

**INDEPENDENT PRICING AND REGULATORY TRIBUNAL**

**REVIEW OF REGULATED RETAIL TARIFFS AND CHARGES  
FOR ELECTRICITY 2010 TO 2013**

**Tribunal Members**

**Mr James Cox, CEO and Acting Chairman**

**Ms Sibylle Krieger, Part-Time Member Held at the Grace Hotel, 77 York Street,  
Sydney 2000**

**On Tuesday, 2 February 2010, at 9.00am**

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1 OPENING REMARKS

2  
3 THE ACTING CHAIRMAN: Good morning, ladies and  
4 gentlemen, I think we might make a start. I understand some  
5 people are not here yet, but I imagine they will join us shortly.

6  
7 My name is Jim Cox. I am Acting Chairman and Chief  
8 Executive Officer of IPART. On my left is Ms Sibylle  
9 Krieger, who is the tribunal's part-time member, and we  
10 also have Anna Brakey and Alexis van der Weyden, from the  
11 IPART secretariat, sitting at the table with us.

12  
13 Thank you very much for coming today. We are very  
14 grateful for your assistance in undertaking what is a  
15 difficult and a complex review.

16  
17 IPART has been asked to set regulated electricity  
18 tariffs and charges from 2010 until 2013. In accordance  
19 with his powers under the Electricity Supply Act 1995, the  
20 Minister for Energy provided terms of reference for our  
21 review and determination. These terms of reference specify  
22 the matters that we must take into account and the  
23 objectives that we should aim to achieve in making the  
24 determination. They also set out some requirements  
25 relating to how we make this determination.

26  
27 The terms of reference indicate that the 2010  
28 determination should do a number of things. It should  
29 result in regulated tariffs that recover the efficient cost  
30 of supplying small retail customers including customers who  
31 revert from negotiated tariffs. It should ensure that the  
32 aims and approach of the 2007 determination are preserved  
33 including the promotion of retail competition and  
34 investment, and we are required to consider the financial  
35 environment of the standard retailers to ensure they are  
36 able to produce and provide electricity to New South Wales  
37 customers.

38  
39 IPART is also required to provide advice to the  
40 government regarding the impact of this determination on  
41 small customers. The terms of reference do not require us  
42 to look at the impact of the determination on small  
43 customers in making a decision.

44  
45 IPART's draft report and determination was released on  
46 15 December and we have already received a considerable  
47 number of submissions from stakeholders.

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1

2 We believe that we have developed an integrated  
3 regulatory package where all relevant costs and risks are  
4 to be accounted for, but only once, in line with the terms  
5 of reference for this review. This package builds on  
6 IPART's 2007 determination and includes allowance for the  
7 cost that a standard retailer would incur if it operates  
8 efficiently, including allowances for energy purchase  
9 costs, retail operating costs and retail margin and also a  
10 mechanism for passing through network charges into  
11 regulated retail prices.

12  
13 We have introduced an annual review of the energy cost  
14 allowances to allow for changes in the energy market  
15 conditions in the determination period; a one-off review of  
16 the carbon price in 2012/2013 when there is likely to be  
17 better information available; a pass through mechanism to  
18 allow retailers to pass through to customers material  
19 changes in costs associated with regulatory or taxation  
20 change events that were unanticipated at the time of the  
21 determination; and we also decided on a weighted average  
22 price cap that allows the standard retailers to recover the  
23 costs of retailing together with the applicable network  
24 charges. This allows the standard retailers to set their  
25 own cost effective tariffs within an overall cap.

26  
27 It is important to carefully consider the entire  
28 package given the current uncertainties involved in setting  
29 retail tariffs. These uncertainties include, firstly, the  
30 passage of legislation and details of the Commonwealth  
31 Government's emissions trading scheme, the carbon price  
32 reduction scheme (CPRS). It is clear that an emissions  
33 trading scheme will increase the price of electricity.  
34 However there is much uncertainty as to the passage and  
35 details of the scheme and the future price of carbon  
36 permits and how the cost of carbon will pass through to  
37 final electricity prices.

38  
39 Secondly, wholesale electricity prices depend  
40 significantly on market conditions and can change in  
41 response to a range of factors including variations in  
42 total demand, gas prices, network constraints and weather  
43 conditions. The experience of the past year shows that  
44 these factors would be difficult to forecast in advance.

45  
46 Thirdly, there may be changes in the structure of  
47 electricity markets as a consequence of the New South Wales

.2/2/10 3 OPENING REMARKS

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1 Government's energy reform strategy. For the purpose of  
2 this determination, we are assuming that that will continue  
3 but we may need to consider any change in the market  
4 structure further in subsequent years.  
5

6 These uncertainties add to the already difficult task  
7 of setting a retail price that is fixed for a period of  
8 time - in our case for three years. However, I would like  
9 to emphasise that the terms of reference require us to set  
10 an energy cost allowance that allows retailers to recover  
11 the efficient costs of purchasing electricity in the  
12 national electricity market including the proposed carbon  
13 pollution reduction scheme.  
14

15 The wholesale energy costs allowance for 2011/12 and  
16 2012/13 are inclusive of the Federal Government's proposed  
17 carbon pollution reduction scheme. However, we will review  
18 the tariffs annually to ensure the customers will pay only  
19 once for the scheme that is implemented, and if no scheme  
20 is implemented, then customers will not pay for the costs  
21 of CPRS in regulated retail prices. Additionally if the  
22 CPRS is implemented in a different form, we will consider  
23 the new arrangements in setting the prices.  
24

25 It is difficult for a regulator to ensure that a  
26 retail price is set at the right level and the consequences  
27 of setting the price either too high or too low are  
28 significant. If the cost estimates are too high, customers  
29 who remain on regulated tariffs will pay more than  
30 necessary to recover the efficient costs of supplying them  
31 and this is contrary to the objective of setting  
32 electricity retail prices. If the cost estimates are too  
33 low, an efficient standard retailer will not generate  
34 sufficient revenue to cover its costs which may damage its  
35 financial viability and effective competition in the  
36 market.  
37

38 IPART considers that in the longer term an effectively  
39 competitive market is more likely to protect the interests  
40 of customers than a continuation of retail regulation.  
41 However, it is unclear whether the market is effectively  
42 competitive now, particularly given the problems we point  
43 to in the draft report regarding information about  
44 competitive offers that is available to customers in New  
45 South Wales, but this ultimately is a question for  
46 government. However, given that IPART has been given the  
47 task of setting electricity retail tariffs and charges in a

1 time of high levels of risk and uncertainty, we will need  
2 to ensure that we make our decisions based on estimates of  
3 efficient retailers' costs. We need to build sufficient  
4 regulatory flexibility into the determination so that  
5 regulated tariffs can be adjusted during the determination  
6 period if these costs prove to be significantly different,  
7 and we believe that our draft report and determination  
8 achieves these objectives.  
9

10 The draft report and determination sets out  
11 significant increases in retail bills of between 44 and  
12 62 per cent cumulatively in nominal terms over the 2010 to  
13 the 2013 period. This largely reflects a number of factors  
14 outside the control of IPART and to a large extent outside  
15 the control of the retailers themselves. These factors  
16 include the increased network charges as determined by the  
17 Australian energy regulator and also increased electricity  
18 costs reflecting the proposed CPRS and the expanded  
19 renewable energy target.  
20

21 We recognise that these increases are significant and that they  
22 will place significant financial pressures on some sections of  
23 the community even considering the assistance package  
24 outlined by the Commonwealth Government  
25 as part of the CPRS and also the New South Wales  
26 Government's customer assistance package. In line with the  
27 terms of reference, we have reported to the government on  
28 the impact of the increased charges on customers and we are  
29 now seeking comments on this analysis.  
30

31 Today's forum is an opportunity to seek clarification  
32 and provide clarification on the draft report and  
33 determination. We have organised it into four sessions.  
34 The first session deals with the overall regulatory  
35 package; the second session deals with energy cost  
36 allowance; the third session deals with the retail cost  
37 allowance and retail margin; and the final session deals  
38 with the impact on customers and other issues. I  
39 understand that a representative from government will be  
40 attending for the fourth session, which covers the impact  
41 on customers and other issues.  
42

43 At the beginning of each session a short presentation  
44 will be made by members of the IPART secretariat and our  
45 consultants. I will then invite stakeholders at the  
46 roundtable to make comments. Following that we will invite  
47 comments and/or question from the floor.

1  
2 Today's workshop is being transcribed. Please  
3 introduce yourself and state the organisation you represent  
4 and speak clearly and slowly for the benefit of the  
5 transcribers.  
6  
7 We will now move on to the first session, which is on  
8 the overall regulatory package and we will begin with an  
9 introduction from the IPART secretariat.  
10  
11 SESSION 1 - OVERALL REGULATORY PACKAGE  
12  
13 MS BRAKEY: Thanks, Jim. In this session we will have a  
14 look at our analysis of the competitiveness of the market,  
15 the form of regulation, the allocation of risks including  
16 mechanisms to manage uncertainty including periodic cost  
17 reviews and cost pass through mechanism and we will invite  
18 general comments from stakeholders.  
19  
20 To set the scene, it might be useful to look  
21 at what a retail bill comprises. By 2012/13, the largest  
22 component of the bill, around half of it, is network  
23 charges. Any movement in network charges will have a  
24 significant impact on the final retail bill. The second  
25 largest component is the energy component and by 2012/13,  
26 assuming the CPRS is introduced, that will comprise just  
27 above 40 per cent of the total retail bill. The CPRS will  
28 add 15 per cent to the final retail prices.  
29  
30 As Jim indicated, regulated customers in New South  
31 Wales will experience large price increases over 2010  
32 to 2013 ranging from the cumulative total of 44 to 62 per  
33 cent including inflation. These price increases are driven  
34 by two main factors - the introduction of the CPRS and  
35 increased network charges as determined by the Australian  
36 Energy Regulator.  
37  
38 One of the first tasks that we did in conducting our  
39 review was to assess the competitiveness of the market. We  
40 did that for two reasons: firstly, to inform ourselves on  
41 what the appropriate form of regulation for the 2010  
42 determination period is; and, secondly, to review the  
43 performance of the 2007 determination.  
44  
45 This graph shows us that in area market share of  
46 standard retailers, so that is the customers that the  
47 standard retailers have in their own area on either the

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1 negotiated or regulated tariffs, and you'll see that over  
2 time since the introduction of full retail competition the  
3 proportion of market share has steadily declined but that  
4 is not the entire picture.  
5  
6 This next graph shows us the proportion of customers  
7 on the regulated tariff in each area and you will see that  
8 initially there was a steady decline in the proportion of  
9 the customers on the regulated tariffs price supply in area  
10 but in more recent years for EnergyAustralia and  
11 Country Energy, that proportion has increased. So if we  
12 put those two together, we end up with a graph like this,  
13 which again shows the declining total market share by a  
14 standard retailer but what it demonstrates is that for  
15 EnergyAustralia and Country Energy, they seem to have  
16 some  
17 ability to switch their customers between regulated and  
18 negotiated tariffs.  
19  
20 We consider that our draft determination addresses  
21 some of the impediments to competition, including  
22 facilitating the rationalisation of regulated tariffs but  
23 we do have some concerns about the transparency of market  
24 information available to customers and we are concerned  
25 that outcomes have not been uniformly beneficial to  
26 customers and by that we mean that some customers appear  
27 to be paying more than the regulated tariff when they are on  
28 market contracts.  
29  
30 We have made a number of draft recommendations to  
31 government that it consider improving the functioning of  
32 the competitive market to improve customer outcomes and  
33 these will be discussed in the final session today. On  
34 balance we've found that the competitiveness of the market  
35 has not changed significantly since we conducted the  
36 similar analysis in 2007 and therefore, when we came to  
37 look at the form of regulation, we have adopted a very  
38 similar form of regulation to that in the 2007  
39 determination and that is that we will apply a weighted  
40 average price cap based on an N+R value, where N is the  
41 actual network charges and R will be set in accordance with  
42 the efficient costs determined in this determination.  
43  
44 We consider that this form of regulation is sufficient  
45 to ensure regulated tariffs are not set significantly above  
46 or below cost reflective levels, given, firstly, the level  
47 of competition within the New South Wales retail market  
and, secondly, that there are a small number of regulated

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1 retail tariffs in the two metropolitan markets, such that  
2 the vast majority of regulated customers are on the  
3 standard retailers main regulated residential business  
4 tariff and thirdly, the draft regulatory package includes  
5 mechanisms that prohibit standard retailers from  
6 introducing new regulated tariffs except for where there  
7 are exceptional circumstances and we have put in place some  
8 additional consumer protection mechanisms for the Country  
9 Energy area.

10  
11 Because the market is not as competitive in  
12 Country Energy's area as it is in the metropolitan areas,  
13 we have put in two additional constraints in addition to  
14 the weighted average price caps that apply to Country Energy  
15 only. They are that, without IPART's approval,  
16 Country Energy cannot increase an individual regulated  
17 tariff by more than 5 per cent greater than the average  
18 price increase and they cannot, without IPART's approval,  
19 remove individual regulated tariffs and transfer customers  
20 from one tariff to a different tariff.

21  
22 Our form of regulation also includes a decision not to  
23 impose additional price limits and to allow standard  
24 retailers to rationalise their regulated tariffs and remove  
25 obsolete tariffs, provided that they continue to provide at  
26 least one regulated tariff.

27  
28 Normal price changes will still apply on 1 July each  
29 year and the standard retailers will be required to lodge  
30 their annual pricing proposals by 15 May. IPART is  
31 recommending that standard retailers should be required to  
32 publish their regulated prices on their website within five  
33 days of obtaining IPART's approval.

34  
35 In light of the terms of reference and assessment  
36 criteria, we have analysed the potential risks retailers  
37 face over the 2010 determination to determine how best to  
38 address each risk. This includes identifying the causes of  
39 each risk and whether it is systematic; that is, related to  
40 retailers' exposure to general economic conditions, or  
41 non-systematic, in that it is related to overall  
42 conditions - not related to the overall economic conditions  
43 but to other factors like weather patterns, generation  
44 capacity, et cetera.

45  
46 Then we determined the most appropriate cost allowance  
47 or other regulatory mechanism for addressing each risk.

1 Systematic risks were allocated to the retailers and  
2 compensated for through the retail margin. Some of the  
3 non-systematic risks, such as the risk of variations in load  
4 profile, were allocated to retailers and addressed through  
5 setting the energy cost allowance. Other non-systematic  
6 risks, such as variations in wholesale prices stemming from  
7 regulatory or policy developments, were allocated to  
8 customers through the annual review mechanism.

9  
10 Certain mechanisms were established to manage  
11 uncertainty. As outlined earlier, there are a number of  
12 uncertainties stemming from the nature of the electricity  
13 market, as well as uncertainties relating to the passage of  
14 legislation and details of the Commonwealth Government's  
15 emissions trading scheme, the CPRS, and the New South  
16 Wales' Government's energy reform strategy, which involves  
17 selling the retailers and transferring the trading rights  
18 of the state-owned generators to the private sector.

19  
20 In light of the risk allocation framework discussed  
21 earlier, we developed a regulatory package that is  
22 designed to address these uncertainties and they include  
23 and annual review of all of the total energy cost  
24 components except for the NEM fees and ancillary charges  
25 and this will be done in time for a 1 July price change  
26 each year and has no materiality threshold.

27  
28 There is a special one-off review that will be done in  
29 time for a 1 January 2013 price change. This review is  
30 intended to manage the risks associated with forecasting  
31 the market price of carbon and it involves updating the  
32 carbon price only. It has a materiality threshold of  
33 5 per cent of their energy purchase cost allowance for  
34 2012/13 but if the CPRS is not implemented or not  
35 implemented as a cap in trade, or the cap on the carbon  
36 price is extended beyond 2011/12, it will not take place.

37  
38 Finally, we have allowed a cost pass through mechanism  
39 that will enable standard retailers to pass through  
40 incremental and efficient costs that they have added with a  
41 defined regulatory or taxation changes, then we do have a  
42 materiality threshold. That summarises the issues that  
43 we'd like to deal with in this session but we also invite  
44 general comments from stakeholders.

45  
46 THE ACTING CHAIRMAN: Anna, thank you very much for  
47 that. We would now like to take comments on the overall

1 regulatory package. We will start off with people sitting  
2 at the table but once they have had their say, I will open  
3 it up to discussion from people sitting at the back of the  
4 room. So who would like to start?

5  
6 MS LINDSAY: In terms of the former regulation proposed by  
7 IPART, Country Energy is comfortable that the former  
8 regulation will allow us to fully rationalise our prices.  
9 It is a process we have been following for about three  
10 years and I think the next regulatory period should see a  
11 majority of our customers onto the main Country Energy  
12 price.

