



Energy Retailers Association
of Australia Incorporated

5 August 2008

The Renewable Energy Sub Group Secretariat
Renewables, Offsets and COAG Branch
Department of Climate Change
GPO Box 854
Canberra ACT 2601

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Dear Sir/Madam

The Energy Retailers Association of Australia (ERAA) welcomes the opportunity to provide comments to the COAG Working Group on Climate Change and Water's discussion paper on the Design Options for the Extended National Renewable Energy Target (NRET) Scheme.

The ERAA is the peak body representing fifteen of Australia's energy retail organisations. Membership is comprised of businesses operating predominantly in the electricity and gas markets in South Australia, Victoria, New South Wales, ACT, Queensland, Western Australia and Tasmania. These businesses collectively provide electricity to over 95 per cent of customers in the NEM and are the first point of contact for end use customers for both gas and electricity.

The ERAA's position on climate change is based on the belief that the long-term interests of the community are best served by a comprehensive, national approach to climate change policy.

Rationalisation of the State Based Climate Change Schemes

In addressing the issues in this discussion paper the ERAA believes that the expanded NRET should be considered in conjunction with the introduction of the Australian Carbon Pollution Reduction Scheme (ACPRS).

The ERAA believes the ACPRS should form the basis of Australia's response to tackling climate change. Such a scheme must set meaningful targets which balance the need to reduce greenhouse gas emissions with the significant

financial impacts on business and households. In establishing the ACPRS, acknowledges the Government's decision to use the NRET to increase the uptake of renewable energy technologies in the early years of the scheme. Over time it is hoped that both the ACPRS and NRET will assist households and business to reduce their greenhouse gas emissions in an efficient and timely manner.

The introduction of the ACPRS and the expanded NRET must be accompanied by a rationalisation of the existing state based schemes. The ERAA notes that the New South Wales and Queensland governments have already announced that the Greenhouse Gas Abatement Scheme and Queensland Gas Scheme will not continue when ACPRS is introduced. The ERAA also supports the amalgamation of the existing Victorian renewable energy target scheme (VRET), and the proposed schemes in New South Wales, Queensland and Western Australian, into the NRET, as outlined in the discussion paper. These schemes are part of the patchwork of highly disparate and fragmented policy measures which lead to higher costs that are ultimately born by end customers.

Aside from these schemes, the introduction of the ACPRS and the NRET should be used as the catalyst to rationalise and overhaul the climate change policy framework more generally. Australian consumers would benefit (through lower prices) from a framework that efficiently provides a price on carbon through the ACPRS and is complemented by administratively simple policies focused on market failures.

The ERAA strongly supports the work of the Wilkins Review and of COAG in reviewing the role of complementary policies.

Abolishing Retail Price Regulation

The ERAA would like to stress that with the introduction of the ACPRS and the expansion of the NRET the regulation of retail energy prices should also logically be abolished. Retail price regulation, with its inherent cross-subsidies, distorts efficient market outcomes and prevents appropriate price signals reaching customers, including the carbon price signal that will be created by the ACPRS. The ERAA believes that the removal of retail price regulation is an essential pre-requisite to any efficient policy approach aimed at influencing customer behaviour, consumption and environmental outcomes. The ERAA is primarily concerned that in making retail price determinations, state-based regulators may not allow for all the forward costs associated with government climate change policies, such as the NRET, and could thus leave retailers out of pocket. Such an outcome would have serious implications for the sustainability of the Australian energy retail sector.

A recent Review of the Effectiveness of Competition in the Victorian Gas and Electricity Retail Markets undertaken by the Australian Energy Market Commission (AEMC) found that competition is effective. A recommendation has been made for the removal of retail price regulation on domestic customers as of 1 January 2009. The ERAA supports both this finding made

by the AEMC in Victoria and also the First Draft Report on Effectiveness of Competition in the South Australian Gas and Electricity Retail Markets, where competition was also found to be effective.

The ERAA is nevertheless concerned by the lack of progress in other markets. In NSW the Government is committed to introducing legislative amendments to extend independent retail price regulation to 2013 or beyond until it is satisfied that there is sufficient competition in the retail energy market. The Queensland Government has also ruled out abolishing the regulation of retail energy prices. Where such circumstances do not allow for the removal of price regulation the ERAA believes that cost reflective pricing must nevertheless be ensured. Cost reflective pricing is needed to provide the necessary investment signals and allow retailers operating in all markets to fully pass through all the additional costs associated with the NRET and the ACPRS to end customers. Without such provisions in place competition in the retail energy markets will be affected leaving customers worse off.

I would refer you to the company members' submissions for specific comments on the questions raised in the discussion paper and the two design options.

Should you require any further information in relation to this matter please feel free to contact me on (02) 9437 6180.

Yours sincerely

[Transmitted Electronically]

Cameron O'Reilly
Executive Director
Energy Retailers Association of Australia