



REVIEW

Australian Energy Market Commission

FINAL REPORT

2015 Retail Competition Review

30 June 2015

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About the AEMC

The AEMC reports to the Council of Australian Governments (COAG) through the COAG Energy Council. We have two functions. We make and amend the national electricity, gas and energy retail rules and conduct independent reviews for the COAG Energy Council.

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Executive summary

The Australian Energy Market Commission (AEMC or Commission) is required under the AEMA to assess the effectiveness of competition in National Electricity Market (NEM) jurisdictions. This is an annual review under the approach agreed by the former Standing Council on Energy and Resources, now known as the Council of Australian Governments (COAG) Energy Council. The terms of reference require these reviews to focus on small customers, be based on objective measures and analysis and to provide comment on NEM-wide issues affecting retail competition.

The Commission has identified some changes since the last competition review, such as new retailer entry and declines in market concentration, that suggest markets are continuing to evolve and mature and provide consumers more opportunities to choose an energy retailer and plan that best meets their needs. Further developments are expected over time as this evolution continues and new technologies are taken up. This dynamic market evolution provides the mechanism for retailers to discover what customers want and for customers to discover the price and service combinations that retailers are offering. This is a continuous, iterative process and one that does not always happen smoothly, but through the process of discovery and experimentation businesses adapt in order to meet the varying needs of customers.

The Commission's assessment of overall findings on the state of competition is similar to the 2014 review, with competition continuing to be effective in retail electricity markets in Victoria, South Australia, New South Wales (NSW) and South East Queensland, based on evidence gathered up to the first quarter of 2015. Residential customers are actively shopping around to choose between 11 and 21 retail brands offering a range of plans to suit different customer preferences. Effective competition is yet to emerge for small customers in electricity markets in Tasmania, regional Queensland and the Australian Capital Territory (ACT), though greater choice has emerged in the ACT with the entry of a third retailer for residential customers.

Competition continues to be more tempered in gas retail markets where there are fewer retailers operating in a smaller market than for electricity. Competition is effective in most of Victoria, NSW and South Australia. Ten gas retail brands are competing in Victoria, compared with six in NSW and five in South Australia. There is limited competition in South East Queensland and effective competition is yet to emerge in the ACT, Tasmania and regional Queensland. Three gas retail brands are competing in the ACT and two in Queensland and Tasmania, where small customer numbers (10,000 to 180,000) may be deterring additional gas retailers from entering, along with uncertainty regarding future wholesale gas purchase costs.

While reforms and market evolution are progressing at a different pace across NEM jurisdictions, a number of common themes have emerged.

Customer activity and outcomes

Customers in the NEM continue to actively shop around for energy deals at a rate on par with the 2014 survey, with 31 per cent of all residents surveyed stating they had actively investigated energy options to switch to in the past 12 months.

Customers in Victoria, South Australia and NSW are particularly active and report higher satisfaction with the level of choice available. Customer choice is lower in South East Queensland and retailers reported in surveys conducted in February 2015 that they planned to expand their activity in this region following the then expected removal of price regulation. The Queensland Government has since announced a 12 month delay in removing retail price regulation to enable the Queensland Productivity Commission to undertake a public inquiry into electricity prices.

Fewer customers switched retailer during 2014 in most jurisdictions, but self-reported switching for electricity remains higher than for other services such as internet, mobile phone, banking and insurance. It is possible the recent decline in switching was partly driven by changes in retailer marketing, with fewer customers stating they were approached by retailers compared to last year's survey. As the market matures, the Commission expects marketing practices will also evolve and the initiative may increasingly shift from retailers approaching customers to customers approaching retailers. There may also be an increased retailer focus on customer retention, with one retailer noting that "as price competition becomes more intense, retailers need to invest to retain customers... Improving customer experience is one of the best ways to hold onto existing customers."

The majority of customers surveyed were satisfied with their retailer and their level of customer service, as well as value for money. Sixty nine per cent of residential electricity customers were satisfied with their retailer. The remainder were mainly neutral, with approximately nine per cent dissatisfied.

While the majority report being satisfied, the number of customer complaints raised with retailers and Ombudsmen highlights the negative experiences of some customers, such as inaccurate billing and wrongful disconnections. Between 0.1 and three per cent of customers made a complaint to their Ombudsman in 2013-14 across the jurisdictions. The proportion of customers with unsatisfactory experiences is higher than those making complaints, as demonstrated by the nine per cent of surveyed residential customers who were dissatisfied with their electricity retailer. The quality of interactions with customers is important and may vary between retailers. For example, in its review of hardship policies, the Australian Energy Regulator, noted different levels of retailer commitment to assisting hardship customers.

Customers who shopped around for a good deal were more likely to have found savings and were generally more satisfied with their retailer. Those who had not investigated offers or switched were less likely to have saved or been satisfied with their retailer. Customers should be encouraged and supported to regularly shop around for an energy deal.

Comparator websites and phone services are offered by governments and regulators to provide advice independent of retailers and help customers compare energy offers. This includes My Power Planner and YourChoice in Victoria and Energy Made Easy in other NEM jurisdictions. Customer surveys suggest awareness of these tools is low, with an average of one per cent of customers citing the name of the website available in their jurisdiction.

Governments can assist by raising awareness of these independent comparator tools, which can simplify the shopping process and reduce the time and effort involved.

Customers who used price comparator websites to investigate their options were significantly more aware of the choices available to them and also more confident they could find the right information to help choose an energy plan.

Other targeted information and tools may be required for people with different information needs and capabilities so that all customers have the opportunity to benefit from increasing competition. For example, around 10 to 30 per cent of small electricity customers remain on standing offers, which are generally higher priced, in jurisdictions with effective competition. AEMC analysis for Victoria, South East Queensland and NSW found that customers on standing offers are more likely to be customers who are older or living in regional areas. In Melbourne and Sydney, higher income areas are more likely to have a high proportion of customers on standing offers. The reverse applies in many regional areas where lower income areas are more likely to have customers on standing offers. These customers could benefit from targeted information to help them find a cheaper market offer. The AEMC consumer engagement blueprint for the NSW Government could also be applied in other jurisdictions. It sets out a range of approaches to engage different types of customers, including options to reach older customers or customers in regional areas.

In a competitive market positive outcomes depend on engaged suppliers and customers. Customers who engage can drive better outcomes for themselves and the market overall by influencing the design of products and level of service provided by suppliers.

Rivalry between retailers and impediments to entry

Second tier retailers are growing their share of customers across the NEM. Customers are moving away from the 'big three' retailers to second tier retailers, which collectively gained market share in all jurisdictions between December 2013 and December 2014. Switching to second tier retailers can be considered a good indicator of competition as it shows that customers are not necessarily biased towards larger incumbent retailers and have the confidence to try smaller, lesser known retail brands.

