



Energy Retailers Association  
of Australia Limited

1 September 2010

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 electricity market in the ACT**

The Energy Retailers Association of Australia (ERAA) welcomes the opportunity to comment on the Australian Energy Market Commission's first draft report on the review of the effectiveness of competition in the Australian Capital Territory's (ACT) electricity market.

The ERAA is the peak body representing the core of Australia's energy retail organizations. Membership is comprised of businesses operating in the electricity and gas markets throughout the National Electricity Market (NEM), as well as the Northern Territory and Western 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 ERAA strongly believes that the ACT's low regulated retail tariff is the single most significant barrier to developing effective competition in the ACT. In particular, the absence of customer acquisition and retention costs in the determination of the transitional franchise tariff (TFT) does not allow sufficient head-room for competitors to enter the market and compete for customers in the ACT.

The ERAA understands that in the Second Draft Report, the Commission is to provide advice on how to promote competition if competition is concluded to be not effective. The ERAA asserts that the most crucial policy to promote effective competition in the ACT is to remove retail price regulation. This is consistent with the Australian Energy Market Agreement (AEMA) which asserts that the removal of retail price regulation could still be the most appropriate policy response even if competition is found not to be effective, if it considered that doing so will promote competition.

Removing price regulation in the ACT will lead to an increase in consumer choice and product innovation at competitive price levels. The risk that the incumbent will see deregulated prices as an opportunity to exercise price control by setting noncompetitive prices is alleviated by the strong threat of entry in the ACT. As noted in the Report, the ACT has appeared to be an attractive market for retailers in the past; between 2005 and 2008 new entrant retailers entered the market to claim up to 9% of the small customer market. Given the ACT is an

attractive market for retailers, the threat of entry will force the incumbent to set competitive price levels. New entrants will need to offer competitive prices and innovative products in order to enter the market. By removing price regulation, competition is therefore enhanced and this results in improved choice for customers at efficient competitive price levels.

In the medium to long run, price regulation must be phased out regardless of the effectiveness of competition. Australian energy markets are transitioning to 'smart', low carbon markets, in which regulated retail prices are just as inhibitive as they are incompatible. A 'smart' electricity market will combine intermittent energy generation, electric cars, 'smart' meters, distributed generation, load control management, remotely controlled appliances, and many other elements yet to be seen. This is necessary to transition to a low carbon economy in an efficient way, and it also has the potential to offer customers much greater control over their energy consumption and hence bills. In the transition to this 'smart', low carbon economy, regulated retail prices will become increasingly difficult to set at accurate cost-reflective levels, and inaccurate prices will stifle competition; stifling competition then limits the full range of benefits to customers and society, leading to inefficient, unsustainable outcomes. The ERAA's position is that regulated retail prices cannot exist in 'smart' energy markets and price regulation should be phased out to allow for an efficient transition to a 'smart', low carbon energy market in the ACT.

Should you wish to discuss the details of this submission further, please contact me on (02) 9241 6556 and I can facilitate such discussions with ERAA member companies.

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**