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Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

AEMC project number RPR0004

Submission via website

Dear Sir/Madam,

2016 Retail Competition Review – Approach Paper

AGL Energy welcomes the opportunity to make a submission to the AEMC's Approach Paper on the 2016 retail competition review, the third of its annual NEM-wide reviews on the state of retail competition.

AGL is one of Australia's leading integrated energy companies and largest ASX listed owner, operator and developer of renewable energy generation in the country. AGL operates retail and merchant energy businesses, power generation assets and an upstream gas portfolio. As one of the largest energy retailers in Australia with over 3.7 million electricity and gas customers in Victoria, New South Wales, Queensland and South Australia, AGL is well placed to comment on competition in the retail energy markets.

The approach proposed for the 2016 review retains the review of the five competitive market indicators, focussing on new evidence. This 2016 review will investigate further two issues - vulnerable customers and new products and services. AGL supports this approach which continues with the approach undertaken in the previous two reviews, facilitating trend analysis while investigating emerging issues.

AGL's response to the questions posed in Appendix A of the Approach Paper is attached.

If you have any questions in relation to this submission, please contact Meng Goh, Manager Regulatory Strategy, on (02) 9921 2221 or mgoh@agl.com.au.

Yours sincerely,

Beth Griggs
Head of Energy Market Regulation

AGL response to Questions in Appendix A of Approach Paper

1. Is the approach described above appropriate for this year's review and why?

The 2016 review proposes to review the five competitive market indicators, namely:

- customer activity in the market
- customer satisfaction with market outcomes
- barriers to entry, exit and expansion
- independent rivalry, and
- competitive retail prices

The AEMC's retail competition reviews in the past two years have been comprehensive and informative. AGL supports the continuation of the proposed approach which will facilitate trend analysis.

This 2016 review will investigate further two issues - vulnerable customers and new products and services. AGL agrees that these are appropriate issues to consider.

In the Final Report of the 2015 review, the AEMC had also reviewed the state of retail competition in solar PV market. Solar PV products are offered by all three leading energy retailers. AGL has found the survey evidence to be useful. It will be helpful to continue this survey due to the growing number of customers and retailers entering the solar PV market and to understand if there are differences in customer activity and outcomes on a state basis in this market.

AGL notes that the AEMC will not be considering alternative energy sellers in the 2016 review.

Questions on the competitive market indicators

2. Is there any new evidence about how customers are behaving in retail energy markets and what does that evidence tell us about the level of competition in those markets?

Retail competition continues to be strong for retailers in the electricity market, with churn rates in VIC continuing to be the highest in the NEM. Unlike the other jurisdictions, in the NSW electricity market, there is an upward trend in the switching rate since the removal of retail price regulation on 1 July 2014.

In the retail gas market, competition has not abated with switching rates remaining strong although at lower levels than the retail electricity market.

While most customers are generally price conscious, there are still customers on standing contracts although the latter group continues to decrease slowly.

Customer engagement through online, mobile applications and social media continue to grow. Customers can sign up online or through traditional channels. AGL introduced 24/7 customer service and webchat in 2014. AGL currently has more than 1 million digital billing accounts. In 2015, AGL released a mobile app which allows customers to view energy consumption and billing information, and to pay their bills. This in addition to AGL's online energy monitoring tool, My AGL IQ, which was launched in 2013. The provision of these services improves customer experience and distinguishes AGL from other retailers.

3. What are the barriers to some customers (such as, customers that remain on standing offers) seeking out a new market offer that better suits their needs?

Full retail contestability was introduced in the NEM in various stages from January 2002. Information on market offers are available from retailers, aggregators and comparator (including government) websites through new and traditional media. The reasons for customers remaining on standing offers or not seeking new market offers are likely to be varied. While there are customer segments which are less price sensitive than others, AGL supports further investigation into whether the lack of participation is voluntary or not.

AGL acknowledges that a small proportion of customers are unlikely to engage with competitive markets (for a range of reasons) and is looking for ways to ensure that vulnerable customers are not adversely affected, enabling them to take advantage of savings available through market offerings. For example, AGL has announced that from January 2016 Victorian concession card holders who are on a standing offer will receive an automatic 10% discount on their electricity usage rates.

4. Is there any new evidence about what the outcomes are for customers in retail energy markets (such as their level of satisfaction with their experiences) and what does that evidence tell us about the level of competition in those markets?

