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14th November 2008

Mr. John Tamblyn
Chairman
Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

Dear Mr Tamblyn

Reference EMO 0004/3

On behalf of the South Australian Farmers' Federation (SAFF), I am attaching some brief comments in response to the Second Draft Report of the Australian Energy Market Commission on the Review of the Effectiveness of Competition in Electricity and Gas Markets in South Australia.

If any clarification is required, please contact Mr Deane Crabb, SAFF's Policy Manager (phone 08 8100 88711 or email dcrabb@saff.com.au).

Yours sincerely

A handwritten signature in black ink, appearing to read 'Carol Vincent', written over a horizontal line.

Carol Vincent
CHIEF EXECUTIVE

Comments from the South Australian Farmers' Federation on the Second Draft Report of the Australian Energy Market Commission's Review of the Effectiveness of Competition in Electricity and Gas Markets in South Australia

In previous submissions to the Australian Energy Market Commission (AEMC), the South Australian Farmers Federation (SAFF) put the view that effective competition does not yet exist in South Australia, and that the structural conditions of the energy retailing market actually preclude true market competition.

However, the AEMC has concluded that competition is effective. It has stated that retail price regulation should not be continued but should be replaced by competitive market pricing accompanied by a comprehensive price monitoring regime with a reserve power to impose price regulation should competition deteriorate in future.

In reaching its conclusion that competition is effective, AEMC states (page 24) that "*Markets are better than regulators at processing information and responding to changing cost and market conditions.*" With the world's current financial crisis, and the re-regulation in many countries of banks and financial institutions, perhaps this statement needs to be re-assessed?

Given SAFF's stance, we agree with the AEMC recommendation (page 33) that "*the obligation to agree to supply and sell energy on reasonable terms and conditions to small customers should continue to apply following the removal of retail price regulation.*" Certainly comprehensive price monitoring needs to be put in place. This needs to include extending the Energy Price Disclosure Code to standing contracts and default contracts. In addition there is a need to report on the price difference between comparable contracts in regional and metropolitan areas for both electricity and gas customers.

SAFF notes the comment (page 7) that the affordability of energy for low income households needs "*to be addressed through appropriately targeted policies rather than by intervening to distort the efficient operation of the market.*" However this is not always possible to achieve. For example, as part of its current drought package, the South Australian Government provides energy concessions for farm families verified as receiving Exceptional Circumstances Relief Payment or Farm Help payments from Centrelink. The uptake of this concession has been very low, estimated at only 7%. The Department of Families and Communities has indentified that many farming households have their personal, household utilities in the name of a farming entity, and hence are not eligible. While this issue is being addressed, it shows the difficulties of developing ways to readily assist low income households. Price regulation may have been simpler.

In relation to establishing a reserve power to impose price regulation should competition deteriorate in future, the Second Draft Report indicates that the South Australian Minister has to ask the AEMC to conduct a review, but the Minister is not allowed to re-impose price regulation unless recommended by the AEMC, even if the Minister has received advice from elsewhere that price regulation should be re-introduced. SAFF has reservations about this process.