



11 April 2008

Australian Energy Market Commission
PO BOX A2449
Sydney South
NSW 1235

cc: submissions@aemc.gov.au

Review of the Effectiveness of Competition in Electricity and Gas Retail Markets in South Australia – Issues Paper

The Energy Supply Association of Australia (esaa) welcomes the opportunity to comment on the Australian Energy Market Commission's (AEMC) Issues Paper on the review of the effectiveness of competition in electricity and gas retail markets in South Australia for small customers who consume less than 160MWh of electricity or 1TJ of gas each year.

esaa is the peak industry body for the stationary energy sector in Australia and represents the policy positions of the Chief Executives of over 40 electricity and downstream natural gas businesses. These businesses own and operate some \$110 billion in assets, employ over 40,000 people and contribute \$14.5 billion dollars directly to the nation's Gross Domestic Product.

esaa fully supports the AEMC review process for assessing the effectiveness of competition in Australian energy retail markets and endorses the scope of issues identified for the South Australian review as consistent with the criteria developed by the Ministerial Council on Energy (MCE), specifically:

- independent rivalry within the market;
- the ability of suppliers to enter the market;
- the exercise of market choice by customers;
- differentiated products and services;
- price and profit margins; and
- customer switching behaviour.

esaa notes that the AEMC also seek views from stakeholders on whether all classes of customers have equal access to the benefits of full retail competition via competitive market offers. esaa intends to offer further detailed analysis on these issues following the release of the First Draft Report in June 2008 but provides the following comments for the AEMC's consideration.

esaa made a number of submissions to the initial MCE consultation in 2006 arguing that, of the criteria developed to assess the effectiveness of competition, greatest weight should be given to the ability of suppliers to enter the market. As long as the credible threat of new entry exists through low barriers to market entry, incumbent retailers will maintain their price and service offerings at cost reflective, competitive levels or risk losing market share to new entrants. In such a situation, actual entry does not need to be observed as the implied threat will act to discipline participant behaviour. As such, competitive pricing can be observed in markets with limited participants. This observation has particular relevance to the South Australian retail energy market where, as noted in the Discussion Paper, relatively large shares of the competitive electricity and gas markets are held by individual electricity and gas retailers.

As the Discussion Paper highlights, the reports produced by NERA Economic Consulting as part of the Essential Services Commission of South Australia's (ESCOSA) review of the effectiveness of energy retail market competition in June 2007, indicate that 'competition in both electricity and gas retail for small customers is generally effective for most customers'¹.

Since the introduction of Full Retail Contestability (FRC) in January 2003, new entrant retailers have managed to capture a 36 percent share of all electricity retail customers and a 25 percent share of all small business customers. For gas retail markets, capacity constraints on lateral pipelines that connect to the Moomba to Adelaide Pipeline System (MAPS) and within Envestra's distribution network have had some impact on new entrant gas retailers. However, new entrants have still managed to capture around 9-12 percent of residential market share and around 7 percent of the small business market². NERA considers the expiry of a number of carriage contracts on the MAPS and planned investment on Envestra's network should result in increased levels of new entry in the future. Therefore, there is little evidence to suggest that there are material barriers to entry in the South Australian market that may be impacting on competitive market outcomes.

NERA also indicates that customer service measures have improved since the implementation of FRC with the number of complaints against electricity and gas suppliers having decreased. In addition, low-income customers seem to be benefiting from increased retail competition with NERA indicating such customers appear to be taking advantage of market offers and are just as likely as other market participants to have switched to a market contract.

In summary, esaa supports the scope of the South Australian review as outlined in the AEMC Discussion Paper and considers that while the South Australia energy retail market is characterised by a concentrated market structure there is evidence that new entry is occurring and that consumers appear to be benefiting from increased competition.

¹ NERA Economic Consulting (June 2007) Review of the Effectiveness of Energy Retail Competition in South Australia – Phase 2 Report for ESCOSA. Pg i

² NERA Economic Consulting (June 2007) Review of the Effectiveness of Energy Retail Competition in South Australia – Phase 3 Report for ESCOSA. Pg 2

Yours sincerely

A handwritten signature in black ink, appearing to read 'Brad Page', with a stylized, cursive script.

Brad Page
Chief Executive Officer