

26 June 2013

John Pierce
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Dear Mr Pierce,

REVIEW OF COMPETITION IN THE RETAIL ELECTRICITY AND NATURAL GAS MARKETS IN NEW SOUTH WALES - DRAFT REPORT

We welcome the opportunity to comment on the Australian Energy Market Commission's (AEMC) Draft Report on the effectiveness of competition in retail markets for small electricity and gas customers in New South Wales.

Competition in the NSW electricity and gas retail markets has improved

We support the AEMC's draft findings on the effectiveness of competition in the NSW retail electricity and gas markets.

As you know IPART has recently released its final decisions on regulated electricity and gas retail prices from 1 July 2013. As part of these reviews we assessed the effectiveness of competition in the NSW retail electricity and gas markets. We found that competition in the NSW retail electricity and gas markets has continued to improve. In particular:

- ▼ The Standard Retailers have continued to lose market share within their supply areas.
- ▼ Small retail customers have continued to move off regulated prices, and around 60% and 70% of electricity and gas customers are now on market-based prices. They are also switching between retailers at a higher rate than ever before.
- ▼ Most customers who participate in the competitive market are experiencing positive outcomes.

We also found no evidence of impediments to the further development of competition over the 2013-16 period.

Competition is now effective enough to provide sufficient protection to customers

We have formed the view that competition in the NSW retail electricity and gas markets now protects customers against market power by offering more choices and better price and service outcomes. We consider an effectively functioning competitive market offers customers the best protection from higher than efficient prices. It can also deliver better customer outcomes in the long term, including better 'value for money' service through

reduced costs and/or innovation. In short, competition is a superior way of driving these improvements compared to regulation.

Electricity and gas retail price regulation is no longer necessary in NSW

We support the AEMC's draft advice that competition is sufficient to enable all customers to benefit from the removal of price caps.¹

We consider that electricity and gas retail price regulation is no longer necessary in NSW given that the retail electricity and gas markets now protect customers against market power by offering more choices and better price and service outcomes.

We consider that the removal of retail price regulation is likely to:

- ▼ improve customer engagement in the market by removing the confusion in relation to the difference between regulated and market prices²
- ▼ remove the risk that price regulation distorts the competitive market, particularly given the dynamic nature of energy markets. This will encourage retailers into the market and thereby deliver better customer outcomes in the long term, including better 'value for money' service through reduced costs and/or innovation.

Retail price regulation cannot protect customers from price increases driven by regulatory, policy and market factors, nor can it protect vulnerable households that may be experiencing affordability problems. Rather it is important to ensure that any specific groups of customers that cannot readily access the competitive market, or require financial assistance are specifically considered and targeted responses are developed.

We have recommended the NSW Government review:

- ▼ the relevant regulations and arrangements for residents of residential parks to reflect developments in the competitive market since the provisions were made in the Electricity Supply Act
- ▼ affordability measures to ensure that the existing budgets target the most vulnerable customers in a comprehensive, complementary and cost effective manner.

¹ AEMC, *Review of Competition in the Retail Electricity and Natural Gas Markets in New South Wales – Draft Report*, May 2013, p ii.

² The AEMC's survey found that few participants knew if they were on a regulated or market price, suggesting there is a lack of understanding about the difference between regulated and market prices, which potentially influences effective customer engagement in the market. Roy Morgan Research, *Survey of Residential Customers of Electricity and Gas in NSW: Effectiveness of Retail Competition*, February 2013, p 53.

Transitioning to these new arrangements

The removal of price regulation is a matter for the NSW Government. There are likely to be a range of matters that need to be considered in removing retail price regulation, including the transition to these new arrangements.

We support the AEMC's continuing consideration of the transitional arrangements and improvements to customer engagement, including market monitoring and information disclosure.

We also support retailers taking action to improve engagement with customers, for example by making their offers more accessible and easier to understand and compare - and encouraging customers to actively engage in the competitive market through education campaigns. This should help facilitate the transition to the new arrangements.

Please contact Anna Brakey on 9290 8438 or Alexis van der Weyden on 9290 8460 if you have any queries in relation to the submission.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Peter J. Boxall'.

Peter J. Boxall, AO
Chairman