



8 February 2013

Australian Energy Market Commission
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Review of Competition in the Retail Electricity and Natural Gas Markets in New South Wales

Alinta Energy Retail Sales Pty Ltd (Alinta Energy) welcomes the opportunity to comment on the Australian Energy Market Commission (Commission) issues paper on the *Review of Competition in the Retail Electricity and Natural Gas Markets in New South Wales* (Issues 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 700,000 retail customers, including around 90,000 customers in Victoria and South Australia. As an incumbent retailer in Western Australia and a new entrant retailer in the National Energy Market, Alinta Energy is well placed to comment on this review.

We note the review is being conducted in accordance with the framework set out in the Australian Energy Market Agreement which represents a commitment to the ongoing reform process of energy markets. The review is to assess competition in the retail markets with the view to determining whether there is a need to retain or whether price regulation for both electricity and gas may be removed. At the outset we would state our preference to see the removal of price regulation in NSW.

Alinta Energy is an active participant in the NSW energy market at a Commercial & Industrial (C&I) customer level. Alinta Energy is yet to enter the NSW energy market at the mass market (small consumer) level as the current regulated retail price for both gas and electricity is not, in our view, set at levels that allow for the recovery of the efficient costs of operating in the market.

Price regulation, particularly where the regulated price is not reflective of the efficient costs of operating in a market, creates barriers to market entry and uncertainty for long term investment in both retail and generation. Price regulation stifles retailer product innovation as there is a greater exposure to financial risk and the risk of regulatory (and political) intervention through the price review and price setting process. This uncertainty undermines retailer confidence in investing in the development of innovative product offerings where the return on investment is a longer term proposition.

It is with this in mind that Alinta Energy supports a move to price deregulation in NSW as it will further encourage competition, provide a greater level of certainty that will facilitate new market entrants, encourage long term investment (in both retail and generation) and lessen the financial risk faced by retailers which will result in greater levels of product innovation that will ultimately benefit consumers.

It would be appropriate that the pathway to the removal of price regulation be a gradual one where segmentation based on consumption may be an appropriate. For example customers with a consumption threshold of 100MWh down to 40MWh have price regulation removed as a first stage, with all remaining customer to follow. A similar threshold could be determined for a phased approach for gas.

Key to any phased or gradual approach to the removal of price regulation is a defined timeline that must be adhered to, as to do otherwise would create market uncertainty. Ideally the removal of price regulation in NSW (for all customers) should be scheduled to coincide with the introduction of the National Energy Consumer Framework.

State of the New South Wales Market

Competitive tension amongst active retailers in the NSW market has increased which is evident by the increased level of direct and indirect marketing activity carried out by NSW retailers. Retailers are seeking to both retain existing customers whilst also win new customers. Additionally the increase in customer switching/transfer rates is a clear indication of competitive tension in the NSW market. January 2013 Monthly Transfer Statistics from the Australian Energy Market Operator (AEMO) show the one month annualised transfer rate for NSW sits at around 20%.

VaasaETT the Global Energy Think Tank, conduct World Energy Retail Market Ranking studies, a key aspect of their studies is in determining the level of competition in a given energy market. For a number of years the Australian Victorian energy market has been identified as the most competitive market in the world. The January 2013 AEMO Monthly Transfer Statistics for Victoria are 28%, based on a one month annualised transfer rate.

Customer transfer rates are a key indicator used by VaasaETT in determining competition levels, where any level of customer churn above 16% is considered to be a "Hot Market" for competition. As the NSW customer churn rate currently sits at around 20% customer churn (based on the January 2013 AEMO one month annualised transfer rate) it can be deduced that the NSW market is operating under a high level of competitiveness.

In terms of customer switching behaviour for gas, whilst the level of switching in gas is less than that for electricity, AEMO gas Monthly Transfer Statistics for NSW December 2012 sit at around 14%, which in line with the VaasaETT ranking system for consumer churn would consider the NSW gas market to be a "Warm Active Market" on the cusp of moving to a "Hot Active Market", which indicates that competition in the NSW gas market is occurring at a significant level.



When reviewing the level of competition in the NSW gas market consideration must be given to both the discretionary nature of the take up of gas by consumers in conjunction with the available distribution or access to gas. Unlike electricity where it is generally available to all consumers, the gas distribution network does not extend to cover all consumers. This is not an issue of urban vs. rural as there are significant pockets of urban areas that the gas distribution system does not encompass.

However retailers see the value in, where possible, providing both electricity and gas services to consumers and will continue to offer gas as part of their dual fuel marketing and customer acquisition activities.

In summary Alinta Energy holds the view that competition is effective in NSW for both the electricity and gas retail markets. The barriers to market entry, further development of the market and product innovation are driven by the uncertainty that occurs as a consequence of price regulation.

Whilst competition in NSW has developed under a market structure where price regulation exists, the removal of price regulation will serve to enhance competition further providing greater benefits for the market and consumers.

Alinta Energy would welcome the opportunity to further discuss the details of our submission. Should you have any questions I may be contacted on (02) 9372 2653 or via email: shaun.ruddy@alintaenergy.com.au

Yours sincerely

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