The significance of barriers to entry and expansion for retailers varies by jurisdiction. Barriers to entry and expansion do not appear to be significantly impeding competition in the retail electricity markets of Victoria, NSW and South Australia. However, in all regions surveyed retailers noted jurisdictional specific policies, such as different approaches to consumer protections and concessions, could add costs and impede expansion.

Wholesale electricity purchase costs and spot price volatility at the Queensland reference node in South East Queensland combined with retailers' preference to wait for the implementation of retail price deregulation appear to have slowed activity in that retail electricity market.

Significant barriers prevent entry and expansion in the regional Queensland and Tasmanian retail electricity and gas markets.

Future developments

Changes have occurred in the twelve months since the last competition review, but more significant developments are likely to be evident over a longer period of time in response to policy changes, wholesale market conditions and technology changes.

Further improvements in retail competition are expected in NSW, following the removal of price regulation in 2014. Retailers have suggested in surveys and interviews that there is increasing rivalry in NSW since the removal of price regulation. The full impact of this policy change is likely to become more evident over the longer term as it will take time for retailers and customers to respond to new opportunities.

A competitive wholesale electricity market will continue to be an important enabler of effective competition in retail markets. For customers to have choice between retailers, retailers need to have choice of wholesale contracts.

There is a degree of uncertainty about how changes to gas supply and demand will affect wholesale gas purchase costs. This, in turn, creates uncertainty about retail gas prices in some jurisdictions, and therefore the demand for gas by small customers. Faced with this uncertainty, prospective entrants may delay their entry until the conditions in the wholesale market are more certain.

Over the medium to longer-term the Commission expects to observe greater innovation supported by the roll out of new metering technology, as well as new business models for the provision of energy services. In particular, changes occurring in the growing solar segment of the retail market that have the potential to impact customer and retailer outcomes. Alternative energy business models, such as 'exempt solar suppliers' currently hold a small proportion of the market and have not replaced all of the services offered by 'traditional retailers'. Advances in energy storage or regulatory developments could result in these businesses having a greater impact on retail energy markets over time.

The Commission will continue to monitor market developments through the annual competition review to promote positive customer outcomes in retail energy markets now and into the future.

Recommendations

To promote competition in retail markets and improve customer outcomes, the Commission recommends that jurisdictions:

- consider options for raising awareness of the tools available to simplify comparing energy offers to improve customer confidence in the market;
- consider tailored communications to different audiences as set out in the AEMC's consumer engagement blueprint;¹
- ensure concession schemes are delivering on their intended purpose in an efficient and targeted way;

¹ Prepared for the NSW Government, however recommendations are applicable in other jurisdictions. Australian Energy Market Commission, *Review of Competition in the Retail Electricity and Natural Gas Markets in New South Wales, Supplementary Report: Increasing consumer engagement*, AEMC, 31 October 2013, Sydney.

- continue to harmonise regulatory arrangements to reduce the long term costs of competing across jurisdictions;
- implement the recommendations of the AEMC's review of electricity customer switching to improve the accuracy and timeliness of the customer transfer process; and
- remove energy retail price regulation where competition is effective.

The remainder of this Executive Summary sets out our approach to conducting this review, followed by key findings for each jurisdiction.

Approach to this review

In order to assess the state of competition in NEM retail electricity and gas markets, the Commission considered five competitive market indicators:

- the level of customer activity in the market;
- customer satisfaction with market outcomes;
- barriers to retailers entering, expanding or exiting the market;
- the degree of independent rivalry; and
- whether retail energy prices are consistent with a competitive market.

Each of these indicators provides a useful check on the state of the market. It is important to note that an adverse finding for a single indicator is not necessarily indicative of a systemic problem with the way in which the market functions. The Commission forms a judgement on the state of competition in a market by drawing together information on all of these indicators. A summary of key data for these indicators in each jurisdiction is provided in Appendix C.

A range of information sources are used to assess the competitive indicators, including submissions to our consultation and approach papers, quantitative customer research, retailer interviews and surveys and data provided by retailers, Ombudsmen, jurisdictional regulators, the Australian Energy Regulator and the Australian Energy Market Operator.

Key findings for each jurisdiction are summarised below.

South East Queensland

- Competition continues to be effective in the South East Queensland retail electricity market, based on evidence gathered up to the first quarter of 2015. At the time of our analysis, electricity customers could choose from a range of energy plans from 11 different retail brands.
- Competition is less effective in the gas retail market compared to electricity, with just two retailers competing. The Commission does not expect a material improvement in the level of competition in the retail gas market due to the small size of the market (180,000 customers) and the tightening demand and supply conditions in the wholesale gas market.
- Sixty two per cent of residential customers surveyed were satisfied with their electricity retailer, though satisfaction levels were slightly lower than in Victoria,

NSW and South Australia. Some customers have negative experiences; 11 per cent of residential customers were dissatisfied with their electricity retailer in South East Queensland and 0.7 per cent of small customers made a complaint to the Ombudsman. Common issues behind complaints include high bills, errors in billing, disconnection and debt collection.

- Customers are actively shopping around for an energy deal, with 25 per cent residential and 38 per cent of small business customers actively investigating energy options in the last 12 months.
- Many customers can save by shopping around to find a retailer and energy plan that best meets their needs. AEMC analysis shows that a representative customer comparing electricity flat rate market offers through the Queensland Competition Authority (QCA) price comparator website could find an offer that is as much as \$250 a year cheaper than the most expensive. The level of possible savings differs with energy consumption, discount eligibility and type of contract.
- Retail customers have diverse energy demands. An energy offer that is good value for one customer may be expensive for another customer with a different consumption level or different needs and circumstances. It is important that customers have access to clear information about what they are signing up to and that customers consider their personal circumstances when choosing a plan.
- There is low customer awareness of the availability of price comparator websites that are independent of retailers and can help customers find a suitable energy plan. Customers surveyed who used price comparator websites to investigate their options were significantly more aware of the choices available to them and also more confident they could find the right information to help choose an energy plan.
- The Australian Energy Regulator's Energy Made Easy website and phone service should be promoted to assist customers to compare and choose energy offers. It will become available for customers in South East Queensland from 1 July 2015 when the National Energy Customer Framework is legislated to start.
- Competition in the retail electricity market appears to be less intense than in earlier years and in some other jurisdictions. Some retailers reported increased barriers to entry and expansion due to wholesale purchase costs and spot price volatility at the Queensland reference node. One retailer was considering exit due to the wholesale market conditions. A competitive wholesale electricity market is an important enabler of effective competition in retail markets. For customers to have choice between retailers, retailers need to have choice of wholesale contracts.
- Based on the findings of this review, the Commission considers there is sufficient competition in the South East Queensland electricity market for customers to benefit from removal of retail price regulation. This can be expected to promote further competition in the market to deliver innovation, greater choice and competitive prices in South East Queensland.