13  
14 This is, however, different from actually putting  
15 every single customer into a single tariff code. What we  
16 are actually trying to achieve is every customer paying the  
17 exact same price. At the moment we have about 75 per cent  
18 of residential customers on our Country Energy price, so  
19 there is a remaining 25 per cent that needs to transition  
20 and we believe that we could probably do this in the first  
21 year regulatory period.

22  
23 In terms of the transition of customers to our  
24 standard regulated price, particularly if this does happen  
25 in the first year, it actually indicates the need for the  
26 threshold test because once you have 100 per cent of the  
27 customers on the price, there is actually no need to do  
28 that test, as you pointed out in the determination.

29  
30 Also with the comments on competition and the level of  
31 competition for the last period, and as IPART have noted,  
32 the proportion of customers in Country Energy's area is  
33 greater on a regulated price than at the beginning of the  
34 period, I think we are a little bit concerned that the  
35 annual review of the annual purchase costs and allowances  
36 have not changed enough to account for that and we were  
37 wondering if IPART would consider somehow explaining the  
38 cost pass through mechanism maybe to capture a one-off  
39 material wholesale cost change. That is all we need to  
40 say, thank you.

41  
42 THE ACTING CHAIRMAN: Can you just explain to me what  
43 the material wholesale cost change is you've got in mind?

44  
45 MS LINDSAY: Yes.

46  
47 THE ACTING CHAIRMAN: I am not sure I understand what  
your

1 point is.

2  
3 MS LINDSAY: If we look at what happened in the last  
4 period, in Country Energy's opinion, the reason we have  
5 more customers on a regulated price than at the beginning  
6 of the period is that it is cheaper for customers to be a  
7 on a regulated price than on a market price and that says  
8 to us that the annual review of the energy purchase cost  
9 allowance was not as effective as it could have been.

10  
11 To try and avoid that going forward, we have been  
12 thinking about another mechanism to try and ensure that  
13 those prices do remain at cost-reflective levels and given  
14 the cost pass through mechanism is there, it is a mechanism  
15 that could potentially be used for a one-off impact that  
16 may impact the wholesale market in a negative way or a  
17 positive way that could, I suppose, maintain the financial  
18 viability of retailers going forward and protect customers.

19  
20 THE ACTING CHAIRMAN: Thank you. Who'd like to go  
next?

21  
22 MR MARTINSON: Michael Martinson from Integral Energy.  
23 First of all I would like to say that Integral Energy  
24 supports the overall regulatory package that the tribunal  
25 has recommended, subject to a few minor amendments.

26  
27 Overall you'd have to say, coming back to, I guess,  
28 first principles, that we think the primary driver of the  
29 level of competition in the New South Wales electricity  
30 market is whether the default prices are set at levels that  
31 allow retailers to recover their costs and earn an  
32 appropriate margin on top of that. I will certainly come  
33 back to various components of the cost aspects in the  
34 relevant sections as we move forward but I think it's worth  
35 putting that on the table right to begin with.

36  
37 In particular, when we look at certain components of  
38 the costs being outside of the retailers' control, such as  
39 the network charges and CPRS, or maybe put another way, if  
40 IPART and their consultants - if review of network charges  
41 and CPRS are exactly right, then really there are real cost  
42 reductions on the regulatory retail components of the  
43 charges, so again I will come back to that as we move  
44 forward.

45  
46 In terms of the form of regulation itself, I think we  
47 are largely comfortable with that, we think the weighted

1 average price cap approach works quite well. The N+R  
2 framework again we think is appropriate under correct  
3 conditions.  
4  
5 We are comfortable with the annual review of the total  
6 energy cost allowance. With regard to the one-off special  
7 review, our initial view with the Australian Energy Market  
8 Commission - the AEMC - was recommending that there were  
9 six-monthly reviews of energy cost changes. I think as a  
10 second-best option what the tribunal has put up is  
11 acceptable. We would prefer the six-monthly review.  
12  
13 One query, though, is with the 2012/13 review is  
14 there is a 5 per cent materiality threshold on that,  
15 whereas there is no materiality threshold on the annual  
16 review of the cost allowance, so I guess we'd like to get  
17 some feedback, if possible, on why that is the case and  
18 we'll certainly be putting that view moving forward.  
19  
20 Again we will come back to the individual cost  
21 component as we move forward. That's it.  
22  
23 THE ACTING CHAIRMAN: Thank you.  
24  
25 MS MARSHALL: Catherine Marshall from EnergyAustralia.  
26 Firstly I'd like to thank the tribunal for giving us this  
27 opportunity for discussion and to ask questions.  
28  
29 Generally speaking, with the overall regulatory package,  
30 we are generally supportive of what's been proposed.  
31 We do have a few minor comments and we'll cover  
32 those off in our actual submission. I think similar to  
33 what Michael was saying, a lot of the comments we have will  
34 probably come later on when we actually get into the  
35 individual components, rather than talking about the  
36 overall regulatory package.  
37  
38 I suppose I have just one question. With regards to  
39 moving the submission date forward to 15 May, has that been  
40 looked at to how that will actually work in with the  
41 approval around the network tariffs? So the AER have  
42 confirmed that they will have them approved by that date?  
43  
44 MS BRAKEY: Yes.  
45  
46 THE ACTING CHAIRMAN: Thank you. Who's next?  
47

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1 MS GRIGGS: Beth Griggs, AGL. First of all I would like  
2 to reiterate thanking IPART for the public workshop  
3 session; that's appreciated by retailers and consumer  
4 groups alike.  
5  
6 I think the one thing that is salient to notice,  
7 something that IPART has no control of and retailers have  
8 no control of, is that when we see the bulk of the  
9 increases are in fact attributable to network increases and  
10 when we look at the price path trajectory, I think it is  
11 quite important to note that pretty much everything that  
12 comes into retailers with those increases will in fact go  
13 out the door with those increases and IPART are very clear  
14 about that in their report but I guess it is just worth  
15 noting there is a bit of an invidious position of retailers  
16 in this context because those network costs are going up  
17 significantly and there's nothing we can do to manage that  
18 or control it.  
19  
20 MR HAMILTON: Graeme Hamilton from TRUenergy.  
21 TRUenergy is of the view that prices currently are not at  
22 cost-reflective levels and we don't see that being changed  
23 as a result of the draft decision. Our view or our  
24 assessment drives our marketing activity, which in turn has  
25 implications for the level of competitive activity in the  
26 market, given our position as one of the largest  
27 non-incumbents in terms of gas or electricity in  
28 New South Wales.  
29  
30 That link between the extent to which prices are  
31 cost-reflective and the level of competitive activity in  
32 the marketplace, the reluctance of the tribunal to  
33 recognise or acknowledge or accept that link is a concern  
34 to us. To the extent that it is addressed in the report,  
35 it is done on the basis of one hypothesis put forward: that  
36 competitive prices may not provide a sufficient margin. I  
37 think that is really the only substantive place in which it  
38 is addressed. It is a concern that that is not really  
39 provided with further analysis or tested to any great  
40 extent.  
41  
42 We would also point out that it is contradictory to  
43 the AEMC's assessment of fettered competition in Victoria  
44 and South Australia. The recognition of that view and the  
45 extent to which it is applied to the various cost  
46 components is really what we would be seeking in terms of a  
47 review of the draft decision and again we can discuss that

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1 as we go through the individual components.  
2  
3 MS KRIEGER: Can I just ask you a question about that.  
4 When you say that the prices in the draft report are not  
5 cost reflective, they have been broken down fairly  
6 carefully into their constituent components, are you making  
7 that point across the board of the components or are you  
8 addressing the energy component or the margin, or what  
9 precisely are you addressing there?  
10  
11 MR HAMILTON: It is across the board in terms of the  
12 overall decision, that they are not cost reflective now,  
13 the draft decision, if implemented, wouldn't achieve cost  
14 reflectivity. I think there are concerns in terms of the  
15 energy price, there are issues in terms of the retail  
16 margin and the retail cost allowances whereby there's a  
17 range of issued costs in the mid point are picked rather  
18 than the high end of the range. It is across the board in  
19 terms of the entire cost standard.  
20  
21 THE ACTING CHAIRMAN: So your argument essentially is  
22 that the price increases are not large enough to achieve cost  
23 reflectivity?  
24  
25 MR HAMILTON: The issue is the starting point. It has  
26 been an issue in New South Wales since the start of  
27 contestability, really, that we have never caught up.  
28 There are various statements in the report that prices are  
29 now cost reflective and it is stated as an article of  
30 faith, really, from our point of view. We have a vague  
31 assessment of where we think cost reflective prices would  
32 be, we have provided that to the tribunal and we are still  
33 a fair way short of that.  
34  
35 From our point of view, objective market evidence  
36 supports that; evidence from other jurisdictions supports  
37 that. I can understand that there is a debate involved  
38 but if anything the objective evidence is in favour of the  
39 fact that prices are not cost reflective.  
40  
41 To the extent you have customers reverting back to the  
42 regulated tariff, that is just extraordinary in terms of  
43 what has happened in other markets. It is clearly a  
44 reflection that something isn't right.  
45  
46 THE ACTING CHAIRMAN: I think it is worth saying,  
47 though, that I will be interested to see the figures. I have not

1 seen figures, of how many customers are switching back to  
2 regulated tariffs at the moment, given the increase that we  
3 had earlier this year, or last year. Another comment?  
4  
5 MR WHISH-WILSON: Patrick Whish-Wilson from Origin  
6 Energy. Origin Energy generally supports the package as well.  
7 We have got some specific issues which we will bring up later  
8 but I suppose one thing we would be interested in here, but  
9 it might be better under the energy cost allowance section,  
10 is about the periodic cost reviews, especially to hear from  
11 Frontier how they will be actually conducted. It is to do  
12 with the nuances of the modelling they do but maybe in the  
13 next session but I am really very interested to see how it  
14 actually would step through.  
15  
16 THE ACTING CHAIRMAN: Thank you. We haven't heard  
17 from customers, though. We'd like to hear from them.  
18  
19 MR DODDS: Chris Dodds, senior policy officer, Energy and  
20 Water Ombudsman of New South Wales. From our point of  
21 view we start by recognising the invidious position IPART is  
22 in, in terms of the public concern about fairly significant price  
23 rises, given that the bulk of those price rises are external,  
24 with the AER making the network determination and  
25 CPRS costs flowing if and when there are political  
26 decisions. That leaves IPART with very little room to  
27 move, in terms of the greater bulk of the price increase.  
28  
29 We have participated in this process and recognised  
30 the work that goes in and accept that the work that's done  
31 in the other sections is probably beyond our capacity  
32 really fully to understand some of those whirligigs and  
33 other models that have been put into the determination.  
34 But clearly the impact of this price increase is really  
35 significant.  
36  
37 I reported to the Ombudsman yesterday that normally in  
38 a pricing determination after the submissions are closed  
39 there are five, maybe 10 individual submissions along with  
40 the sort of people sitting around this table and yesterday  
41 I counted 65 submissions and submission time hasn't closed  
42 yet. That is really significant and, of course; there's  
43 been all of the letters to the paper. From our  
44 perspective, the number of calls that are coming across  
45 EWON's desk concerning price rises from the last July 2009  
46 determination, both in terms of people just wanting to know  
47 who to complain to about, because we don't deal with

1 pricing determinations, so there is a whole range of  
2 inquiries that we have to pass on to appropriate  
3 authorities - send them to IPART or to their local member -  
4 but, of course, equally there are a whole number of people  
5 that are then affected by an inability to pay high bills or  
6 by a concern about the high bill and want a high bill  
7 inquiry undertaken by their retailer.

8  
9 The other group that we see adversely affected are  
10 people that are on payment arrangements and have been for a  
11 while, who are then contacted by the retailer who says  
12 "This payment arrangement isn't good enough any more  
13 because the price has gone up", so they are quite adversely  
14 affected, particularly if they have stretched themselves to  
15 paying as much as they can and we expect the problems that  
16 we are seeing out of the July 2009 determination increase  
17 really significantly come July 2010.

18  
19 I think, from our perspective, the section we are  
20 going to talk about, including price disclosure and price  
21 comparative service from 12.30 and 1.30 is really the  
22 critical part and the critical role that IPART has in this  
23 determination and that is to make a full and frank  
24 assessment of the impact and to ensure that IPART is  
25 recommending to those in authority, in particular the  
26 government, appropriate measures to ensure that  
27 disadvantaged consumers are not left in the situation we  
28 have had in the UK before and we have not really had in  
29 Australia up until now and that is a situation where  
30 poverty starts becoming defined by access to energy.

31  
32 The only other point we would make is that in this  
33 overall regulatory package, given that the price comparator  
34 has moved to this afternoon, I don't know whether it is a  
35 form of regulation - we did ask for some consideration to  
36 be given to a staggering of the price increases with maybe  
37 a network price being introduced in July and energy and  
38 CPRS and retail costs being introduced in January.

39  
40 We have read IPART's considerations on that and  
41 recognise, I suppose grudgingly, the overwhelming weight of  
42 IPART's arguments. However, it just again emphasises our  
43 view that there is a need for a really robust package of  
44 protections associated with this determination because the  
45 price shock in July 2010 on top of the price shock  
46 customers have already experienced in 2009, on top of what  
47 we expect to be fairly significant gas increases and on top

1 of what have been really significant water price increases  
2 because of various capital works, is really going to  
3 stretch disadvantaged and overall consumers to the wall.

4  
5 THE ACTING CHAIRMAN: Thank you. Are there any other  
6 comments?

7  
8 MS ELIAS: Anne Marie Elias, policy communications manager  
9 Council on the Ageing, New South Wales. I have to support  
10 everything that Chris has said. Probably being a bit  
11 repetitive, the main issue that concerns us is those  
12 pensioners and self-funded retirees that are on a fixed or  
13 limited income. While I support the idea of staggering  
14 price increases, that will not help somebody who has no  
15 ability to adjust and actually gain additional income.

16  
17 What is going to be very important for organisations  
18 like Council on the Ageing will be hardship policies of  
19 individual retailers; it will be a whole-of-government and  
20 whole-of-sector approach to actually promote better energy  
21 efficiency.

22  
23 Many older people have older appliances and we need to  
24 move them onto more energy-efficient appliances. We are  
25 actually working with Energy Australia to run some peer  
26 education and public events around energy efficiency and we  
27 hope to do that more and more, particularly as the price  
28 increases kick in, so that people have enough time to know  
29 what they can do, without a money situation, to actually  
30 reduce their use of energy.

31  
32 Having said that, I know that at one of the earlier  
33 forums that we attended, a group of us actually raised the  
34 idea of price disclosure on a central website and I think  
35 that is going to be really important to enable consumers to  
36 make choice.

37  
38 MS CROWE: Charmaine Crowe, policy coordinator at the  
39 Combined Pensioners and Superannuants Association. I  
40 agree with those comments. These price increases are going  
41 to have dramatic impacts on low-income households. We are  
42 going to see a large number of low income households fall  
43 into fuel poverty, as was mentioned, and that means that  
44 they are paying more than 10 per cent of their income on  
45 electricity costs alone; so that is not even looking at the  
46 price of petrol, the price of gas and the price of water. We  
47 have enormous concerns for those households who are not

1 entitled to any form of government assistance with regard  
2 to energy costs.

3  
4 I am talking about households in receipt of parenting  
5 payments and also allowee households. In comparison with  
6 pensioner households their incomes are generally much  
7 lower, so if pensioners are going to be finding it tough,  
8 those allowee households are going to be finding it  
9 disastrous. I appreciate IPART has very limited control  
10 over the sorts of energy measures or assistance given to  
11 low-income households but I echo comments made  
12 previously that we really need to encourage the government  
13 to actually implement better measures to protect low income  
14 households in that respect.

15  
16 The CPSA too has been receiving a huge number of calls  
17 and pensioners coming and knocking on our door because of  
18 the last price increases that we saw as of July. We  
19 acknowledge that the New South Wales Government  
20 implemented or increased the pensioner energy rebate,  
21 however, that was really \$18 extra a year and many  
22 households were facing increases of around \$200 a year.

23  
24 We acknowledge that their rebate is now indexed in  
25 accordance with CPI but we really stress the rebate needs  
26 to be indexed in accordance with energy prices, as it is  
27 done in other states, and it also needs to be expanded to  
28 allow its households and pensioner payment households to  
29 ensure that they can be insulated against these price  
30 shocks.