AGL monitors a range of indicators of customer satisfaction to develop strategies to enhance interface with customers and to continuously improve product offering. AGL's performance against these indicators is reported in AGL's FY2015 Sustainability Report:

- AGL's customer satisfaction score continues to be higher than that of our major competitors. AGL's average mean customer satisfaction score for FY2015 was 7.01. The customer satisfaction score results reflect responses to the question of how satisfied customers are with the service provided by their energy supplier.
- AGL's average Net Promoter Score (NPS) for FY2015 was -27.9, which is an improvement on FY2014's average of -32.6. NPS is a widely used measure of customer loyalty and is based on how likely a customer would be to recommend AGL as an energy provider.
- AGL's share of Ombudsman complaints remained stable compared to FY2014, and stayed lower than AGL's market share.

These indicators suggest that customer satisfaction is stable or has improved.

5. What is the nature of any current or expected barriers to entering, exiting or expanding in any NEM jurisdictions for electricity or natural gas retailers?

In electricity, AGL does not consider that there are significant barriers to entering, exiting or expanding generally in the NEM. However, there may be circumstances which have made risk management more important. In South Australia, due to the high proportion of energy sourced from renewable generation and the closure of thermal power stations, there is potentially a shortfall of hedge cover. In Queensland, there has been volatile pool prices associated with the increased demand from the LNG producers at Gladstone. Another issue in regional Queensland is the Uniform Tariff Policy which has resulted in retail electricity prices being set below cost reflective prices, making it financially unviable for second tier retailers.

The development of the LNG export facilities at Gladstone in Queensland has transformed the east coast gas market with gas demand expected to increase by three times from 2014 to 2018. With the commencement of LNG shipments from the three projects in 2015, some large users have found difficulty in securing long term gas supply. The tight supply situation has created uncertainty in wholesale gas pricing. This has prompted the Federal Government to initiate an inquiry by the ACCC into the east coast gas market.

6. Is there any new evidence that retailers are competing in retail energy markets on price, product and service differentiation to acquire new, and retail existing, small customers, and what does this evidence tell us about the level of competition in those markets?

AGL's market offers provide discounts based on the components below:

- guaranteed discount,
- pay on time
- direct debit, and
- dual fuel.

In addition, there are upfront rebates for signing up and for online applications. In the retail electricity market, the level of discounts offered in 2015 is generally higher than in 2014 across the NEM. In gas, the level of discounts is relatively stable in QLD and SA but generally higher in NSW and VIC.

During 2015, AGL introduced AGL Fixed products for electricity and gas where energy prices remain unchanged for two years. Aside from the standard offers available generally, AGL also had offers which are available only for a limited time such as "End of Financial Year Sale" with one month's free electricity or "Honeymoon Offer" with significant discounts for dual fuel customers.

Since March 2015, AGL has removed early termination or exit fees for new customers or existing customers swapping products or re-contracting. Early termination fees for customers on existing AGL contracts have been reduced significantly. Therefore, there is a strong incentive for AGL to offer competitive market contracts as there is no effective penalty or barrier for AGL's customers to change market offers or retailers.

Non-price means of market differentiation and competition is also an important feature of the retail energy market. In addition to continuous improvements to services such as AGL Energy Online, AGL's online energy management system (AGL IQ) and 24/7 customer service, in 2015, AGL released mobile apps for Apple and Android operating systems which allow customers to view billing and usage information and to make payments.

In FY20154, AGL established its New Energy business unit to deliver distributed energy solutions to residential and business customers, including digital metering, solar, battery storage and other demand side services. With other retailers launching similar offerings, market competition has expanded to include innovative new product and service offerings (beyond traditional energy plans).

Questions on the key issues for this year's review

7. What are the differences between the experiences of vulnerable customers in retail energy markets and other customers; and what do these tell us about how effectively vulnerable customers are able to participate in retail energy markets?

It is important to define who vulnerable customers are. Vulnerable customers experiencing significant disadvantage are eligible to enter into AGL's hardship programme, Staying Connected. Staying Connected is designed to provide assistance to customers experiencing financial hardship to the extent that they are unable to make payments as required under AGL's standard credit guidelines. While participating in the program, customers are protected from disconnection and are offered a range of services, including payment plans and, in some states, home energy audits. While about 1% of AGL's active residential customer base are in this programme, AGL recognises that the number of potential vulnerable customers is likely to be significantly higher.

