



17 November 2008

Commissioner Dr John Tamblyn  
Chairman,  
Australian Energy Market Commission (AEMC)  
PO Box A2449  
SYDNEY SOUTH NSW 1235

By email: [submissions@aemc.gov.au](mailto:submissions@aemc.gov.au)

Dear Commissioner

**Re: Australian Energy Market Commission (AEMC) Review of the Effectiveness of Competition in Electricity and Gas retail Markets in South Australia – Response to Second Draft Report - 14 October 2008**

We are responding to your invitation for submissions on the above report.

COTA Seniors Voice and SACOSS remain of the view that competition in the South Australian retail energy markets is not sufficiently competitive to warrant removal of regulation at this time, particularly in relation to the gas market (and most especially within rural/regional areas).

Having said this we realise that the AEMC has concluded differently, and having done so is now bound to make recommendations to the South Australian Government on how retail price regulation may be removed. This submission deals, therefore, with the recommendations made by the AEMC in its Second Draft Report.

If you have any questions about this submission, do not hesitate to contact either of the signatories. A hard copy version of this submission is travelling via Australia Post to your address as requested.

Yours sincerely

A handwritten signature in black ink, appearing to be 'I. Yates', written over a large, light-colored scribble.

**Ian Yates AM  
Chief Executive  
COTA Seniors Voice**

A handwritten signature in black ink, appearing to be 'K. Grogan', written in a cursive style.

**Karen Grogan  
Executive Director  
SACOSS**

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# COTA Seniors Voice and SACOSS

## Response to AEMC Review of Effectiveness of Competition in Electricity and Gas Retail Markets in South Australia - Second Draft Report – 14 October 2008

This submission comments on the 13 recommendations made in the AEMC Second Draft Report. The recommendations are predicated on the South Australian Government acting on the recommendation of the AEMC and removing retail price regulation. COTA Seniors Voice and SACOSS will strongly urge the SA Government to reject this recommendation and to retain retail price regulation within the South Australian energy market.

The following comments on specific recommendations are made in the event that the SA Government accepts AEMC's recommendation and removes retail price regulation.

### Recommendation 1

Clearly COTA Seniors Voice and SACOSS **do not agree** with this recommendation. We are concerned that removal of retail price regulation will lead to substantial increases in energy costs for all South Australians, including the most vulnerable households, many of whom are already struggling to meet their energy costs as well as other basic necessities.

### Recommendation 2

Should the SA Government agree to the AEMC recommendation to remove price regulation (which we will most strongly oppose), then COTA Seniors Voice and SACOSS agree that a price monitoring regime should be instigated. However, we also believe that this regime should remain in place and not cease after a three year period, and that ESCOSA should make this information publicly available to the general community.

COTA Seniors Voice and SACOSS expressed concern about the effectiveness of competition in regional gas markets in our previous submission. We are therefore pleased that the AEMC has recommended measures to monitor gas pricing in regional areas, and agree with both the proposals made in the Second Draft Report (refer report sections 4.4.2.1 and 4.4.2.2). Again, we believe that this information should be made available publically to the South Australian community.

### **Recommendation 3**

COTA Seniors Voice and SACOSS believe that the SA Government should have the ability to reintroduce price regulation should the market deteriorate over time. We do not believe that the SA Government's capacity to do this should only be possible following a review and recommendation to this effect by the AEMC.

We believe that the AEMC should articulate within its Second Final Report the characteristics of a deteriorating energy retail market that might act as a trigger for the SA Government to seek a review. Should these occur sometime following retail price deregulation, the SA Government may then seek information from a variety of sources in relation to this, including the AEMC whom they may ask to conduct a speedy review. The SA Government, however, would receive all of this information including the findings of any review, and use this in their decision making in relation to the reintroduction of retail price regulation. In our model the SA Government is the final decision-maker.

Therefore, we ***do not agree*** with the current recommendation.

### **Recommendation 4**

COTA Seniors Voice and SACOSS ***agree*** with this recommendation.

However we note that reticulated gas supply is currently limited and so the obligation to supply can only apply where there is infrastructure in place to enable supply.

### **Recommendation 5**

COTA Seniors Voice and SACOSS ***agree*** that the framework for entering into default contracts should remain in place.

We ***do not agree*** with the removal of provisions allowing ESCOSA to fix the default contract price.

## **Recommendation 6**

COTA Seniors Voice and SACOSS **agree** with this recommendation.

## **Recommendation 7**

COTA Seniors Voice and SACOSS **agree** with this recommendation.

## **Recommendation 8**

COTA Seniors Voice and SACOSS **agree** with Recommendation 8, but as with Recommendation 2 argue that monitoring of the standing contract and default contract prices should be in place on an ongoing basis, not just for “a minimum of three years”. In addition, ESCOSA should publish its estimation of a reasonable standing contract price to allow for meaningful comparisons to be made.