Regional Queensland

- Competition in regional Queensland is not effective in the electricity retail market with one retailer – Ergon Energy Retail - supplying most small electricity customers. Electricity prices remain regulated and Ergon Energy Retail is not permitted to offer market contracts, so customers are limited in their ability to shop around for different energy plans.
- The main impediment to electricity retail competition in regional Queensland is the means by which the Uniform Tariff Policy is implemented. This subsidy is provided to Ergon Energy Retail and is not available to other retailers, making it difficult for other retailers to enter the market at a competitive price. Higher electricity wholesale purchase costs and spot price volatility at the Queensland reference node were also cited by some retailers as a deterring entry and expansion.
- Three retailers indicated they may enter the electricity market if the current policy settings change.
- Competition in the retail gas market is also not effective. Gas customers in Toowoomba and Oakey have access to two competing gas retailers, while customers in Wide Bay-Burnett, Gladstone and Rockhampton only have access to one retailer. A material improvement in the level of competition is not expected due to the small size of the retail market and tightening demand and supply conditions in the wholesale gas market.
- On 1 July 2015, the National Energy Customer Framework is legislated to take effect in Queensland with some state-specific variations.

New South Wales

- Competition continues to be effective in the NSW retail electricity market, delivering customers a range of energy plans from 20 different retail brands. Four new retail brands entered the retail electricity market since the 2014 retail competition review, Blue NRG, Commander Power & Gas, CovaU and Powershop.
- Competition is effective though less intense in the retail gas market in most of NSW, with six retail brands competing. One new retailer entered the retail gas market since the 2014 retail competition review, CovaU. In some regional areas there is just one gas retailer operating.
- Since the NSW Government removed retail electricity price regulation in July 2014 new firm entry and higher switching rates were observed. The full impact of this policy change is likely to become more evident over the long term as it will take time for retailers and customers to respond to new opportunities.
- Customers continue to actively shop around for an energy deal, with around a third of customers actively investigating energy options in the last 12 months. Electricity retailer switching fell from mid-2013, but increased again towards the end of 2014.

- The big three retailers hold 94 per cent of the retail electricity market share, however second tier retailers are growing and market concentration has fallen since the 2014 retail competition review. Most retailers considered that entry and expansion in the retail electricity market is not difficult, and that the removal of price regulation has lowered barriers to entry and expansion.
- Most customers surveyed were satisfied with their electricity and gas retailers, the value for money and the customer service provided. Seventy four per cent of residential customers were satisfied with their electricity retailer. However some customers have negative experiences; six per cent of residential customers were dissatisfied with their retailer and one per cent of small customers made a complaint to the Ombudsman. Common issues behind complaints include high bills, errors in billing, disconnection and debt collection.
- Many customers can save by shopping around to find a retailer and energy plan that best meets their needs. AEMC analysis shows that a representative customer comparing electricity flat rate market offers through the Energy Made Easy website could find an offer that is as much as \$720 a year cheaper than the most expensive. The level of possible savings differs with distribution network, energy consumption, discount eligibility and type of contract.
- Retail customers have diverse energy demands. An energy offer that is good value for one customer may be expensive for another customer with a different consumption level or different needs and circumstances. It is important that customers have access to clear information about what they are signing up to and that customers consider their personal circumstances when choosing a plan.
- Customers should be supported and encouraged to regularly shop around through initiatives like the NSW Government's "The Power's in Your Hands" campaign. Some of the observed increases in customer activity may be due to this campaign.

Australian Capital Territory

- There are signs that competition may be increasing in the ACT, though effective competition is yet to emerge. Improvements over the last 12 months include the entry of Origin in September 2014 and a doubling in the proportion of customers who said they had searched for a better energy deal.
- There are three retail brands operating in the residential retail electricity market, however ActewAGL continues to dominate the market with a 96 per cent share. Small businesses have a fourth retailer to choose from, with ERM Power operating in this segment only.
- There is also limited competition in the retail gas market, with three retail brands competing for customers. ActewAGL holds 96 per cent of the small customer market as at June 2014.
- There was a very small decline in the level of market concentration since the 2014 retail competition review mostly attributable to the entry of Origin. Retailers reported that the existing retail price regulation and the dominance of the incumbent ActewAGL made entry and expansion difficult.

- Customers in the ACT were more aware that they have a choice of retailer than they were in 2014, but their awareness remains significantly below the NEM average.
- Customer satisfaction with the level of choice in the ACT was lower than all other jurisdictions where residents have a choice of electricity retailer. ACT customers are less satisfied with the overall value for money provided by their electricity retailers than the NEM average.
- Many customers who shop around may be able to make significant savings and they should be supported and encouraged to do so. AEMC analysis shows that a representative customer comparing electricity flat rate market offers through the Energy Made Easy website could find an offer that is as much as \$330 a year cheaper than the most expensive. The level of potential savings differs with energy consumption, discount eligibility and type of contract.
- Retail customers have diverse energy demands. An energy offer that is good value for one customer may be expensive for another customer with a different consumption level or different needs and circumstances. It is important that customers have access to clear information about what they are signing up to and that customers consider their personal circumstances when choosing a plan.

Victoria

- Competition continues to be effective in the Victorian retail electricity market, delivering customers a wide range of energy plans from 21 different retail brands. Two new retail brands entered the market since the 2014 review, Commander Power & Gas and CovaU. Of all NEM jurisdictions, Victoria had the highest proportion of customers switching to second tier retailers, the lowest level of market concentration and among the highest customer satisfaction ratings. Victorian customers also had the highest levels of awareness of choices and confidence to choose the right energy option.
- Competition is also effective in the gas retail market with low market concentration and high customer activity. Two new retail brands entered the market in 2015, Click Energy and Momentum Energy, bringing the total number of retail brands to ten. Switching data suggests customers are actively shopping around between the retailers available.
- The majority of Victorians surveyed were satisfied with their retailer overall, as well as the value for money and customer service provided. Sixty seven per cent of residential customers were satisfied with their electricity retailer. However, some customers have negative experiences; eight per cent of residential customers were dissatisfied with their retailer and three per cent of small customers made a complaint to the Ombudsman. Common issues behind complaints include high bills, errors in billing, disconnection and debt collection.
- Many customers who shop around may be able to make significant savings and they should be supported and encouraged to do so. AEMC analysis shows that a representative customer comparing electricity flat rate market offers through the My Power Planner website could find an offer that is as much as \$570 a year

cheaper than the most expensive. The level of potential savings differs with distribution network, energy consumption, discount eligibility and type of contract.

- Retail customers have diverse energy demands. An energy offer that is good value for one customer may be expensive for another customer with a different consumption level or different needs and circumstances. It is important that customers have access to clear information about what they are signing up to and that customers consider their personal circumstances when choosing a plan.
- Many retailers are competing through discounts but the biggest discount may not always equal the cheapest price, particularly if the discount has conditions, such as paying the bill on time, and the customer does not meet these.
- Customers could benefit from greater awareness of the government's My Power Planner and YourChoice websites, which provide online tools to simplify the process of comparing energy offers. These tools can provide estimated bills, details on the discounts available and other details of importance to help customers shop around for a suitable energy plan.