31  
32 MR PRINGLE: Joel Pringle from the Public Interest  
33 Advocacy Centre. I don't wish to repeat what my colleagues  
34 have covered here but we will have comments to make during  
35 the other sessions today. There are large increases  
36 foreshadowed in this review and lower cost strategies are  
37 coming from outside on the coverage of this determination,  
38 but I am looking forward to hearing from retailers on what  
39 measures they believe would assist households that are  
40 disadvantaged.

41  
42 THE ACTING CHAIRMAN: Thank you. Are there any  
43 further comments from people sitting at the table?

44  
45 Michael Martinson asked a question that I don't think  
46 we responded to, which is why the materiality threshold  
47 fell on the carbon allowance. I think the thinking behind

1 that was that it is, if you like, an additional price  
2 change, otherwise it would not be necessary. It is  
3 inconvenient both for customers and for retailers to have  
4 an additional price change. I think I am correct in saying  
5 it is the middle of the year, so you would not want to do  
6 that unless it were really necessary. I think that was the  
7 thinking about the threshold.

8  
9 By contrast for the annual review in response to  
10 changing energy prices, those prices will be changing  
11 anyway, so there is nothing to be gained by having a  
12 materiality threshold or not. The concern in our minds was  
13 to avoid the inconvenience of unnecessary additional price  
14 change. So that was the reasoning for that.

15  
16 MR MARTINSON: Thanks for that response. We will be  
17 putting this in our submission, but we will be asking the  
18 tribunal to reconsider that given the impact that an up to  
19 5 per cent change could have on the retailers. We will  
20 certainly put that in our submission and thanks for your  
21 response.

22  
23 THE ACTING CHAIRMAN: Thank you.

24  
25 I think we will now move to questions from the people  
26 sitting at the back of the room. If you want to ask a  
27 question or make a comment, please indicate that and we  
28 will get the microphone to you.

29  
30 MR CRAGGS: Good morning, everyone. My name is  
31 Ron Craggs, formerly of the industry and now representing  
32 here today a small community organisation in the Lake  
33 Macquarie area.

34  
35 I support Chris Dodds' view. My concern is the overall  
36 premise that tariffs should be set so as to maximise  
37 the introduction of competition because there is a very large  
38 sector of the New South Wales community for whom  
39 competition has no meaning; namely, people without market  
40 power and who will never have market power. No retailer  
41 which will make offers to people who are in financial  
42 circumstances that could be described as constrained or  
43 difficult. These people are looking to these tariffs as  
44 what was once described as a safety net tariff;  
45 unfortunately, these tariffs are now becoming for many of  
46 them gallows tariffs and it is very, very difficult for  
47 them.

1  
2 I know there will be another session later on the  
3 social impact of the tariffs and I will say more then.  
4 However, I found chapter 11 of the determination  
5 disappointing in so far as it really did not address social  
6 impacts significantly. I would encourage IPART to look  
7 further into the matter of the broad social impact - not  
8 just the price rise, but the broad social special impact -  
9 of the cost of electricity which for all people is an  
10 essential service and which for many people is now becoming  
11 beyond their means. It is a very significant part of their  
12 cost profile.

13  
14 I will make one other comment on this section. You  
15 have talked about the constraints on retailers, not that  
16 there are any new regulated tariffs. I trust IPART is  
17 aware that EnergyAustralia forces customers on difficult  
18 circumstances onto their time-of-use tariff which increases  
19 the domestic rate for the majority of their use from about  
20 17 cents a unit to about 36 cents a unit. That is a new  
21 tariff which is forced on customers.

22  
23 THE ACTING CHAIRMAN: Thank you for that. It is just  
24 perhaps worth reminding you that the terms of reference did  
25 require us to encourage development, so that explains why  
26 things came out the way they did. Are there any other  
27 comments?

28  
29 MR O'REILLY: Cameron O'Reilly, from the Energy Retailers  
30 Association. As with my members I would like to thank  
31 IPART for the public forum today. In commenting on the  
32 next three-year price path, I would say that we do  
33 understand that it is an incredibly difficult task to try  
34 to forecast that three-year period and it is not an  
35 enviable task for IPART. That is why generally we have  
36 always believed that expecting regulators to attempt to set  
37 retail price tariffs and model the future is an  
38 unreasonable expectation and that setting up an  
39 appropriately competitive market structure with a  
40 transparent monitoring of prices is a better path to go,  
41 along the lines of Victoria.

42  
43 Having said that, I do hope that IPART, in looking  
44 towards the future, will review the past and we will see in  
45 those figures for the 2007/10 period a move back on to  
46 regulated tariffs. Also if you look at New South Wales by  
47 comparison with other states, and it may be because of the

1 excellence service of the incumbents, the reality is the  
2 incumbent market share is much higher in certain areas than  
3 it has been in other states after 10 years of getting up  
4 towards a full retail competition.

5  
6 If you look at those previous terms of reference, they  
7 were really attempting to get to cost reflectivity by a  
8 time around today and encouraging the entrance of new  
9 players into the market by attempting to model the costs of  
10 the mass market new entry retailers in New South Wales. If  
11 you look at that period in hindsight and if you look at  
12 some of the barometers, I would say that we really have not  
13 got there. We do not have the new players. We have heard  
14 from one of the potential second-tier retailers that they  
15 don't believe we are getting to cost reflectivity now.

16  
17 In attempting to model a very uncertain future and  
18 trying to get the right outcome for these three years, I do  
19 hope that we do a critical analysis of why perhaps we did  
20 not achieve all the terms of reference objectives for the  
21 2007/2010 period.

22  
23 THE ACTING CHAIRMAN: Thank you for your comment. I  
24 think it is worth saying that there were significant price  
25 increases in the middle of 2009. In assessing the success  
26 of the 2007/10 determination, you should look at  
27 implication of that competition. It is probably unfair  
28 just to look at the first two years.

29  
30 Is there another comment or another question? Does  
31 anyone at the table wish to comment?

32  
33 We might move on to the second session. Once again we  
34 will have an introduction by a member of the IPART  
35 secretariat.

#### 36 SESSION 2 - ENERGY COST ALLOWANCE

37  
38  
39 MR VAN DER WEYDEN: Thanks, Jim. This second session  
40 is on the energy cost allowance.

41  
42 To supply their customers, energy retailers must  
43 purchase wholesale electricity through the national energy  
44 market (NEM). This energy cost is the largest cost  
45 component of the retail cost base and represents around  
46 40 per cent of their total costs.

47

1 The terms of reference require us to set an energy  
2 cost allowance made up of the wholesale energy cost  
3 allowance; other green costs including the renewable energy  
4 target, the greenhouse gas abatement scheme (GGAS), and the  
5 energy saving scheme (ESS); NEM fees and ancillary  
6 services; and allowances for energy losses which occur in  
7 transporting energy across the networks.

8  
9 Importantly the terms of reference also require us to  
10 set the energy purchase cost allowance at a level that  
11 takes into account the impact of the proposed CPRS and as  
12 the higher of the LRMC and market-based estimate.

13  
14 Our draft decisions on the total energy cost allowance  
15 range from \$73 to \$78 a megawatt hour in 2010/11 to \$109 to  
16 \$116 in 2012/13. This represents significant increases  
17 over the period of the 2010 determination.

18  
19 This session primarily focuses on the first two  
20 elements, the energy purchase cost allowance and the green  
21 cost allowance.

22  
23 In line with our terms of reference, we determined an  
24 energy purchase cost allowance for each standard retailer  
25 for each year of the 2010 determination. This allowance  
26 reflects our estimate of the costs an efficient standard  
27 retailer would incur in purchasing energy from the NEM over  
28 the period and managing the risks associate with this.

29  
30 We calculated the energy purchase cost allowance and  
31 each of the associated costs based on each standard  
32 retailer's forecast regulated load over the period.

33  
34 In making these decisions, we relied on expert advice  
35 from Frontier Economics and we used the methodology and  
36 assumptions set out in our draft methodology paper. This  
37 paper was released in August of last year and we had a  
38 public forum.

39  
40 In line with the terms of reference, the energy  
41 purchase cost allowance includes the estimated impact of  
42 the proposed CPRS. The CPRS will place a price on carbon  
43 emissions and set a medium-term national target for  
44 emissions reduction which will push up the cost of energy  
45 generation, wholesale electricity prices and the retail  
46 price of electricity. However, as everyone would know, at  
47 the time of writing, there is still considerable

1 uncertainty about whether and when the CPRS will be  
2 implemented. This uncertainty raised some questions about  
3 the approach we used to calculate the costs associated with  
4 the CPRS.

5  
6 Our approach was to set a carbon inclusive allowance  
7 using the Commonwealth Treasury's carbon price forecast,  
8 which we considered was the best available data, and to  
9 build sufficient regularity flexibility in the  
10 determination, which we have discussed previously.

11  
12 We asked Frontier Economics to calculate and recommend  
13 the efficient energy purchase cost allowance for each  
14 standard retailer and in each year of the determination  
15 using both an LRMC and a market-based estimate. We then  
16 set each retailer's energy purchase cost allowance using  
17 the higher of the LRMC and the market-based cost in each  
18 year, as is required by the terms of reference. The higher  
19 of the two estimates in each year are highlighted in bold.

20  
21 This shows that the LRMC is significantly higher in  
22 2010/11 but it is only marginally higher at 2011/12. By  
23 2012/13, the market-based estimate is significantly higher.  
24 The increase in the market-based allowance over that period  
25 reflects the tightening supply-demand balance and primarily  
26 the introduction of the CPRS. In 2012/13 the market-based  
27 estimates are around \$100 a megawatt hour, of which around  
28 \$36 a megawatt hour is the impact of the CPRS. In the  
29 absence of the CPRS, the LRMC estimate would be higher  
30 than the estimate in 2012/13.

31  
32 The terms of reference also asked us to determine a  
33 number of costs directly associated with purchasing energy  
34 in the NEM including complying with the expanded renewal  
35 energy target - up to 20 per cent of Australia's  
36 electricity is now to come from renewable sources - meeting  
37 obligations under existing New South Wales environmental  
38 schemes, including the GGAS scheme, which requires the  
39 retailers to meet benchmarks by surrendering New South  
40 Wales greenhouse abatement certificates; and to meet  
41 obligations under the energy savings scheme, which  
42 establishes legislative energy savings targets for  
43 retailers.

44  
45 This next slide shows our allowances under our draft  
46 decision for each of those schemes. We believe these  
47 allowances reflect the costs an efficient retailer would

1 incur in complying with these schemes over the  
2 determination period. These allowances do not include the  
3 costs of the CPRS because, as previously discussed, these  
4 are implicitly included in the wholesale energy allowance.  
5  
6 We have also made a draft decision to review these  
7 green cost allowances as part of a periodic review of the  
8 total energy cost allowance. In making these decisions we  
9 were guided by expert advice from Frontier Economics and we  
10 used the methodology and key assumptions set out in the  
11 methodology paper. That summarises our review.  
12  
13 THE ACTING CHAIRMAN: Thank you very much, Alexis.  
14 We will now take comments on the energy cost allowance and  
15 we will endeavour to answer any questions that may arise.  
16 Who would like to lead off on that one?  
17  
18 MR ENGLART: Paul Englart, Country Energy. I thank the  
19 tribunal for giving us this opportunity to comment on the  
20 energy purchase cost allowance. I suppose our greatest  
21 concern, referring back to the current determination, is  
22 the process in that current determination with regard to  
23 cost reflective tariffs. Our view would be that, as we  
24 have heard earlier, we did not reach that cost  
25 reflectivity.  
26  
27 Obviously going forward the key issues now revolve  
28 around how that cost reflectivity can be captured. In  
29 particular we note the various uncertainties going forward  
30 and therefore the means of capturing some of those, such as  
31 the annual price reviews, cost pass throughs and the  
32 one-off carbon review. It is fundamental that those things  
33 are looked at so we can keep that cost reflectivity.  
34  
35 The big issue around green tends to be related to the  
36 use of long run marginal costs as opposed to market. We  
37 have a problem. In essence being a retailer, we have  
38 already transacted a number of power purchase agreements,  
39 long-term arrangements, to cover the existing scheme  
40 arrangements. Looking at what the tribunal is now  
41 determining suggests that there would be a zero cost for  
42 GGAS, which is not what we see in our books obviously at  
43 the moment and it is largely related to the CPRS being  
44 introduced and that is a huge uncertainty at the moment.  
45  
46 The other part is the RET. Again we have taken  
47 long-term contracts, as most retailers would have, based on

1 a cost structure set up to some 10 years ago reflecting  
2 prices much higher than what is now being allowed in the  
3 tribunal.  
4  
5 We would like to suggest that there needs to be some  
6 revision of the methodology, that is the long run marginal  
7 cost setting for the RET as opposed to market and we note  
8 that with GGAS there is that huge uncertainty around the  
9 introduction of the CPRS scheme and the zero value being  
10 put on that.  
11  
12 In terms of the ESS, we recognise that the pricing  
13 being proposed there is based on the default price, which  
14 obviously without a market being established is probably  
15 the only direction to go at this point in time. Thank you.  
16  
17 THE ACTING CHAIRMAN: Thank you. Do you want to  
18 respond to the calculation of that RET?  
19  
20 MR HARPHAM: Yes. That is right; we have calculated both  
21 the costs of complying with MRET and the costs of complying  
22 with GGAS based on the cost-based approach, so we have  
23 used the whirlygig to come up with estimates for the long run  
24 marginal costs of complying both with MRET and GGAS.  
25  
26 We did that because, in our view, we think that tends  
27 to reflect the way that these instruments are transacted.  
28 So, as you mentioned, Paul, I think it is common for a lot  
29 of retailers to enter into long-term contracts for these  
30 certificates based on the costs of building renewable  
31 plants to meet their obligations under the MRET. I think  
32 it has a justification in principle for adopting the  
33 cost-based approach.  
34  
35 The other thing to say is you are also right that the  
36 cost estimates that we have come up with, MRET in  
37 particular, do reflect that assumption that the CPRS will  
38 in fact happen, so there will certainly be a CPRS price  
39 both in 2011/12 and 2012/13. Those assumptions are also  
40 reflected in our wholesale costs, so there is consistency  
41 obviously for MRET and what we do for the wholesale costs.  
42  
43 With d-cypha, for instance, if you look at the market  
44 price, I think what you see there is both a degree of  
45 uncertainty about whether the CPRS will actually get up and  
46 what form it will get up which is reflected in the price.  
47 It certainly seems that the d-cypha price for 2012/13 does

1 not reflect 100 per cent certainty that the CPRS will be  
2 there in that year and we see the same uncertainty, we  
3 think, reflected in the MRET price.

4  
5 THE ACTING CHAIRMAN: Thank you. Any further  
6 comments? Mike?

7  
8 MR MARTINSON: As I mentioned in my opening comments,  
9 we think overall Frontier has done a very thorough job on the  
10 energy costs. We have some concerns about the overall  
11 outcomes, in particular when you strip away the CPRS. The  
12 numbers don't have a lot of comments added, I guess, on how  
13 Frontier has come up with the CPRS estimates. If we just  
14 assume for the moment that what they have come up with is  
15 exactly right, it really does lead to looking at real  
16 cost reductions for the energy purchase cost over the  
17 period.

18  
19 We are not convinced that that is what we would expect  
20 to see over the next three years and that certainly has  
21 been probably the main driver with regard to the retail  
22 component or retail allowances. When I say that I mean the  
23 energy purchase cost excluding CPRS, the retail margin and  
24 the retail costs. When you look at those three factors in  
25 aggregate, it is a real price reduction, if you will, over  
26 that period.

27  
28 We understand the mechanisms that we are looking at,  
29 the market-based cost of electricity and the long-run  
30 marginal costs. We have some concerns that when Frontier  
31 was coming up with the market-based cost, and we recognise  
32 certainly for the first year that LRMC was ultimately used,  
33 that it was at a time when we were in the middle of the  
34 global financial crisis looking at the availability of  
35 opportunities possibly being a time when there was a more  
36 pessimistic outcome as to where market was going.

37  
38 As part of our submission, we will flag that we think  
39 the increase in the demand in the market itself might be  
40 something that is worth having another look at in  
41 finalising the decision to see whether or not that would  
42 lead to higher prices than Frontier has come up with.  
43 Again our view is that we don't support the real reductions  
44 in the energy price over the period, but again recognise  
45 that it is modelling as part of the process.

46  
47 With respect to the green scheme allowances, I support

1 my colleague from Country Energy. Again I think the  
2 tribunal has flagged that the NGACs allowance is not zero;  
3 yet the allowance is zero in the determination. We would  
4 be looking at a number probably more in the area of \$5 per  
5 certificate. Outside of that, the rest of it is the  
6 mechanics that are buried deep down in some modelling to be  
7 used that we don't really have access to.

