

17 September 2009

Dr Michael Keating AC
Chairman
Independent Pricing and Regulatory
Tribunal of New South Wales
PO Box Q290
QVB Post Office NSW 1230

Dear Dr Keating

**RE : Review of Regulated Retail Tariffs and Charges for Electricity 2010-2013
Electricity — Draft Methodology Paper, August 2009**

The Energy Retailers Association of Australia (ERAA) welcomes the opportunity to provide comments on the 'Review of Regulated Retail Tariffs and Charges for Electricity 2010-2013 Electricity — Draft Methodology Paper August 2009 (The Paper)'.

In reviewing the Paper the ERAA remains concerned by the Tribunal's overall approach towards the promotion of competition in the NSW retail electricity market. Given the significant decline in competition since June 2007 following the 2007-10 price determination, the ERAA would argue that a fundamentally different approach is required. Notwithstanding the Terms of Reference provided to IPART, the ERAA believe the Tribunal and the Government need to reconsider how they view the regulated electricity tariff and treat it as a safety net, and thereby encourage new retailers to enter the market and make cheaper offers.

The ERAA acknowledges the statements in the transcript of IPART's Public Forum on 1 September 2009 that competition should not be seen as an end in itself and that churn is not a robust indicator of competitiveness. However, as the promotion of retail competition is an important consideration in the review, the ERAA would invite the Tribunal to carefully investigate what has occurred in Victoria since prices were deregulated on 1 January 2009. In that market, marketing activity remains strong, customer churn remains at around 50,000-60,000 customers per month and price competition is apparent in market contracts offered by retailers. As well as this independent studies have confirmed that over two-thirds of customers have been satisfied with their offer.¹ This market clearly

¹ Essential Services Commission "Wallis Consulting Group: Communications Effectiveness Final Report" June 2009 (http://www.esc.vic.gov.au/NR/rdonlyres/9D8E83EC-A672-49FC-BFD4-6293A5EAF558/0/WP_ConsumerResearch_CommunicationEffectiveness2009FinalReport_Full_20090706.pdf)

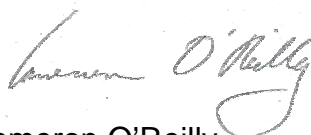
demonstrates the inherent link between sufficient margin, healthy competition and positive customer outcomes.

The ERAA would also draw the Tribunal to compare these market conditions with those in the NSW retail electricity market. As shown in the attached chart the Association would again note the demise in customer churn between June 2007 and June 2009. While there has been some recovery in the level of market switching we would note that this is substantially below the level in Victoria which is currently around 50,000 transfers per month. Again, it is worthwhile to draw the Tribunal's attention to its own findings outlined in the Issues Paper demonstrating the increase in the number of customers on the regulated tariff, the decrease in marketing activity and the fall in the discounts available to those on negotiated tariffs.² Such evidence again demonstrates the real impact on competition in the NSW market and therefore for NSW customers of not allowing sufficient margin for retailers.

The ERAA requests that the Tribunal take into consideration the issues and concerns raised here as well as those raised by our member organisations individually. We look forward to the release of the draft report in December and the further opportunity to comment at that stage.

Should you require any further information in relation to this matter please feel free to contact me on (02) 9437 6180.

Yours sincerely

A handwritten signature in dark ink, appearing to read 'Cameron O'Reilly', is positioned above the printed name.

Cameron O'Reilly
Executive Director
Energy Retailers Association of Australia

² IPART" Review of Regulated Retail Tariffs and Charges for Electricity 2010 -2013: Electricity Issues Paper," July 2009, p.23

