



Paths to removing price regulation

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Overview of presentation

- Where we are at
- Options for removing price regulation
 1. Reducing price caps by rolling back consumption thresholds
 2. Phasing out price regulation e.g. small business then residential
 3. Big bang: deregulate all at once
 4. Partial (relative) regulation for a sub-group
 5. Customers opt-in to a regulated price (IPART proposal)
- Protections for consumers
 - Measures to protect consumers
 - Market monitoring and threat of re-regulation
 - Customer awareness and information

Where we are at

- Terms of reference require us to advise on implementation strategies for deregulation, whatever our findings on the effectiveness of competition.
- Terms of reference also require us to advise on deregulating by a roll back according to consumption threshold.
- We are still considering the pros and cons of different options → no conclusions as yet.
- We are still considering whether different approaches are required for gas and electricity

Assessment framework

- Effectiveness of competition, including whether and how effectiveness of competition varies between different customer groups
- How easy is it for customers to understand and participate in the market
- Customer outcomes
- Robust and consistent regulatory practice
- Administrative costs
- Clarity and certainty for retail businesses
- Key question: How to move to deregulation in a way that sufficiently protects consumers but also offers clarity to retailers?

Options for removing price regulation

1. Reducing price caps by reducing consumption thresholds
 - This would involve setting consumption thresholds and setting dates for the removal of price regulation from each group (e.g. large at date 1; medium at date 2; small at date 3)
 - Customers in each group would need to be notified prior to price regulation being removed for their group
 - How significant is consumption? This approach might be relevant if lower consumption households are less likely to receive good offers in a deregulated market.
 - May be hard to set thresholds.
 - Few examples of this in other jurisdictions.

Options for removing price regulation

2. Phasing out regulation for one group of customers first, followed by another e.g. small business then residential
 - This would involve setting a date at which the first set of customers would no longer have access to regulated prices, followed by a later date at which other customers would no longer have access to regulated prices.
 - This approach was used in Victoria whereby regulation was phased out for small business first, followed by residential
 - Need to be able to distinguish between customers groups
 - Provides additional time for customers that are less able to participate in the market to adjust

Options for removing price regulation

3. Big bang: deregulate all at once
 - Reduces regulatory burden
 - Simplest option
 - Risk of price dispersion and winners and losers

- Clear need for other measures to protect vulnerable consumers and promote competition.

Options for removing price regulation

4. Partial (relative) regulation for a sub-group
 - Useful if sub-group(s) can be identified and targeted who are less likely to benefit from full price de-regulation
 - Could apply to any group(s) for whom competition is less effective where it is easy to target them
 - E.g in UK customers defined by payment method
 - E.g in South Australia city v country differential not more than 1.7%
 - Regulated price may remain an anchor, limits offers?
 - Directs price regulation to a clear group who need protection

Options for removing price regulation

5. Customers opt-in to a regulated price (raised by IPART as an alternative to removing price regulation)
 - Customers on an existing regulated price would have 3 options:
 - do nothing and remain on their current price which would be unregulated in terms of price (but may retain non-price protections)
 - ‘opt in’ to regulated prices by electing to move onto a new regulated price offered by their Standard Retailer, or
 - sign a market contract
 - May encourage sticky customers to be more active, but also offers less protection to these customers
 - Would require an extensive information/awareness campaign

Measures to protect consumers

- Where may there be consumer problems:
 - Independent and impartial information
 - Marketing (including door-knocking)
 - Contracts and their terms (e.g. exit fees)
 - Specific groups of consumers– e.g. vulnerable, rural (cost to serve -cost reflective, or less able to access good offers – few offers in their area/lack of sales activity or lack of internet access)

What consumer protections exist already and are they adequate?

- NECF
- Australian Consumer Law
- Interactions with concessions/hardship support?
- If not adequate what new protections might be needed?

Market monitoring

- Market monitoring will be an essential feature whatever price de-regulation option is chosen
- What should be published?

Things that could be monitored

- Number and market shares of suppliers and year on year changes
- Gross and net (to assess gains and losses) switching for whole market and between retailers
- Range of tariffs on offer, terms and conditions by relevant characteristics (e.g. type of meter, payment method) and average prices by tariff
- Customer survey to ascertain ease of switching and price comparison
- Who should do monitoring?

Framework for considering re-introducing price regulation

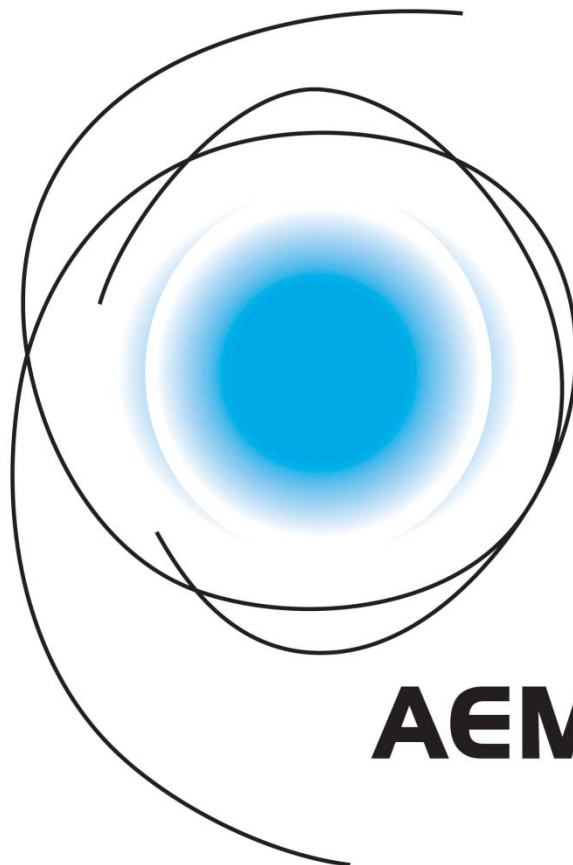
- The power to re-regulate prices has not always been retained where price has been de-regulated.
- Victoria and SA have retained this power, as has the CER in Ireland – too early to say what impact this will have
- Rationale to retain: an incentive for good market conduct
- Against retention: may be some concern that it could undermine investment or retail entry. But this risk could be reduced if clear criteria for review, e.g. link to market monitoring.

Customer awareness and information

- If deregulation occurs, customers currently on regulated prices will probably be put on a Standing Offer (default price), until they sign up for a particular market contract
- Standing offers tend to be the highest prices so consumers need to be encouraged to move off them as quickly as possible
- Need a comprehensive consumer information campaign in the lead up to and following price de-regulation
- The information campaign should be led by the State Government and/or regulator and include retailers, consumer and welfare groups
- Consumers also need access to independent price comparison services - e.g. AER's *energymadeeasy* website and IPART's *myenergyoffers* website

Discussion points

- Why might one group continue to need price regulation for a period of time after it has been removed for another group? What are the benefits?
- Would there be distortionary effects if regulation was retained in one market but not another?
- Who should have the role of monitoring the market? What sorts of measures should be monitored?
- Should there be set criteria for re-regulation? If so, what should they be?
- Who should be responsible for running information campaigns? By what mechanism should information be conveyed? What information needs to be conveyed?



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