8  
9 Again we think Frontier has done a good job overall.  
10 However, when we step back and look at the final outcomes,  
11 we are not convinced that that will lead to a competitive  
12 market in terms of pricing.

13  
14 THE ACTING CHAIRMAN: Thank you. I'll let Frontier  
15 respond on the modelling if they wish. I think it is worth  
16 saying that we would agree that the outlook with regard to  
17 demand and pricing in the energy market is extremely  
18 uncertain. Whatever we do now will almost certainly be  
19 wrong and the mechanisms in the determination adjust for  
20 that.

21  
22 MS BRAKEY: I might just add also that we did look at the  
23 demand and the timing. We recognised that the growth  
24 forecasts had been done sometime before that, so we did adopt  
25 the higher growth scenario From AEMO, not the medium  
26 growth scenario, recognising that there was a less  
27 pessimistic outlook on the economy.

28  
29 MR MARTINSON: I think, as part of our submission to you  
30 on this, that we will highlight that even looking at that  
31 high case it was probably still quite pessimistic compared  
32 with what is occurring.

33  
34 MR HARPHAM: If I might, I would just reiterate, and I  
35 think we say this in our report, that it was a very  
36 difficult time to be making demand forecasts because, on  
37 the one hand, we do want to rely as much as possible on  
38 publicly available information in the hope that it is not  
39 as much of a black box as it might otherwise be, and the  
40 publicly available information at the time did reflect  
41 that.

42  
43 I guess it is worth bearing in mind what might change  
44 in the results if we were to revise the different demand  
45 forecasts for each of the regions. It would certainly  
46 affect the market outcome, so we would expect to see that  
47 flow through to the spot price forecasting and on to the

1 contract prices, but it would not have an effect on the  
2 long run marginal cost because that is based on the  
3 regulated load forecasts for retailers.  
4  
5 MS MARSHALL: I think we had probably hoped that by the  
6 time the draft decision came out, there would be a bit more  
7 certainty around the CPRS but that has not happened. I  
8 don't know what anyone else's crystal ball is looking like,  
9 but I don't know when we are likely to get certainty around  
10 it. EnergyAustralia still contends that the energy  
11 purchase cost allowance on a carbon exclusive basis would  
12 be the most appropriate given the uncertainty. I guess --  
13  
14 THE ACTING CHAIRMAN: Sorry, could you repeat the last  
15 point you made?  
16  
17 MS MARSHALL: We still think that the energy purchase cost  
18 allowance should be set on a carbon exclusive basis with  
19 the regulatory package then looking at the introduction of  
20 the CPRS.  
21  
22 We have concerns around the green allowances that have  
23 been included in this draft determination, and obviously we  
24 will go into more detail in our submission. Just picking  
25 up on a comment you made about there being mechanisms in  
26 the determination that adjust for that, I don't see that  
27 there are actually mechanisms in this determination that  
28 will deal with the delay in the introduction of the CPRS so  
29 that if it is not introduced on 1 July 2011. The green  
30 allowances particularly around GGAS are set on the basis  
31 that they have no value because of the CPRS. Well, if the  
32 CPRS does not come in, they do have value and there is no  
33 catch-up for the previous year. You can adjust it for  
34 2011/12, but you cannot adjust it for 2010/11. I was just  
35 wondering whether there had been any thought as to how  
36 that would be managed.  
37  
38 THE ACTING CHAIRMAN: So there is an issue if it is not  
39 introduced on 1 July but halfway through a year or  
40 something like that?  
41  
42 MS MARSHALL: Or even 2012/13 - who knows?  
43  
44 THE ACTING CHAIRMAN: We will have a think about that.  
45  
46 MS MARSHALL: We also did have concerns around the  
47 transparency of the modelling. The assumptions that went

1 into Frontier's modelling were not necessarily clear to us  
2 and we did not know how a number of things were dealt with  
3 in terms of their modelling.  
4  
5 THE ACTING CHAIRMAN: Well, I think we went to a lot of  
6 trouble to document all the assumptions that Frontier made,  
7 so those at least should be clear. Thank you. Who is  
8 next, please?  
9  
10 MS GRIGGS: The first point I want to make is related to  
11 one I made earlier, which is when you see that, you see  
12 there is actually a real decrease in the first year in the  
13 WEC with the increases coming from the networks. This  
14 probably goes to Graeme's point. While there is a steep  
15 increase in the prices that consumers will see, there is  
16 actually a real decrease in the wholesale energy cost,  
17 which is the cost of 40 per cent of what retailers set.  
18  
19 The second point I want to make is that when you are  
20 talking about a three-year price path, and I understand  
21 IPART's position on this was extremely difficult, really  
22 what we are talking about are a series of annual reviews.  
23 While there is a three-year trajectory, that is subject to  
24 significant change.  
25  
26 That is relevant because I think what that says is  
27 that this need to rely on the model to price really does  
28 disappear because in so far as this modelled price has been  
29 put forward as a solution to the idea of a lack of  
30 liquidity in the market, which certainly we don't see  
31 occurring in that first year, but in so far as that might  
32 be a solution to any lack of liquidity in the third year,  
33 that disappears with the annual review.  
34  
35 That is relevant because AGL does in fact have  
36 significant concerns with the modelled results that have  
37 been produced by Frontier. We don't see that they in any  
38 way replicate reality. The contract prices are just far  
39 too low. What that means is it drives an efficient hedge  
40 strategy and that efficient hedge strategy cannot be  
41 replicated in reality. You cannot achieve the amount of  
42 cover and the reduction in risk that Frontier have modelled  
43 because the contract prices used are too low.  
44  
45 We thank Frontier for their attention to our concerns  
46 that they are looking at. We presented them with a series  
47 of data points that show there is actually no connection in

1 reality with the outcomes modelled by Frontier, and that is  
2 reflected in the GGAS and the RET conclusions when we see  
3 here there is a green cost allowance reduction of almost  
4 \$4. That actually is not there in reality. It is a  
5 product of the modelling. We do have significant concerns  
6 with that aspect of it. If there are to be annual reviews,  
7 which we think makes sense in the circumstances, it seems a  
8 good opportunity to move away from the modelled price.

9  
10 We will not take up this entire seminar with  
11 discussions of the technicalities, but that is our main  
12 concern in this area.

13  
14 MR COX: Does Frontier want to respond?

15  
16 MR HARPHAM: I guess I have a few things to say in  
17 response but certainly I think part of the reason that  
18 d-cypha is difficult to use is that over the full  
19 period of determination it is pretty clear that there are  
20 varying levels of trade on d-cypha. I think that is only one of  
21 the reasons in looking at modelled results in the tribunal's  
22 considerations.

23  
24 The other reason that I sort of touched on earlier is  
25 that the d-cypha price at any point in time is going to  
26 reflect a range of assumptions about what is going to  
27 happen in future, so it doesn't reflect at any time the  
28 certainty that CPRS will be implemented or certainty that  
29 it will not be implemented. It reflects a sort of range of  
30 views about the probability that CPRS will come to pass.  
31 I think it is helpful for the tribunal, obviously, to be  
32 able to look at the results so that it can see results that  
33 are related to that particular aspect as being useful, or  
34 the CPRS not being introduced as an example.

35  
36 MS GRIGGS: Thank you for that. We will follow this up  
37 further but as I said, I think that issue does certainly  
38 disappear as the annual review process is in place because  
39 you will see real-time market views of what the price is  
40 and that is what retailers are paying; retailers are paying  
41 that price, they are not paying a price that is the product  
42 of a modelled review of a spot price outcome. They are  
43 paying a price that the market thinks contracts should be  
44 sold at.

45  
46 I guess I am just interested in exploring this  
47 further. I understand why that third year at this point in

1 time you might reach a model price. That rationale does  
2 disappear once you look at annual reviews.

3  
4 MR HARPHAM: At the time the tribunal is conducting its  
5 determination I suspect there will always be instances  
6 where there will be an uncertainty about some policy or  
7 some other change that will affect the market. That will  
8 be an uncertainty that will be reflected in the market price  
9 but you cannot pick that through normal commercial -prices.

10  
11 MS GRIGGS: That's agreed but there has to be a reference  
12 back to reality and in this case in that first year there  
13 is a \$20 dollar disjoint between what d-cypha's rolling  
14 average price would be and what Frontier have come up with.  
15 We won't hijack the meeting on this point but we will say  
16 it is something AGL is deeply concerned about, particularly  
17 on an ongoing basis

18  
19 THE ACTING CHAIRMAN: I understand there is someone  
20 here from d-cypha.

21  
22 MR SCHMITZ: Thomas Schmitz from d-cyphaTrade.  
23 Basically I strongly concur with AGL that a model price  
24 approach when you have the price and you can transact on  
25 the market is basically the wrong approach to take.

26  
27 I would also beg to differ when it is being said that  
28 there is not necessarily enough liquidity in the 2012/13  
29 contract, we know of significant open interests in those  
30 contracts and they have recently become the most liquid  
31 electricity options market in the world, outstripping  
32 others by far. So any retailer who has to hedge, has to go  
33 into the marketplace and transact one of these prices but  
34 they cannot transact on a whirligig Frontier Economics  
35 price, it's just impossible. If I went to a bank wanting  
36 to get a fixed price on my mortgage and said "Ah, but  
37 Frontier has this model there, can I transact on?", every  
38 bank would send me back.

39  
40 The only thing you can really look at is market price  
41 to market and it is there every single day to transact on  
42 and even block trades. You can register 24 hours around  
43 the clock. I would strongly concur with AGL that the only  
44 way to look at the market pricing is the price the retailer  
45 has to use to hedge itself.

46  
47 THE ACTING CHAIRMAN: Thank you. I think that is probably

1 as far as we can take it at the moment. Obviously this is  
2 a salient issue we will need to consider carefully.  
3  
4 MR HARPHAM: There were a couple of other points I was  
5 going to respond to AGL, if you wouldn't mind, directly on  
6 that point of contract prices and I think this is something  
7 we already talked about.  
8  
9 We do agree that in the first year we think the prices  
10 are low and we think that is a direct response or result of  
11 the demand forecasts that were available at the time but in  
12 the later years I think you do start to see our price  
13 forecasts are in fact higher than d-cypha and we think that  
14 is a direct result of the fact that there is uncertainty in  
15 the market about the CPRS, and the CPRS price is not, we  
16 don't think, fully factored into d-cypha.  
17  
18 Finally on the cost-based approach to green fees, this was,  
19 as I talked about earlier, an approach that we put  
20 forward in the methodology and assumptions paper which  
21 had general support. We have sort of been reluctant to move  
22 away from that at the moment based on the factor that it  
23 did have that support but of course once we see submissions  
24 from stakeholders, we will look at that again.  
25  
26 MS GRIGGS: I just wanted to clarify: you are right in  
27 terms of the green fees; we do see a benefit in looking at  
28 the LRMC of green projects because the actual price at  
29 which retailers of significant size have to pay to  
30 underwrite wind farms and the like, no-one goes into  
31 significant investment at any cost other than the long run  
32 marginal cost, you just don't build the wind farm. I guess  
33 what we're getting at is - I would be very happy to talk to  
34 you further about it - we just don't understand the  
35 modelling that has produced that result. We are not  
36 backing away from that because we think that should  
37 actually be the right cost; we just think there might be an  
38 issue in the modelling.  
39  
40 I would just also like to make clear I am not  
41 necessarily looking at the second and the third years  
42 because I understand with the uncertainty around the CPRS  
43 there is a disjoint, but I guess my point is that is going  
44 to disappear on an annual review process. What we don't  
45 want is an annual review process - and this is when I look  
46 at the first year of the modelled results, there is a \$20  
47 disjoint between a d-cypha rolling average price and the

1 modelled price and if we get to the second and the third  
2 year and there is still all of this d-cypha information  
3 that will have caught up with CPRS policy and all the rest  
4 of it. We can't live with a \$20 disjoint between what the  
5 market is saying and a modelled outcome. So I think we  
6 need some thought around if we are going to go down the  
7 annual review process, one of the benefits of that should  
8 be that there will be this additional liquidity that should  
9 inform those annual reviews rather than continuing to look  
10 at a modelled price.  
11

12 MS BRAKEY: When you are saying there is a \$20 disjoint,  
13 are you talking about a disjoint between the long run  
14 marginal cost estimate and the d-cypha price or on the  
15 market estimate and the d-cypha price?  
16

17 MS GRIGGS: The price that is modelled by Frontier is the  
18 flat contract averaged price that was modelled at about 33.  
19 When you look at the d-cypha information on a two-year  
20 rolling basis, it comes out at about \$50.  
21

22 MS BRAKEY: For the first two years the regulated price is  
23 set on a long run marginal cost basis, so while the  
24 energy purchase cost has the low demand projections that  
25 Frontier has spoken about, we are actually setting the  
26 price on a basis of the long run marginal cost, which  
27 doesn't have that demand problem.  
28

29 MS GRIGGS: Look, we think that that is a very sensible  
30 policy having the floor as the long run marginal cost  
31 because that should sit at or less than the market price.  
32 That is the price at which generators will want to receive  
33 all the investment in their capacity. What I guess I am  
34 getting at is that I don't want anything to think that gap  
35 actually really does exist in reality.  
36

37 I guess what I am saying is the long run marginal cost  
38 actually presents a much more realistic figure of what our  
39 actual costs are. If we are being thrown back on to the  
40 modelled price set at any stage, because the long run  
41 marginal cost is also open for review, the point I am  
42 getting to is that that gap doesn't actually exist between  
43 what the long run marginal cost is, which is setting the  
44 floor, and the actual purchase cost.  
45

46 MS BRAKEY: But you are satisfied with the long run  
47 marginal cost estimate?

1  
2 MS GRIGGS: We have some higher technical issues about  
3 long run marginal costs that we won't get into because that  
4 would clear the room, but I just want to make the point  
5 that that gap does not exist in reality.  
6  
7 THE ACTING CHAIRMAN: Thank you. Just a couple of  
8 comments from the room, first you, Mr Schmitz, and then  
9 Danny and then we might have to move on.  
10  
11 MR SCHMITZ: On the issue of long run marginal cost, I  
12 think it is actually also in the interest of smaller  
13 consumer or disadvantaged consumers, highly unfair to pass  
14 on long run marginal costs onto the consumer because that's  
15 essentially a risk that the generator has to bear when they  
16 make the decision to put their plant on the ground. That  
17 cost is there whether they dispatch the electricity or not.  
18  
19 On a daily basis when you dispatch your plant, you  
20 dispatch on the assumption whether you can recoup your fuel  
21 purchase costs, so whether your spark or dark spread is in  
22 the money. It does not matter whether you can recover all  
23 of your other costs - your interest, your employment  
24 costs - you only dispatch on the basis where you can  
25 recover your fuel cost and make a profit and so I would  
26 also suggest that using long run marginal cost as a cost  
27 basis is highly unfair to the consumer. I would be  
28 interested where the retail tariff would be if it was  
29 strictly just a market-based approach.  
30  
31 On the other issue, I think on the model, is: if there  
32 is a \$20 disjoint between the d-cypha price and the model  
33 price on the baseload contract, then what that suggests is  
34 that the model is probably highly flawed and I would  
35 suggest if Frontier's model is so good - I mean, AGL, all  
36 the retailers, they have to put their balance sheet on the  
37 line when they hedge their contracts - that they believe  
38 that their model is better than the market-based approach  
39 or market consensus, then I would suggest that they just  
40 keep buying d-cypha contracts till the cows come home  
41 because if they think their contract is so undervalued they  
42 wouldn't be out there just buying that contract all day  
43 long.  
44  
45 THE ACTING CHAIRMAN: If I can add two comments in  
46 response to that: firstly, we are required to consider long run  
47 margin costs as part of the terms of reference and take the

