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Dear Mr Pierce



## SUBMISSION TO 2014 RETAIL COMPETITION REVIEW – APPROACH PAPER

Thank you for the opportunity to comment on your Approach Paper for the 2014 Retail Competition Review.

The Approach Paper calls for submissions on the state of competition in each jurisdiction of the National Electricity Market. As outlined in IPART's submission to the AEMC's 2013 review of competition in NSW, we support the AEMC's findings on the effectiveness of competition in retail electricity and gas markets in NSW.

As part of our 2013 retail electricity and gas pricing reviews we found that competition was protecting customers, as well as offering more choices and better price and service outcomes. As part of these reviews we assessed the effectiveness of competition in the NSW retail electricity and gas markets. We found that competition in the NSW retail electricity and gas markets has continued to improve. In particular:

- ▼ the Standard Retailers have continued to lose market share within their supply areas,
- ▼ small retail customers have continued to move from regulated prices to market-based prices,
- ▼ most customers who participate in the competitive market are experiencing positive outcomes.

We also found no evidence of impediments to the further development of competition over the 2013-16 period.

We have formed the view that competition in the NSW retail electricity and gas markets now protects customers against market power by offering more choices and better price and service outcomes. On this basis we consider that electricity and gas retail price regulation is no longer necessary in NSW and that the removal of retail price regulation is likely to:

- ▼ improve customer engagement in the market by removing the confusion in relation to the difference between regulated and market prices,<sup>1</sup>
- ▼ remove the risk that price regulation distorts the competitive market, particularly given the dynamic nature of energy markets. This will encourage retailers into the market and thereby deliver better customer outcomes in the long term, including better 'value for money' service through reduced costs and/or innovation.

Retail price regulation cannot protect customers from price increases driven by regulatory, policy and market factors, nor can it protect vulnerable households that may be experiencing affordability problems. Rather it is important to ensure that any specific groups of customers that cannot readily access the competitive market, or require financial assistance are specifically considered and targeted responses are developed.

We have recommended the NSW Government review:

- ▼ the relevant regulations and arrangements for residents of residential parks to reflect developments in the competitive market since the provisions were made in the Electricity Supply Act
- ▼ affordability measures to ensure that existing budgets target the most vulnerable customers in a comprehensive, complementary and cost-effective manner.

Further information we have of relevance to the questions raised in the Approach Paper is outlined in our 2013 electricity and gas reports.

If you have any further queries in this regard please contact John Smith on (02) 9113 7742.

Yours sincerely



Peter J. Boxall, AO  
Chairman

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<sup>1</sup> The AEMC's survey found that few participants knew if they were on a regulated or market price, suggesting there is a lack of understanding about the difference between regulated and market prices, which potentially influences effective customer engagement in the market. Roy Morgan Research, *Survey of Residential Customers of Electricity and Gas in NSW: Effectiveness of Retail Competition*, February 2013, p 53.