

17 February 2012

Electricity Industry Panel - Secretariat  
GPO Box 123  
Hobart TAS 7001  
Email: [contact@electricity.tas.gov.au](mailto:contact@electricity.tas.gov.au)

Dear Panel Members,

**Re: Independent Assessment of the Tasmanian Electricity Supply Industry**

The Energy Retailers Association of Australia (ERAA) welcomes the opportunity to comment on the Electricity Supply Industry Expert Panel (Panel) Draft Report on the independent assessment of the Tasmania Electricity Supply Industry (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 NEM and are the first point of contact for end use customers of both electricity and gas.

In this submission the ERAA has not provided comment on the various recommendations raised in the Report, as members of the ERAA will address these individually. The ERAA instead refers to its presentation that was made to the Australian Institute of Energy in March 2011, in Hobart, as a support to this submission. It is within the context of this presentation that the ERAA provides the following comments to the Report.

As highlighted in the Report, one of the major barriers to ensuring competitive retail market is for there to be a market structure that ensures energy retailers are not disadvantaged by an inflexible wholesale market. In states and territories, where consumers are offered choice through market contracts, retailers only avenue to offer customers a discount is to manage the costs that they can directly control effectively – that of wholesale and retail costs. As wholesale costs in 2010/11 comprised 40% of a customer's average annual bill, and retail costs comprised 8% of the bill (or \$156.75)<sup>1</sup>, any inability by retailers to achieve cost efficiencies through an uncompetitive wholesale market, impacts on a retailers ability to compete in Tasmania and therefore provide consumers with choice.

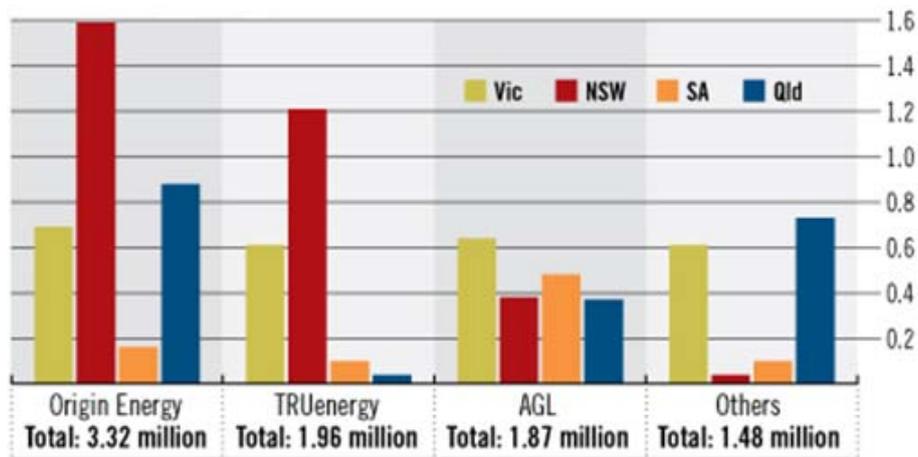
The ERAA strongly supports the Panel's recommendation that following wholesale market reform, full retail contestability, be introduced. The ERAA further recommends that the Panel considers making a recommendation that once full retail competition is introduced in Tasmania, that the AEMC conducts its review on the effectiveness of competition, and where it is deemed that there is effective competition, that the Government undertakes to remove price controls.

Retail price regulation is inefficient: it stifles product innovation, impedes price and service competition, and prevents the full range of benefits resulting from strong competition from being realised. It is the view of the ERAA that competition offers the best form of protection for consumers; not setting retail price caps.

---

<sup>1</sup> Australian Energy Market Commission, *Final Report: Possible Future Retail Electricity Price Movements: 1 July 2011 to 30 June 2014*, November 2011

On January 1 2009, Victoria became the first (and only) State to introduce a deregulated pricing regime following the Council of Australian Government’s Australian Energy Market Agreement (2006) to deregulate prices once competition is deemed effective. Since then, Victoria’s deregulated pricing regime has contributed strongly to competition and has allowed second-tier retailers to claim approximately 25% of the overall market share, which can be seen on the following graph.<sup>2</sup> Any concerns about the abuse of market power by incumbent retailers are quashed by the fact that Victoria has the least concentrated market in the NEM, despite incumbent retailers having the ability to set their own prices. Cost-reflective pricing is important to encouraging new entrant retailers into the market and as a result, strong competition results in many overall benefits for both industry and consumers.



