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Committee Secretary
Senate Select Committee on Electricity Prices
PO Box 6100
Parliament House
Canberra ACT 2600
Australia

By email to electricityprices.sen@aph.gov.au

Dear Committee Secretary,

Select Committee on Electricity Prices

AGL Energy welcomes the opportunity to comment on the Selecte Committee on Electricity Prices Terms of Reference.

AGL operates across the supply chain and has investments in coal-fired, gas-fired, renewable and embedded electricity generation. AGL is Australia's largest private owner, operator and developer of renewable generation in Australia with 1,320 MW of renewable capacity in operation and 420 MW of wind capacity under construction. In addition, AGL owns one of the largest coal-fired power stations in Australia (the Loy Yang A power station). AGL is also a significant retailer of energy with over 3 million electricity and gas customers.This diversity of operation leaves AGL well placed to comment on energy policy settings from a broad perspective.

The creation of the National Electricity Market has been a successful microeconomic reform. Designed throughout the early-1990s and implemented by 1998, it has led to substantial gains in productive, allocative and dynamic efficiency. Most of these gains have been achieved through the wholesale electricity market. Creation of the NEM has been credited with contributing an additional $2 billion per annum to Australia's Gross Domestic Product. However, energy market reform at the retail customer level has not evolved in the way originally envisaged by policy makers in the 1990s. AGL believes that these key issues require urgent attention by energy policy makers:

- the removal of retail price regulation and the introduction of price monitoring where competition is deemed to be effective. The continued regulation of retail pricing is a barrier to four key macroeconomic objectives - economic growth, innovation, environmental outcomes and new investment. Where competition is deemed to be effective and retail price regulation is retained as a policy constraint, it should be applied using the NSW 'LRMC as floor' pricing methodology to ensure that any price cap is not incompatible with the proper functioning of the market (i.e. facilitate competition, innovation and new investment);
- the phased introduction of smart meters and dynamic pricing with appropriate safeguards for hardship customers. AGL research shows that introducing dynamic pricing could over time reduce costs by $1.6 billion per annum in the household sector alone; and

- a nationally consistent, effective policy framework related to concessions provided to energy customers. Such a framework should recognise the need to provide greater concessions to consumers with higher bills.

The benefits from delivering these reforms are significant. Furthermore, many necessary market developments (e.g. consumer product innovation) cannot be implemented without these policy reforms. Attached to this submission are numerous papers written by AGL researchers which articulate in considerable detail the economic gains to be made by implementing these three reforms. Please note that the copyright for published items is not owned by AGL and republication (for example on a website for public consumption) would require the permission of the publisher. The relevant papers for each area of reform are documented below:

The Shift from Price Regulation to Price Monitoring

A – AGL Applied Economic and Policy Research Working Paper No.33

The Introduction of Smart Meters and Dynamic Pricing

B- Dynamic Pricing and the Peak Electricity Load Problem published in the Australian Economic Review

Nationally Consistent, Effective Concessions Policy

C- The Boomerang Paradox Part A published in The Electricity Journal

D- The Boomerang Paradox Part B published in The Electricity Journal

E- AGL Applied Economic and Policy Research Working Paper No.31

Yours sincerely,

Tim Nelson
Head of Economic Policy and Sustainability