

5 July 2013

Australian Energy Markets Commission
PO Box A2449
Sydney South NSW 1235

Reference: RPR0001

Dear Commissioners

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

Simply Energy welcomes the opportunity to comment on the Draft Report of the above review released by the Australian Energy Markets Commission (AEMC). We strongly support the findings of the draft report showing that the level of competition is effective in both the electricity and gas markets. Simply Energy believes the findings of the draft report clearly justify the removal of price regulation which in turn will allow competition in the New South Wales market to develop even further.

As a recent entrant into the New South Wales market, Simply Energy has firsthand experience of its highly competitive nature and we maintain our view that consumers in the NSW market are ready for the removal of retail price regulation.

Simply Energy supports the overall approach to removing price regulation

Simply Energy supports the overall approach the AEMC has recommended for removing price regulation. We agree that price caps be removed for electricity and gas for all customers at the same time in all areas of New South Wales.

Ongoing market monitoring

Simply Energy supports ongoing market monitoring using price and non-price indicators to assess the continuing state of competition. Ongoing market monitoring will require the support of retailers through the submission of data and we are willing to support this process.

However, we recommend two refinements to the AEMC's draft recommendations. First, the AEMC needs to set some guidance around the information that would be needed for market monitoring to prevent overly bureaucratic data collection requirements. Simply Energy provides significant amounts of non-price information under the key performance indicator requirements of the National Energy Consumer Framework (NECF) and remaining state-based frameworks. We also provide significant amounts of price information to various price comparator websites. The provision of this information already imposes significant resource requirements upon us and we would not like to see the creation of yet another set of indicators that we have to report against. We would prefer that the AEMC recommend that the information we have already supplied be used in the first instance by the monitoring agency.

Second, the AEMC needs to consider placing a time limit on how long market monitoring continues. The current recommendation is open ended and does not contain any triggers for deciding that ongoing monitoring is no longer required. We expect the market to remain competitive for the foreseeable future and thus data provision to enable market monitoring risks becoming 'red tape' rather than a useful monitoring tool if there is no end date. We suggest the AEMC consider 2 or 3 yearly monitoring regimes at the end of which the continuing need for market monitoring is reassessed.

Customer information

Simply Energy supports the AEMC's comments on providing information that helps consumers understand their choices but suggests that the NECF which commenced in NSW on 1 July 2013 sets out more sweeping information requirements on retailers than the former NSW regulations provided for. This needs to be recognised in assessing the need for additional information requirements.

Developments in the Victorian market

Simply Energy understands that the AEMC has been made aware of the report by SKM commissioned by the Essential Services Commission of Victoria (ESCV). The Energy Retailers' Association of Australia (ERAA) has responded to this report and Simply Energy fully supports the response made by the ERAA.

We would like to highlight key flaws in the report which was done without consultation with retailers:

- SKM does not use actual cost data and instead attempts to back calculate margins using a variety of questionable assumptions that SKM is not wholly transparent on. SKM states that they did not have access to retailers' costs or business practices and therefore the analysis carried out was based on a generic cost build-up and did not necessarily accurately portray actual retail costs.¹
- SKM ignores or overlooks a range of costs that retailers incur such as IT costs, licence fees, credit support requirements, working capital costs and the carrying cost of hardship customers.
- The identified trend in margins that SKM derives is at best erratic, which is what should be expected in a highly competitive market.

Simply Energy does not believe the SKM report is robust and is therefore unreliable and should be treated accordingly. Further we note the ESCV's own Research Paper that accompanied the SKM report confirms the highly competitive state of the Victorian market with the Research Paper finding that:

- Second tier retailers have grown their market share from 0% to 29% of the market within 9 years
- Concentration has almost halved as second tiers have grown their market share
- The retail churn rate remains high²

If you wish to discuss this submission with me, please contact me on (03) 8807 1132.

Yours sincerely

Dianne Shields
Senior Regulatory Manager

¹ SKM MMA 2013 Analysis of Electricity Retail Prices and Retail Margins 2006-2012, Report for the Essential Services Commission, p. iv

² Note that the churn rate estimated by the ESCV (17%) underestimates churn because it excludes churn associated with CATS Procedure Change Reason Code (CRC) 1030. A proportion of these CRCs will include the situation where a customer takes the opportunity of moving property to shop around for a new retailer.