



Q&A

ACT electricity retail competition review – stage 2 final report

The Australian Capital Territory's electricity retail market is small (150,000 customers) but with relatively high average household consumption. The ACT electricity retail market has a unique structure within the NEM. The market does demonstrate some competitive pressure but not enough to be considered effective competition – as evidenced by limited marketing, low levels of product innovation by alternative retailers and limited price offerings. ActewAGL's market share exceeds 90 per cent. As such reforms are needed to promote competition in the market.

Stage 2 final report

What is the purpose of the stage 2 final report?

The ACT retail review's stage 2 final report was released by the AEMC on 3 March 2011. It contains final recommendations to be considered by the ACT Government on how to promote competition in ACT small residential electricity retail market.

What is the recommendation for the ACT Government?

The lack of customer awareness and the unique characteristics of the ACT market are significant factors limiting competition. This is best addressed through a package of reforms, which empower and support customers to make efficient decisions and make it easier for second tier retailers to enter into, and expand within, the ACT market.

Promoting the growth of effective competition

In November 2010 the AEMC released the ACT review's stage 1 final report – finding that competition was not effective in the ACT small residential electricity retail market. We found that the market had been effective in the past and through a package of reforms can be effective again.

The review's stage 2 aim to foster customer awareness and to make it easier for second tier retailers to enter and expand in the market by:

- Introducing a consumer education programme for small electricity users;
- Establishing a marketing campaign and promoting a website of baseline information relating to the ACT market;
- Monitoring the effectiveness of the customer protection and supplier switching arrangements in the ACT;
- Harmonising regulatory requirements between the ACT and other jurisdictions;
- Removing retail price regulation (1 July 2012) and starting price monitoring.

Overview

What is the Review of the Effectiveness of Competition in the Electricity Retail Market – ACT?

This review is part of the AEMC's broad review of competition in the national energy market.

Who is the proponent of this review?

The AEMC's review of competition in retail gas and electricity markets was initiated by an agreement of the Council of Australian Governments (COAG) and a direction of the Ministerial Council on Energy (MCE) according to the Australian Energy Market Agreement (AEMA).

What is the Australian Energy Market Agreement (AEMA)?

The AEMA is a formal COAG agreement to implement key elements of the national energy market reform agenda.

It includes an agreement by the heads of Australian governments (COAG) directing the AEMC to review the effectiveness of retail competition in electricity and gas retail markets in each jurisdiction (except Western Australia) for the purpose of retaining, removing, or reintroducing retail price regulation.

Why is the review conducted in two parts?

Under the terms of the AEMA, the Commission is required to conduct its gas and electricity retail competition reviews in two stages. Stage 1 considers whether competition is effective in the jurisdiction. Stage 2 considers issues around retail price regulation.

Where is the review up to?

The ACT review is the third to be undertaken.

South Australia was completed in December 2008. Victoria was completed in February 2008.

The lack of customer awareness and the unique characteristics of the ACT market are significant factors limiting competition.

The final report's recommended programme of actions to promote competition would be led by the ACT Government and reflect an ongoing commitment to expanded customer information services.

Stage 1 final report at a glance

What are the findings in relation to market structure?

- The unique characteristics of the market may make it difficult for second tier retailers to profitably enter into and expand within the market.
- While there are 19 retailers licensed in the ACT, only four licensees have small customers, of which only two retailers are accepting new customers.
- The ACT market is dominated by the incumbent retailer, which has maintained a total share of the market greater than 90 per cent.

What are the findings in relation to market conduct?

- The conduct of market participants and consumer switching patterns are not consistent with a market that has effective competition.
- Retailer rivalry has been limited, as evidenced by limited marketing, product offerings and price rivalry.
- Given the low level of retail activity, there has been limited product innovation and differentiation in the ACT retail electricity market.
- There has been little customer switching away from the incumbent to other retailers.

What are the findings in relation to market performance?

- Customers appear to be satisfied with the retail services provided to them.
- The overwhelming majority of consumers surveyed in the ACT did not express dissatisfaction with their current supplier of electricity.

What is the finding in relation to compliance with social welfare and equity objectives?

- The AEMC has found that the social welfare and equity objectives relating to the supply of electricity in the ACT are clearly specified and transparently funded.
- The various community service obligations operate in a manner that should not materially impede the effectiveness of competition in the retail supply of electricity to small customers in the ACT.

