

19 February 2015

Mr John Pierce  
Chairman  
Australian Energy Market Commission  
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Sydney South NSW 1235  
Email: [aemc@aemc.gov.au](mailto:aemc@aemc.gov.au)

Dear Mr Pierce

**Submission in response to the Approach Paper: 2015 Retail Competition Review [AEMC Reference: RPR002]**

Thank you for the opportunity to comment on the Australian Energy Market Commission's (AEMC's) 2015 Retail Competition Review Approach Paper.

ActewAGL Retail provides electricity and gas retail services in the Australian Capital Territory (ACT) and in South East New South Wales. In the ACT, ActewAGL Retail is required to offer a Standing Offer for gas and electricity through a standard retail contract. The standing offer for electricity is required to incorporate a tariff approved by the Independent Competition and Regulatory Commission to electricity customers who consume less than 100 MWh per year. For the Queanbeyan, Palerang, Capital and Shoalhaven regions within New South Wales, ActewAGL Retail offers a regulated offer for the supply of gas under a Voluntary Pricing Arrangement agreed with the Independent Pricing and Regulatory Tribunal of New South Wales (IPART). ActewAGL Retail offers market retail contracts to small customers in its focus regions.

This submission complements the information that will be provided as part of the survey process by providing broad responses to the questions for stakeholder submissions posed in the Approach Paper.

ActewAGL Retail believes that competition in the retail electricity market in the ACT and the retail gas market in NSW is effective. As such, ActewAGL Retail's long held view is that price regulation of retail prices in both jurisdictions and markets should be removed.<sup>1</sup>

*Effective competition*

Competition in the retail electricity and gas markets in the ACT and New South Wales is effective. As IPART notes, "a well-functioning competitive market can provide more effective customer protection and better customer outcomes than price regulation."<sup>2</sup> The AEMC has also stated, "where competition is found to be providing consumers with effective outcomes, retaining price regulation is more likely to inhibit competition than promote it."<sup>3</sup>

The effectiveness of competition can be demonstrated by an assessment of the criteria listed in the AEMC's Approach Paper:

- *The level of customer activity in the market.* Customers are able to access a range of information to determine the best electricity and gas offer for them. In New South Wales, research indicates that customers have a high degree of awareness of their ability to choose an energy retailer.<sup>4</sup> ActewAGL Retail's experience is that awareness of market choice in the ACT has always been high and this has increased further over time.

Newgate Research's report for the AEMC's 2014 Retail Competition Review found that the majority of residential consumers surveyed were confident they have access to the right information to choose a suitable energy plan.<sup>5</sup>

- *Barriers to retailers entering, expanding or exiting the market.* There are low barriers to entry and expansion in the ACT and New South Wales residential market. The introduction of the National Energy Customer Framework (NECF) in the ACT and in New South Wales, on 1 July 2012 and 1 July 2013 respectively, further lowered barriers to entry as retailers only require one license authorisation to sell gas or electricity in all NECF jurisdictions.
- *The degree of independent rivalry.* In the ACT and New South Wales there are 52 electricity and 25 gas retailers with AER authorisation<sup>6</sup> who are either active in the market or positioned to enter. This includes a number of new authorisations in 2014. Retailers are competing in a variety of ways and delivering a range of competitive offers to customers.
- *Customer satisfaction with the market outcomes.* ActewAGL Retail customers have a high level of customer satisfaction. This is demonstrated by Roy Morgan recently awarding ActewAGL Retail as Electricity Provider of the Year as part of the Customer Satisfaction Awards for 2014. The AEMC has also found a high level of customer satisfaction in the ACT<sup>7</sup> while the Australian Energy Regulator's Performance of the Retail Energy Market report shows ActewAGL Retail has the lowest residential complaint rate of all retailers operating in NECF jurisdictions.<sup>8</sup>
- *Whether retail energy prices are consistent with a competitive market.* While ActewAGL Retail offers competitively priced products, a narrow focus on price and switching rates will not provide a full picture on the state of competition. An over emphasis on measures such as switching between retailers (which does not incorporate switches between offers with the same retailer) and market shares can lead to an under assessment of the effectiveness of competition. ActewAGL Retail considers that greater weight should be given to evidence of market outcomes that customers value, such as community involvement and customer service.

