

MEDIA RELEASE

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Retailers Endorse Price Caps Study

A study on the impact of retail price caps on the nation's energy markets released today by the Energy Supply Association of Australia (esaa) has been supported by major retailers of electricity and gas.

The report undertaken for the esaa by CRA International found that price caps delivered little if any public benefit yet had significant costs to the industry associated with them, according to the Energy Retailers Association of Australia (ERAA).

"The ERAA has for a long time advocated that markets should set retail prices and price caps should be removed, so it's pleasing to see some credible economic analysis endorsing our position", the Executive Director of the ERAA, Mr Cameron O'Reilly said today.

"The argument that price caps protect consumers is a bogus one when the reality is that, as CRA found, low barriers to entry in retailing ensure that any profiteering will quickly see new competitors enter the market."

"Whether it's active retailers in the market, or customers switching supplier, Australia has some of the most competitive retail markets in the world and it is this competition rather than price caps which will ensure the best outcome for consumers", Mr O'Reilly said.

"Ironically price caps themselves, particularly when set at uneconomic rates, can act as a barrier to new entrants and frustrate the consumer choice that Full Retail Competition (FRC) is supposed to provide".

"Worse still uneconomic price caps can prevent necessary investment signals reaching the market and potentially impact on future supply", Mr O'Reilly said.

The ERAA members were particularly drawn to the finding by CRA that each price cap determination costs up to \$1 million per retailer each time a review takes place in one of the States of the National Electricity Market (NEM).

ERAA member companies have just been through regulated price paths in NSW, Queensland and the ACT.

"With around 90% of the regulated price made up of the cost of purchasing wholesale energy and the network charges involved in transporting energy to customers, it does

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seem an expensive way to determine the 5-10% of retail prices that involve a margin for the industry.”

“Moreover expecting regulators to predict volatile wholesale energy costs up to three years in advance is both unreasonable and fraught with risk, given that if they underestimate these costs, there is no margin for retailers and therefore no competition”, Mr O'Reilly said.

The ERAA believes that rather than persisting with regulated price caps, the market should set prices and Governments should focus their policies on promoting competitive retail markets and providing targeted Community Service Obligations (CSO's) for customers with energy affordability issues.

“The ACT regulator, the Independent Competition and Regulatory Commission (ICRC) already found in April 2006 that they did not believe there was any need to continue with price caps for electricity in that market yet their recommendation has yet to be acted on”, Mr O'Reilly said.

“Having had unregulated gas prices since 2002, the ICRC knows that it is competition rather than regulation which ensures the best outcomes for consumers.”

“We are pleased the esaa study now reinforces this argument on a national scale which is why we are happy to endorse the findings of the report”, Mr O'Reilly said.

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About ERAA

The Energy Retailers Association of Australia (ERAA) is the peak industry body representing retailers of electricity and gas in Australia's National Electricity Market (NEM) and national gas market. Member companies operate in all the States of Australia and have over 11 million customers. The members include AGL, Origin Energy, Truenergy, Energy Australia, Integral Energy, Country Energy, Aurora Energy, Australian Power & Gas, Horizon Power, Synergy Energy and ActewAGL.