

Independent Competition and Regulatory Commission
PO Box 161
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30 November 2016

Standing offer prices for the supply of electricity to small customers from 1 July 2017 Issues Paper

The Australian Energy Council (the Energy Council) welcomes the opportunity to make a submission to the Independent Competition and Regulatory Commission (the Commission) on the standing offer prices for the supply of electricity to small customers from 1 July 2017 Issues Paper (the Issues Paper).

The Energy Council is an industry body representing 21 electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. These businesses collectively generate the overwhelming majority of electricity in Australia, and sell gas and electricity to over 10 million homes and businesses.

The Energy Council submits that, should the Commission set retail electricity prices during the regulatory period, the standing offer should be set at a level that reflects the true costs of operating in the market so as to allow retailers to compete. Furthermore the Energy Council is concerned that the Commission's current pricing model for the retail operating costs (ROC) component does not incorporate any allowance to reflect customer acquisition and retention costs (CARC). The exclusion of such costs would act as a barrier and not encourage new entrants, competition and business efficiencies.

Setting retail electricity prices

The Commission has set out a proposed approach in setting retail electricity prices for the 1 July 2017 to 30 June 2020 regulatory period. The Energy Council submits that competitive markets are best placed to facilitate the advancement of customer preferences and to encourage innovation around products and services and the development of new technologies.

The Australian Capital Territory (ACT) retail electricity market remains regulated while most other Australian states have proceeded with the deregulation of retail electricity prices. Competition in retail energy markets, as in other sectors of the Australian economy, incentivises business to improve service, develop products that meet consumer needs and find ways to lower their costs so they remain competitive. Deregulated prices encourages retailers to design products and services to cater for the needs of different customers.

If the Commission proceed to set retail electricity prices during the regulatory period then the Energy Council submits that the standing offer should be set at a level that reflects the true costs of operating in the market so as to allow retailers to compete. Competition in the retail electricity market in 2015-16 was not found to be effective in the ACT¹. The Energy Council submits that regulated prices should be set at a level which is sufficient to facilitate competition.

Competition can only occur if new entrants are encouraged to participate. New retailers introduce a greater drive in the retail market than existing standard retailers as they seek to gain market share through discounting and new products.

Retail operating costs component

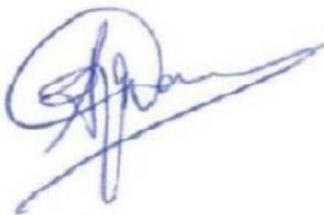
The Energy Council is concerned that the Commission's current pricing model for the ROC component does not incorporate any allowance to reflect CARC. ROC needs to reflect the actual costs incurred by a retailer in supplying and retaining customers. Having the ROC reflect these costs will encourage new entrants, competition and business efficiencies.

The CARC are costs primarily for marketing and developing products to defend and maintain a customer base which also apply for incumbent retailers. We therefore submit that the Commission include an adequate allowance for CARC.

Previous pricing determinations in other states have recognised and allowed an allowance for CARC. For example, in Queensland the CARC is reflected in the benchmarking of retail electricity costs for customers in regional Queensland.

Any questions about our submission should be addressed to Panos Priftakis, by email to panos.priftakis@energycouncil.com.au or by telephone on (03) 9205 3115.

Yours sincerely



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