



28 February 2014

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Lodged online: Reference RPR0002 Approach Paper

2014 REVIEW OF RETAIL COMPETITION APPROACH PAPER

Alinta Energy Retail Sales Pty Ltd (**Alinta Energy**) welcomes the opportunity to comment on the “2014 Review of Retail Competition” Approach Paper (**Approach Paper**).

Alinta Energy is both a generator and retailer of electricity and gas in Western Australia and the Eastern States energy markets. It has over 2500MW of generation facilities and in excess of 750,000 retail customers, including around 140,000 customers in Victoria and South Australia. As an incumbent retailer in WA and a relatively new entrant retailer in the National Energy Market, Alinta Energy is well placed to comment on the Approach Paper.

Alinta Energy acknowledges that the Australian Energy Market Commission (**AEMC**) has been instructed by the Standing Council on Energy and Resources (**SCER**) in the Terms of Reference to review retail competition across the National Electricity Market (**NEM**) on an annual basis commencing in 2014. Alinta Energy believes that once it has been established that a market(s) are competitive, further reviews should only occur where there has been a material market failure or market operational variance identified that has the potential to impact the level of competition.

Other than this our view is that reviews need not occur more frequently than every 3 years. Shorter periods of reviews will not allow for the evidentiary gathering of information covering market development changes that would be required to make an informed decision regarding the state of the market.

The following submission provides Alinta Energy’s comments in response to the questions posed to stakeholders in the Approach Paper.



Should you have any questions or wish to discuss our submission further, please contact Lauren Zambotti, Regulatory Advisor on (02) 9372 2667 or via email: lauren.zambotti@alintaenergy.com.au.

Yours sincerely

A handwritten signature in black ink, appearing to read "Shaun Ruddy".

Shaun Ruddy

Manager National Retail Regulation

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Questions for stakeholders

Alinta Energy is happy to provide the following responses to the questions raised in the approach paper.

Market definition

1. Alinta Energy believes the market definitions proposed are appropriate and reflect accurately the markets to which the review relates.

Customer activity in the market

2. Small customers in those jurisdictions that have adopted the National Energy Customer Framework (**NECF**) with the addition of Victoria (yet to adopt NECF), have access to Government / Regulator operated online information websites which provides consumers full details on generally available offers applicable to them and available in their area. In terms of consumer's ease of understanding, retailers have prescribed obligations on the way in which they communicate product information with consumers. It can be argued that some of these obligations placed on retailers inhibit a consumers ease of understanding thereby impacting their ability to make accurate comparisons. However an engaged consumer has available access to all the required information with which to make an informed decision.
3. Market offers are considered more competitive than that of a standing or regulated offer, and as such it is generally a financial incentive or consideration that provides the motivation to switch from a standing to a market offer. In addition other triggers for customers to move retailers, which will often result in a transfer from a standing offer to a market offer, are experiences of poor customer service, or the proposition of potential benefits directly marketed to the customer.
4. Potential cost savings, financial consideration and to a lesser extent poor customer service experience can be the main drivers for a customer to consider changing retailers. Often it is the presentation of available options direct to the consumer that creates the catalyst for considering the option to switch energy retailers.
5. There is a perception that a standing or regulated offer carries with it a level of protection not afforded to consumers who are on market offers. Therefore a perception may exist that regulated offers provide consumers a higher level of protection and flexibility as they are no fixed term, no lock in offers which provide consumers with a sense of security resulting in them choosing not to engage with the market. However, Alinta Energy notes there are a number of no fixed term

market offers now available and in some jurisdictions the obligation to have a no-fixed term market offer has become mandatory. For a large proportion of customers energy is not generally a priority. Therefore these customers generally have low levels of engagement and by default will remain on standing or regulated offers.

6. Aside from exit fees for some market contracts, barriers preventing consumers switching energy plans within their current retailer or an energy plan offered by an alternative retailer would be considered to be low. In most circumstances retailers permit customers to switch between their offerings (plan change) without incurring exit fees. Physical barriers can also exist that prevent customer switching, such as a prohibition of transfers on estimated reads and meter access issues can create delays in customer transfer.

