer a disproportionate amount of risk onto the RoLR. AGL therefore seeks to understand in further detail what the AER is proposing in this respect.

#### **Form of RoLR cost recovery application**

AGL acknowledges that it is practical to provide a template for a RoLR cost recovery application to ensure that the required level of information is provided to the AER. The *RoLR preparation costs* and *RoLR event costs* worksheet templates provide a sufficient level of information and flexibility for retailers. AGL is concerned, however, by the detailed information required to be provided in the *Benefits* worksheet template. The template requires the RoLR to provide a breakdown of revenues and costs for all transferred customers as the basis on which the net benefit will be calculated. In AGL's view, this is quite an onerous requirement, and one that may be extremely difficult to provide. AGL notes its comments above in relation to how the AER is proposing retailers would make assumptions about the rate of churn in RoLR customers, and any projections as revenues into the future.

#### **Cost recovery mechanisms**

The AER appears to have a significant level of flexibility to design the cost recovery process so as to align with the nature of the RoLR event. In principle, AGL supports such an approach, acknowledging that each RoLR event will be different and it is therefore for the AER to have a flexible framework to ensure that the actions taken are appropriate to the situation.

### RoLR plan

In general, AGL is supportive of the AER's approach to the RoLR plan. We do, however, have the following comments in response to the draft paper.



In the draft RoLR plan document, clause 2.2(c)(iv) states that AEMO will provide the electricity NMI list report to affected participants within 17 business days of the RoLR event. It is unclear to AGL why this length of time is required and why it is different to the timeframes to be applied in relation to gas.

AGL considers that it should be made explicit by the AER in its press release and other public documents notifying of the RoLR event, that the RoLR may have a right to charge an up front fee to those customers transferred to it (in circumstances where it is applicable). This should be made clear to customers as early as possible so as to minimise confusion and potential complaints. Obviously, the RoLR, when writing to transferred customers will outline all applicable costs, however, it may be beneficial for a more general message about cost recovery to be relayed by the AER in its communications too.

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