



19 February 2015

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Lodged online: Reference RPR0003 Approach Paper

2015 REVIEW OF RETAIL COMPETITION APPROACH PAPER

Alinta Energy Retail Sales Pty Ltd (**Alinta Energy**) welcomes the opportunity to comment on the “2015 Review of Retail Competition” Approach Paper (**Approach Paper**).

Alinta Energy is both a generator and retailer of electricity and gas in Western Australia and the Eastern States energy markets. It has over 2500MW of generation facilities and in excess of 800,000 retail customers, including around 140,000 customers in Victoria and South Australia. As an incumbent retailer in WA and a relatively new entrant retailer in the National Energy Market (**NEM**), Alinta Energy is well placed to comment on the Approach Paper.

Alinta Energy acknowledges that the Australian Energy Market Commission (**AEMC**) has been instructed by the Council of Australian Governments (**COAG**) Energy Council to assess the state of competition across all jurisdictions within the NEM. The AEMC completed its last NEM-wide review in August 2014. As stated in our submission to the 2014 review Alinta Energy believes that once it has been established that a market is competitive, further reviews should only occur where there has been a material market failure or market operational variance identified that has the potential to impact the level of competition.

Other than this our view is that reviews need not occur more frequently than every 3 years. Shorter periods of reviews will not allow for the evidentiary gathering of information covering market development changes that would be required to make an informed decision regarding the state of the market.

The following submission provides Alinta Energy’s comments in response to the questions posed to stakeholders in the Approach Paper.



Should you have any questions or wish to discuss our submission further, I can be contacted on (02) 9372 2600 or via email: shaun.ruddy@alintaenergy.com.au

Yours sincerely

Shaun Ruddy
Manager National Retail Regulation

2015 REVIEW OF COMPETITION APPROACH PAPER

Questions for stakeholder submissions

The level of customer activity in the market

1. *Are small customers able to access information that is easy to understand, relevant and up to date to support their investigation and choice of energy offers?*

Whilst this is a question better served to be answered by customers, we would put it that it has always been in the best interests of retailers to ensure customers have access to transparent, easy to understand information relating to product offers inclusive of tariffs & pricing, Not to do so would materially impact a retailer's ability to attract customers. In addition to retailer direct information there are additional sources of information available to customers, for example through comparator websites (both Government run and independent commercial sites)

2. *What information or activities would improve consumer awareness, engagement and understanding of the choices available? Are tailored measures needed to encourage consumer engagement in certain areas or demographics?*

A continued focus on educating customers on the availability of suppliers and benefits of taking a more active role when seeking a supplier for their energy needs will see competition continue to develop and provide greater benefits for customers.

3. *Do the issues above differ for customers with solar panels?*

Customers with solar panels arguably have a higher level of engagement around their energy product which places them in a better position in understanding their supply needs and how best to service these. However with the advancement of "innovative / exempt selling" models additional levels of complexity have been introduced. This is particularly the case around Solar Power Purchase Agreements (PPA's). The exempt seller entities will directly impact the indicators used by the AEMC in their assessment of competition, which needs to be taken into consideration in the final determination of the level of competition.

Barriers to retailers entering, expanding or exiting the market

4. *Are there any current or expected barriers to entry, exit or expansion for electricity and natural gas retailers? If so, are these barriers likely to persist or abate in the future?*

The barriers to entry, exit and expansion that exist include regulatory burden and uncertainty (particularly jurisdictional divergences and political uncertainty), retail price regulation and credit support requirements (including AEMO prudential requirements). Credit support impacts retailer expansion as when a retailer enters a

market the level of required credit support is low, however as the business grows the level of credit support required increases significantly. For an organisation without an acceptable credit rating, generally the only form of acceptable credit support is a secured bank guarantee. Institutions that require credit support from retailers are generally reluctant to explore differing commercial arrangements for meeting credit support requirements.

Whilst current market design frameworks are maintained, these barriers will continue to exist.

5. *Are some jurisdictions easier for retailers to operate in than others?*

Some jurisdictions have less burdensome requirements / obligations which has the impact of removing a level of risk faced by retailers. Jurisdictions absent of these burdens would generally be viewed as “easier” to operate in. Generally it is where we see jurisdictional derogations that these additional burdens exist

6. *Do mandated minimum feed-in tariffs create a barrier to entry or expansion for retailers?*

Mandating minimum feed-in tariffs is a form of price control / regulation. Any artificial control that has the potential to impact the commercial nature of a business where that business has little to no control around mitigating that commercial risk is a barrier to entry and expansion. The amount and provision of solar feed-in tariffs should stand on their own commercial value and not be artificially valued.

7. *Do alternative energy sellers face lower barriers to entry than traditional retailers? If so, is there evidence that this has an impact on competition for small electricity customers?*

As demonstrated through the Australian Energy Regulator (**AER**) exemptions regime, alternative energy sellers face a lower assessment threshold than that of “traditional” retail suppliers. Alternative energy sellers are not required to meet and maintain the same level of consumer protection obligations or meet the same standard of financial viability and technical capacity faced by entrants seeking a “full” authorisation.

