

Retail Regulator/Policy Roundtable – Synopsis of outcomes

24 July 2009 (Sydney)

On 24 July 2009, a roundtable meeting consisting of officials from the AEMC, jurisdictional regulators and policy agencies was held in Sydney. The purpose of the meeting was to discuss and consider the draft findings and recommendations for Retail Issues outlined in the Review of Energy Market Frameworks in light of Climate Change Policies 2nd Interim Report (www.aemc.gov.au).

The key findings and recommendations of the 2nd Interim report were:

- the level and volatility of wholesale energy costs are likely to increase under the CPRS
- retail price regulation frameworks may not provide sufficient flexibility to allow the efficient recovery of these costs;
- recommendations and two implementation models were proposed to improve flexibility in retail price regulation frameworks
- no recommendations for change to market frameworks were made in relation to gas, the renewable energy target, wholesale energy cost estimation methodologies or the national Retailer of Last Resort scheme.

The following key themes were the focus of the roundtable discussion:

- the need for increased flexibility in existing retail price regulation frameworks at least in the early years of operation of the CPRS and expanded RET;
- approaches/methodologies to estimating future wholesale energy/carbon costs; and
- allowance of expanded RET costs in regulated retail prices.

Increased Flexibility in Retail Price Regulatory Frameworks

Participants discussed the AEMC recommendations for increased flexibility and implementation models proposed by the AEMC in the Review's 2nd Interim Report. Key points made:

- the introduction of the CPRS is likely to create some challenges for estimating the wholesale energy cost component in upcoming and future retail price reviews.
- the need for flexibility is an important consideration for retail price setting following the introduction of the CPRS. It was noted that many of the existing frameworks do have some level of flexibility built in, although more may be required in a CPRS environment. Additionally, participants indicated that flexibility issues would be considered in current or future retail price reviews.
- wholesale energy prices are already volatile. Retailers have been sufficiently able to manage the risk of such price volatility by contracting. An important consideration is whether a forward contract market, inclusive of a carbon price, will develop.
- six monthly reviews of retail costs may create additional regulatory burden and may also create some market uncertainty. Participants noted that an appropriate approach to deal with the risks of CRPS and the need for flexibility may be to maintain an annual price review with a "safety valve" provision that can be triggered if wholesale energy costs have moved outside of a predefined materiality threshold.
- a retailer initiated implementation model may not be effective in a competitive market. It was also noted that reducing future prices to compensate for past overpricing may hinder effective competition.
- the importance of an effective Retailer of Last Resort scheme was noted by participants. This was due to the likely flow on effects of CPRS related costs on smaller retailers in existing deregulated markets.

Retail Regulator/Policy Roundtable – Synopsis of outcomes

24 July 2009 (Sydney)

Wholesale energy cost forecasting methodology

Participants discussed the approaches/methodologies used to date to forecast the wholesale energy cost component of retail prices. In addition, participants discussed the need for improved information to support such forecasting. Key points made:

- jurisdictions are reviewing existing approaches/methodologies in response to the introduction of the CRPS. Participants noted that jurisdictional legislative frameworks allow different levels of flexibility to regulators in terms of wholesale cost forecasting methodologies that can be used.
- information is a critical component of wholesale energy cost forecasting and access to quality/robust information (ie from public sources and/or retailers) will be important to inform regulators of CPRS costs.
- introduction of the CPRS is unlikely to have an impact on the availability of information.
- participants noted the desirability of transparency of information used in modelling.
- it was noted that there is likely to be a lag between CPRS finalisation and when contracts become available. However, most considered that a forward contract market will emerge in the future

Allowing for expanded RET costs in regulated retail prices

- Roundtable participants discussed the likely cost to retailers of fulfilling their Renewable Energy Target obligations. It was noted that in some cases the cost of buying RECs is higher than the spot price and that it will be necessary to take this into account when reviewing these costs. Also may lead to the need to access better information from the retailer about these future costs.

Next Steps

Next steps include:

- review by the AEMC of the outcomes of all stakeholder views/roundtables and submissions; and
- development of the Final Recommendations on these issues that will be provided to the MCE as part of the consolidated Final Report for the Review of Energy Market Frameworks in light of Climate Change Policies on 30 September 2009.

List of Participants

ACT Department of Environment, Climate Change, Energy and Water
ACT Independent Competition and Regulatory Commission
Australian Energy Market Commission
Australian Government Department of Resources, Energy and Tourism
NSW Independent Pricing and Regulatory Tribunal
NSW Department of Water and Energy
NT Northern Territory Treasury
NT Utilities Commission
QLD Queensland Competition Authority
QLD Department of Employment, Economic Development and Innovation
SA Essential Services Commission of South Australia
TAS Office of the Tasmanian Energy Regulator
VIC Department of Primary Industries
VIC Essential Services Commission of Victoria
WA Office of Energy
WA Economic Regulation Authority