South Australia

- Competition continues to be effective in the South Australian retail electricity market, delivering customers a range of energy plans from 16 different retail brands. One new retail brand has entered the retail electricity market since the 2014 retail competition review, Commander Power & Gas.
- Competition is relatively less effective in the South Australian retail gas market, with five retail brands competing with one another. No new retail brands entered the retail gas market since the 2014 retail competition review. The South Australian retail gas market has the lowest level of market concentration in the NEM after Victoria.
- There is evidence of rivalry between electricity retailers, with a small decline in market concentration as second tier retailers gained market share from the big three retailers. Retailer survey results suggest that entry and expansion in the electricity and gas retail markets is not difficult, though views varied.
- Customers continue to actively shop around for an energy deal, with 25 per cent of residential and 39 per cent of small business customers actively investigating energy options in the last 12 months. The majority of South Australian customers are aware of their ability to choose retailers and are confident of choosing the right energy option.
- Most customers were satisfied with the level of market choice, the value for money and the customer service provided. Sixty nine per cent of residential customers were satisfied with their retailer. However, some customers have negative experiences; six per cent of residential customers were dissatisfied with their retailer and one per cent of small customers made a complaint to the Ombudsman. Common issues behind complaints include high bills, errors in billing, disconnection and debt collection.

- Many customers who shop around may be able to make significant savings and they should be supported and encouraged to do so. AEMC analysis shows that a representative customer comparing electricity flat rate market offers through the Energy Made Easy website could find an offer that is as much as \$400 a year cheaper than the most expensive. The level of possible savings differs with energy consumption, discount eligibility and type of contract.
- Retail customers have diverse energy demands. An energy offer that is good value for one customer may be expensive for another customer with a different consumption level or different needs and circumstances. It is important that customers have access to clear information about what they are signing up to and that customers consider their personal circumstances when choosing a plan.

Tasmania

- Competition is not effective in the Tasmanian retail electricity market, with no rivalry for residential customers and very limited rivalry for small business customers. Aurora Energy continued to have 100 per cent share of the residential electricity market, whilst ERM Power gained a very small share of the small business electricity market. Most retailers considered that entry and expansion in the retail electricity market was difficult.
- Competition is also not effective in the retail gas market, with only two retail brands operating and providing similar products to the small customer base.
- Since the 2014 review, full retail contestability has been extended to small electricity customers and the Tasmanian Government enacted changes to the wholesale market arrangements to try to encourage entry into the retail electricity market. Despite these actions, no new entry has occurred in the last year and Aurora Energy continues to be the sole supplier of electricity to residential customers. ERM Power entered the market for small business customers in March 2014 and has gained a small market share.
- Customer satisfaction with the level of choice in Tasmania was the lowest of all NEM jurisdictions. Residential customers are not able to choose their electricity retailers, and only some small businesses are able to do so. Customers in Tasmania are interested in better energy deals but do not have alternative retailers available. Over forty per cent of surveyed Tasmanian residents and over half of small business customers were looking for a better energy deal or interested in doing so.

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1 Introduction

The Australian Energy Market Commission (AEMC or Commission) is required under the Australian Energy Market Agreement (AEMA) to assess the effectiveness of competition in National Electricity Market (NEM) jurisdictions. This is an annual review under the approach agreed by the former Standing Council on Energy and Resources, now known as the Council of Australian Governments (COAG) Energy Council. The terms of reference require these reviews to focus on small customers, be based on objective measures and analysis and to provide comment on NEM-wide issues affecting retail competition.

These reviews provide advice to governments to support a commitment made by all jurisdictions under the AEMA to remove retail energy price regulation where effective competition can be demonstrated.

Separate competition reviews were completed for Victoria and South Australia in 2008, the Australian Capital Territory (ACT) in 2011 and New South Wales (NSW) in 2013. This 2015 review considers competition in all Australian states and territories with the exception of Western Australia and the Northern Territory, which are not part of the NEM.

1.1 Scope of review

The terms of reference was provided from the Council of Australian Governments (COAG) Energy Council to the AEMC on the 9 January 2014. It is a standing terms of reference that applies to this year's review as well as future annual reviews.² The scope of these reviews is set out in the terms of reference and in the amended AEMA.

The AEMC assesses the effectiveness of competition in accordance with guidance issued by Energy Ministers for the purpose of jurisdictional decisions on the retention, removal or reintroduction of retail energy price controls.

The terms of reference require the AEMC to consider a set of criteria in assessing the effectiveness of competition across and within NEM jurisdictions. These criteria have seen minor changes since the 2014 review, following our consideration of stakeholder suggestions and our experience undertaking the first review. The assessment framework for the 2015 review considers the following competitive market indicators:

- the level of customer activity in the market;
- customer satisfaction with market outcomes;
- barriers to retailers entering, expanding or exiting the market;
- the degree of independent rivalry; and
- whether retail energy prices are consistent with a competitive market.

Our approach to assessing these indicators is discussed further in Chapter 2.

² The terms of reference are available at: <http://www.aemc.gov.au> (project code: RPR0003).

1.2 Purpose of the report and next steps

1.2.1 Final report

This report sets out the Commission's findings on the state of retail energy competition in NEM jurisdictions. It was provided to the COAG Energy Council ten days prior to publishing as required under the Terms of Reference.

The report is accompanied by two consultant reports that provide further details on retailer and customer research undertaken for this review.³

1.2.2 Further advice

The terms of reference require the AEMC to advise Energy Ministers whether there are any jurisdictions to which we could usefully provide further advice on possible ways to transition to price deregulation. If requested by Energy Ministers, there may be scope for the AEMC to provide more detailed advice on this, or on other issues raised.

1.2.3 Further competition reviews

This review will be repeated on an annual basis in accordance with the standing terms of reference issued by the COAG Energy Council.

Some stakeholders indicated a preference for a draft report to be published for consultation. The annual timeframe for these reviews does not provide sufficient time to publish a draft report and seek stakeholder comments. Instead a Consultation Paper and an Approach Paper were published inviting submissions (see section 1.3.1) and meetings were held with some stakeholders (see section 1.3.2).

We welcome stakeholder feedback on ways to refine the approach for future reviews. Stakeholders will also be notified at the start of the consultation process for the next review through the AEMC weekly stakeholder email and through an announcement on our website.⁴

1.3 Sources of information

The AEMC drew from publicly available data to inform our analysis, as discussed in Chapter 2. Additionally, we received information from stakeholders through submissions, meetings, and data requests. We also engaged consultants to collect quantitative and qualitative information.

The AEMC would like to thank all stakeholders who provided input to this review. In particular, we would like to thank those stakeholders who provided extensive data to support our analysis of the criteria set out in our terms of reference. This included data from energy retailers, the Australian Energy Market Operator, the Australian Energy Regulator, Ombudsmen and jurisdictional regulators.

