



Energy Retailers Association
of Australia Limited

10 May 2012

Dr Peter J Boxall AO, Chairman
Regulated retail prices for electricity 2012
Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB Post Office NSW 1230

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

Dear Dr Boxall

RE: Changes in regulated electricity retail prices from 1 July 2012 – 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 2012 – 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. We refer to the individual submissions of our members to comment on this and strongly recommend that IPART has due regard to these submissions in determining their final Determination. It is within this context that the ERAA provides the following comments on the Report.

As outlined in previous ERAA submissions, the ability of retailers to offer market contracts is predominantly driven by the most influencing factor in the development of an effective energy market: the prevailing regulated retail price. If regulated retail prices are set too low (or otherwise are inefficient in their reflection of retailer costs) retailers will cease to be active in the market; if prices set too high, consumers remaining on non-market contracts will be paying too much for electricity. The ERAA has always maintained that best way to manage these risks and uncertainties whilst protecting consumer's interests is to remove retail price regulation, as was achieved in Victoria in 2009.

The Report notes that the main reason for electricity price increases is due to increased network costs, accounting for 8.4% of the NSW average 16.4% price increase. Following this, carbon price costs contribute for 9.0% of the increase. Although energy retailers only account for 1.2% of the increase, retailers are the avenues for passing through these other price increases to consumers, and therefore we welcome the cost

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increases being scrutinised. In addition, the ERAA commends the policy changes to Green Schemes made by the NSW Government in 2011, which have contributed to a mere 0.1% price increase being passed through to customers.

Given the significance of the price rises forecast, the ERAA would support the call for an immediate review of hardship provisions to ensure adequate preparation for the expected resulting issues from increased prices. Whilst it is recognised that the Commonwealth Government has provided carbon price assistance in the form of increased family payments, pensions and benefits, it is unlikely that this will directly translate to an ability to afford price rises at the time of billing. There is a real risk that increases to fortnightly income are likely to be spent on discretionary items, rather than being saved to pay quarterly energy bills. Whilst the ERAA believes that addressing energy hardship is a shared responsibility of governments, energy retailers, community groups and individuals, retailers are the bearer of any increased credit risk expenses. Given the large rises in network and carbon price costs, the only sustainable way to support people facing hardship is to ensure welfare policies are adjusted to incorporate changed prices.

Regarding calculation methodology, IPART has stated that prices using the LRMC as the EPCA are 5% to 7% higher than under the market based costs. The ERAA is concerned that this may be interpreted to imply that prices are higher than what they should be. Retailers employ a variety of approaches to manage their wholesale energy costs including long dated power purchase agreements and therefore market based costs determined by IPART may not necessarily reflect retailers' costs. The use of LRMC as the floor is a highly relevant reference to set an appropriate safety net "price to beat". Sufficient head room is essential to offer customers with a competitive market offer whilst maintaining costs. Even where materiality thresholds are not breached, increased costs will lead to an erosion of this headroom, and potentially contribute to an impact on competition. As outlined earlier, the ERAA considers that the introduction of the carbon price could potentially reduce headroom through both direct and indirect costs. We recommend IPART refer to the individual submissions of our member companies for more detailed comments in relation to pricing.

Should you wish to discuss the details of this submission further, please contact me on (02) 9241 6556 and I will be happy to facilitate such discussions with my member companies.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Cameron O'Reilly', written in a cursive style.

Cameron O'Reilly
Chief Executive Officer
Energy Retailers Association of Australia