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**Mr Paul Baxter**  
**Senior Commissioner**  
**The Independent Competition and Regulatory Commission**  
**Level 2, 12 Moore Street**  
**Canberra City ACT**

**6 March 2009**

Dear Mr Baxter,

**Issues paper on Retail Prices for Non-contestable Electricity Customers**

AGL Energy Limited (**AGL**) welcomes the opportunity to provide comments on the 'Issues Paper on Retail Prices for Non-Contestable Electricity Customers – 2009-2010' (**Issues paper**) by the Independent Competition and Regulatory Commission (**the Commission**).

AGL continues to maintain its support for the removal of retail price regulation in those markets that are open to competition. It is therefore disappointing that the ACT Government has yet again requested the Commission to provide a price direction for electricity tariffs in the ACT for 2009/10<sup>1</sup> (**2009/10 review**) – nearly three years since the Commission undertook a review of, and found the electricity market to be competitive and subsequently recommended the removal of retail price controls<sup>2</sup>.

The removal of retail price regulation will encourage competition to develop further and allow electricity customers in the ACT to enjoy the significant benefits that arise from a fully competitive market, such as choice of retailer and potentially greater number of energy offers. Competition is the best mechanism for producing efficient prices, providing the price signals for new investment and providing incentives for the most efficient use of energy. However, where retail price regulation is maintained, the best way to replicate a competitive market outcome is through ensuring cost reflective retail market tariffs, which promote retailer entry to the ACT electricity market and subsequent retailer rivalry – one of the primary features of an effective market.

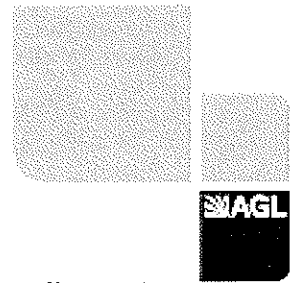
With reference to the 2009/10 review, AGL generally supports the overall process adopted by the Commission. However, as noted above it is important to ensure transitional franchise tariffs (**TFT**) are set at cost reflective levels. AGL strongly recommends the inclusion of an allowance for acquisition costs as part of the efficient retail operating costs. The Commission has outlined in the Issues paper that it has not included acquisition costs previously when setting prices as it was required to focus on determining a price direction for the supply of electricity to franchise customers, not a retailer competing for additional customers<sup>3</sup> therefore assuming that a retailer does not incur this cost for franchise customers. On the contrary, AGL are of the view that with increased levels of competition, incumbent retailers will be required to compete for customers, including customers currently on franchise tariffs who may be considering transferring to a competing retailer – therefore incurring acquisition/retention costs. These costs will form part of the retailers

<sup>1</sup> References were also requested for periods 1 July 2007 to 30 June 2008 and 1 July 2008 to 30 June 2009.

<sup>2</sup> ICRC: *Final Report Retail Prices for Non-contestable Electricity Customers (April 2006)*

<sup>3</sup> ICRC: *Issues Paper Retail Prices for Non-contestable Electricity Customers 2009-2010, pg 11*

- > Being selected as a member of the Dow Jones Sustainability Index 2006/07
- > Gaining accreditation under the National GreenPower Accreditation Program for AGL Green Energy®, AGL Green Living® and AGL Green Spirit



cost base irrespective of whether they eventually sign up for a market tariff, remain on a TFT or revert from market tariff to TFT.

The Commission is in the unique opportunity to address any areas that may be improved, such as the inclusion of customer acquisition/retention costs in setting tariffs, to ensure competition does not diminish in the ACT.

AGL looks forward to contributing further to the Commission's review. For any enquiries in relation to this submission please contact Carol Lydford, Manager Regulatory Pricing Strategy on (02) 9921 2511 or [carol.lydford@agl.com.au](mailto:carol.lydford@agl.com.au).

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Elizabeth Molyneux', is positioned above the printed name.

Elizabeth Molyneux

General Manager Energy Regulation