³ K Lowe Consulting and Farrier Swier Consulting, *AEMC 2015 Retail Competition Review: Retailer Surveys*, June 2015; and Newgate Research, *Consumer Research for Nationwide Review of Competition in Retail Energy Markets*, report for the AEMC, June 2015.

⁴ Please visit <http://www.aemc.gov.au> if you would like to 'subscribe for updates' to receive our weekly email with updates on all of the AEMC's rule changes and reviews.

1.3.1 Submissions

The Commission initiated this review on the 31 October 2014 by releasing a Consultation Paper which set out a proposed assessment framework for the AEMC's 2015 review for stakeholder comment. In response, the Commission received 12 submissions from a range of stakeholders including consumer advocacy groups, retailers, distributors, and government bodies. On the 18 December 2014, the Commission released an Approach Paper, with a series of questions to inform our analysis. Stakeholders were invited to respond to these questions and provide more general views on the current state of competition in each jurisdiction. In response, the Commission received 11 submissions from a range of stakeholders. A summary of stakeholder submissions and the Commission's response is provided in Appendix D.

1.3.2 Stakeholder meetings

We invited any interested stakeholders to contact the AEMC to discuss the review. The AEMC met with a range of stakeholders throughout the review process, including consumer groups, retailers, Ombudsmen, pricing regulators and jurisdictional governments.

1.3.3 Consultants

Energy customers and energy retailers were also involved in this review through research undertaken by our consultants. The following consultants were engaged to inform our analysis:

- **Customer research:** Newgate Research was engaged to undertake customer research through quantitative surveys.
- **Retailer research:** K Lowe Consulting and Farrier Swier Consulting jointly conducted surveys of electricity and gas retailers in each of the jurisdictions.

Chapter 2 provides further detail on how the findings of this work have been incorporated into our assessment of competition. The reports produced by Newgate Research and by K Lowe Consulting and Farrier Swier Consulting set out the methodology and detailed findings of this research and are available on our website.⁵

1.4 Structure of the report

Our assessment framework and methodology are set out in Chapter 2, providing details on our information sources and the competitive indicators we have used to measure the five assessment criteria. This chapter also sets out key limitations of the data used and should be read in conjunction with Chapters 4-10 on specific jurisdictions.

Our analysis revealed a number of common trends across most jurisdictions. These are discussed in Chapter 3 (Overview and Main Findings) which provides context for the discussion in the subsequent jurisdiction-specific chapters.

⁵ K Lowe Consulting and Farrier Swier Consulting, *AEMC 2015 Retail Competition Review: Retailer Surveys*, June 2015; and Newgate Research, *Consumer Research for Nationwide Review of Competition in Retail Energy Markets*, report for the AEMC, June 2015, available at: <http://www.aemc.gov.au> (project code: RPR0003).

Findings are set out in individual chapters for each NEM jurisdiction, with the exception of Queensland where our assessment of South East Queensland and regional Queensland has been split into two separate chapters.

Our appendices provide a summary of indicators of competition in each market and additional detail on stakeholder submissions, jurisdictional concession and hardship policies, jurisdictional solar subsidy arrangements and the energy retailers that operate in each jurisdiction.

2 Assessment framework and approach

This chapter explains the analytical framework and approach that underpins the Commission’s assessment of the effectiveness of competition for this review.

National electricity market (NEM) jurisdictions are at different stages of promoting competition in energy retail markets. As a consequence, care needs to be taken when comparing outcomes across jurisdictions and concluding whether one jurisdiction is “more” competitive than another.

Markets are dynamic: conditions change as the cost of inputs and technologies change, demand levels vary, innovation occurs, firms enter and exit the market and customer preferences change. Markets provide the mechanism for retailers to discover what customers want and for customers to discover the price and service combinations that retailers are offering. Higher retailer returns can reward innovation and strong customer service, and also drive new entry which in turn creates further incentives for differentiation and cost reduction. This is a continuous, iterative process and one that does not always happen smoothly, but through the process of discovery and experimentation businesses adapt in order to meet the varying needs of customers.

In practice this means that the indicators used to determine the effectiveness of competition can be ambiguous if considered in isolation. The Commission has formed a judgement on the level of competition in each jurisdiction based on a range of competitive market indicators, set out in section 2.2, and trends in these indicators over time.

2.1 Market definition

To assess the level of competition in energy retail markets it is necessary to define the relevant markets to be considered. The terms of reference require the AEMC to focus on small electricity and natural gas customers in NEM jurisdictions. To provide a framework for analysis, we need to know whether the supply of electricity and gas to small customers in each jurisdiction is a single market, is part of a larger market, or is made up of multiple markets.

We have adopted the same market definition for this review as for the 2014 review, which was supported by most stakeholders and the available data.⁶ This involves considering each jurisdiction as a single geographic market with two product markets: an electricity retail market and a gas retail market. A key exception to this approach applies to Queensland, which is assessed as two separate geographic markets; South East Queensland,⁷ where customers can choose from 11 electricity retail brands, and the rest of Queensland,⁸ where there is currently just one electricity retailer.

We considered small business and residential customers as part of the same market, but identified where specific findings differed between these two types of customers. For

⁶ Some stakeholders suggested broadening the definition, which is discussed further below.

⁷ South East Queensland is defined by the Energex distribution network, which broadly covers Brisbane, Ipswich, Gold Coast and Sunshine Coast.

⁸ Regional Queensland is defined by the Ergon distribution network, which covers the remainder of Queensland.

example, our assessment of retailer rivalry and our consumer research results highlight any materially different outcomes between small business and residential customers.

We also analysed regional areas separately in each state to determine whether there were any material differences in the state of competition from urban areas.

We have not broadened the market definition for the 2015 review to include energy suppliers who receive an individual exemption from the requirement to obtain an electricity retailer authorisation under the National Energy Retail Law, as requested by some stakeholders.⁹ These exempt energy suppliers include some solar energy suppliers and other embedded non-network energy suppliers. While these suppliers sell energy in retail electricity and gas markets, they have been exempted by the Australian Energy Regulator (AER) from the full range of obligations on retailers. The AER currently grants these exemptions where it considers such sellers have a 'lesser' involvement in the market.¹⁰

The AEMC may consider expanding the market definition for future competition reviews, subject to developments in the market and the findings of the relevant AER and Council of Australian Governments (COAG) processes underway.¹¹

We consider the current market definition appropriate to address issues associated with exempt energy suppliers where directly relevant to our terms of reference. The review considered these issues with respect to our competitive market indicators and within the scope of the review, including a discussion of competition in the solar segment of the retail energy market in Chapter 3.

2.2 Competitive market indicators

The AEMC has drawn on the criteria in the terms of reference and refined them to focus our assessment of whether outcomes in retail markets in NEM jurisdictions are consistent with effective competition. The competitive market indicators used for our assessment in this review are consistent with those that were used for the 2014 review and were generally supported in submissions to this review.¹² The competitive market indicators we have used for our assessment are:

⁹ See the submissions to the Approach Paper of Alinta Energy Consumer Action Law Centre, Consumer Utilities Advocacy Centre, EnergyAustralia and the Energy Retailers Association of Australia.