1 higher than market and long run marginal costs and that is  
2 what we are required to do. Secondly, I think Frontier and  
3 AGL have made a fair point about the d-cypha factor and at  
4 present there is a great deal of uncertainty about whether  
5 the CPRS will be introduced and the probability of that is  
6 less than 100 per cent.  
7  
8 MR SCHMITZ: It doesn't need to be interpreted, it's  
9 price.  
10  
11 THE ACTING CHAIRMAN: I think that is probably about  
12 all I want to say. Danny?  
13  
14 MR PRICE: I just wanted to make clear that what Beth was  
15 saying here for AGL is she is comparing the current  
16 forward-looking prices to historic prices over a couple of  
17 years and on that basis, picking up d-cypha's point, Beth  
18 would be prepared to pay her bank for her reported lending  
19 rate of the average of the last two years, rather than the  
20 current rate. If that was the case, that wouldn't sit very  
21 well, particularly because she would be paying a high  
22 price.  
23  
24 The point about all this is that the existing price  
25 ought to reflect the circumstances as they are from now on,  
26 not what has happened in the past. There is a  
27 forward-looking concept.  
28  
29 MS GRIGGS: That would be true if I were going into a bank  
30 today, I see that but that is not the analogy because  
31 retailers actually are required to be layering hedges at  
32 the two years - well, that's probably a generalisation but  
33 all retailers have risk policies that mean they need to be  
34 layering hedges. We can't leave it till, you know, 30 June  
35 2010 to buy all of that cover.  
36  
37 I understand Danny's point that it is forward looking,  
38 but the reality is that retailers are required to buy on a  
39 progressive basis. So historical prices are relevant  
40 because that is in fact the cost they have incurred and  
41 also in particular for incumbent retailers, they are not  
42 able to dispense with those hedges; it is not a  
43 discretionary load. They are required to supply that load.  
44 So when they acquire those hedges, they are not able to  
45 trade them and do anything with them, they have to keep  
46 them, hold them to supply their regulated load.  
47

1 I understand Danny's point. This is something we and  
2 Frontier have disagreed with on previously, which is the  
3 point-in-time approach, but I guess it is not apples for  
4 apples me going to a bank manager because actually I have  
5 already incurred that cost historically, so I have layered  
6 in my loan with the bank manager.  
7  
8 THE ACTING CHAIRMAN: Who's next?  
9  
10 MR WHISH WILSON: I was going to make a few other  
11 comments to AGL, but I will just support their comments  
12 rather than continue on that line. I would also raise, though,  
13 what we said earlier about the annual review that that is one  
14 issue with this sort of modelling technique.  
15  
16 Next year when you come across and do your annual  
17 review and you simulate the prices again, once again you  
18 will have that situation that Beth was talking about. We  
19 have been paying the d-cypha prices up to then and you will  
20 be coming out and putting a fleeting time on the review.  
21 That gives us great concern as well. I am not sure how you  
22 are planning to --  
23  
24 MR HARPHAM: It is not clear, I guess, in the first  
25 instance that IPART would retain us again to do this work  
26 in annual reviews but let us assume that we are retained,  
27 or I will speak for consultants in general, perhaps.  
28  
29 The modelling framework we have developed, and I  
30 presume that other consultants have developed, has been  
31 designed to account for all sorts of changes to the  
32 regulatory and commercial and physical environment that  
33 matter for energy markets. So we don't think that there is  
34 going to be some occurrence over the period of  
35 determination that would mean that this modelling  
36 framework is no longer appropriate.  
37  
38 I suspect you are actually asking two questions:  
39 firstly, what input assumptions would we propose to use for  
40 the annual reviews in future? That's a difficult or an  
41 impossible question to answer at the moment. Our practice  
42 has always been to date to find what we consider to be the  
43 most reliable and up-to-date input assumptions. Obviously  
44 when we are working on a public process like this one we  
45 look for assumptions that are publicly available, so the  
46 general modelling process can be as transparent as possible  
47 and that is the process we'd adopt in future. It may mean

1 that some of the reports we are relying on this year we  
2 don't rely on in future. Something may have come along  
3 that we consider to be better but of course we would be  
4 making that public at the time.  
5  
6 I think your second point really is about cost versus  
7 price and we recognise that you do layer the hedges over  
8 time and that you do have costs that reflect that but we  
9 don't think economic decisions should be made on that  
10 basis, they should be made on a marked to market basis,  
11 which is the source of our disagreement with yourselves and  
12 AGL, as we well know.  
13  
14 MR WHISH-WILSON: Then you see why it gives us little  
15 comfort when you say that this year will lower your output  
16 from the model as well but over the next few years it  
17 catches up and you are actually higher and you are going to  
18 be starting again next year perhaps.  
19  
20 MR HARPHAM: I guess the other thing to say is this is  
21 why - we do have results here based on d-cypha. We don't  
22 do this in a vacuum and if it is the case that there had  
23 not been a long run marginal cost floor, then the  
24 tribunal's decision may have been different but ultimately  
25 we give them a set of results which include our modelling  
26 results, the results if you use d-cypha prices at a point  
27 in time and the long run marginal cost. For this  
28 determination long run marginal cost has been - set the  
29 floor to the first two years and then our model results  
30 have for the last year.  
31  
32 THE ACTING CHAIRMAN: Thank you. Perhaps it is worth  
33 repeating that I think the point that greater use might be  
34 made of market data and annual reviews is one I think we do  
35 need to seriously think about.  
36  
37 MR HAMILTON: I am pleased to hear you make that  
38 comment. We'd certainly support it. I would reiterate the  
39 concerns of everyone else but like to add TRUenergy to the  
40 list of people that you disagree with and the general principle  
41 that would support, whether they be green costs or energy  
42 purchase costs, that they do reflect the costs incurred by  
43 retailers and it goes to the heart of the issue we talked  
44 about before about cost-reflective pricing.  
45  
46 THE ACTING CHAIRMAN: Thank you. Chris?  
47

1 MR DODDS: Nothing, thank you.  
2  
3 THE ACTING CHAIRMAN: Do any other consumer  
4 representatives want to make a comment on this?  
5  
6 MS GRIGGS: I guess there's just an outstanding issue  
7 regarding what d-cypha said. Long run marginal cost as a  
8 floor is a perfectly sensible, rational approach and in  
9 terms of d-cypha's point that it is a risk to the  
10 generators, that's never how it works out, it's a risk to  
11 the retailers. We buy at or more than LRMC over the long  
12 run. So there is widespread support for LRMC as a floor,  
13 it makes perfect sense. I guess what we were just querying  
14 is the extent to which that LRMC does in fact differ with  
15 what is phrased "the actual purchase costs". That's the  
16 point rather than any issue around the LRMC.  
17  
18 MR ALLAN: James Allan, Frontier Economics. Can I  
19 respond just to put in context with this market to market  
20 versus market, say, d-cypha prices. At the moment we are in  
21 a situation where the d-cypha price has been falling and as  
22 you said, and we agree, you have laid your contracts and a  
23 lot of those are at a higher price than what they currently  
24 have. It is a two-way street. It will be the case in the  
25 future that the contracts you laid in at a previous time  
26 are at a lower price and the current market price is  
27 higher.  
28  
29 I just want to point out that obviously at the moment  
30 it is to all of your benefit that we would use an average  
31 price which would help you recover those earlier costs,  
32 rather than using a market to market which is lower but it  
33 could go the other way. I know you have said to me in the  
34 past that if it were the other way, it would be a windfall  
35 gain you would be willing to pocket.  
36  
37 MS GRIGGS: I doubt I would have used those words, James.  
38 What I probably would have said is that we are always going  
39 to be more comfortable with something that actually  
40 reflects reality than a toss of the dice, so that's what I  
41 would have said. I wouldn't have said it is a windfall  
42 gain or benefit that we are happy to pocket and I am kind  
43 of not happy that that's how you phrased it.  
44  
45 MR HAMILTON: Just to dilute that conversation for a  
46 second: the one market that has delivered an effectively  
47 competitive retail market has been Victoria, which uses a

1 market-based approach and I don't think that's a  
2 coincidence.  
3  
4 THE ACTING CHAIRMAN: I will take any questions or  
5 comments from any of people sitting in the back of room; if  
6 you'd like to introduce yourself and make a comment.  
7  
8 MR LATTY: Keith Latty, Origin Energy. There has been a  
9 lot of debate today about the difference between the  
10 long run marginal cost model by Frontier and the  
11 market trading of \$35.  
12  
13 I think when Frontier got all the data together they  
14 used the ACIL 2009 long run marginal cost estimates but the  
15 capital costs was all the different plants. They took that  
16 as a package and when Origin looks at most of those costs  
17 they agree with them. One of the biggest issues that stand  
18 out for us was that ACIL uses \$2,300 a kilowatt for a wind  
19 farm, which is where most RECs come from and if you look  
20 at the market at the moment where it is trading, you could  
21 not buy a direct contract for a wind farm at an implied  
22 cost for less than about \$2,700 or \$2,800 a kilowatt. So  
23 Origin asks Frontier to go back and have a look at their  
24 capital cost estimate per wind farm and if they are correct  
25 that, that makes up for most of the \$20.  
26  
27 MR HARPAM: I will just say I presume you will put that  
28 in your submission and we would be happy to take a look at  
29 your submission and other people's submissions as well.  
30 Just to correct, but I don't think it is material, for the  
31 cost of renewable plants I actually used the concept report  
32 but for wind I think that was pretty much in line with  
33 ACIL.  
34  
35 THE ACTING CHAIRMAN: Any further comments or  
36 questions? Would anyone sitting at the table like to make a  
37 further comment?  
38  
39 That brings the end of the second session. I think we  
40 might stop and have morning tea. If we can start again at,  
41 say, 11 o'clock that would be good and will try and get the  
42 government person to come earlier.  
43  
44 SHORT ADJOURNMENT  
45  
46  
47

1 SESSION 3 - RETAIL COST ALLOWANCE AND RETAIL MARGIN

2  
3 THE ACTING CHAIRMAN: We will now resume with the  
4 third session, which is on the retail cost allowance and the  
5 retail margin and the secretariat will introduce themselves

6  
7 MR KUTSCHUKIAN: Thanks, Jim. This session covers the  
8 following: the retail cost allowance, which provides for  
9 retail operating costs and customer acquisition and  
10 retention costs, and also the retail margin.

11  
12 In supplying their customers, electricity retailers  
13 perform a range of retail functions including billing,  
14 marketing, providing advisory services, promoting and  
15 advertising their services and handling customer inquiries.

16  
17 In setting the retail cost allowance, the terms of  
18 reference required us to, firstly, consider a New South  
19 Wales standard retailer's efficient operating costs in  
20 providing these functions for small customers on regulated  
21 tariffs; and, secondly, include customer acquisition costs  
22 to ensure regulated retail tariffs are set at a level which  
23 encourages competition.

24  
25 In determining retail allowance, we undertook the  
26 following approach, first, we defined the standard  
27 retailer; second, we analysed the two separate cost  
28 components, a retail operating cost (ROC) and customer  
29 acquisition and retention cost (CARC). We then deducted an  
30 amount from ROC to account for some of the costs associated  
31 with late payment fees as these costs are recovered through  
32 the late payment fee. Finally we undertook a benchmarking  
33 analysis to compare our combined ROC and CARC to other  
34 regulatory decisions and other market information.

35  
36 This table here shows our draft decision on retail costs for  
37 each year of the determination period, so that is from 2011  
38 to 2013, and compares them with the current 2009/10  
39 allowance. We note that in the current determination we  
40 have transferred marketing costs from ROC to CARC, which  
41 is equivalent to about \$6 per customer.

42  
43 With this cost transfer in mind, we note that the ROC  
44 and CARC components are lower than those in the 2007  
45 determination. There are several reasons for this  
46 including that for the 2010 determination we, firstly,  
47 estimated retail operating costs by initially considering

1 the standard retailers' actual operating costs and that  
2 some of these costs were slightly less than those included  
3 in the 2007 determination. The second reason is that we  
4 estimated the costs of not just winning customers but also  
5 retaining customers and that, in general, retention costs  
6 are lower than acquisition costs. Finally we note,  
7 however, that our draft decision on retail cost allowance  
8 in 2010/2011 of \$105.30 is above the midpoint of the range  
9 of other regulatory decisions which was \$93 per customer and  
10 falls between the most recently reported cost to serve of  
11 publicly listed energy retailers

12  
13 MS BRAKEY: The terms of reference require IPART to  
14 determine an appropriate retail margin giving consideration  
15 to risks not compensated for elsewhere in the regulatory  
16 framework. We have allocated the systematic risks  
17 associated with supplying customers to the standard  
18 retailers. We consider that it is appropriate to  
19 compensate the standard retailers for their systematic  
20 risks through the retail margin allowance.

21  
22 Our draft decision is to set a retail margin of  
23 5.4 per cent on an EBITDA basis and that is slightly above  
24 the 5 per cent included in the 2007 determination. This  
25 reflects more information and more sophisticated analysis.

26  
27 This is consistent with the midpoint of reasonable  
28 range of the margin recommended by our expert consultants  
29 SFG using an equal weighting of the three approaches, the  
30 expected returns approach, the benchmarking approach and  
31 the bottom-up approach.

32  
33 We have decided to set the retail margin as a fixed  
34 percentage of total costs and to recalculate the margin in  
35 dollar terms when we reset the R value. This summarises  
36 our retail costs and margin draft determination.

37  
38 THE ACTING CHAIRMAN: Thank you very much for that.  
39 We now invite comments on the retail cost allowance and the  
40 retail margin. Can I ask you, when you do so, to speak  
41 directly into the microphone because some people are having  
42 difficulty hearing what is being said at the table, so I do  
43 ask you to speak directly into the microphone. Who would  
44 like to lead off?

45  
46 MR MARTINSON: Of all the areas in the draft determination  
47 where we have the most concern, I think it would be fair to

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1 say it would be the retail cost allowance and in particular  
2 the operating cost allowance. The tribunal, as I think  
3 everyone is aware, has recommended an operating cost per  
4 customer significantly lower than what is currently in  
5 place, going down from \$115.3 per customer in 2009/2010 to  
6 \$105.3, as you can see up on the screen.

7  
8 We have concerns directionally with where that is  
9 moving and probably in particular the basis for that move,  
10 and certainly our response back to the tribunal will  
11 outline our concerns in detail. Primarily, from Integral  
12 Energy's perspective those allowances are considerably  
13 below what our actual costs are. We find that that is  
14 somewhat difficult, although I guess that is part of coming  
15 up with an allowance to underpin regulated prices moving  
16 forward that will encourage competitive market.

17  
18 We understand the approach taken by the tribunal in  
19 the use of benchmarks in selecting midpoints. We  
20 understand how the tribunal came to that view and the  
21 basis; we just don't believe that it really reflects our  
22 actual costs and I guess we will hear from others whether  
23 or not it represents theirs.

24  
25 There were four claims that the draft determination  
26 came up with as to why the operating costs were rejected.  
27 In our submission we will basically address those concerns  
28 specifically so it is probably not necessarily worth our  
29 while to go through in detail here.

30  
31 With regard to the use of benchmarks by the tribunal,  
32 it is interesting from our perspective when you do a  
33 like-for-like comparison and certainly when looking at  
34 allowances from other regulators including QCA, ESCOSA,  
35 ICRC. We think if you do look at a like-for-like  
36 comparison, the operating cost per customer number is low  
37 from what the tribunal has come up with. Again we would  
38 like the tribunal to reconsider that and we will put some  
39 specific information on the table.

40  
41 With regard to the retail margin, I guess  
42 fundamentally we don't have an issue with the approach that  
43 is undertaken as part of the retail margin itself. It  
44 comes down to what number you select out of a reasonable  
45 range and there is certainly discretion as to where that  
46 number can be picked. Selecting a fixed percentage of  
47 total costs we think is certainly an appropriate position;

1 however, it does reflect the fact that we think that the  
2 other costs on which the margin is applied are too low and  
3 therefore the margin itself will be low, maybe not in  
4 percentage terms but certainly in dollar terms at the end  
5 of the day, which is where the rubber hits the road.

6  
7 One particular concern for Integral Energy, and we  
8 will put this in our submission, is the treatment of  
9 depreciation and in particular on some IT investment. We  
10 have an opinion about the final number, in effect, that has  
11 come up as part of the calculation for the retail margin.  
12 The reality is that depreciation could have been looked at  
13 in a number of different ways including operating cost  
14 allowance for the margin that has been included in the  
15 margin and we think that that probably underestimates the  
16 investment in IT systems that is required. Thank you.

17  
18 THE ACTING CHAIRMAN: Thank you for that. We really  
19 look forward to the additional information you will provide us.

20  
21 MS MARSHALL: I basically have a couple of small  
22 questions. The basis of the retail cost allocation was  
23 from the standard retailers' historical costs. We note  
24 that there is a difference in definition between the  
25 historic standard retailers as a stapled retail network  
26 business and the definition of a stand-alone retailer for  
27 the 2010 determination as a stand-alone retailer, and there  
28 has been no allowance for the synergies that exist in the  
29 current business. I was wondering why that hadn't been  
30 taken into account in the retail cost allowance.

31  
32 MR KUTSCHUKIAN: Our definition of a standard retailer is  
33 that it was stand-alone in New South Wales, which meant  
34 that it was not necessarily stand-alone outside of New  
35 South Wales so that the economies of scale were similar  
36 between both those types of retailers.

