TRUenergy Australia Pty Ltd
ABN 96 071 611 017
Level 33, 385 Bourke Street
Melbourne Victoria 3000

22 May 2008

The Independent Competition and Regulatory Commission
GPO Box 296
Canberra city ACT 2601

icrc@act.gov.au

Retail Prices for Non-contestable Electricity Customers – Draft Decision

Thank you for the opportunity to comment upon the Commission's *Draft Decision – Retail Prices for Non-contestable Electricity Customers*.

The level of competition in a retail energy market is directly related to the extent to which regulated prices are allowed to transition to market-based levels, facilitating the entry of new retailers and competitive activity, reflected in high customer transfer rates.

In the ACT, regulated electricity tariffs have been held below market-based levels, whereby the development of competition in the market has fallen short of that achieved in other Australian jurisdictions. For example, the level of customer transfers in the ACT peaked in mid 2007 around 13%, compared with peaks around 30% in Victoria and South Australia at the same time. In the period from September 2007 to March 2008, during which high wholesale prices led to a decline in transfer activity in all markets, the average monthly churn rate in Victoria was 21%, and in South Australia 18%, compared to just 3% in the ACT.

In this context, TRUenergy supports the decision of the Commission to increase the allowed margin to 5%, consistent with other jurisdictions. However, the Commission's rationale is that the increase is required to reflect the "loss of scale" costs caused by the declining regulated customer base of the incumbent. In our view, the increase in retail margin should be made purely on the grounds that it reflects the universal view among Australian regulators that a 5% margin is the minimum required to facilitate a competitive market. Whilst we agree that the costs of competing in the market should be included in the retailer's cost stack, this should be done separately as part of the retailer's total operating costs.

All other jurisdictions now provide an allowance in retail costs for operating in a competitive market, whether through acquisition and retention costs (Victoria, New South Wales, and Queensland) or through a loss of scale allowance (South Australia). The most detailed analysis of the alternative approaches, conducted by Charles River and Associates for the QCA, supported an acquisition and retention cost approach, which TRUenergy would also support for the ACT electricity market.

Our only note of caution is that there is the potential for the assumed level of customer transfers in the calculation of customer acquisition costs to be self-fulfilling, whereby if a low level of churn is assumed, the cost allowance will be low, providing only limited scope for acquisition activity. Evidence from other markets is that, providing regulated prices are permitted to transition to market-based levels, customer transfer rates above 20% are to be expected. Adopting CRA's other assumptions, including a cost to acquire of $177.69, provides an allowance of $35 per customer, which we recommend the Commission adopt for the current review.

TRUenergy recommends that the Commission review the Draft Decision in response to the above comments, with a view to facilitating a more competitive retail electricity market.

Please contact me on (03) 8628 1122 if you require additional information.

Yours sincerely,

Graeme Hamilton
Regulatory Manager