



27 November 2009

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Utilities Commission Review of Full Retail Contestability for Northern Territory Electricity Customers: Draft Report

The Energy Supply Association of Australia (esaa) welcomes the opportunity to comment on the draft report for the Utilities Commission's review of full retail contestability (FRC) for Northern Territory (NT) electricity customers.

esaa is the peak industry body for the stationary energy sector in Australia and represents the policy positions of the Chief Executives of over 40 electricity and downstream natural gas businesses. These businesses own and operate some \$120 billion in assets, employ 52,000 people and contribute \$16 billion directly to the nation's Gross Domestic Product.

The Commission's draft report discusses four options for introducing FRC for NT electricity customers consuming less than 750 MWh per annum. The Commission recommends that if FRC is introduced in the NT, it should be introduced as currently scheduled, around April 2010, with any customer transfers (expected to be low or non-existent) managed using existing systems (Option A). The draft report also lists a series of prudent actions the NT Government should take to promote the prospects for competition.

esaa shares the Commission's view that retail competition is an important objective, where possible, for a secure, reliable and efficient supply of electricity to consumers. As identified in the Commission's earlier issues paper, retail competition provides choice to retail customers, potentially leading to lower prices, innovative products and better service. The Association therefore considers that unnecessary regulatory barriers to new entry and competition should be removed.

However, esaa is mindful of the current market and regulatory conditions in the NT electricity market and notes the Commission's view that the prospects for new entry following the introduction of FRC are minimal. In light of this assessment, there would appear to be little merit in introducing FRC in isolation without also addressing the barriers to competition.

In this context, esaa considers that the Commission has clearly identified a series of possible reforms that the government could pursue to encourage the development of competition. The Association in particular welcomes the acknowledgement that a transition to cost reflective prices should be established, with Territory Government

subsidies to give effect to social and economic policy objectives. As noted in esaa's submission to the Utilities Commission's issues paper, transitioning regulated retail tariffs to cost-reflective levels, implementing appropriately targeted welfare measures that are developed and funded by government and establishing rigorous and transparent retail price setting processes while retail price regulation continues, are all important initial reform areas. These measures improve price signals in the market for consumers and producers, both incumbent and prospective, and enable retailers to enter the market confident that they can recover the efficient costs of supply.

However, esaa observes that the Commission appears to propose that further reforms to improve the prospects of new entry in the market, such as cost reflectivity and transparency in retail and wholesale energy prices, should be pursued following the instatement of FRC. Given the limited prospect for competition under current conditions, delaying these supporting reforms could jeopardise realising the potential benefits of retail competition. Rather, in the Association's view, such a reform program should be undertaken concomitantly with the introduction of FRC.

In the Commission's final report, the Association would welcome further discussion of these types of reforms, including greater strategic guidance to the NT Government on how instating FRC in concert with a program of reforms designed to promote competition could promote a more efficient electricity market and lay the groundwork for the development of meaningful retail competition in the future.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Brad Page', with a stylized, cursive script.

Brad Page
Chief Executive Officer