Paul Smith
CEO – AEMC
Level 6 201 Elizabeth Street
Sydney NSW 2000 25/03/2014

**RE: RRC001 – Retail Price Variation in market retail contracts**

Dear Sir

Than you for providing the opportunity to comment on the Proposed Rule Change, as proposed by CUAC/CLAC by way of amending Rule 46 to ensure that under fixed term contracts (plans and benefit periods), energy retailers are prevented from unilaterally varying the retail tariff.

I wholeheartedly endorse and support the Proposed Rule Change as outlined in the CUAC/CLAC document "Unilateral Price Variation & Market Retail Contracts, Rule Change Request for Australian Energy Market Commission – October 2013".

It has long been my view that there is a serious disconnect between the industry's and consumer's view of several terms that are used within the context of the National Energy Market.

One of these is the notion of "Fixed Term – Fixed Price" which we simple-minded consumers believe should always have meant what it says on the packet. Fixed term, fixed price. So this is a good move to clarify industry's thinking and get them more in line with consumer expectations.

However, there are other matters that also need to be addressed by AEMC – specifically the notion that the term "competitive market" has any connection with the reality experienced by ordinary consumers, rather than some subtle variation on the term that seems to exist only for the benefit of the owners of electricity businesses.

A heavily regulated market can never truly be said to be a "free" market, and without a free market, no market can be said to be truly competitive.

All that govt and the industry has achieved thus far is a set of constraints that enable the *least* competitive industry business to be *somewhat* profitable, while the *most* efficient and *most* competitive businesses are reaping what are effectively super profits at the expense of the consumer.

There is only minimal price flexibility available to the consumer, so retail consumers' costs are, within very narrow parameters, effectively "fixed", but I acknowledge that prices being offered in Victoria vary greatly from those offered by the identical retailers in the NSW market, so it does seem that some additional competition is creeping into the market. And not before time.

Origin, for example, currently offers electricity at 22c/kW/h in VIC, with 86c/day fixed costs, while I am currently paying 31c and 125c respectively, 'off contract' in NSW for the identical 'product'. A not inconsiderable difference.

However what I find most disconcerting is the regulator's apparent indifference to the lack of competition inherent in the existence of a "fixed cost" per diem in order for retailers to pass on the cost of doing business within the industry, effectively passing all <u>their</u> 'participation risk' on to the consumer.

That their ability to do so is "regulated" beggars belief.

It's as though fuel retailers were allowed, via "regulation", to charge a fixed price for entry to their forecourts - to cover the cost of their exploration, extraction, production, distribution, supply chain, staff, retail and regulatory costs - prior to a consumer being able to fill up at the bowser with their *actual* product. Sure, the bowser price might be lower than at present but, overall, consumers would be worse off, as this mechanism effectively prevents active "price competition" between retailers.

The effect of this mechanism in the electricity market is to skew the price away from "lowest possible cost created by market competition" to what is, effectively, a flat fee, which it is well-known impacts more heavily on those least able to afford it.

The product is 'electricity' and the 'market price' should be just that – a cost per kilowatt – with no additional costs to confuse the consumer and distort the market.

If fuel (energy) providers are able to incorporate their exploration, extraction, production, distribution, supply chain, staff, retail <u>AND</u> regulatory costs into a single unit cost, then why cannot electricity (energy) suppliers do the same?

The real answer is that, operating in a ‘regulated’ market means that they don’t have to.

The ‘fixed costs’ for retailers are part and parcel of doing business in this market and *should* be incorporated into the unit cost of the product.

This would give consumers a clear and unequivocal price signal, and enabling them to switch between suppliers at will (as in the fuel market), would create a truly – and *properly* – open, free, and competitive electricity market.

At present, the nature of the ‘fixed cost per diem’ pass through means that lower volume consumers are – effectively and actually – subsidising the higher volume consumers cost of accessing the grid by paying proportionally more to access their power. This is unequivocally inequitable and needs to be addressed.

It’s as though the owner of a Toyota Corolla was charged $10 to ‘access’ a petrol station forecourt, while the owner of a V8-powered 4WD LandCruiser was charged only a $5 ‘access’ fee. But both were required to pay the same ‘unit cost’ for the fuel they needed to ‘energise’ their vehicle. So, do you own a Corolla? And if so, does this scenario seem unfair to you?

My personal view is that, as energy charges continue to rise, and the cost of alternatives falls, we approach a point in time where capital-equipped consumers will desert the grid, and its complexity and lack of competition, for the greener pastures of self-reliance, solar or hybrid self-generation, and battery storage.

Presently this is only marginally cost-efficient for the most energy-use-efficient consumer, but as grid-provided energy costs continue to rise, and the cost of solar panels and batteries falls, the margin between the two continues to narrow.

Once consumers begin to go off-grid, en-masse, the process will tend to accelarate, as less and less consumers will be available from which businesses in the NEM will be able to to recoup their capital expenditure and running costs, further increasing the cost to individual consumers, providing an ever greater incentive to depart the grid.

And industry will have only itself to blame.

In the meantime, the Proposed Change to Rule 46 is a nice ‘tweak’ around the edges of a fundamentally broken system that will enable those currently unable to escape their retailers greedy, grasping clutches to do so with something like impunity.

Perhaps that in and of itself will lead to greater transparency of charges and greater competition in the market, but I have my doubts.

As I already have the solar panels, I’m now saving for the battery bank as, on my average usage of 4kW per day, it is *already* more cost-effective for me to go completely off-grid than, as at present, to supply my self-generated power into the grid. I remain connected only while the NSW solar tariff continues to make it worth my while to do so. Come December 31st 2016, I’m out of there.

As it currently costs me $1.25/day ($456/annum) for the dubious ‘pleasure’ of selling my own power into the grid, and around $1200/annum cost for actual power usage, I can buy a lot of battery storage with that $1500. Enough so that over a 5 year period I could recoup the cost of a battery bank with a life expectancy of not less than ten years, effectively halving my energy cost over the longer term.

And your “market cost relative to available alternatives” test will have failed. I suspect I am not the first to realise this, and I guarantee I will not be the last.

Of course, if industry wanted to come to the party, and pay me a ‘fair’ price for my self-generated power, rather than the laughable 6c-8c/kW they currently offer me, for power they can on-sell for 26c-31c – a pretty fair margin for something that has actually cost them zero to produce – I might reconsider my decision to quit the grid.

Yours most sincerely

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