About 30% of AGL's customers hold a concession card, with this proportion varying according to state and fuel. Whilst a concession card might be an indicator of vulnerability, not all concession card holders can clearly be defined as vulnerable.

The experiences of vulnerable customers in retail energy markets are varied. For customers from culturally and linguistically diverse backgrounds there may be challenges in engaging in the competitive retail market. Improving communications generally is an area of focus for AGL over the coming 12 months, making information on assistance easier to understand and access, from websites through to building greater cross-referral links between AGL and community partners. As an example, in February 2015, AGL established a hotline for financial counsellors to dial directly through to specialists trained in supporting vulnerable customers. Furthermore, in December 2015, AGL will also be making a similar assistance hotline available to community workers and women's refugees who may be supporting customers impacted by domestic violence.

Vulnerable customers are often greatly assisted by community organisations and financial counsellors to participate in the competitive retail energy markets. Accordingly, AGL is partnering with four financial counselling organisations around Australia in 2016 to provide greater integrated support for customers experiencing long-term difficulties. There is also a critical role for well-targeted state government policies to assist these customers either by enhancing capacity to pay (through adequate and effective energy concessions) or through low-income energy efficiency or solar PV programs to reduce consumption and debt accrual in line with capacity to pay. Long-standing barriers to effective energy consumption management for tenants living in public or private rental properties requires policy reform, particularly in an environment where more new technologies are emerging over the coming years.

AGL also highlights that vulnerable customers tend to have different consumption profiles to the average retail customer base. Customers participating on AGL's hardship program, Staying Connected, consume on average 40% more electricity per year than AGL's average customer base,

compounding the difficulty for customers who are financially disadvantaged. There are a range of reasons as to why consumption may be higher, including the limited ability to change poor building fabric with a high proportion living in private or public rental properties. This customer group may also spend a higher proportion of time at home where, for example, illness, disability or unemployment, are also contributing factors. Concession card holders on the other hand on average tend to consume less energy per year than the average customer base. AGL recommends that the AEMC consider further refining the definition of vulnerable to ensure it is clear which customer group is being considered as part this consultation process.

Furthermore, following consultations with over 50 community groups, AGL has launched an Affordability Initiative in December 2014 to provide improved support to vulnerable customers. This initiative included supporting policies to enhance competition of standing contract offers and developing clearer and more transparent of products and offerings. A \$6 million support fund has been established to go towards energy efficient appliances, audits, funding for financial counsellors and incentive payments for customers. In Victoria, AGL is trialling a programme to provide an automatic 10% discount for customers with concession cards who are currently on standing offers. A range of operational changes will continue flowing through as a result of this initiative throughout 2016.

8. Is there any evidence that new products and services are currently impacting competition in retail energy markets and if so, what is that impact?

In FY2015, AGL established its New Energy Services division to embrace the major changes transforming the energy industry and deliver distributed energy solutions to residential and business customers, including digital metering, solar, battery storage and other demand side services. With other retailers launching similar offerings, market competition has expanded beyond traditional energy plans. Although the AEMC's market definition excludes alternative energy sellers, the increasing presence and activity of such sellers in the market is expected to continue to exert competitive pressure on licenced energy retailers to respond in terms of price and innovation in product and service offerings.

It is difficult to predict the pace of technology advancement and changing consumer preferences. Solar PV is already popular and is offered by the three leading energy retailers as well as specialist solar businesses, equipment installers and other providers. However as retailers seek to better understand customers' needs they are providing more tailored products. For instance, in 2015 AGL launched a Solar Smart Plan where eligible customers do not have to pay any upfront system or installation costs and instead receive a discounted energy offer over a fixed contract period for the energy the solar PV installation generates.

Emerging technologies such as battery storage and electric vehicles are currently appealing to early adopters but unlikely to be commonly accepted until product prices become more affordable. To cater for those early adopters, AGL has already launched home battery storage for solar and non-solar customers creating opportunities for new integrated product offerings. In the future interconnected home energy management systems that allow consumers to import, export, store or consume energy based on price signals from the market could potentially be completely automated with digital technology.

The penetration of new products and services will impact on retail competition but it may be too early to assess the likely extent of this impact. As the market evolves and integrated distributed energy solutions mean that customers on average use less grid energy, it is likely that the market indicators for retail competition will need to be reviewed. For example, as household grid consumption gradually declines, innovation in service and product offering may become as important as price, discounting and churn as indicators of effective retail competition.