Evidence is at this time somewhat anecdotal, however it is reasonable to assume that where a customer has opted to take up an alternative energy solution and thereby alter their demand and usage profile, it would have a correlating impact of changing the profile of products that would be offered to them by traditional retailers.

The degree of independent rivalry

8. *To what extent do energy retailers compete on price, product and service differentiation to acquire new, and retain existing, small customers?*

Generally retailers will compete on a combination of price, products and services. However it is fair to say that price is the headline competitive proposition.

Retailers are more and more seeking to be innovative in their product offerings. Despite existing regulatory and market frameworks impeding a retailer's level of innovation, retailers continue to look to identify areas where they can offer new and innovative energy product solutions.

9. *What sort of product and/or service improvements have retailers delivered to small customers in electricity and natural gas retail markets?*

Retailers have sought to introduce more tailored product offerings linked to consumer needs, whilst at the same time providing customers with greater control over how they manage their energy. We have seen retailers alter / increase the hours of operation of their service centres in an effort to better service customers' needs.

10. *Has retail price regulation encouraged, or impeded, tariff, product and service innovation in small customer electricity and natural gas retail markets?*

Price regulation introduces commercial risk. The existence of this risk, one that is largely outside the control of retailers in terms of their ability to introduce, control and manage mitigation strategies, has a significant limiting impact on a retailer's ability and /or willingness to innovate.

11. *Where retail price regulation has been removed, are there other barriers to tariff, product and service innovation? Customer satisfaction with market outcomes*

Once price regulation is removed a significant barrier is also removed. The barrier that remains is around the market structure and regulatory framework. Regulatory and consumer protection frameworks are general constructed with the ideal of ensuring a lowest common denominator approach to the servicing of customers. This limits the scope for retailers to provide innovative product offerings to targeted customer segments.

Innovation in the market structure and the regulatory framework and the approach to enforcement will support innovation, which will in turn further drive the benefits of competition.

12. *Is there evidence that customers are satisfied with the service quality they receive from their energy retailer(s) and the value for money?*

This is a question better answered by consumers directly.

13. *Is there evidence that customers are satisfied with the level of choice available in the market?*

This is a question better answered by consumers directly.

14. Are customers satisfied with the ease and speed with which they can switch retailers?

This is a question better answered by consumers directly.

15. Do the number and nature of customer complaints to retailers or Ombudsmen provide evidence of any trends in the quality of customer outcomes?

Customer and Ombudsman complaints are just one source of information. They should not be taken in isolation as the only indicator on the quality of customer outcomes. Each of the Ombudsman schemes has terms of reference, a constitution and operating procedures which vary across schemes. The statistical information captured by each of the schemes is captured and recorded differently. As with the use of any statistical information as indicators of potential outcomes, caution is required to ensure the way raw data is captured is truly representative of the underlying market.

In at least one jurisdiction we would question the accuracy of the statistical representation of the number of Ombudsman complaints.

Competitive retail energy prices

16. Are energy retailers engaging in price-based competition to attract and/or retain customers?

Retailers utilise a combination of price based and non-price based consumer benefits in their product offers used to acquire customers.

17. Are energy retailers able to recover their efficient costs and an appropriate return at current standing (or regulated) offer contract tariffs or at current market offer contract tariffs?

Retail price regulation impedes tariff innovation and the range of product and service offerings available to small customers. Additionally, price regulation creates risk and uncertainty for retailers. Removal of retail price regulation has been proven to enhance competition and promote innovation in product offerings available to small customers.

Price deregulation has encourage tariff innovation and product and service offerings, however retailers are still limited by network tariff structures as alignment to network tariff structures is required to manage risk. Price deregulation allows retailers to recover their prudent costs of operation in a market, allowing for investment in innovative products and offerings.

18. Is there evidence of a material divergence in the level of competitive market costs between any of the jurisdictions where market offers are available? If so, is there evidence to explain the underlying cause(s) of these differences in costs?

Jurisdictional divergences in market frameworks and / or regulatory oversight have the effect of impacting competitive market costs. Whilst these exist, retailers have been able to mitigate / manage these divergences in jurisdictions where price monitoring is in place.

19. What is driving the spread between high and low price market offers within and across jurisdictions? For example, quality issues such as product differentiation and customer service, different costs faced by different retailers, or groups of customers who have not investigated and switched to lower priced energy offers.

There are multiple drivers for the differentiation between market offers, including retailers' business models and how they seek to hedge their wholesale positions, to whether they operate an in-house versus outsourced service provider model, to whether they are operating under a single service model or seeking to offer multiple services. The level of consumer engagement between differing customer segments can influence this outcome.

There is no one single driver and to get a greater understanding of this issue would require a separate, targeted, review into this defined aspect of the market.