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Jessica Robinson
Director Pricing
Independent Pricing and Regulatory Tribunal
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2 November 2018

Dear Ms Robinson

IPART's review of the retail energy market 2017-18

AGL welcomes the opportunity to comment on IPART's draft reports on the *Review of the performance and competitiveness of the retail energy market in NSW from 1 July 2017 to 30 June 2018*, released on 2 October 2018.

AGL supports IPART's findings that there is increased competition in the retail energy market in NSW and that barriers are created by inconsistent jurisdictional regulations and increased regulatory and political interventions. AGL also agrees with IPART's views on price regulation.

AGL comments on aspects of this report are provided below.

Retail competition

IPART's finding that competition continued to develop for residential and small business customers in both the electricity and gas retail markets in 2017-18 is consistent with AGL's experience. This is generally true of the state of retail competition in the NEM overall. In AGL's FY18 Annual Results Presentation, released on 9 August 2018, AGL disclosed a relatively unchanged customer base in NSW and in the NEM overall. However, AGL's customer churn rate across the NEM has increased from 16.4% to 18.9%, while acquisitions and retentions have increased by 25%. These have resulted in overall net operating costs (including acquisition and retention costs) per customer account increasing by over 27% in FY2018. These facts demonstrate that customers are heavily engaged and the competitive environment has intensified.

Customer interactions are also changing as AGL invests in new technology solutions, the Customer Experience Transformation program, which digitalises and personalises customer interactions. In FY2018, digital customer interactions have continued to increase whilst call volumes have remained steady. About 50% of accounts are on digital billing while digital sales have increased to 10% of all sales.

Regulatory and political impacts

AGL agrees with IPART's findings that inconsistent jurisdictional regulations and increased regulatory and political intervention in the energy market has created issues for new retailers. These factors also create costs for existing retailers. In addition to these, there are significant amount of changes in progress and under proposal which impact on wholesale and retail operations such as five-minute settlement which increase the costs of operating in the retail energy market.

Regulatory and policy settings that provide stability and permit the market to operate rationally will encourage investment, and this investment is what is necessary to drive down prices.

Contract liquidity

The draft report has noted reduced contract market liquidity reported by some retailers, the ACCC and AEMC. In AGL's view, this is due to the increasing penetration of intermittent generation, particularly wind and solar, which have displaced synchronous generation like Northern Power Station in South Australia. As intermittent generators cannot predict when they generate, they do not generally sell firm hedge products to retail market participants. In addition, the retirement of Hazelwood Power Station has also reduced the amount of available synchronous generation.

It is also AGL's view that vertical integration has not negatively impacted forward market liquidity. Since 2005-06, there have been numerous vertical integration events with the three big retailers increasing their share of installed capacity from almost nothing in 2004 to around 49% in 2015. Despite this increasing concentration of ownership of generation by retailers, the liquidity of the forward market has not been affected. For example, the liquidity ratio, calculated as total SFE and OTC volumes divided by NEM demand, has been generally been around or greater than 3 times NEM demand since 2006/07.

Discounting

IPART has noted that discounting continues to be main practice that retailers employ because it is one of the most effective ways to attract customers. AGL is well aware of the confusion caused by discounting. As shown in Figures 4.1 and 4.2 in the draft report, AGL's market offers are one of the most competitive in the NSW market even though AGL's advertised discounts are not amongst the highest in the market. This is because AGL's standing offers are also not amongst the highest in the market.

AGL supports the use of a reference rate for energy offers as a transparent comparator so that discounts can be easily compared. Consistent with IPART's view, AGL's position is that this should be a non-binding benchmark, not a regulated price.

AGL has expanded its range of products and created an alternative to discount-based market offers. In July 2018, AGL introduced a new product to NSW customers, AGL Essentials, which is marketed without a discount. This product has low competitive rates fixed for 12 months.

Vulnerable customers

AGL has also continued to address affordability issues for vulnerable and standing offer customers on a national basis. In August 2018, AGL announced a new $50m relief program for Saying Connected customers where, amongst other initiatives, AGL will cancel debt aged more than 12 months and offer dollar matching on debt repayments. From 1 July 2018, we have also put in place automatic discounts for customers on standing offers for longer than two years.

Price changes

IPART's assessment of retail electricity and gas price changes and underlying costs demonstrates that retailers employ different hedging and procurement practices. Hence a particular methodology, such as a point-in-time approach, may not fully explain changes in one year but could reflect changes in underlying costs over a longer period. This also provides an example of the challenge of regulating prices when retailers have different business models.

Price regulation

AGL supports IPART's view that re-introducing price regulation is likely to lead to lower levels of competition, less innovation and higher prices. In AGL's view, price regulation also creates uncertainty for retailers and could stifle new business models.

If you have any questions, please contact Meng Goh, Senior Manager Regulatory Strategy on (02) 9921 2221.

Yours sincerely,

Elizabeth Molyneux
General Manager Energy Market Regulation