¹⁰ For more information on the AER's approach to retailer authorisation exemptions, see AER, *Statement of Approach: Regulation of alternative energy sellers under the National Energy Retail Law*, June 2014.

¹¹ See the AER's work on the regulation of innovative energy selling business models under the National Energy Retail Law, in relation to which further information can be found here: <http://www.aer.gov.au/node/28414>. See also the relevant work of the COAG Energy Council's Energy Market Reform Working Group examining the regulatory implications of new products and services in the electricity market, in relation to which further information can be found here: <http://www.scer.gov.au/workstreams/energy-market-reform/demand-side-participation/new-products-and-services-in-the-electricity-market/>.

¹² See the submissions to the Consultation Paper and Approach Paper of the Independent Pricing and Regulatory Tribunal, AGL, Simply Energy, Origin Energy, Red Energy, the Essential Services Commission of South Australia and the Energy Retailers Association of Australia.

- the level of customer activity in the market;
- customer satisfaction with market outcomes;
- barriers to retailers entering, expanding or exiting the market;
- the degree of independent rivalry; and
- whether retail energy prices are consistent with a competitive market.

Together, these are referred to as the "competitive market indicators" (or "indicators"). We have used these indicators to structure our assessment of competition in Chapters 4 through 10.

Analysis of these indicators will provide information on the market structure, market behaviour of retailers and customers and the performance of the market.

The assessment of markets against these indicators can change over time depending on external conditions, the stage of the business cycle, the maturity of the market and developments in new technologies and other product innovations. The annual review process enables the AEMC to monitor these indicators to identify key changes and trends over time.

2.3 Approach to assessing the competitive market indicators

The sections below explain the Commission's approach to assessing retail electricity and gas markets against the competitive market indicators and highlight key data sources used in the assessment. Figure 2.1 summarises the key inputs to the assessment under each indicator.

2.3.1 Customer activity in the market

A desirable outcome of a competitive market is that customers are aware of the choices available to them and are able to act on those choices. By shopping around to receive lower prices or better service, customers play an important role in maintaining downward pressure on prices and driving retailers to provide the quality of service customers demand. Customer activity is therefore an important indicator of whether competition is effective.

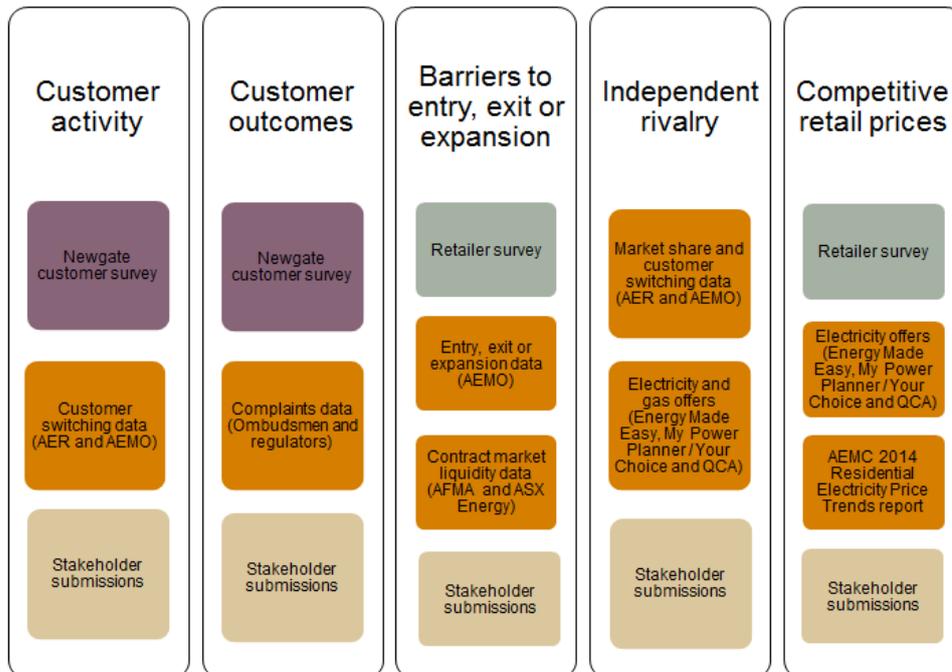
Our analysis of this market indicator considers:

- *customer engagement in choosing energy offers*, including whether customers are shopping around for better energy deals;
- *customer attitudes*, including the key drivers for customers to shop around and whether there are any issues inhibiting their ability to do so; and
- *customer switching* from one retailer to another and from one energy plan to another with the same retailer. These data were carefully considered in conjunction with other evidence on customer activity, as well as other competitive indicators. We note that high or low switching rates alone are not necessarily a sign of a well-functioning market.

Key information sources for this indicator include:

- customer survey results on levels of engagement, attitudes towards retail energy markets and switching between energy plans with the same retailer (section 2.4.1); and
- data on customer switching for electricity from the Australian Energy Market Operator (AEMO) and gas from the AER (section 2.4.5).

Figure 2.1 Key inputs to assessing the competitive market indicators



2.3.2 Customer satisfaction with market outcomes

High levels of customer awareness and high switching rates by themselves do not provide a full picture of the level of competition in a market. In effectively competitive markets, customers are generally satisfied with the range of products available to them, the level of service they receive and the associated value for money. Competition provides the opportunity for customers who are not satisfied with their energy plan or retailer to change to a better alternative.

Our analysis of this market indicator considered:

- *customer complaints* to retailers and Ombudsman to test customer satisfaction with market outcomes; and
- *customer surveys* to test views on retailer services and value for money, the ease with which they can switch and their satisfaction with their decision to switch.

Key data sources for this indicator include:

- customer survey results on customer satisfaction (section 2.4.1);
- complaints to jurisdictional Ombudsmen (section 2.4.7); and
- complaints to retailers collected by the AER and jurisdictional regulators and provided to the AEMC.

2.3.3 Barriers to entry, exit or expansion

Identifying any significant barriers to entry, expansion and exit is an important element of a competition assessment. This involves analysing whether new retailers can freely enter the market and whether incumbent retailers can expand or exit. Under these conditions, there are competitive pressures on existing retailers to charge prices commensurate with efficient costs and provide a level of service customers want. An effectively competitive market will generally have no significant barriers to entry, exit or expansion.

Our analysis of this market indicator considers:

- *evidence of entry, exit or expansion* of retailers;
- *retailer experiences* with entering, exiting or expanding in a market; and
- *measures of contract market liquidity* as a test of whether new entrant retailers are able to obtain hedging products to manage their risk exposure.

Key information sources for this indicator include:

- retailer survey results on experiences in energy markets (section 2.4.2);
- data on new entry and expansion from AEMO (section 2.4.4); and
- data on contract market liquidity from the Australian Financial Markets Association and ASX Energy (section 2.4.6).

