



EnergyAustralia

27 October 2016

2016 Retail Electricity Market Monitoring Review
Independent Pricing and Regulatory Tribunal
PO Box K35
Haymarket Post Shop NSW 1240

EnergyAustralia Pty Ltd

ABN 99 086 014 968
Level 33
385 Bourke Street
Melbourne Victoria 3000

Phone +61 3 8628 1000
Facsimile +61 3 8628 1050

enq@energyaustralia.com.au
energyaustralia.com.au

Lodged electronically:

[www.ipart.nsw.gov.au/Home/Consumer Information/Lodge a submission](http://www.ipart.nsw.gov.au/Home/Consumer%20Information/Lodge%20a%20submission)

Dear Tribunal members

Draft Report – Review of the performance and competitiveness of the retail electricity market in NSW from 1 July 2015 to 30 June 2016

EnergyAustralia welcomes the opportunity to comment on the Independent Pricing and Regulatory Tribunal's (IPART) Draft Report for its review of the performance and competitiveness of the retail electricity market in NSW from 1 July 2015 to 30 June 2016.

We are one of Australia's largest energy companies, with over 2.5 million household and business customer accounts in NSW, Victoria, Queensland, South Australia and the Australian Capital Territory. We also own and operate a multi-billion dollar portfolio of energy generation facilities across Australia, including coal, gas and wind assets with control of over 4,500MW of generation in the National Electricity Market.

IPART has undertaken a comprehensive analysis of outcomes in the NSW retail electricity market. We agree with the key findings and note they are largely consistent with those of the Australian Energy Market Commission (AEMC) for NSW in its 2016 review of retail competition.¹ Following price deregulation, retailers in NSW will only win and retain customers if they provide compelling offers, services that customers value, and good customer service.

IPART's findings indicate a high degree of effective competition, namely:

- There has been a substantial increase in the range of products and services available to electricity customers over the past two years.
- There has been a substantial increase in the number and type of electricity retailers, which is evidence of relatively low barriers to entry.
- There are substantial discounts off standing offer prices available to customers when they shop around for a better deal.

¹ Australian Energy Market Commission (2016), *2016 Retail Competition Review*, available at www.aemc.gov.au

In our experience, retailers in NSW are discounting more aggressively than ever before in order to win and retain customers. We observe that discounts in the market now range from 10 to 20%, compared with a range of between 5 and 10% at the time of price deregulation. IPART also notes the emergence of new retailers who are offering alternative pricing models.

As IPART notes, retailers are also expanding their range of retail products and services so customers are well placed to identify pricing models and supporting services that reflect their preferences and circumstances. Recent and forthcoming regulatory initiatives, most notably customer access to data, competition in metering and more cost reflective network tariffs will combine with technological change to build on this trend.² These changes are increasingly providing customers with greater visibility and more control over the energy consumption.

This is also apparent in the mechanisms through which many customers are now obtaining their energy. The AER has issued many retail exemptions in recent years and the growth in less traditional supply models – embedded networks, for example – has prompted the COAG Energy Council to consult on the regulation of new products and services and the transformation of the Australian energy market.³ These alternative business models provide another form of competition for more ‘traditional’ retailers.

We also agree with IPART’s conclusions about the drivers of recent price changes. Effective competition provides a strong incentive for retailers to manage costs so that customers, IPART and the NSW Government can be confident that these price changes broadly reflect changes in the underlying market cost of supplying electricity. Furthermore, customers will continue to benefit from retailers’ initiatives to better manage costs driven by effective competition.

We note IPART’s observations about the extent of customer engagement in NSW, namely, that there are some customer segments that either choose not to or have difficulty taking advantage of competitive market opportunities. This is consistent with our experience and we find that customers engage when:

- they understand the prices they face;
- the information they receive is presented simply and is consistent with what they receive from other sources (e.g. government, consumer representatives); and
- they feel they have some control over their energy bills.

Retailers in competitive markets have a strong incentive to ensure the messages they provide are easily understood and convey the information that customers need. Therefore, we welcome IPART’s reference to the findings of Oxera in its report for the AEMC, which concluded that *‘if policy changes are being considered to increase customer engagement ... they should be first tested to see whether they work with or against identified biases’*.⁴

We strongly urge a cautious approach to regulatory intervention, particularly where this seeks to promote customer engagement. The reasons for customer disengagement are many and varied and as we have said elsewhere, it is not possible to conclude that disengagement is a

² The regulatory initiatives in these examples are all part of the AEMC’s Power of Choice reforms: <http://www.aemc.gov.au/Major-Pages/Power-of-choice>

³ More details about the COAG Energy Council’s *Energy Market Transformation* workstream are available at <http://www.scer.gov.au/current-projects/energy-market-transformation>

⁴ Independent Pricing and Regulatory Tribunal (2016), *Draft Report – Review of the performance and competitiveness of the retail electricity market in NSW from 1 July 2015 to 30 June 2016*, page 5

simply a function of a single factor, such as income level (high or low) or location.⁵ Therefore, regulators need to understand the underlying reasons for customers' disengagement so they can develop effective, proportionate and well targeted responses. Otherwise, regulation will not be effective and may simply impose significant costs for little benefit.

Finally, we welcome IPART's recommendations for potential regulatory reforms – that is, for the NSW Government to wind down duplicative components of state-based green energy and energy efficiency schemes, and to remove price regulation of early termination fees caps under the *National Energy Retail Rules (NSW)*.

Regulation is often introduced in response to actual and perceived problems that dissipate in line with the evolution of markets, or to address the unintended consequences of other regulatory measures. An example of the latter is the current prohibition on early termination fees in NSW, which reflected concerns about the limited extent of competition in NSW under price regulation.

Similarly, duplicated and / or inconsistent regulation across jurisdictions undermines competition and imposes costs. Therefore, the removal of such inconsistencies reduces costs and encourages retailers to expand their operations (into new jurisdictions, for example). Customers are the ultimate beneficiary of more efficient regulation.

Should you require further information regarding this submission please call Geoff Hargreaves on (03) 8628 1479.

Yours sincerely

Melinda Green

Industry Regulation Leader

⁵ See EnergyAustralia's submission to the Australian Energy Market Commission *Approach Paper – 2015 Retail Competition Review* for a more detailed discussion, <http://www.aemc.gov.au/Markets-Reviews-Advice/2015-retail-competition-review>