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Mr John Tamblyn  
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Dear Mr Tamblyn

## **Retail Competition Review – Second Draft Report**

Ergon Energy Queensland Pty Ltd (Ergon Energy) appreciates the opportunity to provide comment to the Australian Energy Market Commission (Commission) on the *Review of the Effectiveness of Competition in Electricity and Gas Retail Markets in Victoria*. This submission is made by Ergon Energy in its capacity as an electricity retailer in the National Electricity Market (NEM).

While most of the issues raised in the draft report are specific to the Commission's assessment of the Victorian retail energy market, a number of these issues have broader implications for energy retailers across the NEM. Ergon Energy would like to provide specific comments on the following industry wide issues.

### *Retailer of Last Resort*

In certain circumstances, electricity retailers may be required to supply and sell electricity to customers of another retailer, who has had their licence to supply revoked or lost its right to operate in the wholesale market. In performing this function, the retailer of last resort (ROLR) is exposed to significant financial risks and operational/administrative costs. These may be in the form of wholesale energy purchases, the payment of network charges, market fees and incremental retail operating costs.

Ergon Energy disagrees with the position outlined in the draft report that retailer standing offer prices may be appropriate ROLR prices. Standing offer prices do not attempt to take into account the above risks/costs. Furthermore, these risks/costs are unforeseeable and are only incurred as a result of a ROLR event. As such ROLR fees should be established independent of a retailer's standing offer price.

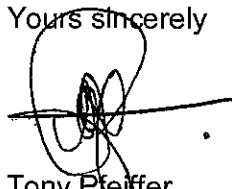
### *Designated Retailer for New Connections*

While the distributor tender model will provide all retailers with the opportunity to offer new connection services it is unlikely to result in small retailers or new market entrants participating in the tender process, particularly in the short term. This is largely attributable to the significant costs associated with establishing the systems and operational procedures required to provide such services. Furthermore, given participants in the tender process will generally be the current area retailers a change in model will result in additional costs for both distributors and retailers (and ultimately consumers) with minimal or no incremental benefit. Ergon Energy therefore supports the retention of the host retailer model.

If it is deemed that a tender model should be adopted, responsibility for the design and operation of the tender should be assigned to the Australian Energy Regulator (AER) rather than individual distributors. This approach would be consistent with the regulatory framework detailed in the Australian Energy Market Agreement (AEMA). Given the AEMA includes distributor and retailer general business authorisations as a national regulatory function where necessary for matters other than technical capability and safety. Until the non-economic regulation of distributors and retailers is transitioned to the AER, the Victorian Government could confer this obligation on the AER in accordance with Section 44AI of the *Trade Practices Act 1974*. This approach will also remove the regulatory complexities associated with accounting for any additional revenues/costs accrued by a distributor as a result of the tender process.

If you have any queries please do not hesitate to contact Angela Moody on 07 3228 7967.

Yours sincerely

A handwritten signature in black ink, appearing to be 'Tony Pfeiffer', written over a horizontal line.

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