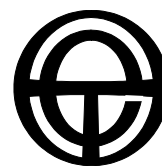


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10 April 2007

Dr John Tamblyn  
Chairman  
Australian Energy Market Commission  
PO Box H166  
Australia Square 1215  
Email [submissions@aemc.gov.au](mailto:submissions@aemc.gov.au)

Dear Dr Tamblyn,

Re: Draft Statement of Approach – review of effectiveness of competition

Total Environment Centre (TEC) welcomes the release by the AEMC of a draft for the statement of approach to the reviews of effectiveness of competition. We refer the AEMC to our previous submission of 1 September 2006 on the draft effective competition criteria.

**Retail price regulation**

Our primary concern is that caution should prevail in any decisions about whether true protection is afforded by competition in each jurisdiction before retail price regulation is abolished. As the AEMC points out in the draft statement (p 10), there is a spectrum of market categories and care must be taken about removing controls at the inappropriate place in the spectrum.

Retail price regulation can perform many functions, including the promotion of innovative retail products and effective demand management incentives, for the benefit of consumers; for instance, in NSW regulation has been used to promote the take-up of GreenPower by consumers. The case for removing such regulation must be definitively made and there may be alternative mechanisms which could be as effective in delivering consistency across the jurisdictions. Although competition may promote the development of choice for the consumer, it can equally lead to inaccurate and inflationary descriptions of products as well as introducing confusion for consumers in distinguishing between those products. The current lack of stringency in the claims of “green” electricity exemplifies this potential for confusion which can lead to flawed choices. Competition is not only about price (economics), but also the kind of products that are on offer (services).

## **Market conduct**

The area of analysis in the review that most concerns TEC is that of Market conduct. There is the potential for a range of types of products to promote a sustainable electricity market, in particular GreenPower products, those which enhance demand reduction (such as innovative time-of-use tariffs) and those which promote renewable and micro-generation. The use of quantitative data on switching – that is, the take-up of these products – needs to be adequately supported by qualitative data on the reasons behind the choice, of which there is very little for Australian markets, let alone on the differences between the jurisdictions.

One area that warrants its own data is that of switching to GreenPower products, which has been increasing substantially across the NEM but clearly exhibits local variation<sup>1</sup>. TEC regards this as an important subset of switching data which warrants specific consideration. The information offered on these products also should be investigated as there is quite a high level of customer confusion about the various GreenPower products on offer. There are many being offered as “green” or “renewable” even though they do not comply with GreenPower criteria. This is a very good example of “asymmetric information” as raised in the paper (p 19) and would be a useful line of inquiry in regards to customer experience.

TEC, along with other environment organisations, has been regularly assessing such products with the latest survey being released late last year<sup>2</sup>, and we have found that there are many spurious or confusing claims being made by retailers. This applies not only to the criterion of switching retailers but also to switching products. TEC would recommend that the AEMC do its own supplementary market research on this problem, as there is little other existing work available.

## **Market performance**

Another area we would be interested to see investigated is the pricing of GreenPower. The product was established to support the development of new renewable energy, but the justification for charging particular higher prices for it has never been adequately established or made transparent. It can be argued for as a subsidy to promote such development, but subsidies might be better raised in a different fashion. There may in fact be mechanisms where customers can be rewarded for selecting genuine green energy or reducing consumption.

The NEM currently does not incorporate genuine cost-reflective pricing, not just in terms of environmental and social externalities but also because of (for

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<sup>1</sup> GreenPower (2006) *GreenPower 2006 Q4 Report*, accessed at [www.greenpower.gov.au](http://www.greenpower.gov.au) 27.3.2007.

<sup>2</sup> See [www.greenelectricitywatch.org.au](http://www.greenelectricitywatch.org.au) for the report. Note some suspect products subsequently have been withdrawn.

instance) the smearing of tariffs in relation to peak pricing. Thus an AEMC “examination of the efficient economic costs compared to prices over time” (p 21) would be a very worthwhile exercise. The future impacts of the roll-out of “smart” meters also needs to be included since this is highly likely to affect tariff structures in as yet unforeseen ways.

### **Consultation**

TEC in general supports the consultation structure proposed in the draft statement. We would recommend in addition that it would be appropriate to notify registered stakeholders and interested parties directly, not just via newspaper and website. TEC notes that the AEMC intends to provide opportunities for small customers and groups to participate in the process, but this process needs clarification as there was insufficient details in the paper, although various avenues were mentioned. Direct submissions can be an appropriate path for some organisations, but it would be equally valuable to hold workshops or public meetings to allow face-to-face discussion where a range of views can be presented. These can be a good way of airing issues, particularly in the preliminary stages of this long-term review process.

It would also be useful for the AEMC to consult with consumer and welfare groups about conducting surveys, as they have particular expertise on customer classes and consumer concerns.

Finally, where the AEMC has developed a position on price regulation which might be contentious, TEC would recommend an iterative process for consideration of a draft report.

Yours faithfully,



Jeff Angel  
Executive Director