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Australian Energy Market Commission  
PO Box A2449  
Sydney South NSW 1235

### **Retail Competition Review – First Draft Report – Further Submission**

Simply Energy welcomes the Commission's invitation to provide further comments on the impact of certain aspects of the new wholesale gas market in Victoria on the effectiveness of retail competition, namely congestion uplift and AMDQ.

In short, Simply Energy takes the view that the current gas market arrangements are volatile, and that the increased risk that this presents retailers should be capable of being passed through to customers. Put another way, unless there is a sufficiently liquid secondary market in which retailers can adequately and prudently hedge their risk exposure, price regulation should be removed so as to create a market in which retailers faced with increased gas wholesale price volatility are free to reflect this risk in its market contract prices.

There are some elements of the gas market that have historically placed incumbent retailers in advantageous positions, such as access to the Gascor contracts. However, the only sustainable competitive advantage to incumbent retailers comes from ownership of scarce, specific means to minimise risk – specifically, underground storage and LNG. Retailers that have taken the risk on acquiring underground storage may have seen some competitive advantage this winter, but this is simply a competitive market at work. We understand that competition with respect to LNG is being addressed.

As stated by International Power in its submission to the Gas Market Consultative Committee dated 1 November 2007:

*The new gas market has had the perverse effect of exacerbating the market power of incumbent retailers that have contracted LNG or who have legacy gas supply agreements at Longford.*

*LNG is fully contracted until 2010, with the possible exception of 1500 tonnes coming into the market at the end of this year. Those non-incumbent retailers that have been unable to secure gas supply from Longford or from Western Victoria into the South West Pipeline with ADMQ Credits are exposed to substantial market risk from uplift payments.*

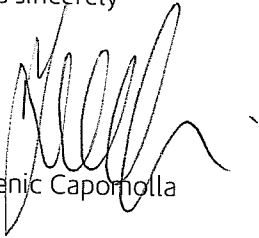
The absence of sufficient risk hedging products creates a scenario whereby second-tier retailers may be forced to warehouse unreasonable risks if they were to choose to acquire new gas customers. It is reasonable to expect that in the absence of sufficient risk hedging products retailers will be less aggressive in acquiring new gas customers or indeed in retaining existing gas customers. This would result in a decrease in retail competition in the gas market. It may also lead to a reduction in competition in the electricity market due to a decrease in the number of retailers promoting a dual fuel offer (gas and electricity), which has traditionally been more attractive to customers than an electricity offer only.

Nevertheless, a number of retailers have been able to secure gas positions to enable them to retail in this market, despite the position of incumbents, finding ways to manage their risk within their risk appetite through contract and other structures. These include customer and contractual pass-through arrangements.

Ultimately, however, a retailer's decision not to absorb congestion uplift costs is a calculated risk. If the decision to on-charge customers is unreasonable, it is no different from offering an uncompetitive price – competition will drive customers to another retailer.

Importantly, achievement of an effective level of competition should not prevent the real costs of supply from being passed to customers. Effective competition should not be benchmarked on retailers taking a loss, since this represents an unsustainable market.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Domenic Capomolla', with a stylized, flowing script.

Domenic Capomolla  
**CEO**