There is evidence amongst the membership of the ERAA that there is increasing interest in the Tasmanian market. Given the right market environment there is good reason to believe competition in Tasmania has the potential to flourish. I therefore urge the Panel to continue to focus on encouraging that as part of their review they also consider the removal of price regulation as part of their reforms. Should you wish to discuss the details of this submission further, please contact me on (02) 9241 6556.

Yours sincerely



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

<sup>2</sup> Murray. L. And J. Range, 16 Dec 2010, *Price row rages over \$5.3bn power sell-off*, Australian Financial Review.



Energy Retailers Association of Australia

Inter-state and international lessons on  
Full Retail Electricity Contestability (FRC)

30 March 2011

Cameron O'Reilly  
*Executive Director*



# About the Energy Retailers Association of Australia (ERAA)

- Peak body representing electricity and gas retailers in the national energy markets
- Members include large incumbent and new entrant retailers – mixture of public and privately owned
- National coverage including WA and NT
- Members supply electricity to 98% of customers in the NEM
- Members have over 11 million customers – more than 3 million gas customers
- Most member companies are “dual fuel”

# Energy Market Reform

## COAG Reform Processes relating to the Energy Industry

- 1990-91 - Industry Commission Inquiry
- 1994 - National Competition Policy Review Committee
- 1995 - Competition Policy Agreements
- 2002 - Energy Markets Review
- 2007- Energy Reform Implementation Group

## Energy Industry Reforms

National Electricity Market  
National Legislative Framework  
National Competition Policy  
Full Retail Contestability  
Australian Energy Market  
Commission  
Australian Energy Regulator  
Australian Energy Market  
Operator

# Eastern Australia's Retail Markets

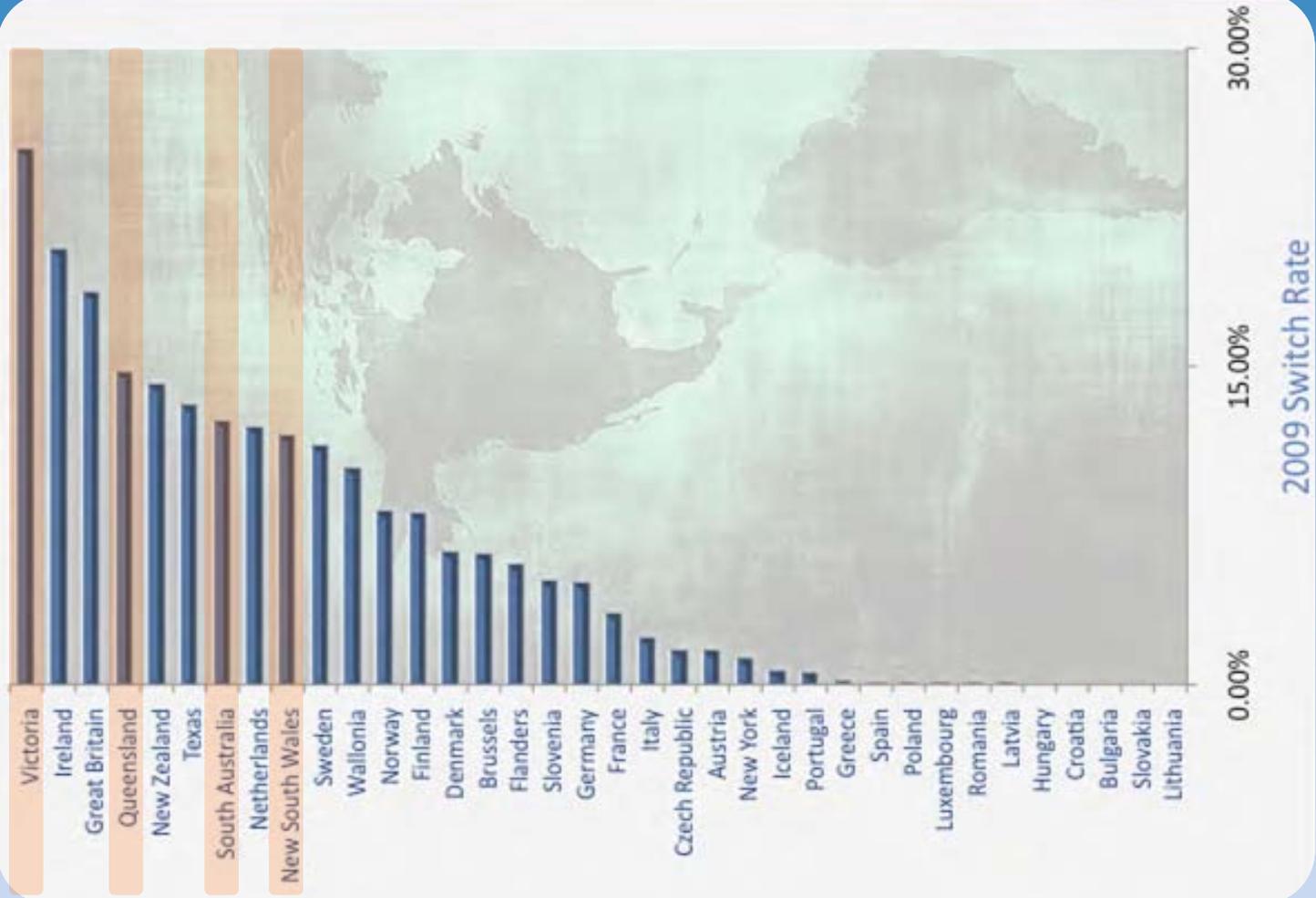
- Australia's energy markets are a product of the reform processes of the 1995 National Competition Policy Agreements (NCP)
- The key change in retailing was full contestability for all customers (FRC)
- Australia has some of the most competitive retail energy markets in the world
- Many retailers are vertically integrated 'gentailers' – i.e. generators and retailers
- Almost complete separation of the competitive industries of retail and generation from monopoly distribution and transmission
- Public and even policy-makers understanding of the energy reforms is low, but consumer engagement in retail choice is clearly evident

