



EnergyAustralia

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Dear Commissioners

Review of Competition in the Retail Electricity and Natural Gas Markets in New South Wales – Draft Report

EnergyAustralia welcomes the opportunity to make a submission to the Australian Energy Market Commission's (AEMC) Draft Report for its review of retail competition in the New South Wales electricity and natural gas small customer market.

EnergyAustralia is one of Australia's largest energy companies, providing gas and electricity to over 2.7 million household and business customers. EnergyAustralia owns and operates a multi-billion dollar portfolio of energy generation and storage facilities across Australia including coal, gas and wind assets with control of around 5500 MW of generation in the National Electricity Market.

Since March 2011, we have been the Standard Retailer in the eastern half of the Sydney metropolitan area and in the Hunter and Central Coast regions for electricity and have been retailing market contracts to NSW electricity and gas customers from the introduction of the contestable market in NSW. To support and underwrite this retail customer base we've built generation in NSW (the 435 MW gas fired Tallawarra power station) and bought the trading rights to the Mt Piper and Wallerawang power stations under the Delta West Gentrader bundle.

While energy market reform in Australia has progressed at varying paces over the last decade, encouragingly, there appears to be some momentum at the current time. Recent positive developments include the deregulation of prices in South Australia in February, the announcement that price regulation in south east Queensland would be removed in 2015 and the commencement of the National Energy Customer Framework in NSW on 1 July 2013.

While the task of energy market reform is far from complete, the findings and recommendations of the AEMC's draft report builds on the momentum in this current reform purple patch. EnergyAustralia has long held the view that price regulation in NSW was a net cost to customers, governments and industry and should be removed as soon as possible. We therefore support the Commission's findings that competition in the small customer electricity and gas markets is effective across the state and its consequent recommendation that price regulation for all customers and both fuels should be removed.

We believe the experiences in Victoria and South Australia demonstrate the benefits of price deregulation. In Victoria, where prices have been deregulated since 2009, consumers have a greater choice of providers and tariffs, enabling them to select products and services that suit their

consumption patterns and preferences. Similarly, while price deregulation in South Australia is recent, the initial market response in terms of new competitive offers after the announcement provides encouraging signs. Further, the South Australian experience demonstrated that it is possible to successfully undertake this reform relatively swiftly and that a combination of communication channels – government announcements, networks of social welfare organisations, general media and retailer marketing – can be effective at communicating the decision and its implications to the public. In our view, a similar approach in NSW would be effective.

We support the Commission's investigation into questions of consumer engagement and look forward to continuing working with the Commission and other stakeholders, including community groups and, most importantly, our customers, on this important issue. We note that the scope of the consumer engagement work means it is broader than just the NSW market and the question of the price deregulation reform. To that end, we suggest that the work streams be separated.

In the attachment we comment on a number of specific aspects of the draft report. This builds on our earlier submission to the Issues Paper, participation in retailer interviews, the provision of data to the AEMC to support the review and participation in forums.

We look forward to working with the AEMC for the remainder of the review. If you would like more information, please do not hesitate to contact me on 03 8628 1359 or temay.rigzin@energyaustralia.com.au

Regards,

Signed for email

Temay Rigzin
Policy and Advocacy Manager

Assessment of competition

We are comfortable with the Commission's assessment framework and market definition, including treating gas as part of a dual fuel market, that there are no sub markets within NSW and that small business and residential are in the same market.

As outlined in our submission to the Issues Paper, we consider the NSW market to be competitive as evidenced, among other factors, by switching rates, new entrants, fierce discounting and other deals, development of new products and investments to improve customer service.

Costs and risks of regulation

We agree with the Commission that where competition is providing customers with a choice of energy products and efficient prices – as it is in NSW – prices are more likely to inhibit competition than promote it. This is evidenced by the superior tariff innovation in Victoria, greater marketing effort and number of participants. Regarding greater levels of tariff innovation in Victoria, as discussed in analysis by the St Vincent De Paul Society, this provides customers with more choice to find the right product for them given their consumption patterns and preferences. The fact that Victoria is a springboard for new entrants in other markets demonstrates that market participants have confidence in a deregulated market, which increases benefits for consumers.