## **Recommendation 9**

COTA Seniors Voice and SACOSS strongly **agree** with the sentiment of this recommendation; however we suggest re-wording it slightly.

Reference to “South Australian retailers” implies retailers whose operations are based in South Australia; we assume it in fact refers to retailers who undertake their business in South Australia regardless of where they are physically based. We therefore urge that Recommendation 9 be worded as such: “ESCOSA should also maintain and update a central database on its website of the current standing contract and default contract prices of all energy retailers doing business within South Australia.”

## **Recommendation 10**

COTA Seniors Voice and SACOSS have argued previously that the price monitoring regime should be ongoing and therefore **do not agree** with a review of this framework by the AEMC.

## **Recommendation 11**

COTA Seniors Voice and SACOSS strongly **agree** with this recommendation, with the understanding that there would be liaison with community service organisations, including financial counsellors, in planning and implementing the proposed awareness and education campaign.

## **Recommendation 12**

COTA Seniors Voice and SACOSS **agree** with this recommendation.

## **Recommendation 13**

While COTA Seniors Voice and SACOSS **agree** with the intent of this recommendation we do not regard it as practical.

As we understand the situation, a retailer of last resort, if appointed due to the withdrawal from the market of another retailer, would need to be able to enter into a wholesale market to obtain supply. While this is quite achievable in the electricity market – there is the NEM, it is very difficult in the gas market where there is not a multi entry point transmission grid, just a pipe! So for a RoLR to be able to operate in the gas market they would need to buy pipeline capacity, in case it was needed, which would increase the cost of gas supply to customers, to cover the cost of unused RoLR capacity. This is not an acceptable situation for any of the stakeholders.

A better approach, we suggest, is to recognise that a large number of SA households do not have access to reticulated gas and so strategies to enhance transmission infrastructure are more important at this stage than seeking a gas counterpart to the electricity RoLR process.

## **Additional Recommendation Sought**

COTA Seniors Voice and SACOSS would like the AEMC to consider making an additional recommendation to the South Australian Government in its Second Final Report.

Should the SA Government accept the AEMC recommendation and remove retail price regulation, we can assume that energy prices for small customers and businesses will increase substantially within SA. The AEMC itself indicates within its report that "... the regulation of standing contract prices has prevented retailers from passing through rising costs".<sup>1</sup>

COTA Seniors Voice and SACOSS can see on the horizon quite rapidly increasing energy costs, resulting from a range of factors including:

- the introduction of a Carbon Pollution Reduction Scheme;
- rising energy supply costs through factors such as increased infrastructure costs;
- growing demand both within Australia and internationally;
- increasing energy wholesale prices; and
- Establishing the Residential Energy Efficiency Scheme (REES), as a retailer responsibility, which will be incorporated into all tariffs.

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<sup>1</sup> AEMC Report of the Effectiveness of Competition in electricity and Gas Retail Markets in South Australian – Second Draft Report – 14 October 2008 – page viii.

We are therefore concerned at the capacity of low to modest income households, including many older South Australians, to meet these costs. We understand that the Federal Government has indicated that it will compensate low income households for the cost of the introduction of the Carbon Pollution Reduction Scheme through the tax transfer system, and note the Review being conducted by Treasury Secretary, Ken Henry, at present.

We also note that the Harmer Review into Age, Disability and Carers payments/pensions is also underway and expected to report in 2009, and hope that this review is also taking account of the rising cost of the basics of existence like energy, food, transport, water and petrol. We have sought to inform and influence both these processes.

We worry however that these processes may only partially compensate low and modest income households for rising prices, and note there is another mechanism for specifically addressing energy costs in South Australia.

The South Australian Government provides concessions in a number of areas of expenditure, including water, transport, and electricity/gas. It announces rises in these concessions/remissions at times of political or other convenience. It does not; however index these concessions/remissions to maintain their real value. The current provisions allow for an energy concession of up to \$120 per year and this has applied since November 2003, when it increased from \$70. No rationale is given for the amount of any increase. Concessions in SA are administered by the Department for Families and Communities.

The value of this concession has been eroded over the last five years, as energy costs have risen, and will be even more so with any substantial rises as a result of the factors mentioned previously. COTA Seniors Voice and SACOSS have been critical for some time of the SA Government for failing to conduct a review of the concessions regime and policy within SA, and for failing to maintain the real value of concessions. We continue to argue for this in all the avenues open to us.

COTA Seniors Voice and SACOSS therefore ask the AEMC to include the following recommendation in its Second Final Report:

*“The South Australian Government increase the energy concession available to eligible South Australians in line with increases in costs since 2003, and index it going forward to maintain its real value.”*

Inclusion of this recommendation and its adoption by the SA Government would help to allay some of our concerns in respect of the impact of retail energy price deregulation and rising costs on our most vulnerable households.