

20 May 2013

Reviews of regulated retail prices and charges for gas and electricity
Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB Post Office NSW 1230

Via website upload

Dear Sir/Madam,

Thank you for the opportunity to participate in IPART's *Review of Regulated Retail Prices for Electricity, 2013 to 2016* and *Review of Regulated Retail Prices and Charges for Gas, 2013 to 2016*.

The NSW Business Chamber is one of Australia's largest business support groups, helping around 30,000 businesses each year. Founded in 1885, the NSW Business Chamber works with thousands of businesses, from owner operators to large corporations, from product-based manufacturers to service provider enterprises.

The NSW Business Chamber is a leading business solution provider and advocacy group with strengths in workplace management, workplace health and safety, industrial relations, human resources, international trade and improving business performance. Operating throughout a network in metropolitan and regional NSW, the NSW Business Chamber represents the needs of business at a local, State and Federal level, advocating on behalf of its members to create a better environment for industry.

High energy prices remain a key concern for our members. In the NSW Business Chamber's March quarter 2012 Business Conditions Survey, 50% of respondents rated rising energy costs as having a significant or very significant impact on their business.

Treatment of small business

While the business sector is included within IPART's analysis in the draft determinations, overall this analysis is more focused on the residential sector. The business sector would benefit from having equal analysis on the impact of the draft price determination on sample business bills. It is important to note small businesses are also very sensitive to price increases, particularly given the relatively high electricity prices along with current economic conditions including a high Australian dollar, low consumer confidence levels and regulatory/policy uncertainty.

Therefore, it is also important to conduct analysis on the impact of the proposed price paths on the business sector to enable the NSW Government to make a fully-informed decision. There should be greater analysis included in the draft determinations on the impact of electricity price increases on the business sector in Chapter 12 (akin to what is provided for residential customers) and similar analysis provided in the gas price determination. The NSW Business Chamber would be happy to work with IPART on developing this ability if appropriate.

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ELECTRICITY

While it is pleasing to see a downward trend in real electricity prices from 1 July 2014, electricity consumers in NSW will still face high prices because of the consecutive significant increases in real prices over the last decade. The Energy Users Association of Australia's 2012 report entitled *Electricity Prices in Australia: An International Comparison* shows that when compared to 91 countries, states and provinces across the US and Europe, electricity prices in NSW were the 4th highest among any jurisdiction.

This means that businesses will remain concerned about the impact which high electricity costs are having on their business. As outlined in further detail below, the NSW Business Chamber does not support the proposed inclusion of an allowance for retailers to acquire and retain customers in order to meet the so-called long-term interests of customers.

Customer Acquisition and Retention Costs

Recognising that the terms of reference for this determination include a requirement to balance the short-term and long-term interests of consumers, we do not agree that there is adequate proof that including an additional allowance will meet the long-term interests of consumers.

IPART concludes that the NSW retail market for electricity is competitive. However, to improve longer-term competition IPART is proposing that a Customer Acquisition and Retention Costs (CARC) allowance be included within regulated prices to enable second-tier firms to enter the market. The assumption is that more retailers will lead to more competition and more innovation, placing downward pressure on prices.

Given IPART's conclusion that there is already a competitive market, we are not convinced that adding in additional allowances for regulated prices will necessarily increase competition. It may increase the number of market participants, but this does not necessarily mean that consumers will be better off – in the form of access to more efficient prices - than if this allowance was not included. There is a possibility that this will only encourage inefficient retailers to enter the market.

As stated earlier, electricity prices in NSW remain relatively high and businesses are significantly adversely affected by the cost of energy as an input. Even if we could be convinced that adding in the allowance would help the longer term interests of smaller business consumers sometime in the future, we would strongly argue that the level of current electricity prices remain a significant burden on business customers – with gas price hikes to follow – therefore it is not a sensible time to be raising electricity prices for the sake of attracting more market participants. There is also no clarity on how long consumers will need to pay this allowance, making it difficult to judge the full impact on consumers which creates further uncertainty.

Customer Awareness

Over 90% of businesses surveyed in the Roy Morgan Research conducted for the Australian Energy Market Commission are aware that businesses can choose their electricity retailer. However, IPART estimates that 40% of business and residential customers remain on regulated pricing despite offers available in the market which offer up to a 15% discount off the regulated maximum price. This is likely to mean that

customers are unable to compare energy offers, that they do not believe current lower than regulated prices will continue or they do not have the time to conduct this research which is often complex. Business operators are often time-poor and do not have adequate resources or skills on hand to conduct detailed research.

Therefore, the NSW Business Chamber supports IPART's view that retailers should make it easier for customers to compare market offers and to ensure that customers understand how prices will move throughout the contract. We agree that it is in the best interests of the retailers to do so.

GAS

It is concerning to see the extent of the proposed increases to regulated retail gas prices. This will have a significant impact on the business sector which, along with high electricity prices, will now be faced with high gas prices.

IPART indicates that the main driver of the proposed gas price increases is the increased network costs. As outlined below, the NSW Business Chamber is anticipating the next network determinations to assess whether recent regulatory reforms are successful to ensure that only efficient investments are undertaken.

Wholesale Gas Prices

The NSW Business Chamber recognises that there is uncertainty about future wholesale gas prices. We are not only concerned about the impact on the business sector if gas prices increase as expected, but also about the limited availability of gas to NSW customers. The best policy solution to address predicted gas shortages is to develop the NSW's coal seam gas industry. This means that both the NSW and Federal Governments need to urgently finalise the regulatory regime and facilitate timely project approvals. This will ensure that the NSW gas industry develops in an environmentally safe manner, which will help improve NSW's gas security.

Customer Awareness

As with electricity retailers, the NSW Business Chamber supports IPART's view that gas retailers should make it easier for customers to compare market offers and to ensure that customers understand how prices will move throughout the contract.

REGULATORY REFORM

Carbon Price

The NSW Business Chamber does not support the current carbon tax scheme. As well as causing a competitive disadvantage on emissions-intensive trade-exposed industries, it has also added further to electricity prices in NSW. IPART has estimated that the carbon price has added \$167 to an average residential (7MWh per year) bill in 2012/13. Given average small businesses are likely to use more electricity than the residential sector, this figure is likely to be even larger for the business sector.

Renewable Energy Target

The NSW Business Chamber supports IPART's comments about the RET Scheme. The NSW Business Chamber's submission to the Climate Change Authority's (CCA) review of the RET Scheme argued that the RET Scheme was not complementary to the carbon tax scheme and should be abolished. Given this was beyond the scope of the CCA Review, the NSW Business Chamber advocated for reforms to the scheme so that it becomes technology-neutral. At current, the RET Scheme supports more costly forms of renewable technology, the cost of which gets passed on through energy bills.

Networks Regulation

The NSW Business Chamber has been closely following the current reforms being considered or undertaken for electricity networks at the regulatory level. The recent Rule Change which essentially provides greater scope for the Australian Energy Regulator is supported in principle, but we will be reviewing the next network pricing determinations relevant to NSW to determine how the new Rules operate in practice. The NSW Business Chamber also supports IPART's position on the Merits Review framework.

We also support the NSW Government's establishment of Networks NSW which is already demonstrating significant cost savings.

CONCLUSION

Thank you for the opportunity to provide comment on the draft determinations. For further information on any of the points made in this submission, please contact Larissa Cassidy on 9458 7359 or Larissa.Cassidy@nswbc.com.au.

Yours sincerely,



Paul Orton
Director, Policy and Advocacy