7 December 2018

Mark Feather
General Manager, Policy and Performance
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

RE: AER Position Paper Default Market Price Offer

Dear Mr Feather.

We thank the AER for the opportunity to provide a submission on the development of a Default Market Offer (DMO). WINconnect is a licenced electricity retailer operating within Victoria and the NECF jurisdictions. We primarily operate in the market by servicing customers within community energy schemes, microgrids and embedded networks. This is a niche segment of the Australian energy market and we have a strategic outlook for investment in innovation for new models of energy supply. This includes microgrid level demand management and clean distributed generation. It should go without saying that a truly competitive retail market is integral to an organisation like ours investing in new products and services for energy consumers.

Whilst we don't intend to provide an exhaustive response to the all of the submission questions, we do want to inform the regulator of one particular area of concern for our organisation. This relates to how the AER intends to consider retailer wholesale costs in setting the DMO and is broadly covered under:

"Question 4. What factors should we take into account in determining DMO Prices?"

We write from the position of a small, privately owned, energy retailer with no access to upstream generation assets. Currently, the wholesale costs that our organisation faces are driven by prevailing conditions in wholesale markets (both for OTC and Exchange Traded contracts) as well as additional market risk factors. The wild volatility in these markets in recent years has caused us significant difficulty in being able to drive down consumer tariffs.

We implore the AER not to overlook the importance of the impacts of wholesale costs on small retailers. We note this in the context of vertically integrated gentailers currently holding significant power in the wholesale energy markets. Given that, we anticipate that there would be dramatic variation across different retailer's actual wholesale cost base. Whilst the position paper points to futures prices at a single point in time as a guide for wholesale costs, we note that there may need to be closer consideration given to this method. This is due to variation in cost between different retailers and based on individual retailers hedging decision occurring over different time horizons.

The practice of forecasting retailers wholesale costs could potentially be less problematic in concert with additional measures proposed by the ACCC to promote transparency in the wholesale markets. These would include the exposing of gentailer transfer prices or encouraging further hedging contracts be made available to the futures exchange. Without these additional measures, however, it should be recognised that a one-size-fits-all approach to estimating wholesales costs may lead to perverse competitive outcomes and potentially threaten the commercial viability of many small retailers.

Sincerely,

James Norton

Executive General Manager – Energy Markets

WINconnect Pty Ltd | ABN 71 112 175 710
P 1300 791 970 | F 03 9832 0011 | sales@WINconnect.com.au | www.WINconnect.com.au
Suite 201 • 12 Cato Street • Hawthorn East VIC 3123 | PO Box 217 • Hawthorn VIC 3122