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John Pierce
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Dear Mr Pierce,



AEMC REVIEW OF BEST PRACTICE RETAIL PRICE REGULATION - ISSUES PAPER

Effective competition offers customers the best protection from higher than efficient prices, and can also deliver better customer outcomes through reduced costs and/or innovation. In our view, the NSW retail electricity and gas markets now protects customers against market power by offering more choices and better price and service outcomes.

Continued price regulation under a 'best practice' nationally consistent framework can distort the competitive market, given the imperfect information available to regulators. We consider that the removal of retail price regulation in NSW should remove this risk and would be in the best interests of customers.

However if price regulation is to be retained, a best practice framework should:

- ▼ **Have clear objectives that balance the long and short term interests of customers.** The weight given to each of these objectives is likely to be different across jurisdictions and will evolve over time as the competitive market develops.¹
- ▼ **Avoid prescriptive methodologies and provide regulators with discretion to choose the appropriate methodologies that best meets the objectives,** subject to providing transparent and consultative decision making.² Recommending prescriptive methodologies to be used by regulators in setting the level of regulated prices could create the risk that the total level of regulated prices does not appropriately balance the objectives.³

¹ Retail price regulation in markets recently opened to retail contestability (such as Tasmania) may involve a greater focus on the short term interests of customers until such time as any material barriers to retail entry have been addressed, than in markets that are effectively competitive (such as NSW).

² This is consistent with the AEMC's findings in relation to determining the cost of capital as part of the Australian Energy Regulator's network pricing decisions.

³ For example, given that market conditions can change over time mandating the use of a Long Run Market Cost (LRMC) of generation approach to setting the allowance for energy purchase costs may not provide the level of incentives in regulated retail prices that appropriately balance the objectives. Further, it may not account for the interdependencies between different elements of the decision (for example, between the energy purchase cost allowance and the allowance for customer acquisition costs, or between the retail margin and the allocation of risk under the form of regulation).

- ▼ **Transparently include an incentive in regulated prices for retailers to enter the market and compete for customers, and for customers to seek out better offers.** If regulated prices are set too low – for example, to recover the short term efficient costs of supply only – the incentives may not be sufficient for retailers to compete for customers and for customers to enter into the market.
- ▼ **Address any ‘supply or demand-side barriers’ that may constrain the development of competition.** For example, action by regulators, retailers, consumer groups and governments to improve the ability of customers to engage in the market is likely to improve the effectiveness of retail price regulation in promoting the objectives and will facilitate its removal.⁴

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.

Please contact Anna Brakey on 9290 8438 or Alexis van der Weyden on 9290 8460 if you have any queries in relation to the submission.

Yours sincerely



Peter J. Boxall, AO
Chairman

⁴ IPART has proposed a change to the National Electricity Rules to facilitate greater consultation on retail price changes and for customers to receive earlier notification of the change to their prices <http://www.aemc.gov.au/Electricity/Rule-changes/Open/annual-network-pricing-arrangements.html>