Stage 2 final report at a glance

What does the package of reforms consist of?

The package of policy recommendations is designed to foster customer awareness and reduce the 'stickiness' of customers. These recommendations are designed to decrease the costs of retailers competing in the market.

Customer awareness and education campaign

- Only 60 per cent of customers aware of ability to choose retailer and there is a perception that electricity supplied by ActewAGL Retail has higher value compared with other retailers.
- The apparent limited awareness of consumers about the ACT electricity market and their ability to choose a retailer is impacting on the behaviour of consumers and performance of the market.
- Important that consumer education campaign is undertaken on a continuous basis.

Marketing campaign

- 'Stickiness' is a function of the cost to switch electricity suppliers and it is therefore important to consider ways

in which this cost may be reduced.

- The proposed marketing campaign could inform customers and canvass terms and conditions of contracts, contract details and what to do when changing suppliers.
- The ACT Government should consider setting up a website containing baseline information relating to the ACT market with links to retailers operating in the ACT market and private comparator websites.

Monitor the customer protection and switching frameworks

- The purpose of this recommendation is to ensure that the customer protection and switching frameworks continue to be effective.

Ratification of nationally consistent legislations

- To facilitate the harmonisation of legislative requirements across jurisdictions or between the ACT and surrounding jurisdictions.

Retail price reform

- It is not essential for price caps to remain as the increase in competitive pressure will help to ensure prices reflect efficient costs.
- The removal of the transitional retail price caps will remove a source of regulatory risk for second tier retailers entering into, or expanding in the ACT market.

Implementation of a price monitoring regime

- The primary purpose of this recommendation is to provide greater transparency and information to customers, retailers and policy makers during the initial transition to recommended market based pricing.

The AEMC considers that the timing of the initial series of reforms is vital and advises that both the consumer awareness education and marketing campaigns are undertaken prior to the removal of the regulated prices on 1 July 2012.

What was the rationale for the AEMC making these recommendations?

To help promote competition in the ACT, it is important that there is information available and that this information is easy to access on an ongoing basis.

Furthermore, it is important for this information to remove any misconceptions that customers may have regarding the electricity supply chain, or the process of switching retailers. It is also important to reduce the transaction costs of switching for consumers.

How will competition be promoted in the ACT electricity retail market going forward?

In conjunction with the above measures to foster customer awareness and improve harmonisation of regulatory obligations, the AEMC considers that the removal of regulated prices and its replacement by a monitoring program would deliver increased competitive pressure in the ACT market.

This action aims to remove regulatory risk for retailers and allow the competitive market to develop.

The threat of entry by second tier retailers would be likely to place pressure on the incumbent retailer, further promoting competitive outcomes in the ACT market.

What is the timing of the recommendations?

It is important that the package of measures work together in a co-ordinated and efficient way.

The AEMC considers that the timing of the initial series of reforms is vital and advises that both the consumer awareness education and marketing campaigns are undertaken prior to the proposed removal of the regulated prices on 1 July 2012.

What is in place going forward?

To ensure that the both customers and the government are provided with comfort during

the initial transition to market based pricing, the AEMC is recommending a price monitoring program for a period of three years. It is envisaged that the monitoring reports would provide greater transparency and information to customers, retailers and policy decision makers.

The ACT review process

When did the ACT electricity retail competition review start and what process has it followed?

19 December 2009 – AEMC received request for advice from the MCE.

4 March 2010 – review started with publication of issues paper.

24 November 2010 – stage 1 final report published in conjunction with the stage 2 draft report.

3 March 2011 – stage 2 final report published by the AEMC.

Consultation and research

What did the MCE want us to do in relation to this review?

The MCE asked the Commission to respond to the following criteria in relation to its assessment of competition:

Market structure

- Independent rivalry, and
- Ability of suppliers to enter the market.

Market conduct

- Exercise of market choice by customers, and
- Customer switching behaviour.

Market performance

- Prices and profit margins; and
- Differentiated products and services.

What consultation and research was done in preparation of the ACT retail review?

- Submissions in response to Issues Paper;
- Submissions in response to the Stage 1 draft report;

- Submissions in response to the Stage 2 draft report;
- Survey of 1002 residential and 464 small business customers in the ACT;
- Interviews with most licensed energy retailers in the ACT; and
- Data and reports provided by the ICRC, ACAT and AEMO.

For more information

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