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28 March 2018

Dear Mr Sims

Thank you for the opportunity for members of our Board to engage with your team around the challenges faced by small energy retailers. Present at the meeting from ACCC were Deputy Chair, Delia Rickards, General Manager Retail Electricity Pricing Inquiry, Baethan Mullen, Michael Drake, and Simone Warwick. We were impressed by the level of interest and genuine engagement, and we hope that we were able to contribute some fresh insights into the matters under discussion.

In preparing for the discussion, our own thinking was stretched and clarified, so I thought it worthwhile to send you a note summarising the position we have reached.

It became clear that your team is considering ways to lighten the load for smaller players, such as a lesser regulatory compliance burden, possibly some form of relief from the NEG obligations, and the possibility of access to fair hedge prices. All of this is very important for small retailers, of course. However, while these will help at the margin (and NEG exemption is extremely important), they are not transformational to our business model.

Instead, it became very clear that to compete effectively with integrated players, we need to be effectively integrated ourselves. Such integration is very difficult to achieve while a company is small and lightly capitalised and this is where some form of incubation might make all the difference.

We have three ideas for how such integration might be achieved.

First, large industry players might be encouraged to allocate a tiny proportion of their generation to support sub scale retailers (say up to 10MW of annual throughput). This output should be priced at cost plus a margin sufficient to generate a commercial return on their underlying capital employed, perhaps 12% ROE for example. Such a price would be very stable and would bypass the wholesale market, where the risk premia and price volatility get built in. We believe there are precedents for this in the telecommunications market.

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Secondly, the Government could similarly incubate the innovative models such as our own, to the benefit of the consumer, by allocating a tiny proportion of its own capacity from Snowy Hydro to achieve the same effect. There is also precedent for this, with the New York market being operated in a manner to support small players until they mature.

Thirdly, we are currently too small and uncreditworthy to enter into our own PPA agreements with generators, even around new renewables projects. However, it would be excellent if we might take a slice of somebody else's PPA agreement. Again, some encouragement might be required although the downside for the provider would be very small.

We really feel that without some orchestrated access to quasi generation, models like ours that are trying to bring genuine competition and innovation to the benefit of the consumer and the community will struggle to be successful. We think your team grasped this point and we very much hope that they will be ambitious in what they bring forward to you as draft recommendations.

The bottom line is this, if it's too hard to break up the major integrated players, then regulators must somehow facilitate the smaller challengers becoming integrated themselves, be it synthetically or in fact, through generation capacity sharing, or an orchestrated PPA arrangement.

Again, thanks to you and your team for indulging us with your time and attention. We would be happy to engage further with your team if at any point that might be helpful.

Yours sincerely,

Alison Crook

Alison Crook AO, Chair,
Tony Pfeiffer, Managing Director,
Mark Joiner, Director,
for the Enova Community Energy Ltd Board