Red Energy Pty Ltd - ABN 60 107 479 372

2 William Street
East Richmond, VIC 3121
T 131 806
F 03 9425 0589
W redenergy.com.au

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Early Termination Fees
Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB Post Office NSW 1230

Submitted online:
www.ipart.nsw.gov.au/Home/Consumer_Information/Lodge_a_submission

Dear Sir/Madam,

RE: Draft report: Early Termination Fees- Regulating the fees charged to small electricity customers in NSW

Red Energy welcomes the opportunity to provide comment on IPART's review of *Early Termination Fees- Regulating the fees charged to small electricity customers in NSW* (the Draft Report).

Red Energy is a 100% Australian owned and operated subsidiary of Snowy Hydro Ltd. Red Energy currently retails electricity in NSW and is one of the largest second tier retailers in the NEM. Red Energy also participated in the Essential Services Commission of Victoria's (ESCV) *Early Termination Fees Compliance Review of 2006* so can hopefully provide some additional insight into this review.

In reviewing the Draft Report, Red Energy has focused on a number of key factors it feels are particularly important to note. It has also drawn some reference from the public hearing (the transcript) regarding this matter which took place on 4 November 2013.

Introduction

Red Energy does not agree that the application of a base ETF cap of $130 in the first year and $45 in the second year is in the best interests of the market to encourage active competition in NSW.

The terms of reference for this review provided by the NSW Government require IPART to take into account the retailers reasonable costs of acquisition, as well as a requirement to take into account any possible effects on competition and pricing in the relevant markets. Red Energy does not believe that the Tribunal has taken sufficient note of the second objective of this review.

As it contended in the ESCV's review of ETFs in 2006, Red Energy believes that a lower ETF will allow for greater competition in the NSW market by enabling greater consumer choice.

Costs to acquire and costs to retain

The transcript notes comments from energy retailers and the Tribunal that one of the barriers to effective competition is the cost to acquire a customer that is not able to be recouped by a retailer. Red Energy does not agree with this contention. Red Energy believes the key to retention of a customer is not based solely on a retail contract ETF. It may be a factor, but it is also based on the experience that retailers provide to a customer and the brand loyalty achieved by providing an effective level of service. The Victorian energy market continues to be regarded as one of the most competitive worldwide despite its relatively low ETF caps. Red Energy believes that consumers should be given the right to choose the best possible offer for them, rather than being constrained by high ETFs in an unsuitable contract. The key benefits of a competitive energy market are consumer choice and lower energy prices- minimising a barrier to a consumer finding a more suitable offer to them can only benefit the market and consumers overall.

The changing landscape of offers in NSW

Red Energy notes the Tribunal's belief that setting the base ETF caps too low would adversely affect a competitive NSW market by requiring retailers to increase prices above the efficient rate to cover the potential losses on acquiring a customer who churns. It could also disincentivise retailers from creating new and innovative offers for the benefit of consumers overall.

Red Energy does not agree that this potential loss would minimise the number of offers available, nor would it cause an increase in prices overall. The current market in NSW does not have an ETF cap, yet very few retailers actively marketing in NSW actually have an ETF greater than the proposed caps in the Draft Report. This appears to suggest that the efficient point for an ETF in a natural market is lower than the proposed caps and that the lower ETFs currently seen in the market are not causing a barrier to entry for second tier retailers.

There is however a risk that imposing a higher than market base ETF cap may encourage retailers to increase their ETFs to meet that cap. If higher ETFs were substantiated by the Tribunal's determination, this would limit any recourse in the market for a retailer imposing such a high ETF. This could result in a greater detriment to competition by minimising a second tier retailer's ability to gain market share. A high ETF cap could also require a retailer seeking to grow its market share to offer large signup incentives to offset the previous retailers ETF. This in turn would result in even higher ETFs than that of the base cap which would then further minimise the ability of a consumer to choose the offer best suited to them.

Red Energy believes the benefit to the market overall of lower ETFs, and in turn the individual consumer through greater choice, outweigh the possible risks of retailers being forced to increase retail margins to remain profitable.

If you have any further comments or queries in relation to this submission please contact Ben Barnes, Quality and Compliance Advisor, on 03 9425 0530.

Yours sincerely

Stephen Grant
Manager-Quality and Compliance
Red Energy Pty Ltd