# Australians embrace FRC



Source: World Energy Retail Market Ranking Report 2010

# World Switching Rankings 2009



Source: World Energy Retail Market Ranking Report 2010

# Australian Markets – Comparative Switching

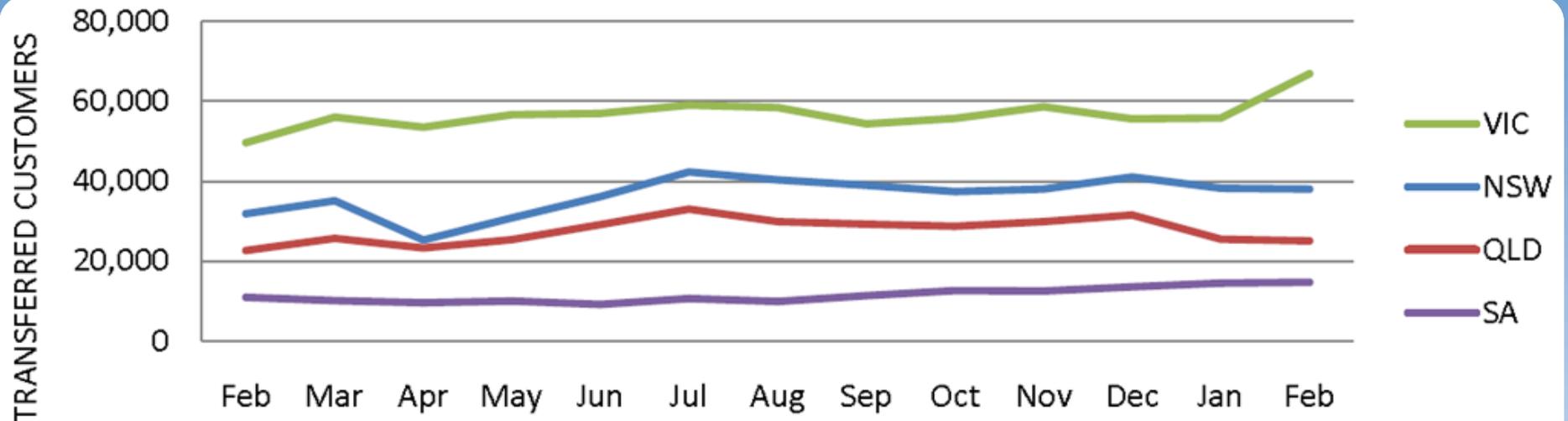
## 2009 Australian Switch Rates (%)

vaasa ett	Victoria	Queensland	South Australia	New South Wales
Electricity	25.3	15.4	12.4	11.8
Gas	27.4	7.6	11.9	6.5
Combined	26.3	11.5	12.2	9.2