2.3.4 Independent rivalry

Independent rivalry reflects the extent to which retailers are competing to attract and retain customers. Rivalry between retailers can lead to lower levels of market concentration over time and can be observed in pricing strategies and the level of product differentiation and innovation to attract and retain customers. Our analysis of this market indicator considers:

- *market share and concentration* and how these have changed over time;
- *product differentiation* in the range of market offers available; and
- *customer switching* between retailers. We find switching between smaller, second tier retailers to be a particularly useful indicator of independent rivalry as it shows that customers are not necessarily biased towards larger incumbent retailers and that these retailers are competing between themselves as well as with the incumbent. We note, however, that the level of independent rivalry may be understated by customer switching data if firms are competing heavily to retain existing customers.

Key data sources for this indicator include:

- data on market shares from the AER, and data on active customer meters from AEMO to calculate market concentration (section 2.4.4);
- data on switching between retailers from AEMO to determine the level of switching between retailers of different tiers (section 2.4.5); and

- government run comparator websites for comparing market offers, including Energy Made Easy, My Power Planner, YourChoice and the Queensland Competition Authority's Price Comparator. See chapters 4 to 10 for details of this analysis as the data available varied by jurisdiction.

2.3.5 Competitive retail prices

Retail prices can be expected to vary with differences in underlying costs, differences in the behaviour of competitors and in response to customer behaviour. Trends in retail prices over time can provide an indication of the level of competition in a market. Competition can put downward pressure on prices, moving them towards their underlying costs.

Our analysis of this market indicator considers:

- differences in prices offered by retailers in NEM jurisdictions in the first quarter of 2015 for a 'representative' customer; and
- possible drivers of price differences.

Price observations at a single point in time should be interpreted with caution and we intend to use the annual competition review process to identify trends over time.

Any monitoring of changes in prices over time should also consider changes in the underlying costs. The AEMC's 2014 Residential Electricity Price Trends report highlighted that price shifts can be driven by changes in environmental policies and network costs as well as competition in wholesale and retail markets. Any discussion of the impact of retail market competition on electricity prices needs to take these other factors into consideration.

Key data sources for this indicator include:

- government run comparator websites for comparing market offers, including Energy Made Easy, My Power Planner, YourChoice and the QCA Price Comparator website (section 2.4.9);
- retailer survey results on experiences in energy markets (section 2.4.2); and
- the AEMC's 2014 Residential Electricity Price Trends report.¹³

We have also drawn from a range of information sources to assess this competitive market indicator, including the work of consumer representatives, regulators and other government bodies.

It is not possible to conclude exactly what prices or price range would be consistent with an effectively competitive market as the underlying costs of different offers for different retailers are unobservable. We expect however, that analysis of offers and prices over time will inform an assessment of how competition is evolving.

¹³ Australian Energy Market Commission, *2014 Residential Electricity Price Trends* report, AEMC, 5 December 2014, Sydney.

2.4 Methodology and data sources

The sections below set out the AEMC's approach to the collection and analysis of the main sources of information for this review. Where the AEMC has taken other information into consideration this is noted in the relevant chapters. The terms of reference for this review note our analysis of competition across the NEM is subject to data availability.

The AEMC aimed to produce the most up to date assessment of competition possible. Customer and retailer surveys were conducted and data collected on offers and prices in the first quarter of 2015. When assessing annual data for the competitive market indicators we used the 2014 calendar year. Where data was not available for a calendar year, we considered the 2013-14 financial year. We have taken historical data into account where possible.

2.4.1 Customer research

To gather information on customer engagement and attitudes, the AEMC engaged Newgate Research to conduct quantitative research on small electricity and gas customers' experiences of retail energy markets in the NEM.

Newgate Research conducted the survey across the six NEM jurisdictions, surveying 2,008 residential respondents and 500 small business respondents. Respondents were aged 18 and over and had to be the person in the household or business who was the main or joint decision maker when it came to choosing their energy retailer. Surveys were conducted online and by telephone.

Additional detail on the methodology used to undertake this research is available in a report prepared by Newgate Research.¹⁴

The survey and the associated methodology are similar to that conducted for the 2014 review,¹⁵ however we did not hold deliberative forums for the 2015 review. We considered that there were unlikely to be substantial changes in the findings of deliberative forums in less than 12 months, however we will consider further qualitative research for future reviews.

In 2015, the survey was conducted in Tasmania for the first time. There is currently one electricity retailer and two gas retailers available in Tasmania for residential customers. The survey results are to be used as a baseline to measure changes in customer attitudes and experiences over time.

The 2015 customer survey builds on the work undertaken in 2014 in assessing the level of customer engagement. This includes exploring levels of satisfaction with retailers, drivers of disengagement and customers' ability to find and understand information in shopping around for energy deals. The survey also explores customers switching between plans with the same retailer to obtain a more complete picture of switching behaviour than that provided by AEMO data alone.

¹⁴ Newgate Research, *Consumer Research for Nationwide Review of Competition in Retail Energy Markets*, report for the AEMC, June 2015.

¹⁵ Newgate Research, *Consumer Research for Nationwide Review of Competition in Retail Energy Markets, Qualitative and Quantitative Research Report*, report for the AEMC, April 2014..

Previous work by the AEMC identified challenges for customers in comparing energy deals and suggested improving the information presented to customers.¹⁶ The 2015 survey builds on these findings to test customer confidence in finding information, the ease of comparing offers, confidence in choosing an energy plan and satisfaction with the outcomes of switching plan or retailer.

The 2015 survey segmented data to identify trends for different groups of customers, such as small business and residential customers, urban and rural customers, younger and older customers, low income and high income customers and customers with or without solar panels.

2.4.2 Retailer interviews and survey

The AEMC engaged K Lowe Consulting and Farrier Swier Consulting to conduct a survey of retailers and the Energy Retailer's Association of Australia. The survey aimed to gather retailers' views and their operating experiences in energy markets across the NEM.

The 2015 retailer survey has been improved to provide clearer measures of retailer perceptions of market conditions. Of the 23 organisations that were asked to participate in the survey, 16 completed the electricity survey and 11 completed the gas survey. Additional detail on the methodology used to undertake this research is available in a report prepared by K Lowe Consulting and Farrier Swier Consulting.¹⁷

2.4.3 Submissions to this review

The AEMC received 12 submissions to the Consultation Paper and 11 submissions on the state of competition following the release of the Approach Paper. These submissions came from a range of stakeholders, including consumer groups, retailers, regulators, business customers and a gas distributor and are available on the AEMC's website.¹⁸

We have drawn on these submissions as part of our analysis. Appendix D provides a summary of issues raised in the submissions and, where relevant, our response.