37  
38 MS MARSHALL: It is economies of scale in a different  
39 way, and also there is the question of the size that you  
40 are looking at, so benchmarking it against AGL and Origin,  
41 you are taking that to a retailer that has 2.5 to 3 million  
42 customers. I don't see how a stand-alone retailer in New  
43 South Wales across all states is realistically going to get  
44 to that size

45  
46 MS BRAKEY: I think you have highlighted a point there  
47 where we recognise that standard retailers do have

1 customers in other jurisdictions and we have not included  
2 those customer numbers in our analysis here. To that  
3 extent, we have underestimated your total customer  
4 numbers which is the relevant number to divide through  
5 fixed costs.

6  
7 MS MARSHALL: I suppose the other question on customer  
8 numbers is that in our instance you did revise the forecast  
9 and I know we have had some discussions about the revised  
10 forecast. I was wondering will that ultimately be  
11 recalculated on the numbers that we agreed? I think the  
12 understanding is that you don't think our forecast is  
13 realistic and probably over the last six months I don't  
14 think we would totally disagree with that either, but I am  
15 not sure that we think the adjusted forecast is realistic  
16 either.

17  
18 MS BRAKEY: We will have a look at any information that  
19 you put to us.

20  
21 MS MARSHALL: Thank you.

22  
23 MS LINDSAY: Not to repeat what Catherine Marshall from  
24 EnergyAustralia has said, we also have some concerns about  
25 customer number forecasts and I am happy to hear that you  
26 are willing to consider information, so we will provide  
27 that as part of our response.

28  
29 The only other thing I wanted to say is in terms of  
30 the reduction to the late payment fee from the retail  
31 operating costs and how you have accounted for retailers  
32 that may not charge a late payment fee

33  
34 MS BRAKEY: We have provided for a late payment fee and  
35 we do recognise that some standard retailers don't charge  
36 that. However, you have the ability to charge that and at  
37 any time you could come in and in fact charge that fee. So  
38 we have deducted what we estimate would be your revenue  
39 from that fee from the cost estimate.

40  
41 MS LINDSAY: I have nothing else, thank you.

42  
43 MS GRIGGS: I do not propose to talk in length about the  
44 IPART analysis. I guess I want to make the point publicly  
45 that as network charges increase, the risk on retailers  
46 increases dramatically. It is worth noting that we bear  
47 the risk of bad debts. We bear the risk of increased sort

1 of defaults from payments as those increases go up. In so  
2 far as it is accounted for in the opex, I am not  
3 questioning that; I guess it is just worth making a point  
4 that for so much as it is direct pass through, there are  
5 actually a lot of intricacies in the arrangements between  
6 networks and retailers that mean retailers' risk increases.  
7 The point I wanted to make is that our operating costs  
8 increase is not just a straight linear arrangement.

9  
10 MS BRAKEY: Perhaps SFG might want to add something  
11 about the expected returns approach.

12  
13 MR HALL: What we have to point out about the expected  
14 returns approach is that there is consideration in that  
15 approach for the proportion of fixed costs which flow  
16 through. As that proportion of fixed costs in your cost  
17 structure increases, so does the retail margin. The  
18 current assumption is that 20 per cent of the costs that  
19 you face are fixed and 80 percent are variable, but we are  
20 open to taking submissions on whether that assumption is  
21 reasonable or not. We have based it on the best available  
22 information we have from the previous submissions.

23  
24 THE ACTING CHAIRMAN: Who is next? Origin?

25  
26 MR WHISH-WILSON: Origin is pleased to hear the other  
27 standard retailers' comments because we were concerned  
28 when we saw the retail costs and the historic retail costs that  
29 were used by IPART. Given our issues last time with the  
30 standard retail data, we thought it still might be the case  
31 that it includes stapled network costs and it has had an  
32 impact on those figures. We also probably have an issue in  
33 that given the midpoint approach, we don't know what the  
34 distribution of those retail costs used are. The middle  
35 point wants to include the value to the lowest, it might  
36 not be representative, but we will make all of those points  
37 in our submission.

38  
39 MS BRAKEY: Given that we only have three standard  
40 retailers we can't disclose any further information.

41  
42 MR WHISH-WILSON: I understand, thank you.

43  
44 MR HAMILTON: I wish to make a general point in terms of  
45 where the tribunal set the allowances for both the retail  
46 operating costs and the margins. All values within those  
47 ranges are regarded as efficient and therefore selecting a

1 midpoint achieves the objective of minimum price increases,  
2 but in terms of facilitating competition, that can only be  
3 achieved by selecting a point at the upper end of the  
4 range, given the issues with the state of the market, as I  
5 have already discussed.

6  
7 It is also important to cover off that what we are  
8 seeking is not prices in excess of competitive pricing to  
9 facilitate competition; we are just seeking competitive  
10 prices with a reasonable margin.

11  
12 THE ACTING CHAIRMAN: Thank you. I wonder if SFG  
13 want to comment on the treatment of depreciation. I think it  
14 was raised by Mike Martinson. I didn't let you respond to  
15 that. You might like to do that now, thanks.

16  
17 MR HALL: In coming up with our estimates, we relied upon  
18 an estimate of the EBIT margin and added depreciation to  
19 that to come up with the EBITDA margin. Our estimates of  
20 depreciation are based upon cost information supplied by  
21 the standard retailers. Again as I said with our estimates  
22 of fixed costs and the cost structure if, for some reason,  
23 we have erred on that, we are happy to take submissions and  
24 adjust those estimates. I think the difference between the  
25 EBIT margin and the EBITDA margin is about 0.9 per cent of  
26 sales. We are happy to take submissions on that.

27  
28 THE ACTING CHAIRMAN: Thank you. We will take  
29 comments from this side of the table. Does anyone want to  
30 make a comment?

31  
32 Anyone in the back of the room?

33  
34 MR CRAGGS: Ron Craggs from the Toronto Assistance  
Centre  
35 again. I am prepared to ask a question which will probably  
36 get a very straightforward answer for which I may feel  
37 foolish, but I am prepared for that. I accept that  
38 standard retailers obviously have operating costs as  
39 retailers which I expect would also include the churn out  
40 of customers who are entering the competitive market, but I  
41 am puzzled as to why a standard retailer who is dealing  
42 with customers who are not in the competitive market has  
43 any customer acquisition and retention costs which are not  
44 actually part of the retail operating costs. There must be  
45 a simple answer to that, but why would the standard  
46 retailers have any costs for acquiring and retaining those  
47 customers?

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1  
2 MS BRAKEY: The terms of reference actually required us  
3 specifically to include the customer acquisition costs. It  
4 is one of the areas where we have changed from the 2007 to  
5 the 2010 determinations in that in 2007 we provided for  
6 every customer to be acquired because the terms of  
7 reference required to us assess the customer acquisition  
8 costs on the basis of a mass market new entrant. This time  
9 it is on the basis of a standard retailer. We do recognise  
10 that, in general, retailers defend their customers and also  
11 will actively acquire other customers.

12  
13 MR CRAGGS: Thanks, Anna. Why is that not part of the  
14 competitive side? If they defend their customers, a  
15 regulated standard retailer should not have to defend a  
16 person who is there because they are not in the market.  
17 The retailer who attracts them, even if it is the same  
18 standard retailer, would defend them and that is part of  
19 their competitive cost not part of their regulated costs,  
20 is it not, or have I got it wrong?

21  
22 MS BRAKEY: We have just taken the view that the standard  
23 retailer has a customer base and that to the extent that  
24 they lose more customers, it will increase the retail  
25 operating costs because they are spreading those fixed  
26 costs across a declining customer base. So it is in fact  
27 an efficient outcome for standard retailers to defend their  
28 customer base, to try and keep their retail operating costs  
29 low.

30  
31 THE ACTING CHAIRMAN: Are there any other comments?  
If  
32 not, thank you very much. It looks as though we will get  
33 some further submissions on this and we will consider those  
34 carefully when we receive them.

35  
36 SESSION 4 - IMPACTS ON CUSTOMERS AND OTHER ISSUES

37  
38 THE ACTING CHAIRMAN: This brings us on to the fourth  
39 session, which is the impacts on customers and I suppose  
40 any other issues as well. Once again, we will start the  
41 with the introduction by the IPART secretariat.

42  
43 MS BRAKEY: Thanks, Jim. In this session we will have a  
44 look at the impact of our draft decision on customers and  
45 we will have a look at some recommendations to government  
46 to try and mitigate the impact of this determination and  
47 also open up for any other comment.

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1  
2 We looked at this slide earlier today. It shows that  
3 customers will be experiencing very large price increases  
4 over the 2010/2013 period ranging from a cumulative total  
5 of 44 to 62 per cent including inflation. These price  
6 increases are driven by two main factors and they are the  
7 introduction of the Commonwealth Government's proposed  
8 CPRS and also increased network charges arising from the  
9 AER's network determinations.  
10  
11 The terms of reference required us to report on  
12 customer impacts. We recognise that these increases are  
13 large and will place significant financial pressure on some  
14 sections of the community, even considering the  
15 Commonwealth Government's proposed assistance package  
16 associated with the CPRS and the New South Wales  
17 government's customer assistance package.  
18  
19 Different levels of consumption and households with  
20 different characteristics will affect the actual impact on  
21 the individual household. This graph shows some stylised  
22 households and it is based on IPART's household survey  
23 data. That suggests that, on average, electricity bills  
24 currently account for between 1.1 and 3.8 per cent of  
25 household incomes without the New South Wales energy  
26 rebate. Our analysis indicates that by 2012/2013,  
27 electricity bills will account for between 1.7 and 5.6 per  
28 cent of household incomes, assuming that consumption  
29 remains constant.  
30  
31 As was mentioned earlier, in the United Kingdom, a  
32 household is considered to be in fuel poverty when it would  
33 need to spend more than 10 per cent of its income on fuel  
34 to maintain a satisfactory heating regime as well as  
35 meeting their other fuel needs including lighting,  
36 appliances, cooking and hot water, et cetera.  
37  
38 We then conducted a little bit more analysis to  
39 specifically look at low income households. For this  
40 analysis, disposable income was defined as private income  
41 plus total transfer income minus total taxes paid.  
42  
43 By 2012/2013 the percentage of household disposable  
44 income spent on electricity will increase between 7 and  
45 12 per cent of a single aged pensioner's disposable income.  
46 We have not factored into this analysis the proposed CPRS  
47 compensation package for middle and low income households

1 but the Commonwealth has stated that all low income  
2 households and around 50 per cent of middle income house  
3 households will be fully compensated for the overall cost  
4 increases flowing from the CPRS and that around 90 per cent  
5 of middle income households will receive some form of  
6 direct cash assistance. We intend to investigate further  
7 this proposed compensation package particularly in relation  
8 to our price increases.  
9  
10 We consider that New South Wales customers will be  
11 more inclined to enter into the competitive market if there  
12 is transparent and easy to understand information available  
13 to help them assess alternative offers.  
14  
15 To improve the competitiveness in the market we are  
16 recommending to the New South Wales Government that it  
17 introduce retail price disclosure requirements for all  
18 licensed retailers' main negotiated contract offerings.  
19 The retailers will be required to publish a facts sheet for  
20 each of their main offerings on their website including  
21 tariff information, discount information, any benefits, and  
22 fees and charges. We are also recommending that the New  
23 South Wales Government implement an online comparator  
24 tool to allow consumer and private pricing comparator  
25 services to access up-to-date pricing information.  
26  
27 Given that these obligations or similar obligations  
28 already exist in other jurisdictions, we do not consider  
29 this to be a particularly onerous recommendation or  
30 obligation on retailers.  
31  
32 There are a range of existing and proposed government  
33 policies and some other factors that are likely to mitigate  
34 the impact of the draft decision on some households  
35 especially disadvantaged and low income households, and  
36 these are listed on the slide.  
37  
38 Given the size of the price increase, we have had a  
39 significant response from individual stakeholders  
40 highlighting the difficulties that they will face in trying  
41 to pay substantially more for electricity. In particular,  
42 people on fixed incomes, including pensioners, are  
43 concerned about the ongoing affordability of electricity.  
44 We are considering making a number of recommendations to  
45 government that may reduce some of the financial pressures  
46 on some sections of the community and we are seeking your  
47 views on what those recommendations might be.

1  
2 Previous recommendations that we have made to  
3 government include extending the eligibility of the  
4 New South Wales energy rebate to all Commonwealth health  
5 care card holders and indexing the rebate to the annual  
6 increase in electricity rather than to the CPI but we would  
7 really like to hear your views.  
8  
9 THE ACTING CHAIRMAN: Thank you very much. Who  
10 would like to lead off on this one? Chris?  
11  
12 MR DODDS: I'll start with the energy rebate. In EWON's  
13 2007 submission we surveyed all the energy rebates across  
14 Australia. At that point we strongly made the point that  
15 the New South Wales rebate wasn't indexed and that it  
16 didn't apply to health care cards and that in Western  
17 Australia, in South Australia, in Victoria and in Tasmania  
18 the rebate does apply to holders of health care cards.  
19  
20 This is particularly critical because of the really  
21 significant difference in income between those on a pension  
22 and those on an allowance and we were very pleased, as a  
23 response to the draft determination in 2009 on the review,  
24 to see the rebate indexed and extended partially to some  
25 health care card holders, but the reality is, the poorest  
26 people in New South Wales in receipt of government income -  
27 those on Newstart allowance, on sickness benefits - maybe  
28 not sickness benefits but certainly those on Newstart  
29 allowance, adult study, are not eligible for any rebate and  
30 I think it is really critical that the poorest people in  
31 the state are assisted to deal with this significant price  
32 rise.  
33  
34 When we have to arrange or assist people to arrange  
35 payment plans with energy companies for people in crisis,  
36 the hardest people to help are those with the lowest income  
37 because they can afford the least amount in their payment  
38 plan. Of course, we can help them get some NECF but that  
39 is emergency help, one-off or twice a year. But for those  
40 people that are dependent on Newstart allowance - and there  
41 are pockets of New South Wales where long-term  
42 unemployment remains a considerable issue - NECF access  
43 twice a year doesn't really address the deficiency between  
44 their income and the cost of necessary energy.  
45  
46 EWON has and will continue to call on the New South  
47 Wales Government to extend the eligibility for the pension

1 rebate to all Commonwealth health care card holders. We  
2 will call on IPART to call on New South Wales Government to  
3 extend that rebate and particularly importantly, we call on  
4 retailers because they're the ones, as was pointed out  
5 earlier, who actually have the difficulty of late payment,  
6 long-term payment fees and defaults and this would  
7 significantly improve the situation.  
8  
9 IPART in its draft determination talks about a range of  
10 assistance programs, it touches on retail programs and it is  
11 pleasing to see, from EWON's point of view in terms of our  
12 ability to assist customers at risk, the considerable and  
13 very considerable increase in the quality and the size of  
14 the hardship programs provided by retailers. I am  
15 flying a bit by the seat of my pants here, I am going  
16 to have to go back and check with the ombudsman.  
17  
18 Something that the representative from AGL said today  
19 and a point you made earlier, Jim is that in fact the bulk  
20 of this increase is networks and I think a real challenge  
21 for retailers, for regulators, for government and for  
22 ombudsman schemes and community groups is actually to  
23 try to get some of that money from networks into the  
24 hardship programs, so that the retailers aren't bearing the  
25 entire costs and they are in their hardship programs of the  
26 increase in energy. I really hope the ombudsman likes that  
27 idea, having put it on the table but it is just an idea.  
28  
29 The other point I want to make in the draft determination,  
30 IPART identifies some significant government assistance  
31 programs to be introduced in New South Wales and  
32 indicates that the department told them they would be  
33 finalised and had begun being implemented by December 2009.  
34  
35 As for awareness, it is not the case and I look  
36 forward to hearing from the Department of Industry and  
37 Investment Energy Division about their time frame for that  
38 implementation but it is really critical that significant  
39 parts of that program are implemented by July 2010 because  
40 of the impact that's going to happen.  
41  
42 In terms of the section that's been moved from the  
43 start, the price comparator part, EWON put in a very strong  
44 submission about this. Certainly in the AEMC's review of  
45 competition in other states, and to a certain extent  
46 IPART's reviews of competition at various points, the  
47 measure that has been used is basically a quantitative

