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COPY

MEMBER FOR MOLONGLO

John Pierce
Chairman
Australian Energy Market Commission
PO Box A2499
SYDNEY SOUTH NSW 1235

Dear Mr Pierce,

I am writing in response to the Australian Energy Market Commission's (AEMC) *Advice on best practice retail price regulation methodology* issues paper released on the 14 June 2013. I would first like to acknowledge the effort AEMC has put into producing this paper. I offer the following comments in response.

The issues paper advocates the position that one of the primary objectives of price regulation is to facilitate competition. In the ACT, electricity price regulation is principally a transitional consumer protection measure in the absence of competition to ensure that consumers can access an essential service at a price reflective of the costs of the retailer. This recognises the significant information and bargaining asymmetry that exists between retail consumers and electricity retailers in an uncompetitive market and a complex pricing model.

At the same time, the ACT Government is mindful of ensuring that price regulation supports competition and does not impede its development. Setting prices at a cost reflective level that includes marketing costs and an appropriate rate of return is intended to ensure that market participation is not impeded by an uneconomic price. Further, the development of competition is the focus of targeted market development polices including promotion of contestability, access to consumer information resources, removing barriers to participation, minimising administrative inefficiencies, disinvestment in government assets and implementation of reforms including common inter jurisdictional arrangements such as the National Energy Customer Framework.

As such I believe the second proposed primary objective of '*Facilitate the development of competition in retail electricity markets, where competition may be feasible*' should not be included in the proposed methodology. The implication that consumers are required to make a financial contribution to support competition, beyond efficient costs is contradictory. A narrow objective may contribute to concerns among governments and the broader community on the adoption of the methodology. The finding by the Essential Services Commission (ESC) in May 2013¹ that retailer

¹ *Retailer Margins in Victoria's Electricity Market* (ESC - May 2013)

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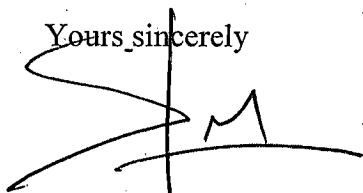
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margins have increased in Victoria despite having one of the most competitive retail electricity markets globally gives some credence to these concerns. The ACT Government is also mindful of its own experience in the gas retail sector, which despite deregulation of prices, has not seen the emergence of significant competition. In light of this, the direct linkage on page 12 of the issues paper between the National Electricity Objective² (NEO) and this proposed objective seems tenuous.

Instead I believe that the first proposed objective in the issues paper – ‘*Having regard to the long-term interests of customers, retail price regulation should determine electricity prices for small customers, which reflect the efficient costs of providing retail electricity services*’ is sufficient in itself and encompasses all the factors that government and regulators³ need to take into account in relation to price regulation, including the promotion of competition. This objective is also closer to the intent of the NEO, referred to by the AEMC as the overarching objective guiding its approach in the development of this advice.

Please accept my sincere appreciation for the work AEMC is undertaking in the development of this advice.

Yours sincerely

A handwritten signature in black ink, appearing to be 'S. Corbell', written over a vertical line.

Simon Corbell MLA
Minister for the Environment and Sustainable Development

8.7.13

² "The objective of this Law is to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to -

(a) price, quality, safety, reliability and security of supply of electricity; and
(b) the reliability, safety and security of the national electricity system."

³ Part 1, Section 3 of the *Utilities Act 2000 (ICRC Object's)* and Part 4, Section 20(2) of the *Independent Competition and Regulatory Commission Act 1997 (Directions about prices)*.