We agree with the AEMC's observation that where competition is effective, removing price caps does not create increased risk of rising prices. In contestable markets where there is no price regulation – as occurs in almost all markets for goods and services in Australia – prices are disciplined by the competitive market, subject to underlying cost pressures (both supply chain and policy). Conversely, regulation cannot protect against rising costs. This has been demonstrated over recent years in NSW where regulated prices have risen significantly due to rising costs – primarily network and policy related. Regulated prices will rise sharply in Queensland in the coming year for similar reasons.

Further, price regulation itself increases costs and risk. Compliance with price regulation requires business resources. These are resources that add to costs that could otherwise be used to benefit customers, such as improving customer service or developing new products. It also prevents more innovative products being developed that can help take pressure off peak demand over time.¹

Options for removing price caps and pathways

Given our view that competition is effective and that regulation is a cost to consumers and industry, we support removal of price regulation for both fuels and all customers at the same time as soon as possible.

Should this reform occur, we support an information campaign to notify customers of this change and what it means for them. This should involve community groups, retailers and government. While work is required to finetune the message, the recent experience in South Australia demonstrates how a combination of channels and networks can communicate the deregulation decision and its implications. This involved significant media coverage of both the South Australian Government's decision and the market's response in terms of aggressive marketing of discounts and other deals for consumers, and was complemented by the use of the South Australia Energy Partners Program network to provide more targeted information to certain frontline groups requiring more information).

¹ It is an interesting thought experiment to consider the value of network and generation investments that hypothetically could have been avoided over recent years (and hence the impact on lower prices) if deregulated, innovative pricing structures and technologies had been in place in NSW, say, 10 years ago.

Regarding the various options for removing price caps set out by the AEMC, we agree that Option 1 – removal of regulation for all groups at the same time – is the cleanest and most effective approach, removing risk of distortions across different regions and customer groups. It would make customer communications more straightforward and save resources as they would only be required once.

Option 2 involves reducing the energy threshold for regulation. We concur with the problems listed around identifying eligibility and equity as it may result in the same type of customer being treated differently, or alternatively, the same customer being treated differently in different time periods if their usage changes. This increases the risk of poor consumer outcomes and threatens the benefits of deregulation.

Option 3 – which involves removing regulation by customer class – would align with existing retailer tariff systems and is preferable than Option 2. However, as competition has been assessed as effective across both residential and business customers and it would retain the costs and risks of regulation, we do not consider this approach to be in the best interests of either customer class.

Option 4, which involves partial/relative price regulation for a sub group, runs the risk of denying the benefits of competition to a sub group of customers. This could have a perverse effect given the designated sub-group would presumably be a category of consumers identified as experiencing some degree of hardship or disadvantage. These groups can, in fact, be some of the groups most capable of benefiting from price deregulation. Regulation of a sub group of people would also be difficult under the current IPART approach.

Option 5 is the opt-in model. As we noted in our recent submission to the Independent Pricing and Regulatory Tribunal on this matter, while potentially complex, we are supportive of exploring the opt-in model further as a possible pathway to reducing reliance on regulated prices in moving to full price deregulation. However, given the competitive state of the market, we consider the time is right for implementing price deregulation and that an interim step is not required.

Market monitoring and re-regulation

Should deregulation occur, we support the use of market monitoring to inform the government whether there is a need to further investigate the effectiveness of competition. We note that there is already a range of market monitoring processes, including by the Australian Energy Regulator in its annual State of the Energy Market report, and the AEMC's annual retail prices report. Further, new monitoring responsibilities will come into force under National Energy retail Law. Should new requirements be introduced, it would make sense to ensure they complement existing processes.

Regarding price re-regulation, we note that the NSW Government will retain legislative power to do this. Given this, we do not support specific re-regulation triggers being built into the system as this could lead to a 'knee jerk' reversal of a reform that has taken many years for government, the community and the industry to implement. It seems reasonable that, at a minimum, should there be concerns in the future about the level of competition, a review be required to be conducted into the state of competition after a minimum period of time after deregulation has passed before reintroducing price regulation. Further, this review should consider what alternative measures are available to improve competition before consideration is given to reintroducing price regulation.