#### *Removal of retail price regulation*

ActewAGL Retail has long considered competition in both the ACT electricity and NSW gas markets to be effective and has supported the removal of retail price regulation in both jurisdictions and markets.<sup>9</sup>

In its 2014 Review of Retail Competition the AEMC considered that its previous recommendation for the ACT that retail electricity price regulation is removed and replaced with a transitional price monitoring scheme<sup>10</sup> still applies<sup>11</sup>. ActewAGL Retail supports this as a second best option to price deregulation, however ActewAGL Retail considers (and the AEMC has agreed) that any such program must be predictable and transparent, particularly in relation to the nature and extent of regulatory oversight and the potential re-introduction of price regulation.

#### *Consultation and transparency*

The AEMC previously noted that the timeframes for the 2014 Retail Competition Review did not provide sufficient time for the AEMC to consult with stakeholders on a draft report.<sup>12</sup> ActewAGL

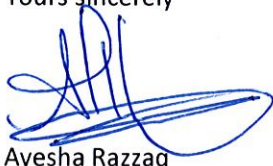


Retail noted that this approach was inconsistent with the AEMC's conclusions that analysis of regulator's decisions (including draft decisions) is conducive to reducing regulatory risk, the probability of error and decreasing the administrative costs of regulation.<sup>13</sup>

ActewAGL Retail notes that as the terms of reference was issued in January 2014 the time constraint does not apply to the AEMC's 2015 Retail Competition Review. ActewAGL Retail is disappointed to note that the AEMC has not indicated that a Draft Report will be released for consultation.

ActewAGL Retail looks forward to continuing to work with the AEMC throughout this review. Please contact Leanne Holmes, Manager Economic Regulation, on 0412 850 715 if you would like to discuss this submission.

Yours sincerely



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General Manager Retail

<sup>1</sup> ActewAGL 2010, *ActewAGL Retail response to AEMC Issues Paper*, p.1

ActewAGL 2007, *Response to Draft Voluntary Transitional Pricing Agreements released by IPART*, p.1

<sup>2</sup> IPART 2012, *Issues Paper: Review of regulated retail prices and charges for gas, 2013 to 2016*, p.30

<sup>3</sup> AEMC 2013, *Final Report: Review of Competition in the Retail Electricity and Natural Gas Markets in New South Wales*, p. 59

<sup>4</sup> Roy Morgan Research 2013, *Survey of Residential Customers of Electricity and Natural Gas in New South Wales: Effectiveness of Retail Competition*, p.9

<sup>5</sup> Newgate Research 2014, *Consumer Research for Nationwide Review of Competition in Retail Energy Markets*, p.198

<sup>6</sup> AER 2015, *Public register of authorised retailers and authorisation applications* <<http://www.aer.gov.au/node/1265>>, viewed 9 February 2015.

<sup>7</sup> AEMC 2014, *Final Report: 2014 Retail Competition Review*. p.139

<sup>8</sup> AER 2014, *Revised Annual Report on the Performance of the Retail Energy Market*, p.18

<sup>9</sup> ActewAGL 2010, *ActewAGL Retail response to AEMC Issues Paper*, p.1

<sup>10</sup> AEMC 2011, *Review of the effectiveness of competition in the electricity retail market in the ACT: Stage 2 Final Report*, p.11

<sup>11</sup> AEMC 2014, *Final Report: 2014 Retail Competition Review*. p.vii

<sup>12</sup> AEMC 2014, *Final Report: 2014 Retail Competition Review*. p.3

<sup>13</sup> ActewAGL 2014, *Submission in response to the Approach Paper: 2014 Retail Competition Review*, p.3