1 measure; it is a measure of how many people went from a  
2 standard contract to a market contract, how many people  
3 moved energy companies.  
4  
5 We know where the research has been done, it's been  
6 done in the UK, where the regulator there did some  
7 significant research and there they identified that  
8 customers may be switching on the basis of poor or partial  
9 information and as a result - and I'm quoting from an Ofgem  
10 energy supplier report:  
11  
12 As a result, high levels of customer  
13 switching may not be exerting as much a  
14 constraint on suppliers' prices as it  
15 could.  
16  
17 This is a really critical point because throughout  
18 IPART, AEMC and retailers' approach for this pricing thing  
19 is always a view that strong competition will control or  
20 even reduce prices and here we have, in one of the more  
21 developed competitive markets, the regulator saying that  
22 switching may not be exerting as much constraint for  
23 suppliers' prices as it could.  
24  
25 As many as one-third of switchers may not achieve a  
26 price reduction. That proportion is higher for prepayment  
27 vendors, and that is a unique UK thing where people that  
28 can't pay their bill can have a prepayment where they are  
29 compulsorily installed. 45 per cent of those, and  
30 48 per cent of customers for gas and 42 per cent for  
31 electricity, who are approached by a direct market sales  
32 agent, in other words, door-to-door selling, up to  
33 48 per cent for gas customers and 42 per cent for  
34 electricity change from a price contract to a contract that  
35 actually is more costly to them.  
36  
37 That research has not been done in this country and I  
38 think that it's one that those people that have research  
39 capacity - regulators and the groups funded by the AEMC to  
40 represent consumer interests - I think it is a particularly  
41 critical area of research that is needed. However, the  
42 response in the UK has been much more significant than the  
43 simple price comparator response that IPART's adopted.  
44  
45 EWON strongly supports that but if in the longer term  
46 it is not effective and if people don't cooperate with it,  
47 then EWON will be looking at the sorts of things that are

1 now in place in the UK, where on the offer of a contract  
2 the person offering that contract has to take the last  
3 12 months expenditure on the contract the customer is on  
4 and then give that customer an estimate of what that  
5 12 months expenditure would have been on the contract  
6 they're being offered and the do an estimate of the next  
7 12 months on the contract the customer's on. That is a  
8 much more costly process.  
9  
10 We are really keen to see as low a cost as possible  
11 but we are also keen to see as much protection as possible  
12 to reduce the number of complaints we receive from  
13 customers who are adversely affected by misleading  
14 marketing.  
15  
16 We strongly support the two recommendations in this  
17 area by IPART: one, they become a regulatory requirement  
18 for a standard form that is comparable of prices to be made  
19 available and that then those comparisons be available on a  
20 website and we naturally endorse the option that IPART have  
21 on their website.  
22  
23 Very quickly, I have two final points. Miscellaneous  
24 fees and charges: we note that there has been no  
25 significant increase in those, which we welcome, in the  
26 context of higher price rises.  
27  
28 The final point I wish to make is that - and we  
29 haven't done our work here but it is something that  
30 probably needs to be thought of and I am not sure how it is  
31 going to happen - but when the new national energy  
32 framework laws, regulations and rules come in, and that is  
33 expected 2010/2011 maybe in New South Wales, small  
34 business will be significantly excluded from accessing  
35 standard contracts and the impact of that is something that  
36 those people who have a primary interest in small business  
37 may well need to take into consideration in terms of price  
38 rises, the impact on small business and therefore the  
39 impact on the economy.  
40  
41 THE ACTING CHAIRMAN: Thank you for your comments.  
42 I note that you support the recommendations that are made in  
43 the draft report. I guess the two additional things that  
44 you're suggesting that we should consider are an extension  
45 of the pensioner rebate and a linking of the pensioner  
46 rebate to energy prices. Have I got that right? They are  
47 basically the two most important things to be done for our

1 people to adjust to these higher prices?  
2  
3 MR DODDS: I had this discussion, just so I am confident  
4 about this. While we are not opposed to a linking of the  
5 rebate to energy prices, our priority at the moment is  
6 seeing the extension to health care card holders. I do not  
7 have the figures in front of me and I should have but the  
8 difference in income between a pensioner or a pensioner  
9 couple and a Newstart recipient and a Newstart couple is a  
10 really significant difference in income and without access  
11 to support, the impact on these price rises - we saw  
12 average - single-aged pensioner at 12 per cent of their  
13 income. I would think that it would be closer to  
14 18 per cent for a Newstart, maybe even as high as  
15 20 per cent. So it really is a significant issue and one  
16 that I think needs a priority.  
17  
18 THE ACTING CHAIRMAN: Thank you very much.  
19  
20 MS CROWE: Chris is right. An allowee by 2012/2013 will  
21 be paying about 19.39 per cent of their weekly income on  
22 electricity, that's for a medium use. So if you are an  
23 individual that needs an airconditioner because you live a  
24 very hot area, you are well and truly going to be using  
25 that much electricity, especially if your home is very  
26 limited as far as energy efficiency measures are concerned.  
27 Also just on that note, these households will be receiving  
28 less compensation for the CPRS compared with pensioner  
29 households because it's actually tied to their rate of  
30 income support and, as we've noted before, they don't  
31 receive a utilities allowance from the Federal Government,  
32 as well as the rebate from the State Government.  
33  
34 THE ACTING CHAIRMAN: Thank you.  
35  
36 MS ELIAS: We love the recommendations, this is from  
37 Council on the Ageing. I guess in particular what we are  
38 heartened about is the comparator tool. That is going to  
39 be vital for transparency and choice for consumers.  
40 However, I'm sure I have raised this in other forums and I  
41 will raise it again now: online does not work for the  
42 majority of older people, so you are actually excluding  
43 80 per cent of people aged 65 and over if you rely solely  
44 on an online tool. Now, we are happy to accept that and  
45 obviously organisations like ours and Combined Pensioners  
46 will be available to provide some information but what  
47 would be helpful is a phone line because I understand that

1 the nature of such a tool will make it impossible to print  
2 because it would need to be constantly changed and updated.  
3 So I think to consider a phone line within that context  
4 would be very beneficial.  
5  
6 I think certainly what Chris and Charmaine have  
7 stressed, and Council on the Ageing will obviously stress,  
8 is that most definitely it has to be extended to  
9 Commonwealth health care card holders and that will  
10 actually bring in what the Federal Government has already  
11 acknowledged as a more vulnerable group of people, which is  
12 why they're receiving the Commonwealth health care card, so  
13 they do need to be considered.  
14  
15 The only other point that I really want to stress is  
16 that in the spirit of transparency and consistency, I guess  
17 what is going to be very important is perhaps through the  
18 Department of Water and Energy, is to actually provide a  
19 list of rebate, concessions and things that are actually  
20 available because it is cross-government at the moment, so  
21 you've got the insulation rebates, I think that actually  
22 some providers are actually providing rebates to upgrade to  
23 energy-efficient appliances. So the transparency of  
24 information on what people have access to to actually  
25 improve their home situation will be vital in this context.  
26  
27 The only other thing, and again this would be a  
28 consistency measure, is I guess we found it a little bit  
29 disturbing that a late fee and dishonour cheque fees would  
30 be imposed on energy rebate recipients. So we would  
31 actually like that waived for energy rebate recipients  
32 because if they're in hardship and they're not paying their  
33 bill, we are just adding to their grief and stress  
34  
35 THE ACTING CHAIRMAN: Thank you very much.  
36  
37 MR PRINGLE: Some comments from COTA there just  
38 brought to mind we what do need to remember in this: not all  
39 consumers will be able to partake in the competitive  
40 market. Some will be excluded because they won't be able  
41 to access the information or for health reasons or for  
42 whatever reasons, so that is something for us to keep in  
43 mind.  
44  
45 I will reflect on some of the comments made on the  
46 roundtable already. There is an assumption in the draft  
47 determination that the consumer assistance package or

1 policy would have been in place by the end of 2009. As yet  
2 the final decisions on the consumer assistance policy have  
3 not been made public and there's no time line that we are  
4 aware of for their implementation. So we look forward to  
5 some more clarity around that from the Department of  
6 Industry and Investment.

7  
8 I realise that some aspects of the cap haven't been  
9 put in place and particularly the medical cooling rebate is  
10 most welcome.

11  
12 It has already been stated that many households with  
13 high needs for the energy rebate are currently excluded and  
14 for PIAC again the priority is that the eligibility of that  
15 rebate be extended to include holders of the Commonwealth  
16 health care card. Also we strongly recommend that the  
17 rebate is indexed to energy prices, as the utility of that  
18 reduces over time.

19  
20 IPART in the draft determination discusses energy  
21 efficiency programs that may assist households in dealing  
22 with energy price rises but PIAC would like to note that  
23 many disadvantaged households are excluded from these  
24 programs, as they still require some upfront costs,  
25 sometimes high upfront costs, or the need to take on debt,  
26 which can be inappropriate for a household already in debt  
27 or without the disposable income to service debt.

28  
29 Another barrier to take up there is for households  
30 that are renting and PIAC would like IPART to consider for  
31 all that energy efficiency standards in rental households  
32 might play in assisting low income and disadvantaged  
33 households or other rental households also in dealing with  
34 rising energy costs. It might be possible for this to be  
35 addressed through the residential tenancies bill which is  
36 yet to get to parliament. Thank you.

37  
38 THE ACTING CHAIRMAN: Thank you very much.  
39 Katharine, do you want to comment at this stage before we  
40 pass on to the retailers?

41  
42 MS HOLE: I don't mind. I'm happy for the retailers to  
43 talk first and I can comment at the end; whatever suits.

44  
45 THE ACTING CHAIRMAN: We might get them to comment  
46 and then you can come in at the end.

47

1 MS LINDSAY: Country Energy certainly supports the pricing  
2 comparative or the pricing disclosure requirements. We  
3 think it is a good idea and we think IPART is probably the  
4 best place or organisation to carry that through.

5  
6 In terms of assisting vulnerable customers, it really  
7 is a package solution. There are many organisations that  
8 need to play a role, including retailers and community  
9 groups and the government, including New South Wales and  
10 Australia . In terms of what Country Energy has done  
11 specifically, we have had a hardship program for a very,  
12 very long time now. It was put into place just after  
13 Country Energy was formed and it has been quite successful  
14 in assisting vulnerable customers.

15  
16 In response to the last price change, which was quite  
17 significant, we realise as a company that we did need to do  
18 more and based on that, we implemented a new energy advice  
19 line, which was 188-Energy, for customers to call and see  
20 if there are any opportunity for them to save energy. We  
21 recognise that that doesn't help everybody but it is about  
22 a package solution, so all parties need to come to the  
23 table, including the retailers, and I absolutely support  
24 the comments on this side of the table in terms of the  
25 extension or the application of the pension - or energy  
26 rebates should be extended and also that those rebates  
27 should be indexed more in line with energy price increases.  
28 I think that's been a major problem over the past few years  
29 because that rebate has been kept at a level that hasn't  
30 moved. Going forward and with the level of increases that  
31 are going to be coming up, it is really, really important  
32 that those rebates are indexed in line with energy  
33 increases. Thank you.

34  
35 THE ACTING CHAIRMAN: Thank you. Mike?

36  
37 MR MARTINSON: Probably like everyone else around the  
38 table at Integral Energy we are concerned with  
39 affordability issues with pricing for our customers. There  
40 have been recent significant price rises for our customers  
41 and that certainly resulted in hardship on a number of  
42 customers and it is certainly something that we are  
43 concerned about, as I am sure everyone around the table is  
44 concerned about. It does put the tribunal in a difficult  
45 position because it is having to follow the terms of  
46 reference. While on one hand it would be good to have  
47 lower price increases initially, the terms of reference do

1 require that IPART looks at providing cost-reflective  
2 prices that reflect the requirement for investment in  
3 infrastructure, which includes generation and network  
4 investment.  
5  
6 I guess I raise that because - to pick up on a point  
7 that Chris mentioned earlier - when you look at the  
8 headline number of the 44 per cent nominal increase for a  
9 customer in Integral Energy's area - an average residential  
10 customer - 41 per cent of that 44 per cent increase is for  
11 network charges and CPRS. The reality is we are not here  
12 to debate whether or not CPRS goes ahead and if it does in  
13 what form. While we may all have views on that, that's  
14 really not part of what we are here to look at. So the  
15 tribunal is really in a difficult position and the job is  
16 to actually provide a reasonable framework to allow the  
17 pass through of those costs and provide the cost reflective  
18 efficient costs to compete in the market.  
19  
20 There were some questions looking at introducing  
21 additional retail price disclosure requirements. Certainly  
22 support the fact and very supportive of the fact that there  
23 should be relevant information out for our customers that  
24 are sufficient, in terms of the quality and the quantity of  
25 information, to help our customers make informed choices in  
26 the competitive market. So we certainly support that.  
27  
28 With respect to increasing the price disclosure  
29 requirements, I would say that as part of the national  
30 energy customer framework, the NECF as it is referred to,  
31 that there is a process in place for the Australian energy  
32 regulator in looking at developing guidelines that does  
33 look at disclosing regulated and negotiated prices, terms  
34 and conditions. That process is under way. All the  
35 jurisdictions, including New South Wales are involved in  
36 that NECF process, so I put a little bit of caution into a  
37 willingness to just introduce new price disclosure  
38 requirements when there is likely in the shortish term to  
39 have a national approach to pricing disclosure information.  
40  
41 Finally, like Country Energy and EnergyAustralia as  
42 well, Integral Energy has a hardship program, our in-power  
43 program. As part of that program we do provide energy  
44 advice to customers and it is something where customers,  
45 they really don't have - certainly with the regulatory  
46 prices - the direct ability to actually set what that price  
47 is but customers can impact the amount of money that they

1 spend on their bill by looking at controlling the amount of  
2 energy that they use and I think that is an important  
3 message.  
4

5 Integral Energy does provide advice in that space, so  
6 if customers really want to control the amount of money  
7 that they are spending, there is certainly an avenue. I  
8 recognise that it is harder for some customers than others  
9 to change their usage patterns but there is something the  
10 customers can do to also reduce the amount of money that  
11 they spend on their bill.  
12

13 THE ACTING CHAIRMAN: Thank you.  
14

15 MS MARSHALL: I will not rehash what everyone has already  
16 said but I don't think anyone is disputing in any way that  
17 the increases of the magnitude that are being forecast in  
18 the draft determination are going to have an impact on  
19 customers. They will have an impact on all customers; it  
20 is a greater or lesser extent to which those customers can  
21 actually manage the increases or deal with them.  
22

23 Our customer assistance initiatives will continue to  
24 be targetted at those customers that are less able to deal  
25 with them and those that are experiencing hardship and I  
26 think over the last few years there has been a fair amount  
27 of progress on that front and presumably as we roll into  
28 the next determination they will continue to assist those  
29 customers that are facing difficulty.  
30

31 Moving on to the price disclosure comparator website,  
32 I think it is in the retailers' interest to have disclosure  
33 of what they are doing on the price track, so we don't have  
34 an issue from that perspective. I suppose we do have some  
35 concerns about the website because there are flaws in the  
36 various models that are in place in other jurisdictions.  
37 The way in which the information is presented may not  
38 enable customers to do an apples-to-apples comparison.  
39 They might think they are on a better deal, but it is just  
40 the way the information has been presented and they may  
41 find out after the fact that they have not actually  
42 selected the best deal.  
43

44 Certainly anything that involves ranking offers is  
45 problematic because normally how that ranking is done is  
46 not transparent to retailers - who knows how - and that is  
47 probably more of an issue for some of the private

1 comparators. I don't know what the answer is on how you  
2 actually deal with that on a comparator website but there  
3 are issues there that do need to be taken on board as to  
4 how it can be done so the customers can get the best value  
5 out of it.

6  
7 THE ACTING CHAIRMAN: Thank you.

8  
9 MR HAMILTON: We support the comments in terms of the  
10 price comparator and in terms of that being incorporated  
11 into the NECF process. The last thing we need at the  
12 moment is further jurisdictional inconsistency. Whether it  
13 is throughout NECF or the New South Wales Government  
14 itself I think what is required is a review of the existing  
15 jurisdictional arrangements and their effectiveness. There  
16 are different models operating in those jurisdictions and  
17 no-one has ever looked at the extent to which they actually  
18 fulfil their objectives in providing greater transparency  
19 or providing greater information to consumers.

20  
21 Certainly the response or the interest in the South  
22 Australian comparator has fallen away dramatically over the  
23 years and there seems to be very little interest in the  
24 information that the ESC makes publicly available, so to  
25 the extent that we go through a process of putting  
26 additional obligations on retailers to assist consumers and  
27 it is not assisting consumers, we should actually consider  
28 that before we go on to another process

29  
30 MS BRAKEY: I might make a few comments about general  
31 issues that have been raised. We are in an environment  
32 where we have just had a large price increase on 1 July  
33 last year and we are facing large price increases for a  
34 number of years to come. In our analysis for the draft  
35 determination, we have ourselves within the secretariat,  
36 done quite a bit of investigation of competitive offers and  
37 we do think that there is a currently problem of  
38 inaccessibility of tariff information and that is leading  
39 to poor customer outcomes, so that has informed our view on  
40 the competitiveness of the market.