Non price regulations and hardship customers

We agree with the Commission's finding that the removal of price regulation does not impact important activities such as disconnection of hardship customers and other customer protection matters. Price regulation is but one of many pieces of regulation that apply to retailers in NSW under the previous state based energy laws and regulations and now the National Energy Customer

Framework. These broader pieces of regulation governing retailer conduct and obligations would be unchanged by the removal of price regulation. EnergyAustralia supports this approach.

More generally, EnergyAustralia has a hardship policy in place to support customers having difficulties with paying their bills. Activities undertaken under this include: each customer has a dedicated account manager; advice and practical steps to help customers manage their usage and implement energy efficiency steps, tailored payment arrangements; regular reviews; partnering with community welfare organisations; working with financial counsellors; and referrals to government initiatives such as the Home Energy Saver Program in NSW and the Federal Home Energy Saver Scheme. These activities are unaffected by any decision to remove price regulation.

In addition, EnergyAustralia supports the assistance provided by the NSW Government's Low Income Energy Rebate and other concessions, which ease the burden for vulnerable customers.

Customer engagement

We look forward to working with the AEMC to develop the customer engagement blueprint, including assisting with the development of appropriate messages, audiences, and communication channels. We consider that retailers play a vital role in communicating with customers, both through our direct written and verbal contact with our customers, and our more general marketing activities. Further, in light of the concerns identified by the Commission regarding some customers' desire to seek impartial information, it would seem that regulator online price comparator sites such as the AER's are a key part of helping customers get the best out of the market. EnergyAustralia supports the ongoing development of the AER's *Energy Made Easy* web comparator to provide customers with an impartial view of energy prices.

We also consider that there will be customers or categories of customers that will need additional assistance. We support targeted government information programs for these groups. Leveraging the existing networks of financial counsellors and consumer and community groups would seem an effective strategy.

More generally, we support the provision of information and engagement programs to enhance customer understanding of the benefits of increased choice of energy products. With electricity prices having increased dramatically over the last five or more years, customer awareness of, and dissatisfaction with, the electricity industry has risen to a high level. Retailers are being held more accountable for competitive market outcomes by customers, governments and regulators than ever before. This means that retailers have a much bigger opportunity to succeed or fail based on their sales and service performance alone. The steps that EnergyAustralia already takes in making our offers and communications accessible, easily understandable and suitable for customers are:

- The percentage discount level on all our market offers does not change until the agreed benefit term is nearing expiry and without communication in writing in advance from us (unless the customer has actively agreed to move to a different offer earlier in their benefit term - i.e. gives us explicit informed consent).
- If we need to change the customer's offer (e.g. if a change of meter or network tariff is made by the distributor), then we notify the customer in writing and clearly outline their options before altering their offer.
- We publish our generally available offers on our website and these are accessible to customers without the customer needing to enter any personal details. We also comply with all regulatory requirements to publish our offers on *Energy Made Easy*.
- We have ceased selling via the door-knocking channel, as this was unpopular with customers and led to low customer satisfaction.

- We've taken steps to amend our terms and conditions to ensure they are in easy to read and understand terms and avoid legal sounding language as much as possible. These improvements are ongoing.
- Last year we established a corporate 'tone of voice' for all customer communications via phone, email, letter and text message. This change requires us to use simple, active and direct language in all interactions with customers.
- We are continuing to improve the quality of content on our website to make it more user friendly and relevant for customers. As part of this, we have improved our online quoting tool so that it uses accurate usage data for customers and confirms their exact meter type before providing a price comparison.
- Continue to improve training for our call centre staff to ensure they are able to provide a comprehensive customer service experience.

EnergyAustralia aims to satisfy customers' informational needs. We regularly review and refine our communication approach to ensure we are meeting customer needs. In doing so, we take on the feedback provided by customers, regulators, market bodies, consumer groups and government on the quality and suitability of market information.