



## Energy Legislation Amendment (Retail Electricity and Gas Pricing) Bill 2015 (Proof)

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## ENERGY LEGISLATION AMENDMENT (RETAIL ELECTRICITY AND GAS PRICING) BILL 2015

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### Second Reading

**The Hon. RICK COLLESS** (Parliamentary Secretary) [5.04 p.m.], on behalf of the Hon. Niall Blair: I move:

That this bill be now read a second time.

I seek leave to have the Minister's second reading speech incorporated in *Hansard*.

#### Leave granted.

The New South Wales Government is committed to putting downward pressure on energy prices and improving the experience for households and businesses.

We want to ensure customers remain in the driving seat.

As the House would know, in July 2014 the Government removed retail price regulation for the New South Wales electricity market.

Since this time, the market has seen both increased retailer competition and greater customer choice.

At the time of deregulation, customers still being supplied at the regulated price were moved to transitional tariff arrangements to help them move into the competitive market.

Since deregulation, nearly 38 per cent of the transitional tariff customers have taken advantage of the choices available to them and moved into the competitive market.

This equates to more than 418,000 customers.

Needless to say that as a result they are now saving considerably off their bills.

As a result, less than 21 per cent of the State's 3.3 million electricity customers now remain on the transitional tariff.

Concurrently to the commencement of our reform last year we ran a mass market education campaign about the changes to the electricity market, informing customers how they could get a better deal.

The results of the campaign showed increased awareness of the changes to the rules around electricity pricing.

They also revealed an increase in the proportion of respondents who were aware that there was a free and impartial Government website to compare energy plans.

More than 100,000 hits were registered on the campaign website in the first three months alone, and the Australian Energy Regulator's Energy Made Easy comparison site experienced a doubling of NSW-based traffic.

It is important that this House remembers that electricity regulation was no defence against price rises.

Indeed, under Labor regulated customers saw massive hikes in electricity prices, including a whopping 22.4 per cent increase in 2009-10 alone.

The simple truth is that effective competition puts downward pressure on prices.

Less than three months ago the New South Wales Energy Prices July 2015 Report released by St

Vincent de Paul made clear the benefits of a deregulated, competitive marketplace.

Their report found "customers switching from the worst electricity standing offer to the best market offer can save up to \$550 to \$1,050 per annum".

The report analysed prices from July 2014 to July 2015 and found:

- o The average electricity retail standing offer is now \$190 to \$400 less per annum;

- o average market offers have dropped by between \$220 and \$380 per annum; and

- o the price difference between the worst and best market offer is now between \$590 and \$1,060 depending on a customer's network area.

St Vincent's report also found that the average gas customer in Jemena's network area could potentially save \$120 on their annual bill by switching from the regulated offer to the best market offer.

Additionally, the report stated that the annual energy cost for dual fuel households with typical consumption levels had decreased by \$190 to \$575.

These findings were supported by analysis undertaken by the Independent Pricing and Regulatory Tribunal [IPART] and the Australian Energy Market Commission [AEMC].

In its draft Review of the Performance and Competitiveness of the Retail Electricity Market in NSW, IPART found families are now saving on average between \$290 and \$390 a year.

IPART also found that average small business customers are saving between \$360 and \$610, simply by switching to competitive market offers.

In its 2015 Retail Competition Review, the AEMC found that rivalry between retailers in New South Wales is increasing, with households able to find a market offer up to \$720 cheaper than the most expensive offer.

The facts are clear—energy prices are in decline and deregulation is driving that change.

The removal of retail electricity price regulation has lowered barriers to entry and expansion in the New South Wales market for energy retailers.

This is supported not only by independent analysis from the AEMC, but by the figures themselves.

Since deregulation came into effect, we have already seen four new brands enter the retail electricity market here in NSW.

There are now hundreds of deals to choose from, and the availability of platforms like Energy Made Easy mean customers are able to compare and narrow down those offers that suit them.

