



5 July 2013

Australian Energy Market Commission  
PO Box A2449  
Sydney South NSW 1235

Lodged (online): <http://www.aemc.gov.au>

### **Review of Competition in the Retail Electricity and Natural Gas Markets in New South Wales – Draft Report**

The Energy Supply Association of Australia (esaa) welcomes the opportunity to make a submission to the Australian Energy Market Commission (AEMC) Review of Competition in the Retail Electricity and Natural Gas Markets in New South Wales – Draft Report.

The esaa is the peak industry body for the stationary energy sector in Australia and represents the policy positions of the Chief Executives of 36 electricity and downstream natural gas businesses. These businesses own and operate some \$120 billion in assets, employ more than 51,000 people and contribute \$16.5 billion directly to the nation's Gross Domestic Product.

The esaa welcomes the AEMC's conclusion that there is sufficient competition to deregulate retail electricity and gas prices across all of NSW. We agree that the whole of NSW should be treated the same, as the level of competition is 'sufficiently similar' across the state. While competition in the Essential area is not as high as the other two distribution regions, the Draft Report notes most retailers who operate in NSW operate in all three areas, and non-metro customers receive a reasonable level of approaches from retailers. In addition, the move to the diversification of marketing channels, such as the internet and television, should equalise the cost of acquiring metro and non-metro customers, further enhancing the levels of competition across NSW.

We support the AEMC's proposed approach of deregulating all sectors simultaneously and believe it is the most efficient way to transition away from price regulation. Moving all remaining customers at once is appropriate given the awareness amongst customers of their option to switch providers and the fact that this approach did not create any problems in South Australia.

Contrary to the AEMC's view that it would be desirable to have additional "measures to encourage customers to engage in the market and support them to make effective choices" prior to the removal of price caps, esaa recommends that deregulation be implemented within a short period of time after the Government receives the final report. Full retail contestability has been in place since 2002, around 60 per cent of customers are on market offers, and around 2.4 million switches have taken place to

date<sup>1</sup>. These indicators, combined with the recent experience in South Australia, mean there is no reason why this important reform should be delayed. esaa would also note that deregulation has been successful in both South Australia and Victoria with the current level of customer education and engagement.

This is not to say no further work should be undertaken to enhance the information available to customers. esaa supports the use of government-backed switching sites to provide customers with information to assist them in making their choice. In addition, government could provide grants to targeted community and not-for-profit groups who represent customers who genuinely need additional information and support to effectively participate in the retail energy market. Our views are set out in more detail in Attachment 1 below.

Any questions about our submission should be addressed to Fergus Pope, by email to [fergus.pope@esaa.com.au](mailto:fergus.pope@esaa.com.au) or by telephone on (03) 9205 3107.

Yours sincerely



**Andrew Dillon**  
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<sup>1</sup> Excluding switching associated with moving house.

## **Attachment 1: Additional Information**

### *Customer information*

There are groups that require further assistance to participate in the retail energy market, however they are in the minority of customers. esaa advises caution in interpreting the survey responses on the need for additional information, as nearly as many respondents said information was too complex/detailed as said there was insufficient information. esaa suggests any action in this areas needs to target those who have a genuine inability to engage rather than those who are merely unwilling to engage. As such, before the AEMC goes too far down the path of developing new customer education and engagement programs it is important to clearly define what awareness gap is trying to be addressed, who it applies to and the best mechanism for delivering the required consumer education in an efficient and effective manner.

While the esaa agrees with the AEMC that “energy markets are inherently complex”, we do not agree that “customers require a high degree of understanding and knowledge to participate effectively in the market”. How electricity is delivered to customers is a complex process, which can make it difficult to explain why prices are changing. However, like most other goods and services, the customer does not need a sophisticated understanding of the production process, they merely need to be able to compare different end products.

For the vast majority of customers it is not obvious what information gap currently exists. Given most NSW customers are on flat tariffs, the choice of tariff and provider is relatively straightforward. Further, as the Australian Energy Regulator (AER) switching site allows customers to sort offers, including discounts, most people should be able to compare the bottom line impact of any tariff. Time of use pricing does require a greater understanding, as bills are dependent on usage patterns. However, given the level of penetration of metering infrastructure in NSW that would support time of use pricing and the low likelihood of any wide scale metering upgrade in the near future, the choices facing most customers are likely to remain relatively straightforward for some time.

There are groups who face a genuine barrier to participating in the retail energy market, such as people for whom English is a second language. These groups are likely to need specific support, which could be provided by not-for-profit or community groups with government assistance

Concerns about what information can be ‘trusted’ can be dealt with through government-provided switching sites<sup>2</sup> for customers who are uncomfortable relying on company sites and third party switching sites. The government site can be designed to ensure customers can sort by price and other offer characteristics such as fixed or no fixed term etc. The current AER switching site already includes a range of options to sort the various tariff offerings.

As noted in the AEMC’s report, home access to the internet is not universal (79 per cent of NSW households had access to the internet at home in 2010, 60 per cent for households with income below \$40,000 per annum). However, this should not be interpreted as ruling out internet based switching websites as a valuable platform for customer engagement for such a significant proportion of customers given there are

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<sup>2</sup> The Draft Report notes that “the market should develop mechanisms to help simplify the choices that customers have to make, where this is demanded by customers.” We note that switching sites are mechanisms to help simplify the choices that customers have to make.

a number of places where the public can access the internet for free, such as public libraries.

Households need to make similar decisions to choosing an energy retailer when purchasing other services: housing, telecommunication products and insurance. The fact that switching rates in the retail energy market are higher than other industries could indicate a greater understanding of energy prices and available offers than for other services. The level of education and engagement for these other services does not feed into any assessment of whether they should be subject to retail price regulation. It seems the view that energy is somehow different to other services reflects only the historical provision by government.

### *Re-regulation*

esaa does not support having re-regulation triggers built into the system. The Government will always have the legislative power to re-regulate at any time. As such, attempting to include a re-regulation mechanism does not offer any security to industry. Having specific triggers could have the perverse impact of driving re-regulation, even where it is not required. Once a trigger is breached, regardless of the cause, it is likely to lead to pressure to re-regulate. esaa recommends rather than a trigger, a requirement be included that prior to re-regulating the market, the Government must conduct a short independent inquiry<sup>3</sup> to establish the state of competition and whether there are other options to facilitate competition rather than re-regulation.

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<sup>3</sup> Either by the Independent Pricing and Regulatory Tribunal or the AEMC.