41  
42 Given the price increases and given the uncertain  
43 timing of the national arrangements, while it is  
44 government's choice to implement and it might wait  
45 for the NECF arrangements, I don't think that we would  
46 recommend delaying information disclosure requirements  
47 until the NECF is in place. I think that something is

1 required more urgently. Whether that is just simply done  
2 by the retailers being proactive, and filling the gap until  
3 NECF is implemented, or whether the government needs  
4 to make some requirement, we observe that  
5 currently there is a lack of easily accessible information  
6 about tariffs in the marketplace.

7  
8 The other point to consider is that we had a look at  
9 customer outcomes. In a typical analysis of  
10 competitiveness of the market, customer outcomes is a  
11 factor that is considered and the AEMC will be  
12 reviewing the competitiveness of the New South Wales  
13 market. It is in the retailers' own interests to ensure  
14 that customer outcomes are positive and I think a relatively  
15 simple but key way of doing that is information disclosure.

16  
17 In terms of the comparator service, our recommendation  
18 is twofold: one is that there is tariff information  
19 available; and, secondly, that that information is put  
20 together in a way that is easily accessible for customers,  
21 which is the comparator service. I think that we are  
22 saying that you can't have a comparator service without  
23 some basic level of tariff disclosure because the tariff  
24 disclosure actually lets the customers see what the tariff  
25 is and make an assessment about offer.

26  
27 The other point I wanted to make about the  
28 government-endorsed comparator service is that, we are  
29 not looking for it to a switching engine. We are  
30 looking for it to be an accurate source of information to  
31 customers and to other comparator websites. To some  
32 extent how many hits it gets does not really matter because  
33 it might be limited to comparator services checking their  
34 information is accurate by seeing that their information  
35 matches up to the government-endorsed website. What it is  
36 about is making sure that there is accurate and readily  
37 accessible information for customers. I doubt that we  
38 would say it needs a KPI of how many hits the engine gets;  
39 it is about making sure that there is accurate information.

40  
41 THE ACTING CHAIRMAN: AGL?

42  
43 MS GRIGGS: I will not say too much, which is not to say  
44 that AGL does not recognise that these customer impacts are  
45 really significant and it is an issue that faces all of us.  
46 AGL has very comprehensive hardship programs that it has  
47 operated for a number of years. It has been developing a

1 lot of energy efficiency programs which it seeks to tie in  
2 with its hardship programs, but we do understand these  
3 customers impacts are significant and we all need to work  
4 together. Again the extent to which retailers bear the  
5 when the network costs go up is actually really  
6 significant, as is what you do about that. We have had  
7 many ideas in the past, none of which have necessarily been  
8 accepted, but it is very real issue for us, thank you.

9  
10 THE ACTING CHAIRMAN: I guess it is also an issue for us  
11 at IPART. We are looking for what we ourselves might be  
12 able to do or recommend that might help the situation.

13  
14 Any further comments?

15  
16 MR WHISH-WILSON: I cannot add any further insight from  
17 Origin's point of view except to say that we have a similar  
18 vulnerable-customer program that we endeavour to do our  
19 best with. It is an issue that all retailers care about  
20 but we have no easy solution given the change in prices. I  
21 like Chris Dodds' idea of getting the networks to  
22 contribute, so --

23  
24 MR DODDS: I think entering discussions with networks  
25 about how hardship assistance works is probably a better  
26 way of putting it.

27  
28 THE ACTING CHAIRMAN: Katharine, do you want to  
29 make any comment?

30  
31 MS HOLE: Katharine Hole, Department of Industry and  
32 Investment. I would like to thank everyone for their  
33 comments today. It is really useful to hear your  
34 suggestions. I encourage you, if you haven't already done  
35 so, to put those comments into submissions because the  
36 government is looking at those submissions and particularly  
37 comments around practical implementation or specific needs  
38 of certain groups like the elderly and access to websites  
39 or lack of access to websites. That is really important  
40 for us. We asked the government to issue its terms of  
41 reference to IPART and asked them to comment specifically  
42 on social impacts and we will be looking forward to IPART's  
43 recommendation in its final report and will go from there.

44  
45 In relation to some of the comments that have been made  
46 today, as has been mentioned, the government announced  
47 the \$272m customer assistance package following the

1 wholesale price review last year. The bulk of that package  
2 has been implemented with the increase in energy rebate on  
3 1 July and that rebate is now indexed to CPI. It has been  
4 extended, as has been mentioned, to a select group of  
5 health care cardholders, that is those with sickness  
6 allowance, carers with children and special benefits. We  
7 have consulted on the customer assistance policy and the  
8 medical cooling rebate commenced from 1 January this year  
9 and we are continuing to work on a number of other elements  
10 of that package.

11  
12 We have also been consulting with retailers and  
13 consumers about strengthened hardship provisions. We do  
14 recognise that a lot of this is occurring in the context of  
15 the national energy customer framework and we are very  
16 cognisant of the fact that there is an importance for  
17 consistency, bearing in mind that that process is going on  
18 concurrently up to these price increases.

19  
20 We are also aware of the Commonwealth's announced  
21 package for the CPRS. There is some uncertainty obviously  
22 around the time frames and implementation of that, but that  
23 has some bearing too on how we can best assist consumers  
24 and again manage two concurrent processes on slightly  
25 different timetables. I would again encourage people to  
26 make comments on all of those items in their submissions.

27  
28 I have two more points, and one is about the  
29 information provision. We are currently working with the  
30 Commonwealth. There is an initiative to try and centralise  
31 information at both the Commonwealth and a state level. It  
32 is a little bit focused on environmental initiatives at the  
33 moment, but we can certainly provide people with  
34 information on that. Albeit it is another website, it  
35 certainly will help centralise some of that information.  
36 We have started looking at the price comparison service  
37 proposal from IPART. We will wait till the final report,  
38 but again we are aware of what is going on in the national  
39 energy customer framework context in terms of developing  
40 that package. Thank you.

41  
42 THE ACTING CHAIRMAN: Thank you very much. Are there  
43 any further comments from people assisting at the roundtable?

44  
45 We will then take questions that come from people  
46 sitting at the back of the room. We will get a microphone  
47 to you, but can you please introduce yourselves and speak

1 slowly and clearly. Are there any comments from the back  
2 of the room?

3  
4 MS BURKE: I am Julie Burke from the NSW Business  
5 Chamber. I am very concerned, in listening to all this, that we  
6 have been talking about householders and residential users  
7 and the social impacts. We are mostly interested, of course,  
8 in the business impact and it will be an incredible price on  
9 business, but most importantly for small business given the  
10 size of the increases. The role of the Business Chamber  
11 group is to represent all types of businesses but most  
12 importantly the NSW Business Chamber champions small  
13 business throughout New South Wales.

14  
15 Although we acknowledge that much of the increase is  
16 transmission and CPRS related, there is a significant  
17 impact on business and that will flow on to everyone in the  
18 community, including all the residential users, across food  
19 energy, transport, and there will be a price impact on all  
20 goods and services.

21  
22 Obviously our issues are not really related to IPART  
23 but to the retailers and the New South Wales Government. I  
24 think the key point for small business is adaptation not  
25 just to price hikes but to higher energy prices, to the  
26 climate change impacts and acknowledging those types of  
27 forces. I think we have to look at positive priorities,  
28 such as some concessions for improving energy efficiency so  
29 that everyone's costs are not as high. We would encourage  
30 energy efficient programs to deal with the price increases,  
31 so we are interested in some concessions or incentives for  
32 small business to assist with affording, say, new equipment  
33 or appliances for adapting so that they can be more energy  
34 efficient and the cost does not flow on to consumers in the  
35 whitegoods and services sector.

36  
37 THE ACTING CHAIRMAN: Thank you very much for that.  
38 We certainly recognise the importance of the issues that you  
39 are raising. We would welcome submissions from you and  
40 any thoughts on what can be done would be of interest to us  
41 and I would think to government as well.

42  
43 MR ROLFE: My name is John Rolfe. I am from the Daily  
44 Telegraph. I would like to pick up on a point that  
45 Mr Dodds raised about door-to-door salesmen. I think he  
46 said that somewhere near 40 per cent appeared to be worse  
47 off, and this weighty document, which most of us in the

1 room have, says that somewhere between 60 and 70 per cent  
2 of people who are approached in that particular context by  
3 the door-to-door salesmen actually switch.

4  
5 I am wondering if the retailers in the room could  
6 offer any sort of guarantee that they are not doing that  
7 here and that they are not switching people? In an  
8 environment where prices will increase by 40 to 60 per cent  
9 already, can they guarantee that they are not taking  
10 advantage of customers in that door-to-door context and  
11 putting higher prices without their understanding?

12  
13 THE ACTING CHAIRMAN: Thank you for that. Does  
14 anyone like to respond to that?

15  
16 MR HAMILTON: That would be misleading and deceptive  
17 conduct and in breach of the Trade Practices Act.

18  
19 MR MARTINSON: Certainly it is the IPART draft  
20 determination that highlights the door to door, and the  
21 door-to-door channel is certainly one of the channels that  
22 is used by retailers but I echo those views. Retailers are  
23 not - certainly Integral Energy is not - looking at signing  
24 up customers under any sort of false pretence or any other  
25 Trade Practices related issues.

26  
27 THE ACTING CHAIRMAN: Thank you. Are there any  
28 other  
29 questions or comments?

30  
31 MR ZINN: Christopher Zinn from Choice and sorry for being  
32 a bit late. I will take up from John's point because it  
33 actually takes me to something that we wanted to say. I  
34 had a door-knocker come to my door about three months ago  
35 and I won't say from what company. One of the practices  
36 which took place there was he was not prepared to come up  
37 with full details of the offer until after I had actually  
38 signed up. He said, "Don't worry. There is a cooling-off  
39 period. Don't you worry about that because if you don't  
40 want to carry on with it then you can finish it."

41 I insisted that he provide some of the details.  
42 Eventually he capitulated and provided some partial  
43 information which really wasn't adequate. And it was only  
44 because in fact through Choice which the comparator service  
45 was involved in, I knew some of the questions to ask and  
46 some of the pitfalls that lay ahead. Otherwise had I been  
47 a more vulnerable person and less informed in this area I

1 would have been a sitting duck.  
2  
3 Basically in Choice what we would like to see in terms  
4 of protection for the consumer is transparency of rates,  
5 transparency in the publication of those rates being  
6 offered - we have spoken about this practice of their not  
7 clearly being displayed - the terms of the offer, any  
8 conditions and discounts and bonuses, what that actually  
9 means and, of course, clear transparency about the cost of  
10 switching. Above all make them simple. I do not  
11 understand my power bill. I'd love to. Can I really read  
12 through it to find out about what all the bits and pieces  
13 mean? We are asking for this in terms of mobile phone  
14 plans. We have seen more of it in terms of private health  
15 insurance. Can we please have it in power bills and  
16 utility bills generally? At present it is very hard to  
17 know what is a worthwhile offer or what is not.  
18  
19 THE ACTING CHAIRMAN: Does anyone want to respond to  
that?  
20  
21 MS GRIGGS: Of course it is terrible to hear the  
22 door-knocking stories. Door-knocking is a great way of  
23 offering customers competitive contracts. It is the most  
24 effective way and all retailers have very strict compliance  
25 programs in place. The conduct that has been described  
26 here is something that would not accord with our compliance  
27 programs and, as Graeme Hamilton said before, they would  
28 probably breach the Act. To the extent we can stamp out  
29 that kind of conduct, we certainly do try. The point is  
30 that that conduct is not permissible now but it is always  
31 upsetting to hear that that is still going on despite the  
32 best efforts of everyone.  
33  
34 I know my colleague to my right has actually chased a  
35 door-knocker down the street to accost him on his improper  
36 practices in the past. It is something that we never like  
37 to hear but it is illegal now. However, door-knocking is a  
38 channel of competition, which is why we continue to use it.  
39  
40 The second thing around simplicity and transparency is  
41 that it is something our marketing and commerce  
42 departments strive very, very hard to achieve. Unfortunately  
43 the energy industry is very complex. We would be very  
44 happy to hear any ideas in this regard. It is a complex  
45 industry. The charges are complex. It is sometimes difficult to  
46 give effect to that.  
47

1 THE ACTING CHAIRMAN: There does seem to be a number  
2 of people saying that we need to have clear and easily  
3 understandable information. I suspect all of us could do  
4 be better with that.  
5  
6 MS GRIGGS: Absolutely, and we would be more than happy  
7 to hear ideas about how to do that while still being accurate.  
8 That is the trick, to be completely accurate while being  
9 clear and simple.  
10  
11 MS BRAKEY: I think that is one of the key reasons that we  
12 didn't go for just a comparator service. If you had to  
13 choose, you would probably say information disclosure  
14 is more important than a comparator service.  
15  
16 MR PRINGLE: Along the same line again, I want to make the  
17 point that obfuscation around price is not limited to  
18 door-to-door marketing. PIAC has done a bit of research on  
19 retailer websites. We have found that often prices are not  
20 made clear, often you need to answer personal details  
21 including your name, date of birth, your address, your  
22 email address before you can get to any price offer. You  
23 can be signed up to a contract before you are given details  
24 of price. We have also found that offers on a website will  
25 talk about receiving a 5 per cent discount or a 10 per cent  
26 discount without making clear what that discounting is from  
27 and it is not always from the regulated price as one might  
28 be led to believe.  
29  
30 MS ELIAS: From the point of view of Council on the Ageing  
31 I have to support what Chris Dodds said in terms of door to  
32 door. I am sure you have all started to hear about  
33 affinity fraud which occurs with certain ethnic communities  
34 doing door-to-door sales. I think older people are very  
35 vulnerable in those circumstances and you need to take that  
36 on. Obviously it is not a practice that anybody accepts,  
37 but my understanding is that a lot of the door-to-door  
38 salespeople are working on commission but they are doing  
39 what they need to do to seal the deal at the expense of  
40 very vulnerable and not very knowledgeable consumers.  
41  
42 THE ACTING CHAIRMAN: Are there any more questions  
43 or comments from the back of the room?  
44  
45 Does anyone at the table want to make any final  
46 comments?  
47

1 MS HOLE: There are two other things I would like to add  
2 in relation to that information discussion on the more  
3 general comments around what type of information should be  
4 provided to customers. We are obviously currently working  
5 on the national energy customer framework. It is a  
6 national electricity market initiative. It is not just  
7 jurisdictions, but we will be looking at the submissions that  
8 will come in on the second exposure draft. Again I would  
9 encourage people to make submissions on that exposure  
10 draft. The New South Wales Government has made a  
11 commitment to best practice regulation in developing that  
12 framework, so I would encourage that.

13  
14 On the question of general information on how to  
15 inform consumers and assist consumers, in our consultation  
16 on the customer assistance policy a proposal was put  
17 forward for more information services either within the  
18 department or within government. It didn't really matter  
19 where they lay; it was just what was the best area. Our  
20 response from stakeholders was not overly supportive in  
21 that initiative but if you do have specific recommendations  
22 or other options for targeting or providing information to  
23 customers, that would certainly help us and we are  
24 currently, as part of that process, looking at developing  
25 an energy hardship guide to help consumers in that space.

26  
27 THE ACTING CHAIRMAN: Thank you. Are there any  
28 other  
29 final comments?

30 CONCLUDING REMARKS

31  
32 THE ACTING CHAIRMAN: It remains to me to thank you  
33 very much. I am grateful that you sympathise with the  
34 difficult task we have to undertake. I think the discussion we  
35 have had this morning will certainly help us very much in  
36 performing that task, so we are most grateful to you for  
37 coming and for the constructive discussion we have had.

38  
39 Please remember that submissions on the draft report are due  
40 on 4 February, that is this Thursday, and any submissions,  
41 comments or questions should be made to IPART directly.  
42 If you have any questions or concerns about how to make  
43 the submission, contact Anna Brakey, from the IPART  
44 secretariat, and we do encourage you to make submissions.

45  
46 The next stage of the review is to release IPART's  
47 final report and determination. This will be done in

1 mid-March 2010. The reason for that is to ensure that new  
2 prices come into effect on 1 July 2010, so we do ask you to  
3 make submissions by the due date.

4  
5 Finally, the transcript of today's proceedings will be  
6 on our website within a few days. Once again thank you for  
7 coming and for your constructive assistance.

8  
9 AT 12.25PM THE TRIBUNAL ADJOURNED ACCORDINGLY

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