Furthermore, Energy Made Easy is available both online and over the phone, ensuring that all customer demographics have access to the resource and to assistance if needed.

I would encourage all customers who have yet to take advantage of this resource to do so by visiting [energymadeeasy.gov.au](http://energymadeeasy.gov.au), or by calling 1300 585 165 and speaking to an operator.

The success of electricity deregulation is clear and it is now time to turn our attention to the New South Wales gas market.

The Energy Legislation Amendment (Retail Electricity and Gas Pricing) Bill 2015 achieves two objectives: Firstly, it implements the strategic direction for retail gas pricing over, and beyond, the next two years.

Secondly, it will complete the electricity price deregulation process by making amendments that remove redundant terms and monitoring requirements.

These changes retain important consumer safeguards and extend these to the gas market.

These changes will benefit consumers.

Turning now to the details, I will first talk about our strategic direction for gas.

This is the next major step in delivering greater choice and lower prices to customers.

The bill will refresh the Gas Pricing Order provisions in the Gas Supply Act 1996 which had lapsed, to

support the continuation of light-handed retail gas price regulation from 1 July 2016 to 30 June 2017.

Additionally, the amendment will provide IPART with the powers to ensure customers are protected from unnecessarily high prices in the lead up to deregulation.

It will update out-of-date terminology to use "voluntary pricing agreements"—to align with the terms used by IPART and the retailers.

And it will remove, at a later date, the Gas Pricing Order provisions, and references to retail gas price regulation, from the Gas Supply Act 1996 and the Electricity Supply Act 1995.

This will be the last step in the deregulation of gas prices and will only occur when the Government is satisfied with the level of competition in the State's gas market.

Let me stress this last point again.

I have stated publicly and will reiterate again here for the House, that the Government will only act upon this provision when we are confident that the level of retail competition in regional areas has sufficiently improved.

In deciding upon this, we will take into consideration the annual market reports from IPART and the AEMC which analyse competition levels across the State.

This acts therefore, as a clear message to the retail industry with a clear time frame to up their game and increase the level of competition, customer choice, and retail offers in regional areas.

This strategic direction sees the current light-handed approach to retail gas price regulation continue for one year from 1 July 2016 to 30 June 2017.

I have already issued IPART with an instruction for the determination of voluntary pricing agreements between it and the regulated offer gas retailers for the next financial year—1 July 2016 to 30 June 2017. Under this light-handed approach, a "voluntary pricing agreement" is reached by IPART and the regulated offer gas retailers, AGL, ActewAGL and Origin Energy, generally with some negotiation.

However, if agreement cannot be reached, it is important for IPART to have the power of gas pricing orders.

Under this mechanism, IPART can issue gas pricing orders that establish prices or pricing mechanisms.

And I wish to point out that at this time New South Wales is the only jurisdiction which regulates retail gas prices.

All other jurisdictions have already deregulated retail gas prices.

Turning now to the removal of Gas Pricing Order provisions and references to retail gas price regulation from the Gas Supply Act 1996 and the Electricity Supply Act 1995, I would like to make it clear that the relevant schedule will only commence on proclamation.

The proclamation of this schedule would coincide with the introduction of amendments to the National Energy Retail Law (Adoption) Regulation which would:

- o remove the obligation on retailers to offer regulated gas prices;
- o expand the market monitoring role to include the gas market; and
- o make transitional arrangements for existing regulated customers.

As with electricity, retail gas price deregulation will not degrade customer protections.

The AEMC's 2015 Competition Review found competition in the retail gas market to be effective, though less intense than electricity in most of NSW, with six brands competing.

However, we have identified a couple of areas in which competition could be improved, and we are taking action to address this.

The first example is in the Shoalhaven area.

As a matter of legacy, the Shoalhaven is explicitly excluded from the process document that market participants follow when switching customers from one retailer to another.

This process document—the Retail Gas Market Procedures (NSW and ACT)—is administered by the

Australian Energy Market Operator, or AEMO.

