

17 November 2008

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Dear Commissioners Tamblyn, Ryan and Woodward

Business SA is the State's leading business association and represents thousands of South Australian businesses across all industry sectors and ranging in size from sole-proprietor to large multi-nationals. These businesses operate domestically, nationally and internationally and all are impacted by electricity supply issues and electricity costs.

Business SA welcomes the opportunity to make a submission to the second draft report of AEMC review into the effectiveness of competition in the electricity and gas retail markets in South Australia.

Business SA has taken an active interest in electricity issues in South Australia since early 2001 with contestability for Tranche 4 consumers. Since that time Business SA has provided numerous submissions to consultation processes on electricity conducted by the federal and state governments, the South Australian Independent Industry Regulator and the Essential Services Commission of South Australia (ESCOSA). Business SA itself has also conducted almost a dozen information and education seminars for business consumers, and successfully conducted a Peak Demand Management Pilot Program in 2001-2002.

Furthermore, Business SA was represented on the government's South Australian NEM Task Force in 2001, the government's Demand Side Measures Task Force in 2001, the Minister's Energy Consumers' Council since 2002 and ESCOSA's Consumer Advisory Council.

As a result of our extensive involvement in electricity policy, Business SA believes we are in a strong position to provide advice and information, from a consumer's perspective, on the electricity industry in South Australia.

In the second draft report the Commission noted that current pricing oversight arrangements will be unable to respond effectively to future changes in the energy market and listed 13 recommendations.

It is crucial to develop a competitive electricity market in order to reduce consumer prices, as opposed to relying on inefficient price capping to lower prices for consumers.

Business SA supports the AEMC's recommendations, especially those seeking to remove standing contract prices by no later than the expiration of the current price determinations.

Business SA considers the primary barrier to more competition within the market is price regulation. It is inefficient in that it is inflexible, and inhibits the introduction of new

retailers, tariffs, services and products. Furthermore, standing offer prices often fail to depart from the benchmark, which disadvantages many consumers.

Business SA understands there will be greater uncertainty in energy input prices due to the introduction of the Carbon Pollution Reduction Scheme (CPRS) in the future. Free market forces will be more effective in deciding the price of energy, rather than inflexible price cap arrangements.

Ultimately, Business SA believes price monitoring is unnecessary and therefore should be removed after the initial three year trial period has ended. Minimal regulation is required for an efficient and fully competitive energy market in South Australia.

If the recommendations pertaining to the price monitoring framework are implemented, Business SA emphasises the importance of avoiding any delays in establishing the framework. The AEMC's recommendations pertaining to increasing knowledge and transparency is supported by Business SA. A central database on ESCOSA's website of current contract prices, in conjunction with a consumer awareness and education campaign will enable small businesses to make informed decisions.

The Commission's recommendation that each retailer should be able to determine its own contract prices and publish said prices on their website is supported by Business SA. These initiatives will increase competition between retailers while improving transparency and ensuring the best possible outcome for consumers.

Business SA believes that a transparent electricity system, where all the costs are visible and identifiable, would enable the government to appropriately apply social policies to protect the most vulnerable members of the community by providing targeted subsidy schemes.

Business SA believes that if price regulation was removed and more independent information about electricity retailers were available, we could expect to see more effective competition in the South Australian energy markets.

If any questions arise from this submission, please contact Burcu Subasi, Research Officer, at Business SA on ph (08) 8300 0011.

Yours sincerely



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