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01 February 2008

Australian Energy Market Commission  
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### **Review of the Effectiveness of Competition in Electricity and Gas Retail Markets in Victoria – Second Draft Report, 19 December 2007**

AGL Energy Limited (AGL)<sup>1</sup> welcomes the opportunity to provide comments to the Australian Energy Market Commission (the Commission) on the 'Review of the Effectiveness of Competition in Electricity and Gas Retail Markets in Victoria – Second Draft Report (the report).

AGL is pleased that the Commission has confirmed its initial findings that the electricity and gas markets in Victoria are effectively competitive and that the regulation of standing offer retail prices should cease from 1 January 2009. AGL also supports that there be no extension of the existing reserve price powers available to the Essential Services Commission of Victoria (ESC) under the Electricity Industry Act 2000 (Vic) and the Gas Industry Act 2000 (Vic) beyond their current expiry date of 31 December 2008.

The remainder of the review is to evaluate and make final recommendations on transitional issues and the timetable for the phase out of retail price regulation. The following areas are considered by the Commission as requiring specific arrangements be put in place:

- Obligation to supply;
- Publication of prices;
- Price monitoring; and
- Customer awareness and education campaign.

As outlined in earlier submissions to this review, AGL notes that the Standing Committee of Officials of the Ministerial Council of Energy is currently consulting on the development of a national regulatory framework for retail. As such, any substantive changes to the Victorian regulatory framework should be undertaken as part of that process. The existing non-price customer protection framework for customers in Victoria should be maintained in the meantime.

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<sup>1</sup> AGL is one of Australia's leading integrated energy companies. Drawing on 170 years of experience, it includes retail and merchant energy businesses, power generation assets and an upstream gas portfolio. AGL has Australia's largest retail energy and dual fuel customer base. This includes customers supplied with gas and electricity through AGL's joint venture partnership with ActewAGL. AGL has a diverse power generation portfolio including base, peaking and intermediate generation plants, spread across traditional thermal generation as well as renewable sources including hydro, wind, landfill gas and biomass. One of Australia's largest renewable energy producers, AGL is looking to further expand this position by exploring a suite of low emission and renewable energy generation development opportunities.

AGL's comments with regards to the matters addressed by the Commission as requiring further considerations are outlined below.

### **Obligation to supply**

Existing connection - The obligation to offer to supply and sell energy to a residential customer at a premise where there is an existing connection currently rests with the 'host or incumbent' retailer. However, the concept of a 'host or incumbent' retailer is becoming less relevant as the market develops. AGL, therefore, concurs with the Commission's recommendation that the obligation is placed with the Financial Responsible Market Participant (FRMP). Placing the obligation on the FRMP is, in AGL's view, the most logical and simplest outcome for retailers, distributors and customers and is more reflective of the changing market environment where there are numerous retailers participating within a jurisdiction.

Deemed supply arrangements - AGL supports the recommendation for the continuation of the existing deemed supply arrangements whereby the existing retailer or FRMP has the obligation to supply energy to the premises for which it is financially responsible.

New connections - The Commission has proposed for further consideration, two options for the obligation to offer to supply and sell energy to new connection premises. Those options being a host retailer model and a distributor tender model. AGL does not see the allocation of this obligation as a major issue as retailers will generally connect customers that request a connection. However, in order to place the obligation with the most appropriate model, we are of the view that the most suitable place for this obligation rests with the existing host retailers. As noted above, the concept of the host retailer is becoming redundant, as such AGL recommends that the obligation is attached to the host retailer for a transition period only. A review can then be undertaken towards the end of the transition period to determine if a host retailer model is still appropriate or if there actually remains a need for the obligation.

### **Publication of prices / guideline for format of publication of retailers own standing offer prices**

AGL supports the recommendation for all retailers, new as well as host, to determine and publish standing offer prices on their websites. It is important that standing offer prices should be readily comparable amongst retailers to facilitate an appropriate level of transparency and enable customers to compare the standing offers of retailers.

However, we do not believe it necessary to publish the standing offer information in local newspapers given the ability for customers to access this information on the Internet. Customers are also able to request standing offer information directly from retailers. The additional requirement to publish in local newspapers is, in AGL's view, an unnecessary cost given that the information when published is not likely to be of great use at that time to many customers and may change several times as retailers' review their standing offers. The additional costs and administrative burden on retailers to publish standing offer tariffs in newspapers far outweigh any potential benefits to customers.

The Commission has also recommended that the ESC develop a guideline setting out the requirements regarding the format of the publication of retailers' own standing offer prices. AGL notes that Price Disclosure Guidelines established by the ESC already exist<sup>2</sup>, as such the development of a new guideline would incur unnecessary costs and result in avoidable duplication. The existing guideline may be modified to include the publication of 'default' prices. AGL would, however, support the development of a new 'national' guideline (if still considered a requirement) following the transfer of retail regulation to a national framework following the transition to a national regulatory framework for retail regulation. Many retailers

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<sup>2</sup> Essential Services Commission, 'Guideline No. 19 Energy Product Disclosure'.

operate on a national basis, therefore, a single national guideline developed at a national level by the Commission (AEMC) would ensure consistency on a national level.

### **Price monitoring**

The Commission has recommended that a price monitoring regime for standing offer prices is introduced and that it is implemented for at least 3 years following the removal of retail price regulation, and that the Victorian Government 'may consider' to extend that period if necessary. AGL does not see the need for further price monitoring to be introduced given that many regulators already monitor and report on prices. The ESC currently produces an 'Energy retail businesses comparative performance report' which includes a review of retailers' prices.

Following the establishment of a national framework for retail regulation, monitoring of any description (if deemed necessary) should be a function of the Australian Energy Regulator (AER), and that jurisdictional monitoring and reporting should cease.

AGL is concerned that if a price monitoring regime is introduced without careful consideration given to the establishment of clear monitoring principles and guidelines it may inadvertently result in a defacto price review, such as a detailed cost build up exercise. As outlined by the Commission, retail price regulation imposes administrative and compliance costs on Government, and hence tax payers and consumers, and market participants<sup>3</sup>. AGL considers that an invasive price monitoring regime is simply another guise for retail price regulation.

### **Customer awareness and education campaign**

AGL supports the Commission in its view that there is a substantial regulatory framework currently in place with regards to information disclosure, misleading and deceptive conduct and that there is not a need to expand legislation. A consumer awareness and education campaign would not only make customers aware of the changes to retail price regulation but would provide some direction and guidance to those customers who are not currently aware of their rights and responsibilities.

AGL looks forward to contributing further to the Commission's review. For any enquiries in relation to this submission please contact Carol Lydford, Manager Regulatory Development on (02) 9921 2511 or [carol.lydford@agl.com.au](mailto:carol.lydford@agl.com.au).

Yours sincerely,

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General Manager, Energy Regulation

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<sup>3</sup> Australian Energy Market Commission, 'Review of the Effectiveness of Competition in Electricity and Gas Retail Markets in Victoria, Second Draft Report' pg. 6

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