I have taken action and requested that this explicit exclusion of the Shoalhaven be removed from the Retail Gas Market Procedures.

Once the procedures have been updated by AEMO, gas retailers will be able to develop gas price offers and start competing for customers in the Shoalhaven.

The second example is regional NSW.

In some areas in regional NSW, such as Wagga Wagga, the AEMC's 2015 Competition Review found significantly less independent rivalry and product differentiation in the gas market.

The report indicated that in February 2015, only five market offers from one retailer were available for regional residential customers.

The commencement of retail gas price deregulation on proclamation will give the market the necessary time to remedy this situation.

We have already seen the market take action to reduce one of the barriers to retail competition in regional NSW.

Industry has recently come together to align the New South Wales requirements for electronic business communication systems with those applying in other jurisdictions.

These have been previously identified as a barrier to competition.

This means retailers will no longer have to operate multiple systems and will make it more attractive for retailers to do business in our State.

I have also set up a New South Wales Gas Retail Competition Working Group to look at any barriers to retail gas competition in regional areas.

I expect the working group to provide me with a road map of ideas that I can take to address industry and customer concern.

Where it is within my power, I will do my utmost to encourage retailers into the regional market.

Setting out our strategic direction for gas in this way, will provide the market with the incentive it needs to remove barriers to competition where possible, and increase competition in regional areas.

Let me be clear, we will only deregulate retail gas prices in New South Wales if we are sure that this change will provide greater competition and choice for retail gas customers.

I will now turn to the electricity amendments, which are largely administrative.

Retail electricity price deregulation in New South Wales came into effect via the National Energy Retail Law (Adoption) Amendment (Retail Price Deregulation) Regulation 2014.

Deregulation via a regulation was required in order to meet the 1 July 2014 commencement date that the Government, the electricity industry and customers had prepared for.

However this path to deregulation carried a certain amount of risk to the market in the form of uncertainty, as the success of deregulation could be undone at any time—without notice to industry or consumers—by repealing the regulation.

This bill will remove this risk, by completing the deregulation process.

This will involve removing references to retail price regulation in the Electricity Supply Act 1995 and the Electricity Supply (General) Regulation 2014.

The electricity amendments in this bill are administrative in character and are aimed at ensuring that all legislative and regulatory instruments are consistent.

The bill amends terminology to remove references to regulated customers, regulated offers and regulated offer retailers.

New defined terms are inserted which maintain the existing customer right or retailer obligation.

The bill will also remove the redundant requirement for IPART to monitor the obligation on regulated offer electricity retailers to comply with pricing determinations.

It also removes the requirement for IPART to provide an annual report on such retailers.

The bill includes transitional arrangements in the Electricity Supply Act 1995 to ensure that customers remain protected for outstanding issues—even though regulated retail prices no longer exist.

These amendments will provide greater market certainty and should encourage even greater competition in the State's electricity market.

Lastly, the bill makes a statute law revision amendment to insert a reference to network operators consistent with other amendments made by the Electricity Network Assets (Authorised Transaction) Act 2015.

This amendment will ensure that IPART can monitor and report to the Minister on the extent to which all network operators comply with their licence conditions.

Currently, transmission network operators are excluded from this requirement.

The bill amends both national and State-based energy laws and regulations as they apply in NSW.

In deregulating retail energy prices, New South Wales will satisfy its obligations under the Australian Energy Market Agreement, which was entered into by the former Labor Government in 2004.

The agreement, signed by the Commonwealth and all State and Territory governments, set the agenda for phasing out retail electricity and gas price regulation in markets where competition is found to be effective.

So far New South Wales, Victoria, South Australia and the Australian Capital Territory have successfully deregulated retail electricity prices.

The evidence is clear that a competitive market provides the best form of customer protection and the lowest prices for customers.

Competitive markets give customers the power to change retailers if they are unhappy with the prices or level of service offered by their existing retailer.

And electricity price deregulation has already delivered benefits to New South Wales customers.

I commend the bill to the House.