

3 August 2018

Ms Jessica Robinson
Director, Energy Pricing
Retail Electricity Market Monitoring
Independent Pricing and Regulatory Tribunal
PO Box K35
Haymarket Post Shop NSW 1240

Online: www.ipart.nsw.gov.au/Home/Consumer_Information/Lodge_a_submission

Dear Ms Robinson,

Performance and competitiveness of the retail energy market 2017-18

Simply Energy welcomes the opportunity to comment on the scope of the Independent Pricing and Regulatory Tribunal of New South Wales (IPART) review of the performance and competitiveness of the retail energy market 2017-18.

As a leading second-tier retailer with over 660,000 accounts across the National Energy Market, Simply Energy actively supports customer engagement. Through its active participation in the market, Simply Energy is continually looking at new ways to improve its product offerings and overall consumer participation levels. Indeed, IPART's review is quite timely given the Australian Competition and Consumer Commission (ACCC) and Australian Energy Market Commission's (AEMC) reviews have placed increasing public and industry focus on improving consumer participation in the market.

While there is no doubt that more needs to be done to reduce customer confusion and simplify product offerings, reactive policy is not the answer. For this reason, Simply Energy is encouraged to see that regulators and market governance bodies are aligned in their views that price re-regulation is not an effective long-term solution.

In view of this, Simply Energy considers that IPART's review will play an important role in furthering policy discussions around potential improvements in the operation of the retail market, particularly in New South Wales (NSW). In doing so, Simply Energy encourages IPART to thoroughly consider recommendations aimed at:

- promoting greater regulatory harmonisation and a facilitated transition to a market where price signals seen by end consumers better reflect the costs of providing services to them, and
- breaking down market impediments that are restricting effective competition in the NSW gas market.

Fostering engagement through regulatory harmonisation and cost-reflectivity

In order to promote economic efficiency and customer engagement, greater focus needs to be placed on streamlining regulatory requirements and working towards developing a more cost-reflective market for electricity services.

As a starting point to discussing the need for regulatory consistency and streamlining in promoting customer engagement, Simply Energy would like to make reference to recent amendments to the NSW Social Programs for Energy Code. Overall Simply Energy supported the intent behind the amendments, which were focused on improving vulnerable customer engagement and promoting more robust policy analysis.

In saying that, Simply Energy considers that initiatives such as those around the requirement to advise customers on standard retail contracts about the availability of market offers would be better coordinated through the national framework. This is because retailers could end up with multiple obligations aimed at achieving the same outcome at both a state and national level. These sort of outcomes are unlikely to meet their intended policy objectives, as consumers will gradually disengage if they constantly receive notices about their contracts and services. In order to be effective in the long term, Simply Energy considers that market forces need to drive consumer behaviour rather than regulated policy initiatives.

In view of this, consideration should be given to how cost-reflective network tariffs in the electricity market can be used to incentivise changes in consumer behaviours. Indeed, greater cost reflectivity should conceivably result in price-sensitive consumers looking to use distributed energy resources to reduce their energy costs. If appropriately managed this shift should assist in reducing future capital expenditure in network infrastructure. A reduction in network costs should, in turn, benefit all energy consumers in terms of lower supply charges.

In striving for these greater economic efficiencies, Simply Energy recognises that low-income consumers should not be placed in a position of disadvantage. For this reason, consideration needs to be given to how means tested energy efficiency and technology subsidy schemes can be better managed to assist vulnerable customers in transiting to a more cost-reflective and responsive market. In achieving such an outcome, IPART may wish to explore whether the NSW government should work more collaboratively with its interstate counterparts to develop a consistent and coherent framework to assist those in financial need prepare for, and manage any potential shift towards cost reflective pricing.

While such a transition may not occur in the short-term, policymakers need to think ahead and look beyond the immediate market arrangements to ensure energy consumers are able to actively engage in the market into the future. Given the Australian Energy Regulator's recent work around improving energy price factsheets and Energy Made Easy, Simply Energy would encourage IPART to limit making any more recommendations around immediate term consumer engagement. Recent regulatory changes need time to filter through into the retail market before any assessment can be made.

That said, cost-reflective pricing in the electricity sector is only one side of the equation and thought also needs to be given to how improvements can be made to the State's retail gas market.

Breaking down impediments in the NSW gas market

Simply Energy considers that deregulation of retail gas prices in mid-2017 has been a positive step in facilitating new entrants into the NSW market. From Simply Energy's perspective, fostering competitive tension through having numerous retailers is imperative for ensuring market discipline and driving cost efficiencies. That said, there is still a long way to go in advancing a dynamic and responsive market with AGL, Origin and Energy Australia continuing to maintain most of the market share across the State.

Simply Energy considers that a continued focus on consumer engagement and transparent cost analysis tools should encourage greater market participation. As pointed out in the ACCC's Pricing Inquiry the aggressive win-back strategies of the incumbent retailers needs to be addressed in order to ensure a fairer playing field for new entrants to develop their own market share. This could be achieved, for example, through placing regulated restrictions on retailers engaging in direct marketing activities with former customers for a set period of time.

While customers would have freedom to go back to a former retailer, such an approach would ensure that aggressive marketing campaigns are not used to immediately draw back former customers from retail competitors. Indeed, why should regulations continue to remain idle and allow the market to charge customers who are not actively looking for alternative offers higher energy prices just to cross-subsidise retention offers? Further, is it fair and in the best interests of consumers for a retailer who has expended administrative costs on signing-up a new customer to be undercut by competitors offering a price that is not generally available?

If competition is to prosper, then greater market transparency is required. Some may argue that total price transparency could lead to tacit collusion. However, the chances of such behaviour is less likely in a market that has many active participants rather than a few dominant players as is presently the case in NSW.

In order to increase market participation, consideration also needs to be given to ensuring that new entrants have access to distribution networks and supply contracts on terms that make retailing activities viable. For this reason, Simply Energy would encourage IPART to investigate ways of promoting greater transparency and liquidity in the wholesale gas markets. Mooted ideas such as new pipeline infrastructure, liquefied natural gas imports and opening up further gas fields could assist in easing forecast supply shortfalls.

However, for these initiatives to gain traction and place downwards pressure on retail gas prices, they need to be thoroughly assessed and costed to determine their economic efficiency. Although such analysis is conceivably beyond the scope of this review, IPART could play a role in furthering research into the efficiency and viability of such projects.

Concluding remarks

Overall, Simply Energy is comfortable with IPART's proposed approach to conducting the review and looks forward to the release of IPART's draft report in September. If you have any questions about this submission or would like to further engage with Simply Energy, please contact Anthony O'Connell, Senior Regulatory and Compliance Officer, on [REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED]

Yours sincerely

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James Barton
General Manager, Regulation