



Energy Retailers Association
of Australia Limited

Committee Secretary
Select Committee on the Scrutiny of New Taxes
PO Box 6100
Parliament House
Canberra ACT 2600
Australia

By email: newtaxes@aph.gov.au

Dear Sir/Madam

The Energy Retailers Association of Australia (ERAA) welcomes the opportunity to comment on the Senate Select Committee on the Scrutiny of New Taxes' inquiry into Carbon Pricing.

The ERAA is an independent organisation representing energy retail companies who provide electricity and gas to households and businesses throughout Australia. The members of ERAA collectively provide electricity to over 98% of customers within the National Electricity Market (NEM) and are the first point of contact for end-use energy users.

The ERAA considers a well designed carbon pricing policy to be essential for ensuring investor confidence in the energy industry. This must be efficient, effective and equitable, giving households and businesses as much certainty as possible going forward. Delaying certainty on the introduction of a carbon price is likely to increase costs unnecessarily for the sector. A recent study has indicated that this uncertainty could come at a cost of \$2bn by 2020.¹

The transition to a low carbon future will take time and it will not be without difficulty; it is likely to be characterised by volatility and uncertainty in wholesale electricity prices, and if managed badly, an increased risk of generator failure. This in turn leads to increased risk for energy retailers and could be detrimental to retail competition. In a study commissioned by the ERAA in 2009, Farrier Swier Consulting found that in order to maintain a financially viable and competitive retail sector, retail prices must be cost reflective. They found that during the transitional period, retail prices must be flexible so that they can be adjusted quickly and respond to the cost signals arising from a carbon price. This is at odds with the current regime of retail price regulation that exists in every State and Territory except for Victoria.

The effectiveness of a carbon pricing policy is limited by regulated retail tariffs. In order for final energy consumption decisions to accurately factor in the true cost of energy consumption, which includes the cost of emitting carbon, cost-reflective price signals must be taken into account in end-use energy consumption decisions. Passing through any carbon price assists in achieving environmental objectives by moderating and changing energy consumption patterns, which in turn can provide additional incentives for the investment in low-carbon based power sources.

Regulated retail prices are set too infrequently and often at non-cost reflective levels; this leads to distorted end-use energy consumption compared to an efficient outcome in a competitive market. Further to this, regulated retail tariffs stifle retail competition and product innovation, which prevents the full range of benefits resulting from strong retail competition occurring in Australia's energy markets. In particular, it can restrict retailers' ability to develop new product offerings, which may help customers manage their energy consumption and therefore the size of their energy bills. Phasing out regulated retail tariffs is therefore pivotal to implementing an effective carbon pricing policy.

If a regime of regulated retail tariffs remains across the board in Australia, energy retailers need full pass through of carbon costs through adjusted regulated tariffs allowing sufficient head room to account for the associated risks of

¹ See Nelson, Kelley, Orton and Simsauser "Delayed carbon policy certainty and electricity prices in Australia", March 2010.



uncertainty and wholesale market volatility. The retail component constitutes only a fraction of the final price of energy, with network costs and wholesale electricity costs together contributing approximately 90%. As such, energy retailers face significant risks if a carbon price is implemented without adequate pass through provisions, this risk is further exacerbated due to the added wholesale volatility and uncertainty. It is therefore imperative to maintain retail competition and reduce the risk of retailer default that regulated retail tariffs are set with full pass through of the costs of carbon and the associated added volatility from introducing a carbon price.

There is currently a vast array of both State and Federal climate change related policies, many of which energy retailers are the liable party. This includes: a national renewable energy target, state-based feed-in-tariffs, and energy efficiency schemes in Victoria, South Australia and New South Wales. There is also the possibility of a national energy efficiency scheme following the recommendations by the Prime Minister's Task Group on Energy Efficiency. If a carbon price is introduced then this should become Australia's primary climate change policy and other policies should be considered secondary to a carbon price. While the ERAA considers some secondary policies as necessary to a comprehensive response to climate change, and indeed there could be gains to be made in transitioning to national consistency instead of the current arrangement of inconsistent state-based schemes, the ERAA would draw the attention of the Committee to the current debate in the media about the rising cost of energy for end use customers and highlight that these schemes are not without cost, which must ultimately be added on to the bills of all customers. In addition, it is important to recognise that secondary policies distort market outcomes, and add further complexity to the billing and management of customers. The continuation of these secondary policies especially in light of their costs must be carefully considered and reviewed in light of a carbon pricing policy.

The cost of end-use energy is going up across Australia and could increase further following the introduction of a carbon price. With increasing energy bills, the number of households and businesses facing financial hardship is expected to increase. Energy retailers currently have programmes set up to assist customers who for one circumstance or another find themselves unable to meet their financial obligations as they relate to their energy consumption. However, these programmes are not intended to provide long term solutions for the management of rising energy costs as a result of changes in Australian Government environmental and taxation policies. State and Federal Governments should be the primary providers of financial assistance to customers struggling with rising energy costs. The ERAA recommends that with the introduction of a carbon price, there must be Government backed comprehensive financial assistance provided to assist customers who experience genuine issues with meeting their financial obligations through increasing energy costs.

Should you wish to discuss the details of this submission further, please contact me on (02) 9241 6556.

Yours sincerely

Cameron O'Reilly
Executive Director
Energy Retailers Association of Australia