countryenergy

Ref: *MR:DM:C1570941*

22 December 2010

General Manager
Markets Branch
Australian Energy Regulator
GPO Box 520
MELBOURNE VIC 3001

Submitted electronically to: AERInquiry@aer.gov.au

Dear Sir / Madam

Retailer of Last Resort Cost Recovery Scheme – Issues Paper

Country Energy welcomes the opportunity to provide input into the AER's Retailer of Last Resort Cost Recovery Scheme Issues Paper ("the issues paper").

Country Energy supports the overall concept of the retailer of last resort (RoLR) cost recovery scheme proposed by the AER. However, Country Energy has concerns with the AER's identified distribution network tariff variation mechanism. Further details are provided below.

The issues paper identifies three possible cost recovery mechanisms – an upfront fee, a retail tariff variation and a distribution network tariff variation. Country Energy believes that the Retailer should be responsible for passing-on any related RoLR costs. The current approach in New South Wales of an upfront fee may, in Country Energy's view, place an additional financial burden on the affected customers of the defaulting retailer. Country Energy is of the view that a retail tariff variation would be the most appropriate cost recovery mechanism as this ensures that the retailer will recover its costs quickly over a larger customer base.

Country Energy acknowledges that an alternative approach is to recover RoLR costs from distribution customers – on the basis of either customer numbers or energy (MWh) distributed by each Distribution Network Service Provider (DNSP). Alternatively, by the Australian Energy Market Operator increasing market fees, the costs could be distributed by each of the Financially Responsible Market Participants in the National Electricity Market. If this method was used then the cost to individual customers would be reduced significantly.

In the event that it is decided that RoLR costs are to be recovered though distribution network tariffs, then Country Energy has a number of concerns that would need to be addressed. These issues and concerns are described below.

The pass-through provisions contained in Chapter 6 of the National Electricity Rules ("the NER") allow material changes in the costs of providing direct control services to be passed-through to distribution network users during a regulatory control period. In order for costs to be passed through, a 'pass through event' must occur. Clause 167 (2) of the National Energy Retail Law (NERL) specifies that 'a RoLR cost recovery scheme distributor payment determination is to be both a regulatory change event and a positive change event for the purposes of the NER'. Country Energy's current regulatory distribution network determination ("the Determination") provides for pass-through provisions including relevant events, triggers and materiality thresholds.

On the question of materiality, the Determination states that *'the AER will generally consider that a pass through event will have a material impact if the costs associated with the event exceed 1 per cent of the smoothed forecast revenue specified in the final decision in the years of the regulatory control period that the costs are incurred'*. For Country Energy, one per cent of revenue is a significant level and if the RoLR event costs do not reach this threshold, the business would bear the full costs under the distribution network tariff variation mechanism.

In regards to the trigger for a pass through event, clause 6.6.1 of the NER states *'a distribution network service provider (DNSP) must submit to the AER within 90 business day of the relevant positive change event occurring'*. From Country Energy's understanding of the AER issues paper, it is not clear what will constitute the trigger for a RoLR event. The issues paper states that inclusion of the RoLR event in the NERL is considered a regulatory change event. However, no costs are incurred by the business until a RoLR event occurs. Country Energy therefore seeks clarification on how and when a RoLR event might trigger a pass-through event.

Given the issues described above, Country Energy believes that using the proposed distribution network tariff variation mechanism for the recovery of RoLR event costs may hold some implementation difficulties.

The issues paper discusses the possibility of making only one DNSP responsible for the recovery of the payments for the RoLR scheme. Implementation of a RoLR cost recovery scheme in this way would mean that customers in one DNSP area only would contribute to the costs of an event which potentially affects customers throughout the National Electricity Market. Country Energy would welcome further thinking on any equity or fairness issues that this arrangement may introduce.

Country Energy would be pleased to discuss this matter further. Should you require further information or clarification please feel free to contact David Mattson on 02 6589 8492.

Yours faithfully

[submitted electronically]

Peter Williams
Acting General Manager Regulatory Affairs and Commercial Strategy