



23 December 2010

Ref: EPR0017

Mr John Pierce
Chairperson
Australian Energy Market Commission
BY EMAIL

Dear Mr Pierce

STAGE 2 DRAFT REPORT - REVIEW OF THE EFFECTIVENESS OF COMPETITION IN THE ELECTRICITY RETAIL MARKET IN THE ACT

Origin Energy Retail Limited (Origin) welcomes the opportunity to comment on the Australian Energy Market Commission's (AEMC's) Stage 2, draft report (the report) on the review of effectiveness of competition in the electricity market in the Australian Capital Territory (ACT).

Origin supports the AEMC's recommendations to promote competition in the ACT through a two phase process in order to remove existing barriers to entry for second tier retailers relating to non-price and price aspects of the market. Origin believes the approach is properly directed at resolving the unique market failures in the ACT electricity market and seeks to re-establish competition.

In order to promote competition, Origin supports the removal of price regulation and considers a similar regulatory approach to that implemented in Victoria is favourable. The model implemented by the Victorian Government¹ is a proven and workable model and will assist in the enhancement of competitive forces in the ACT. The Victorian market continues to be a highly competitive energy market and in comparison to world standards was recently named a 'Super Hot Market' in the World Energy Retail Market rankings².

It is noted that in contrast to the market position in Victoria, the AEMC has found the ACT electricity retail market for small customers does not exhibit effective competition. However, due to the existing barriers to competition caused by the current level of the transitional franchise tariff (TFT) the continuation of the TFT will undermine future efforts to achieve a competitive market. Therefore, Origin takes the view the approach recommended by the AEMC will achieve its aim.

¹ As a result of amendments made to the retail competition provisions in the energy legislation in Victoria as a direct consequence of the review by the AEMC that found competition in the Victorian electricity and gas retail markets was effective. The price monitoring role is undertaken by the Essential Services Commission (ESC) in Victoria.

² VaasaETT, Global Energy Think Tank, World Energy Retail Market Rankings 2010.



Phase 1 - Consumer Education Program and Marketing Campaign

A consumer education program will play an important role to empower customers with knowledge of the energy market and rectify misinformation about the structure of the energy market, in particular to remove the identified³ lack of understanding by small customers about the role of retailers and distributors in the competitive market.

Origin supports consumer education to improve the understanding of customers about the benefits of the competitive market. Given the AEMC found that customers exhibited a level of stickiness it is clear the incumbent has a high degree of customer loyalty and any misinformation in the market will have the effect of reinforcing its dominant position. As such, Origin supports a properly targeted consumer education program and marketing campaign as an initial step to encourage competition.

Although Origin does not wholly agree that a Government funded marketing campaign will reduce customer acquisition costs for retailers, there are advantages in a properly targeted campaign undertaken by the Government that could not be achieved through retailer marketing activities. In regard to the costs of a marketing campaign, it is a one-off expense that should have been incurred at the commencement of full retail contestability to raise customer awareness, and the costs of an ongoing campaign will reduce over time as competition takes hold.

Ring Fencing Guidelines Review

ActewAGL continues to service at least 91%⁴ of small electricity customers providing it with a dominant incumbent position. This position is not surprising given the structural barriers for second tier retailers and the limited retailer rivalry taking place.

There is a concern the continued enjoyment of this position by ActewAGL will operate to completely smother retail competition and thereby further bolster the dominance of the incumbent. Origin believes this issue must be addressed to assist with stimulation of retail competition and improve the ability of second tier retailers to enter the market. The options presented by the AEMC⁵ to separate the retail business from the Actew Group are the only effective means of ensuring separate business dealings within the Actew Group and would ultimately achieve a more competitive outcome. Yet, Origin acknowledges this would be difficult to achieve in the short to medium term.

In any case, Origin believes the dominant position of the incumbent is impacting the level of retail competition which might be managed through a review of the ring fencing compliance arrangements and the ring fencing guidelines. As identified by the AEMC, Origin is concerned the joint marketing activity of the Actew Group creates the perception in the market that there are better outcomes for retail customers who remain within the group.

³ As identified by Roy Morgan Research A Qualitative Study of Domestic and Small Business consumers, June 2010

⁴ ActewAGL Retail provided retail services to 91% of the customers surveyed by Roy Morgan Research for Stage 1 Draft Report, page 12, AEMC, "Stage 2 Draft Report - Review of the effectiveness of competition in the electricity retail market in the ACT".

⁵ page 21, Stage 2 draft report, Review of the effectiveness of competition in the electricity retail market in the ACT



A combination of a review of the ring fencing guidelines and consideration of the impacts of the joint marketing activities together with a customer awareness campaign may assist to reduce the present stickiness of customers.

Origin supports the non-price aspects of the recommendation in order to prepare the retail market for improved competition. However, the non-price aspects alone will not facilitate competition and therefore Phase 2 of the AEMC's recommendations is a necessary step to assure regulatory certainty.

Phase 2 - Removal of Price Regulation

Origin believes the retail market will develop at a more rapid pace if the barriers created by the TFT are removed. Furthermore, Origin considers complete removal of price regulation is the only solution as a change to the calculation of the TFT will only prolong the perceived regulatory risk and will continue to deter retailers from participating in the small customer retail market.

The removal of price regulation will mitigate price risk for second tier retailers and begin to exert some competitive forces upon the incumbent. In order to keep the retail market balanced, Origin supports the ACT Government retaining a price monitoring role⁶ consistent with that implemented by the Victorian Government when price regulation was removed. The purpose of the price monitoring role was to create a transparent means to capture the performance of the retail energy industry and enable the regulator to report on standing and market offer products available to consumers. This has been important information for the regulator, retailers and the consumer alike in the Victorian competitive market.

Timing

Origin supports the 1 July 2012 target to remove price regulation. The timing is appropriate as it allows the current regulatory period for the TFT to continue but also coincides with the proposed implementation date for retail regulation to transfer to the National Energy Retail Framework⁷ (NECF). The co-ordination with NECF implementation may assist in reducing regulatory costs for both regulators and retailers with retailers' also benefiting from more harmonised regulatory requirements. The proposed 6 month education and marketing campaign will allow retailers up to 12 months to consider entry to the ACT electricity retail market and establish market prices.

Additionally, the overlap with the NECF implementation will not only bring alignment of regulatory requirements across the NEM it may further precipitate retailers' entry into new markets once the NECF is implemented.

Regulator

Should the removal of price regulation occur from 1 July 2012, it is likely the ACT Government will opt for a price monitoring role. As the timing coincides with the current target commencement date for NECF implementation and to adhere to the principle of

⁶ The Victorian Government required certain prices to be published by the retailers and retained a price monitoring role. As the Victorian Government wanted to understand the extent to which the energy retail market was competitive a pricing report is published annually by the Essential Services Commission of Victoria (ESC). The Essential Services Commission was charged with publishing prices on its website and reporting to the Government on an annual basis.

⁷ Ministerial Council of Energy, Communiqué, 10 December 2010.



national consistency, the Australian Energy Regulator (AER) may be the appropriate body to take on the price monitoring role. However, should the NECF be delayed there are no obstacles to the ICRC fulfilling this role.

Thank you for the opportunity to provide input into the consultative process undertaken by the AEMC. Origin is pleased to contribute to the ongoing development of competitive energy markets in Australia.

If you have any questions, please contact me on (07) 3028 5300.

Yours sincerely

A handwritten signature in blue ink that reads "Madonna Mead". The signature is written in a cursive, flowing style.

Madonna Mead
Regulatory Pricing and Policy Manager