



Energy Retailers Association
of Australia Limited

13 May 2011

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

By email: submissions@aemc.gov.au

Dear Mr Pierce

RE: AEMC Strategic Priorities Discussion Paper – Reference EMO0011

The Energy Retailers Association of Australia (ERAA) welcomes the opportunity to provide comments on the Australian Energy Market Commission's (AEMC) Discussion Paper on Strategic Priorities for Energy Market Development.

The ERAA is the peak body representing the core of Australia's energy retail organisations. Membership is comprised of businesses operating predominantly in the electricity and gas markets in every State and Territory throughout 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 energy market reforms that have created a national energy market have delivered significant benefits to both consumers and businesses, and it has been largely successful in meeting the energy requirements of end consumers and its overall objectives. Deregulation of retail energy prices remains the last major reform process still to be implemented, with Victoria being the only State to deregulate prices thus far. The ERAA contends that price deregulation and promoting strong retail competition is necessary and important to addressing the AEMC's three listed priorities.

Retail price regulation is inefficient: it stifles product innovation, impedes price and service competition, and prevents the full range of benefits resulting from strong competition from being realised. It is the view of the ERAA that competition offers the best form of protection for consumers; not setting retail price caps. The strategic priorities of energy market development must be placed with the long term view of promoting strong competition in the market by minimising barriers to entry and reducing regulatory uncertainty.

The energy market faces many challenges going forward: rising energy prices, peak demand growth, the introduction of smart meters/smart grids, and the uptake of more renewable and intermittent energy sources. These challenges make setting cost-reflective regulated retail tariffs increasingly difficult. The risks of setting inaccurate tariffs are detrimental to both businesses and consumers: if prices are set too high, consumers pay too much for their energy; if prices are set too low, retailers are unable to continue to operate in the market. The most efficient way to manage the ongoing challenges in the energy market and at the same time maximise the associated benefits to both consumers and businesses is to implement the final stage of energy market reform: phasing out retail energy prices.



The ERAA supports the three suggested strategic priorities of the AEMC. However, as these priorities are currently quite high-level, support is subject to the details of these priorities yet to be determined. The ERAA is willing to work with the AEMC throughout this process and would appreciate the opportunity to do so.

Strategic Priority One – A predictable regulatory and market efficient environment for rewarding economically efficient investment

The ERAA supports Strategic Priority One. Predictable regulatory and market environments are necessary to promote competition and the AEMC is in a good position to work with Governments. The ERAA contends that Strategic Priority One should not be limited to generation however and that – especially with vertical integration between generators and retailers – retailing should also be considered. Indeed, for economically efficient investment to be delivered commercially in the NEM there needs to be competition in generation which almost certainly requires competition in retail, and therefore retail needs to be a joint focus of the first strategic priority.

Strategic Priority Two – Building the capacity of and capturing the value of flexible demand

The ERAA agrees that Demand Side Participation (DSP) is an area of huge potential and we support the AEMC's investigations into DSP. The ERAA has provided nominations to the AEMC for the Stage 3 DSP Review Stakeholder Reference Group.

Strategic Priority Three – Ensuring the transmission framework delivers efficient and timely investment

The ERAA supports strategic priority three. A robust transmission framework is pertinent to the efficient operation of the energy market. The ERAA is contributing to the AEMC's Transmission Frameworks Review through representation on the Consultative Committee.

Should you wish to discuss the details of this submission further, please contact me on (02) 9241 6556.

Yours sincerely

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

Cameron O'Reilly
Executive Director
Energy Retailers Association of Australia