Source: VaasaETT Global Energy Think-Tank (vaasaett.com) 2010

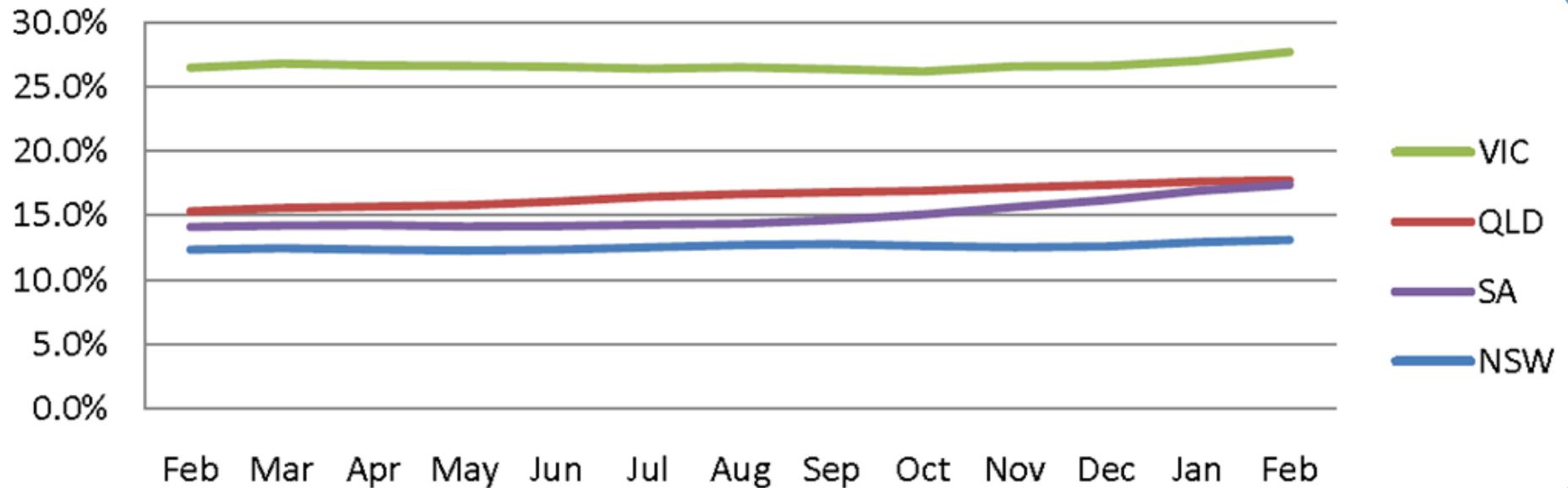
# Small monthly Transfers: Feb 2010 – Feb 2011

Source - AEMO



# Twelve month switching rates: Jan 2010 – Jan 2011

Source AEMO



# What Enables Active Markets?

over 100 variables including...

- Private Ownership
- Access to generation (e.g. wholesale or gen-retailers)
- Wholesale liquidity (many generators, sufficient generation)
- Low market concentration
- Dual fuel
- Equal access to distribution
- Transparent pricing (and no hidden subsidies)
- Ownership unbundling of distribution
- Retail margins to allow market entry
- Price volatility
- Good and Committed marketing
- Price flexibility / Volatility
- Absence of incumbent privilege

