

# Retail Competition

## OBJECTIVES

The Government wants all Tasmanian electricity customers to be able to choose their retailer.

Full retail competition (FRC) will be introduced for all households and small businesses as part of the Government's broader energy reform program to deliver choice.

The Government's reform program, in respect of the retail sector of Tasmania's electricity market, will drive efficiency in the retail sector and ensure that the Tasmanian community owns financially-viable electricity businesses that run efficiently and effectively and maximise the overall economic benefit to Tasmania.

## FEATURES

- Full retail competition from 1 January 2014.
- Aurora's retail customer base divided and sold, on or before FRC commences on 1 January 2014.
- The optimal division of the retail book, including the provision of appropriate safety nets for low and fixed income customers, will be determined by the end of this calendar year.
- Following the transition of customers to their new retailers, Aurora's retail services and Momentum will be merged as part of the implementation of the package of reforms.

## WHY IS THE GOVERNMENT MOVING CUSTOMERS FROM AURORA TO NEW RETAILERS?

The Government could implement FRC by retaining Aurora in public ownership and opening up the small business and residential segment of the market to competition.

Despite Aurora's best efforts, it will not be able to compete with large national retailers that can provide retail services more cheaply as a result of significant scale advantages that come with having many customers. Tasmania's customer base is small by national standards.

Because of this, Aurora's retail business would be financially vulnerable in a fully competitive retail market. With only a very modest loss of customers, the retail business would be expected to operate at a loss and would require Government support.

For this reason, the Government is implementing FRC proactively by dividing Aurora's customer base into bundles and selling these bundles to new, private retailers, to take effect at the same time as FRC commences.

## WHAT WILL HAPPEN TO MY PENSIONER OR HEALTH CARE CARD CONCESSION?

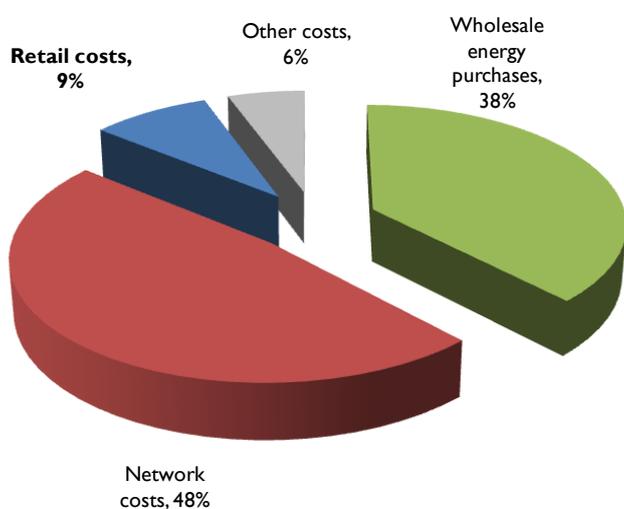
Existing concession, hardship and customer protection arrangements will be continued with the new retailers. The Government will pay the new retailers the cost of the concessions, as it currently does with Aurora. This approach is already used in other states.

If you are currently registered with Aurora to receive a concession, this will automatically be transferred to your new retailer and you will not have to reapply.

## WHY IS THE GOVERNMENT DOING THIS?

Since entering the National Electricity Market, the Government has progressively extended retail competition to customer tranches based on annual electricity consumption. Currently, only small business and residential customers remain non-contestable.

The retail component of electricity prices that might be driven down through competition is only a small part of the overall price paid by customers. The relative contributions of different parts of the supply chain to non-contestable customer prices in 2011-12 are shown below.



FRC will provide customers with benefits through choice in electricity retailer over time, and increased service standards and product diversity.

The independent Economic Regulator will continue to be responsible for setting standing tariffs for prices, however retail businesses may tailor different products to different customers that may provide some price and non-price benefits.

Competition will drive efficiencies in the retail sector that may also act to reduce further price increases.

As part of the reform proposal, amendments to the regulatory framework will see the expected regulated price rise reduced by around seven percentage points from 1 July 2012, which is equivalent to about \$150 per year on an average bill.

Network costs, which contribute almost half the total retail price of electricity, would not be affected by competitive forces.

A move to FRC does involve certain costs, arising through the IT systems required for the distributor to support customers moving between retailers and because a competitive retail market is an inherently more risky business environment than a monopolistic market.