



Energy Retailers Association
of Australia Limited

19 April 2010

Dr John Tamblyn, Chairman
Australian Energy Market Commission
PO Box A2449
Sydney South
NSW 1235

Project # EPR0017

Dear Dr Tamblyn

RE: Review of the effectiveness of competition in the electricity market in the ACT

The Energy Retailers Association of Australia (ERAA) welcomes the opportunity to comment on the Australian Energy Market Commission's issues paper on the review of the effectiveness of competition in the electricity market in the Australian Capital Territory (ACT).

The ERAA has long held the view that regulated electricity retail prices act as the single most influencing factor in preventing an effective level of competition in retail energy markets. Regulated retail prices are inefficient, suppress price and service competition, restrict product innovation and consumer choice, and prevent the full range of benefits that competition delivers from being enjoyed by customers in the ACT.

Since full retail competition (FRC) was introduced in the ACT in July 2003, the ACT has shown most signs of a competitive retail energy market. This led the Independent Competition and Regulatory Commission (ICRC) to conclude that "the ACT retail electricity market exhibits the characteristics of a competitive market and that the continuation of a regulated retail tariff is no longer required."¹ This recommendation was made based upon evidence of: increasing levels of customer churn, barriers to entry for retailers not evident, the range of service options available in the ACT market improving since commencement of FRC and discounts of up to 10% on the tariff for market contracts.

The ACT retail energy market still continues to show signs of effective competition. There are currently 19 registered electricity retailers and approximately 20% of small customers were on negotiated contracts at 30 June 2008.² Furthermore, the incumbent retailer, ActewAGL, is constantly kept in check by the threat of entry by retailers currently operating across the border in New South Wales (NSW) as well as other markets.

¹ ICRC April 2006, Final Report – Retail Prices for Non-contestable Electricity Customers, Page 6, Report 8 of 2006.

² ICRC June 2009, Final Decision – Retail Prices for Non-contestable Electricity Customers, Page 9, Report 3 of 2009.

In effect, small electricity customers in the ACT are undifferentiated from their counterparts in surrounding regions of NSW. However, the regulatory burden and cost of acquiring customers in the ACT must be spread over a smaller customer base. The regulated retail price set by the ICRC has been criticised by a number of retailers in recent years for not taking this into account; this may be acting as a barrier to entry for retailers looking to enter the ACT and therefore holding back competition.

In coming years, the electricity market will become more complex and volatile. This is due to the introduction and amendment of Government policies (e.g. enhanced Renewable Energy Target, Carbon Pollution Reduction Scheme (CPRS) and state-based feed-in-tariffs). The ability of the ICRC to set accurate electricity prices into the future will therefore be diminished. If prices are set too low, retailers will be forced to leave the market; if prices are set too high and competition has not developed because of price caps, consumers will pay too much for electricity. The best way to manage these risks and uncertainties while protecting consumers is to remove retail price regulation.

The ERAA believes that competition in the ACT is sufficiently effective to phase-out regulated retail prices. The single most limiting factor and the greatest risk for competition in the ACT is the regulated retail price. If an effective level of competition is found, then it is imperative that regulated electricity prices in the ACT are phased out in favour of a regime of price monitoring similar to that which exists in Victoria.

Should you require any further information in relation to this matter please feel free to contact me on (02) 9241 6556.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Cameron O'Reilly', written in a cursive style.

Cameron O'Reilly
Executive Director
Energy Retailers Association of Australia