Source: VaasaETT World Energy Retail Market Ranking Report 2010

# Observations about Australian markets?

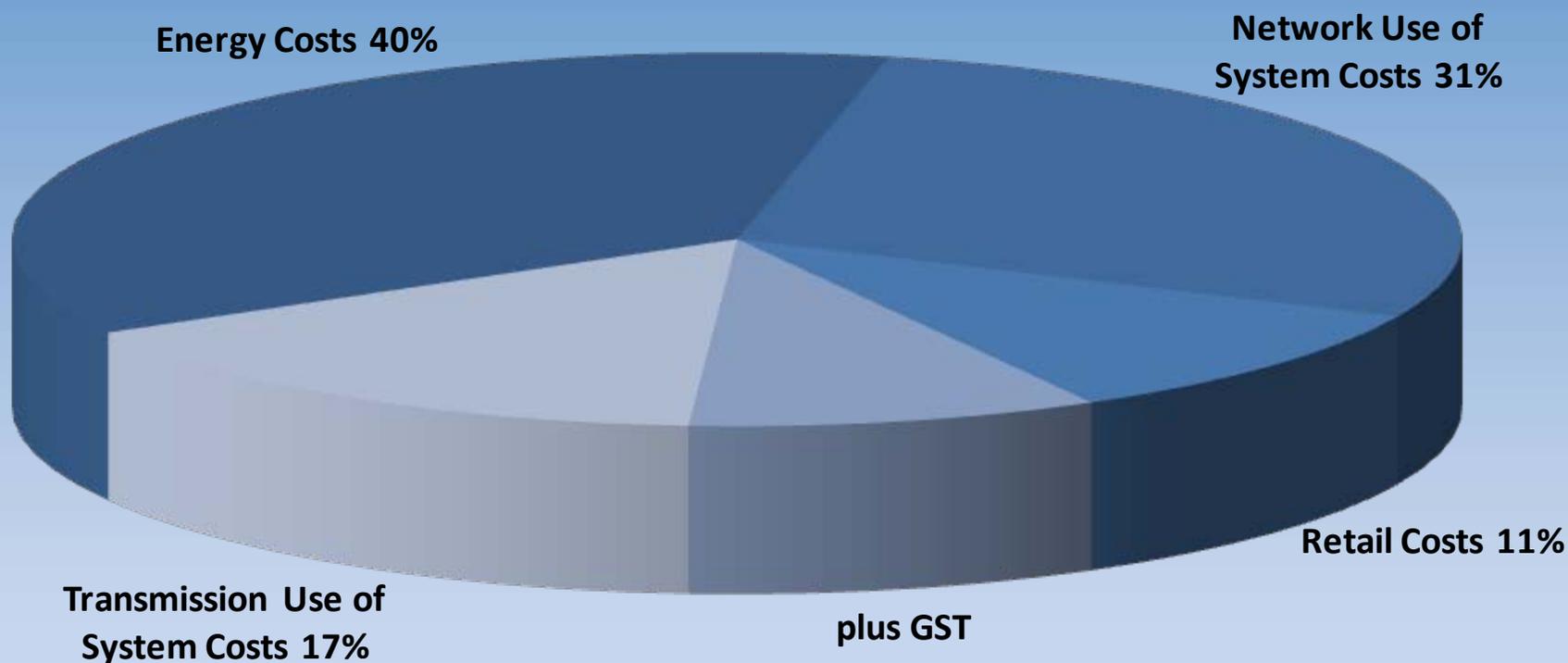
- Victoria is the Australian state which exhibits the highest number of variables that VaasaETT say make for an active market
- Tasmania would likely have to make structural changes to its electricity market if it wanted a very active market
- These changes are for the Electricity Supply Industry Expert Panel to consider – and ultimately for the people of Tasmania to decide
- As a small market of around 270,000 customers these changes are unlikely to create a “mini Victoria” where 11 retailers compete for household customers
- If the market structure is right, FRC can be successful in small markets – most retailers are national and retailing is a volume business (i.e. The more customers the better)
- But there are costs to implementing FRC – particularly IT and system costs

# Benefits of FRC – Tasmanian FRC Public Benefit Assessment – Final Report 2008

- Increased scale of contestable market likely to increase competition
- Efficiency gains and better investment environment
- Better service for customers and more innovative and responsive retail market
- Tariffs that better reflect cost of supply
- Greater consumer understanding and participation

\* Note – limited comments on price benefits

# Breakdown of a typical bill for a domestic customer



Source: *Office of the Tasmanian Economic Regulator*

# FRC and prices

- When 90% of an electricity bill is network costs and wholesale electricity costs all retailers face common cost pressures (including possible future carbon tax)
- Queensland Premier Peter Beattie sold FRC in 2007 on the basis of “price cuts” but;

***Drought pushed up wholesale electricity costs as FRC began and major investment in networks to meet peak demand and population growth pushed up network costs – and therefore regulated retail prices***

- FRC in Queensland seen as disappointing when it was sold on the wrong premise
- Yet Qld witnessed one of the most rapid increases in switching ever seen in 2007-2008 and new entrant retailers achieved 10% market share (PWC for ERAA)
- Pricing and product diversity increases under FRC and Victorian regulator found that savings of between \$92 and \$130 were possible through market contracts

# Prices: How does Tasmania compare?

State/territory	Price range at state average consumption (c/kWh)		
Australian Capital Territory	16.3		
Victoria	17.5	-	22.7
<b>Tasmania</b>	<b>19.3</b>	<b>-</b>	<b>20.9</b>
New South Wales	19.3	-	26.2
Queensland	19.5	-	20.6
South Australia	20.2	-	25.4
Northern Territory	20.8	-	21.0
Western Australia	21.7	-	23.0

Source: OTTER (Fact Sheet 9 September 2010)

# Conclusions

- Australians lead the world in the embrace of retail contestability
- Victoria stands out as our most competitive market - but has a unique privatised structure with deregulated pricing
- Market structure issues are for the State to decide
- FRC brings a range of non-price benefits to consumers – competition is good
- Retail prices are still mostly determined by generation and network costs but FRC often leads to more product/pricing variety (but has system costs)
- Consumer engagement with FRC is important
- Tasmania may be lagging the other States on FRC but on issues like pre-payment meters (39,000 customers) it has shown itself to be innovative and successful in consumer engagement



**eraa.com.au**