Barriers to entry, exit or expansion

7. The barriers to entry, exit and expansion that exist include; regulatory burden and uncertainty (particularly jurisdictional divergences), retail price regulation and credit support requirements (including AEMO prudential requirements). Credit support impacts expansion as when a retailer enters a market the levels of credit support are low, however as the business grows the level of credit support required increases significantly, for an organisation without an acceptable credit rating generally the only form of acceptable credit support is a secured bank guarantee. Institutions that require credit support from retailers are generally reluctant to explore differing commercial arrangements for meeting credit support requirements.
8. The barriers as outlined above discourage entry and expansion of retail operations into some additional NEM markets by retailers that already operate in other NEM markets.
9. The adoption of and harmonisation of legal and regulatory requirements in all NEM markets and the removal of price regulation will see significant barriers to market entry (and expansion) removed across all markets. Additionally, a review of credit support obligations should be undertaken as this continues to operate as a barrier to expansion.

Independent Rivalry

10. High level of competition exists, especially among second-tier and new entrant retailers. Competition levels in terms of price, product/service differentiation and acquisition and retention of small customers are higher in jurisdictions where retailers have greater direct control over exposed risk (price deregulation).
11. Product improvements and service differentiation is directly related to the level of competition and the activities undertaken to acquire and retain customers, it is in bests interests of retailers to offer the most attractive products and the highest level of service to both acquire and retain small customers. The higher the level of

competition in a market the greater the degree of product differentiation will be offered by retailers, such as billing and payment options, energy monitoring and efficiency apps.

12. Retail price regulation impedes tariff innovation and the range of product and service offerings available to small customers. Additionally price regulation creates risk and uncertainty for retailers. Removal of retail price regulation has been proven to enhance competition and promote innovation in product offerings available to small customers in NEM markets where this form of regulation has been removed.
13. Price deregulation has encouraged tariff innovation and product and service offerings, however retailers are still limited by network tariff structures as alignment to network tariff structures is required to manage risk. Price deregulation allows retailers to recover their prudent costs of operation in a market, this allows for investment in innovative products and offerings.
14. Marketing activities and acquisition channels generally used by retailers include; above the line marketing (TV, radio etc.), telesales, door-to-door sales, website promotion and sign-up, comparator services and energy brokers.

Customer Satisfaction

As a recent entrant to the energy market our level direct research on customer satisfaction levels is such the making comment at this time is somewhat subjective, Alinta would suggest that for a true indication of satisfaction levels the AEMC should seek this information directly from consumers.

15. N/A suggest this is confirmed directly with consumers.
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17. N/A suggest this is confirmed directly with consumers.
18. Ombudsman schemes operate at a jurisdictional level, the way they report and classify complaints can differ and as such caution should be used in any cross jurisdictional comparisons especially when such comparisons are done at a high level. However given the nature of retailers (operating across various jurisdictions) there will always be the potential for cross jurisdictional complaint symmetry.

Retailer Outcomes

19. Price regulation introduces additional risk that needs to be assessed and managed by an individual business. Price regulation has led to retailers choosing not to enter a market and also (in some cases) to exit following market entry where the regulated price (over time) have moved to non-reflective levels.

20. Alinta Energy is of the view that energy retailers are unable to recover their efficient costs of operating in QLD, NSW and the ACT where the regulated price does not accurately reflect retailer costs and risks of operating in those markets.
21. Cost divergence exists across markets, remembering that market offers are available in jurisdictions where both price regulation is in place and where it has been removed. In markets where price monitoring is in place the competitive market costs will more accurately reflect those experienced by retailers. In jurisdictions where price regulation exists it is our experience that competitive market costs have been depressed through the review of regulated retail prices. Jurisdictional variances also exist across other market costs, including network costs, Ombudsman scheme costs, which all feed through into the competitive market costs.
22. Operational market costs which are predominately driven by the network businesses vary significantly, such as the cost of special meter reads, and contribute to inter-market divergence in retailer costs.