



Energy Retailers Association
of Australia Limited

16 May 2011

Regulated retail prices for electricity 2011
Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB Post Office NSW 1230

By email: ipart@ipart.nsw.gov.au

Dear Mr Sims

RE: Changes in regulated electricity retail prices from 1 July 2011 – Draft Report

The Energy Retailers Association of Australia (ERAA) welcomes the opportunity to provide comments on the Independent Pricing and Regulatory Tribunal's (IPART) Changes in regulated electricity retail prices from 1 July 2011 – Draft Report (the Report).

The ERAA is the peak body representing the core of Australia's energy retail organisations. Membership is comprised of businesses operating predominantly in the electricity and gas markets in every State and Territory throughout Australia. These businesses collectively provide electricity to over 98% of customers in the National Electricity Market (NEM) and are the first point of contact for end use customers of both electricity and gas.

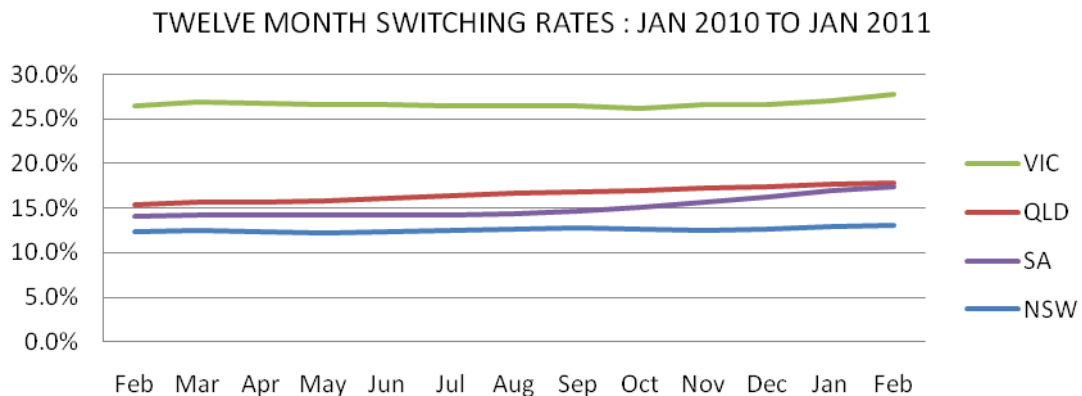
Under the *Competition and Consumer Act 2010 (Cth)*, the ERAA is not permitted to share or discuss information within the Association in relation to prices and the mechanisms for setting prices. In this submission I therefore do not make comments on the actual regulated electricity retail price or the size of the increase. I refer you to the individual submissions of my members for their comments on this.

The Report notes that the main reason for electricity price increases is due to increased network costs, accounting for 10% of the increase. Following this, Green Schemes are contributing 6% of the increase. Although energy retailers only account for approximately 1% of the increase, retailers are the avenues for passing through these other price increases to consumers, and therefore we welcome the cost increases being scrutinised. In particular, IPART has highlighted in the Report how the interaction between Federal and NSW Government programs for small-scale renewable energy has contributed significantly to the increase in electricity prices. The impact these schemes have on consumers who have not been able to take advantage of the incentives is unfortunate, and the inequity and costs of these policies should be questioned; retailers are in the regrettable position where they have to pass-through these price increases to consumers and the ERAA welcomes recent policy changes to Green Schemes that aim to reduce these impacts on consumers.

Retail competition in NSW has historically been less than that of other surrounding jurisdictions in the NEM. In particular, Victoria is the most competitive market in the world according to an international survey, where over 25% of consumers choose to switch retailers over the course of a year.¹ In comparison,

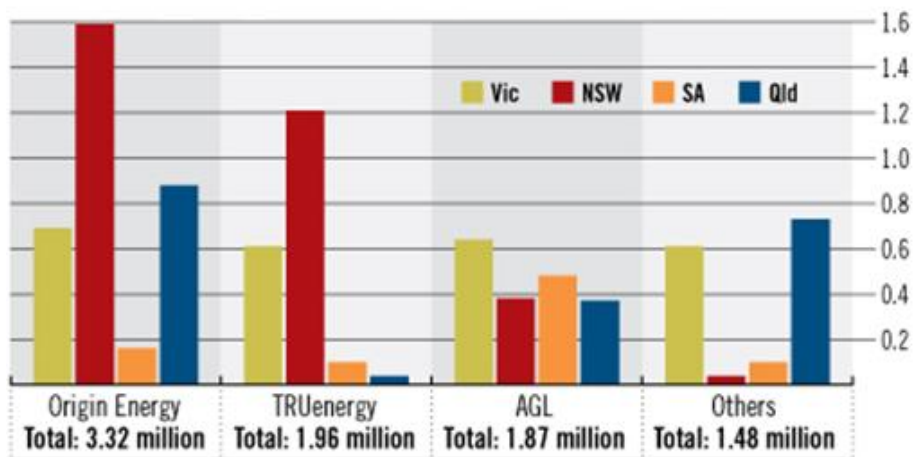
¹ VaasaETT 2010, World Energy Retail Market Ranking Report – 5th Edition, VaasaETT Global Energy Think Tank, December 2010.

switching rates in NSW are less than 15%, and are also less than those in Queensland and South Australia, as can be seen on the following graph. The ERAA contends that competition offers the best form of protection for consumers; in Victoria consumers have the choice of up to ten retailers depending on where they live, where retailers actively compete to offer customers innovative energy products at competitive prices.



Source: AEMO Retail Transfer Statistical Data http://www.aemo.com.au/data/retail_transfers.html

On January 1 2009, Victoria became the first (and only) State to introduce a deregulated pricing regime following the Council of Australian Government’s Australian Energy Market Agreement (2006) to deregulate prices once competition is deemed effective. Since then, Victoria’s deregulated pricing regime has contributed strongly to competition and has allowed second-tier retailers to claim approximately 25% of the overall market share, which can be seen on the following graph.² Any concerns about the abuse of market power by incumbent retailers are quashed by the fact that Victoria has the least concentrated market in the NEM, despite incumbent retailers having the ability to set their own prices. Cost-reflective pricing is important to encouraging new entrant retailers into the market and as a result, strong competition results in many overall benefits for both industry and consumers.



² Murray. L. And J. Range, 16 Dec 2010, *Price row rages over \$5.3bn power sell-off*, Australian Financial Review.



There is evidence amongst the membership of the ERAA that there is increasing interest in the NSW market. Given the right market environment there is good reason to believe competition in NSW has the potential to flourish. I therefore urge IPART to continue to focus on encouraging competition in NSW. Should you wish to discuss the details of this submission further, please contact me on (02) 9241 6556.

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