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Mr John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Dear Mr Pierce

RE: FIRST DRAFT REPORT: REVIEW OF THE EFFECTIVENESS OF COMPETITION IN THE RETAIL MARKET IN THE ACT

TRUenergy welcomes the opportunity to provide the following comments to the Australian Energy Market Commission's First Draft Report – Review of Effectiveness of Competition in the Electricity Retail Market in the ACT.

TRUenergy broadly agrees with the Commission's findings outlined in the report that the market is not competitive. Given there are only two active retailers in the market and the large number of customers who reverted back to the regulated tariff in 2009 TRUenergy remains concerned about the level of competition in the ACT market.

TRUenergy believes there are a number of issues which need to be considered in light of the low level of competition in the ACT. These include:

- the Transitional Franchise Tariff (TFT);
- the market structure; and,
- the ACT solar feed in tariff policy

Transitional Franchise Tariff

TRUenergy considers that the TFT currently represents the largest barrier to entry into the ACT market for new retailers. While TRUenergy acknowledges that the Independent Competition and Regulatory Commission (ICRC) have in recent years made a number of determinations which have resulted in significant increases in the TFT, TRUenergy remains of the view that the ICRC's calculation of the Wholesale Electricity Component (WEC) of the TFT has nevertheless been insufficient to encourage new entrant retailers into the ACT market. TRUenergy considers the approach adopted by the Independent Pricing and Regulatory Tribunal (IPART) in its 'Review of Regulated Retail Tariffs and Charges for Electricity 2010-13' for the calculation of the energy purchase cost allowance better reflects the actual wholesale costs incurred by retailers.

Along with the calculation of the WEC TRUenergy does not believe that the TFT will ever be effective in encouraging new entrant retailers into the ACT if it continues to be based on ActewAGL's retail costs. TRUenergy would argue that the costs incurred by ActewAGL are likely to be lower than those incurred by a second tier retailer entering the market for the first time. TRUenergy would highlight that due to ActewAGL's economies of scale, the fact that the business has been established for a long time and the low level of churn in the ACT market. TRUenergy considers a methodology based on the costs incurred by a 'theoretical' new entrant retailer is likely to be more realistic.

Market Structure

The structure of the ACT market and the dominant position of ActewAGL are important factors when assessing the low level of competition in the ACT. To this end, TRUenergy would acknowledge that ActewAGL's historical role, and continuing community support has resulted in a strong level of brand loyalty which while not anti-competitive in itself, does provide incumbent advantage.

The more concerning aspect relating to ActewAGL is its ability to bundle water in addition to electricity and gas. TRUenergy recognises that in other markets retailers bundle gas and electricity with other services, however the issue in the ACT is that the discounts ActewAGL offer are substantially more than those of its competitors, and the fact that water is not contestable.

ACT Solar Scheme

TRUenergy considers the ACT Government's Electricity Feed-in Renewable Energy Generation scheme as another disincentive for retailers to enter the ACT market. While there are similar style schemes in place in other markets TRUenergy is of the view that the scheme is considerably more complex as the scheme guarantees eligible customers a set feed-in rate (based on year of installation) for 20 years. As well as this, because the rate can be adjusted annually there are the added costs of making these system changes and informing customers.

Conclusion

Despite the finding by the AEMC that the ACT market is not competitive TRUenergy would argue that the removal of retail price regulation is in the best interests of all customers.

TRUenergy would maintain that the greatest threat to retail competition is the retention of price regulation and the asymmetrical risk it poses to the industry, exacerbated by volatile wholesale markets.

In implementing such a recommendation, TRUenergy acknowledges that there may need to be some changes made in relation to the structure of the market and the ACT Government's Electricity Feed-in Renewable Energy Generation. At a minimum, TRUenergy believes both these areas of the market should be reviewed by the Commission to determine the extent to which these issues influence retailers' decision to operate in the ACT and what amendments are needed to address them.

Should you have any questions in relation to this submission please feel free to give me a call on (03) 8628 1185.

Yours sincerely

Alastair Phillips
Regulatory Manager
TRUenergy