



Energy Retailers Association
of Australia Limited

24 Dec 2010

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

By email: aemc@aemc.gov.au

Reference: EPR0017

Dear Mr Pierce

RE: Review of the effectiveness of competition in the electricity retail market in the ACT – Stage 2 Draft Report

The Energy Retailers Association of Australia (ERAA) welcomes the opportunity to comment on the Australian Energy Market Commission's (AEMC) stage 2 draft report (the Report) on the review of the effectiveness of competition in the Australian Capital Territory's (ACT) electricity market.

The ERAA is the peak body representing the core of Australia's energy retail organisations. Membership is comprised of businesses operating in the electricity and gas markets throughout the National Electricity Market (NEM), as well as the Northern Territory and Western Australia. These businesses collectively provide electricity to over 98% of customers in the NEM and are the first point of contact for end-use customers of both electricity and gas.

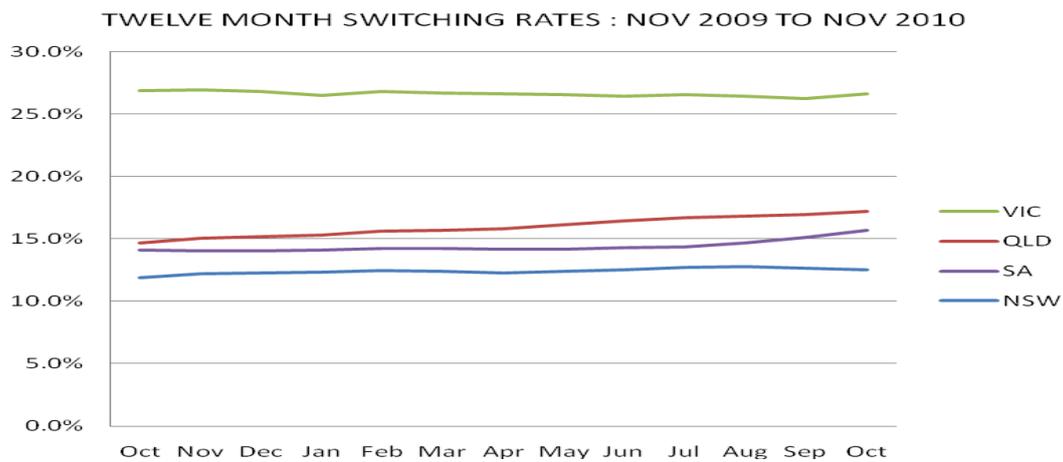
The ERAA supports the AEMC's draft advice given to the ACT Government to promote efficient competition in the ACT. The ERAA sees it vital that the ACT Government seek to implement the recommendations effectively and to keep to the suggested timeframes.

In the ERAA's opinion, regulated energy retail prices are the single most influencing factor in preventing effective competition developing in retail energy markets. As the AEMC notes in the Report, the regulated retail price does not offer second tiers a sufficient reward to justify the risks and uncertainties of entering the market. The fact that the regulated price is based on the incumbent's efficient costs and not those of a second-tier who faces an additional customer acquisition cost and market risks has unequivocally limited competition in the ACT.

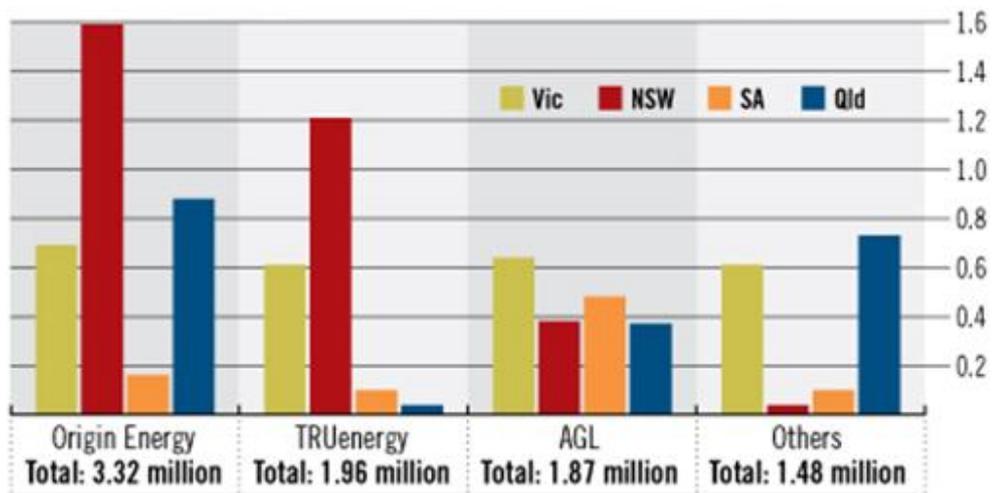
On 1 January 2009, the Victorian Government followed the advice of the AEMC to deregulate retail energy prices. Victorian customers now enjoy the full range of benefits resulting from strong and effective competition. This includes more diverse and innovative energy products and

consumers can save on their power bills by shopping around.¹ Clear evidence of strong and effective competition in Victoria can be seen by:

- Victoria’s retail energy market is the most active in the world.² Switching rates are now consistently greater than 25%; substantially greater than the other markets in the NEM which have not yet deregulated retail energy prices.³



- Victoria’s market is the least concentrated market in Australia: second-tiers have been able to secure approximately one quarter of the market share.⁴



¹ Essential Services Commission 2009, Energy Retailers – Comparative Performance Report 2008-09, Summary of Findings, December 2009.

² VaasaETT 2010, World Energy Retail Market Ranking Report – 5th Edition, VaasaETT Global Energy Think-Tank, December 2010.

³ AEMO Small Monthly Transfers Data Nov 2009 – Nov 2010.

⁴ Murray. L. and J. Range, 16 Dec 2010, *Price row rages over \$5.3bn power sell-off*, Australian Financial Review.



The ERAA believes this is strong evidence that deregulating prices in Victoria has improved the competitiveness of the market compared to the case of remaining with a regulated pricing regime.

In the future, Government policies, the changing nature of the National Electricity Market (NEM) and the push towards network tariff structures that better reflect both capacity and energy costs will make setting cost reflective energy retail prices more difficult and complex. If prices are set too low (or otherwise are inefficient in their reflection of retailer costs) retailers will cease to be active in the market; if prices set too high, consumers remaining on non-market contracts will be paying too much for electricity. The best way to manage these risks and uncertainties while protecting consumers is to remove retail price regulation.

Should you wish to discuss the details of this submission further, please contact me on (02) 9241 6556 and I can facilitate such discussions with ERAA member companies.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Cameron O'Reilly'. The signature is fluid and cursive, with a large loop at the end.

Cameron O'Reilly
Executive Director
Energy Retailers Association of Australia