

Ref: JC:MRC1765239

19 August 2011

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

Email: AERInquiry@aer.gov.au

Dear Sir/Madam

National Retailer of Last Resort Scheme

Essential Energy appreciates the opportunity to respond to the Australian Energy Regulator's (AER's) consultation to develop the Retailer of Last Resort (RoLR) Scheme.

Essential Energy supports the AER's comprehensive draft RoLR package of draft instruments incorporating the plan, guidelines and statement of approach. While much of the package is not relevant to distribution network service providers (DNSPs), Essential Energy remains concerned with aspects of the RoLR cost recovery scheme.

Essential Energy maintains the position that the Retailer should be responsible for passing on any related RoLR related costs. The current approach in NSW of an upfront fee worked reasonably well in practice in 2009. If customers are aware that a fee may apply should a RoLR event occur, this can then form part of their decision making when choosing a Retailer.

While the AER's draft instruments note that the National Electricity Retail Law (NERL) automatically approves distributor payment determinations as an approved cost pass through, Essential Energy seeks clarification from the AER that a DNSP will therefore not need to apply to recover the payments made under a distributor payment determination or satisfy the materiality thresholds for a cost pass through. If this is the case, the first time the AER would receive notification from a DNSP of a distributor payment determination cost pass through amount would be at the next annual pricing proposal.

Essential Energy's remaining concern relates to the timing of the recovery of the distributor payment determination cost pass through amount. Essential Energy does not think it is appropriate for a DNSP to carry a shortfall of the cost pass through amount, including the time value of money, for a period of over two years. For example, if the AER makes a distributor payment determination which is also then paid by the DNSP in June 2012, the DNSP would have to wait until April 2013 to apply for recovery of the determination amount in the next available annual

pricing proposal. Assuming the AER approves the inclusion of the distributor payment determination amount in that pricing proposal, the distributor payment determination would then not be fully recovered until 30 June 2014.

Essential Energy does not believe this is fair or equitable, as the RoLR is in the best position to manage this risk, a risk that could be factored in to a RoLR cost recovery scheme application. Essential Energy proposes that the RoLR should have to wait until all costs under a distributor payment determination are recovered from customers before a payment for that amount, plus the time value of money, is required from DNSPs.

Essential Energy would be pleased to discuss this matter further with the AER. Should you require further information please feel free to contact Jason Cooke on 02 6338 3685.

Yours sincerely



Natalie Lindsay
General Manager Regulatory Strategy and Compliance