

22 December 2010

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

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

Dear Mr Leuner

**ROLR cost recovery scheme issues paper**

Integral Energy welcomes the opportunity to comment on the Retailer of Last Resort (ROLR) cost recovery scheme issues paper (the Issues Paper) released by the AER in November 2010.

Integral Energy is the second largest state owned energy corporation in New South Wales, serving some of Australia's largest and fastest growing regional economies. It provides distribution network services to almost 860,000 customers or 2.1 million people.

Integral Energy broadly supports the development of a national ROLR regime. However, it has two main concerns regarding the proposed cost recovery scheme.

First, the Issues Paper notes that a distributor payment determination automatically amends the relevant distribution revenue determination so that ROLR payments are taken to be positive pass through events. However, the Issues Paper doesn't address the materiality test that normally forms part of the AER's assessment of positive pass through cost recovery applications. Integral Energy submits that, for the ROLR cost recovery scheme to operate effectively, the materiality test should be waived for all such payments. Otherwise, there is a risk that distributors would be unfairly required to subsidise the cost of the ROLR event.

Second, in discussing the possible cost recovery mechanisms, the Issues Paper appears to ignore two viable options. These are to recover the costs through the market fees charged by the Australian Energy Market Operator (AEMO) and to levy all distributors (rather than the distributors directly affected in the retailer failure).

Integral Energy is concerned that levying only the directly affected distributors imposes an inequitable administrative cost burden. In practice, it is also unlikely that only a single distributor would be affected by a retailer failure. It therefore makes sense to spread the costs across the market. Integral Energy submits that the most administratively simple way to do this is to recover the costs through the AEMO market fees.

Going further for you is what we do

Integral Energy looks forward to further participating in the AER's consultation process. If you have any questions with respect to this matter, please contact me on telephone number (02) 9853 6598.

Yours faithfully

A handwritten signature in dark ink, appearing to read 'Frank Nevill', written in a cursive style.

Frank Nevill

**A/g Manager Network Regulation**