

Remove Retail Price Controls On Energy, Says Esaa

Price regulation in contestable retail energy markets offers little or no public benefit yet imposes considerable direct and indirect costs, according to a report commissioned by the Energy Supply Association of Australia.

The report, highlighting the financial and environmental costs of price regulation, has prompted esaa to call for the removal of retail price caps.

“Removing retail price controls for electricity and gas services for residential and small users is the most significant task remaining in Australia’s energy market reform program, and an urgent priority in the current environment of needing to address greenhouse gas emissions,” says esaa chief executive Brad Page.

The CRA report has found that the ongoing regulation of retail energy prices limits competition for lower priced and more innovative services and distorts price signals for efficient investment in new energy supply.

“Allowing energy companies to compete for customers free from price controls means a more efficient delivery of energy, greater consumer choice and improved energy efficiency opportunities,” says Page.

Price controls are also at odds with emissions trading, energy efficiency and demand management measures and attempts by retailers to offer pricing structures to reflect greenhouse gas reducing initiatives.

“With governments committed to emissions trading and many requiring improved energy efficiency and demand management outcomes, continued strict price control regimes limit the ability of energy retailers to offer pricing structures that support more greenhouse-friendly consumption decisions,” says Page.

“Regulators are very unlikely to accurately determine the real cost of trading emissions or meeting energy efficiency obligations, so the consumer is likely to pay more than they need to.”

He says recent decisions on new maximum retail electricity prices in several States show why only an openly competitive retail market can get the price right.

“In New South Wales for example, the regulator has set prices for the next three years but included a provision to annually review the decision because of uncertainty about the future cost of wholesale electricity.

“This demonstrates that you cannot independently determine retail prices in a highly competitive wholesale market. There really is no substitute for vibrant competition among energy retailers.”

The Energy Retailers Association of Australia has also endorsed the findings of the report and says that rather than persisting with regulated price caps, the market should set prices and governments should focus their policies on promoting competitive retail markets and providing community service obligations.

The Australian Energy Market Commission meanwhile has announced the commencement of its review of the effectiveness of competition in Victoria's energy market at small user and household level, with the results expected to be released by the end of the year.

[Source esaa news]