



18 December 2012

Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

Lodged online at: www.aemc.gov.au
Project number EMO0024

Dear Sir/Madam

Re: AEMC Options Paper - NEM financial market resilience

Thank you for the opportunity to comment on the *Australian Energy Market Commission (AEMC) Options Paper - NEM financial market resilience* (the Paper).

The Energy and Water Ombudsman (Victoria) (EWOV) is an industry-based external dispute resolution scheme that helps Victorian energy and water consumers by receiving, investigating and facilitating the resolution of their complaints. EWOV's interest in responding to the Paper is based on our extensive experience in handling customer complaints.

The AEMC specifically invited comment on a range of options for mitigating the financial risks caused by the failure of a large electricity retailer. We will comment on the option in section 5.1 of the Paper concerning revised cost recovery arrangements in the Retailer of Last Resort (RoLR) regime.

A fixed cost recovery fee

EWOV is concerned about the impact of a cost recovery fee on residential customers, particularly those in financial hardship. We recommend that the fee is a fixed one-off amount as it is currently in Victoria, where the fee is set and regulated by the Essential Services Commission.

A fixed cost recovery fee works as an incentive for the RoLR to minimise its costs. EWOV is concerned that the RoLR recovery of all actual costs incurred following a large retailer failure may lead to customers unreasonably paying for the RoLR's cost inefficiencies during the course of the transition.

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Although the setting of energy prices is outside the scope of EWOV's jurisdiction, a cost recovery fee based on actual incurred costs would result in an increase in customer complaints to EWOV, and further associated costs for the RoLR. Whereas a fixed amount set by the jurisdictional regulator would mitigate some customer dissatisfaction.

Cost recovery fees for customers in financial hardship

EWOV supports the AER's concerns outlined in its *Retailer of Last Resort - statement of approach (November 2011)* about the impact of cost recovery fees on customers experiencing financial hardship¹. It is important that cost recovery should not result in an onerous bill increase for customers that may compound existing payment difficulties and impact their transition to the RoLR's hardship program.

We also believe that there is scope for governments to consider a rebate or concession to help customers in financial hardship meet the cost of the fee.

Communicating the cost recovery fee to customers

EWOV believes that the charging of a cost recovery fee should be clearly and simply explained to RoLR customers through a unified communications strategy involving all key stakeholders, including Ombudsmen. This should include promptly sending letters to affected customers to explain the reason for the cost recovery fee, and listing the fee as a separate item on customer bills.

We trust that these comments are useful. Should you require further information or have any queries, please contact Justin Stokes, Senior Research and Communications Advisor on (03) 8672 4272.

Yours sincerely



Cynthia Gebert
Energy and Water Ombudsman (Victoria)

¹ Australian Energy Regulator - *Retailer of Last Resort Statement of Approach, November 2011*
<http://www.aer.gov.au/sites/default/files/RoLR%20final%20statement%20of%20approach.pdf>