2.4.4 AER and AEMO market share and market concentration data

We have determined market shares in the retail electricity market according to the number of active National Meter Identifiers (NMIs) on the last day of December 2014, using data provided by AEMO. We have used this data to calculate the level of market concentration in the retail electricity market. We have determined the market concentration using the Herfindahl-Hirschman Index (HHI). The HHI is calculated by

¹⁶ The AEMC's *2014 Retail Competition Review*, AEMC, 22 August 2014, Sydney, found that many customers had trouble comparing 'apples with apples' when shopping around for an energy deal. The Australian Energy Market Commission's *2013 Consumer Engagement Blueprint* (AEMC, 31 October 2013, Sydney) also identified a range of issues for customers in comparing energy deals. The blueprint was prepared for the New South Wales Government following the AEMC's review of retail energy market competition in New South Wales. The blueprint and other associated reports for the NSW competition review are available at: <http://www.aemc.gov.au> (project code: RPR0001).

¹⁷ K Lowe Consulting and Farrier Swier Consulting, *AEMC 2015 Retail Competition Review: Retailer Surveys*, report to the AEMC, June 2015.

¹⁸ The submissions are available at: <http://www.aemc.gov.au> (project code: RPR0003).

summing the squares of the market shares of each retailer, thereby giving more weight to larger retailers. The HHI ranges from 0 to 10,000. In an extremely competitive market the HHI approaches zero, and in a pure monopoly the HHI is 10,000. The ACCC in its Merger Guidelines notes that it is less likely to identify horizontal competition concerns when the post-merger HHI is less than 2,000.¹⁹

Due to confidentiality arrangements with AEMO, we have presented publicly available market shares by retailer from the AER's State of the Energy Market throughout this report, rather than the market shares determined using AEMO data. The most recent market shares available from the AER are as at June 2014. We have relied on AER data for both market shares and market concentration in the case of the retail gas market.

2.4.5 AER and AEMO switching data

Customer switching rates were sourced from AER customer transfer numbers. AEMO provided the AEMC with detailed electricity customer transfers by retailer. For electricity this data goes back to 2009 for all jurisdictions.

There are some issues to consider when analysing switching data, including:

- The data on switches between retailers does not capture unique switches and so may overestimate the proportion of energy customers that switch if a smaller group of customers change retailer multiple times.
- The gross data includes some switches that do not represent a decision by customers to change retailer, such as: when switches occur in error; where a new meter has been installed; or where a customer moves house.²⁰ We present two switching rates for electricity: a gross rate, which is consistent with the monthly switching data published by AEMO; and a second rate net of new meter “switches” and move-in “switches”. The net rate may underestimate switching with customer switching being somewhere between the net and gross rate. The gas data is unadjusted.
- The definition of “small electricity customer” has changed in some jurisdictions since the systems for capturing this information were implemented. Consequently in those jurisdictions where “small customer” is not defined as consuming less than 160 MWh per annum, this data will overestimate the actual proportion of small customers that switch retailer.

We also attempted to examine the proportion of customers that switch plans with the same retailer using the customer survey. Switching rates were carefully interpreted in conjunction with other indicators as we note that high or low rates are not necessarily a sign of a well-functioning market.

¹⁹ Australian Competition & Consumer Commission, *Merger Guidelines*, ACCC, November 2008.

²⁰ Similarly the aggregation of customers as a result of a retailer acquiring another retailer would also overstate the actual level of switching – This is corrected in the data for AGL’s acquisition of Australian Power & Gas.

2.4.6 Contract market liquidity data

Data on the annual turnover of electricity wholesale over the counter (OTC) contracts were sourced from the Australian Financial Markets Association (AFMA). Annual exchange traded derivative data were sourced from ASX Energy.

Liquidity ratios were calculated as the sum of exchange traded and OTC derivative turnovers, divided by AEMO annual energy data.

There are some issues to consider when analysing this data, including:

- Reliable data on OTC contracts is not available. The AFMA data on OTC derivatives is based on a voluntary survey. The level of OTC derivatives is likely understated because a number of market participants have not responded to the survey. Additionally, different participants respond each year.
- If the OTC survey data were excluded, the liquidity ratio would further underestimate the total contract turnover. We have therefore included the OTC data in our estimates of contract liquidity.

For the reasons above, the liquidity ratios calculated are likely to be underestimates of the actual liquidity of wholesale market contracts. Additionally, annual changes in OTC data and the liquidity ratio do not necessarily reflect underlying trends in liquidity over time due to the differences in survey responses each year.

2.4.7 Complaints data

The energy Ombudsman in each state and the ACT Civil and Administrative Tribunal provided the AEMC with detailed electricity and gas data on the retail issues raised with them by customers. The data includes issues raised that were referred back to retailers. There are two exceptions:

- data provided by the Energy Ombudsman Tasmania is only provided for electricity complaints, includes some network issues and does not include all issues referred back to retailers; and
- data provided by the Energy & Water Ombudsman Queensland records the number of complaints raised with the Ombudsman, rather than the number of issues raised.

The AER and jurisdictional regulators provided the AEMC with detailed electricity and gas data reported to them by retailers regarding the issues raised by customers with those retailers, where multiple issues may be raised in one complaint. As the data provided by the Ombudsman in each state and the Tribunal included referrals back to retailers, those referrals may also be captured in the issues raised with retailers.

2.4.8 Product differentiation

Retailers can compete for customers by differentiating their energy offers to meet different customer preferences. This includes offering different tariff structures, discounts, contract terms, fees, incentives and GreenPower options.²¹

To assess the level of product differentiation in each jurisdiction, information was gathered from Government run websites for comparing market offers; Energy Made Easy for NSW, South Australia and the ACT, My Power Planner and YourChoice for Victoria, and the QCA Price Comparator website for Queensland. Information was extracted from these comparator websites for a 'representative' small customer in each jurisdiction.²²

We collected this information for each distribution network in all jurisdictions during February and March 2015. For gas offers, this information was collected for one urban location and one rural location in each state as a complete data set of all offers across all distribution networks was unavailable at the time of our analysis.

2.4.9 Competitive retail prices

This is the first retail competition review where the AEMC has performed this analysis of competitive retail prices. Our analysis of this indicator considered the range of prices available to a 'representative' customer for certain types of energy offers.²³ It focuses on the possible price outcomes for a representative customer who was investigating energy offers in the first quarter of 2015. This analysis is by way of example as it is not practical to consider all possible price outcomes for all types of customers and energy plans.

It is also not possible to determine what prices would be 'optimal' as competition is a process where prices vary over time depending on retailers' underlying costs and pricing strategies. Also, we do not have access to information about the underlying costs of different offers. Analysis of prices therefore cannot definitively conclude that prices are consistent with a competitive market. Instead, prices and offers can be monitored over time to identify any trends that signal stronger or weaker competition and may warrant further investigation.

Possible trends that could be monitored include whether there is a wide range of prices with a distribution towards the top of the range, which persists over time and cannot be explained by differences in underlying costs between retailers or offers. We could also monitor whether prices vary between groups of similar offers in unexpected ways. For example, if one group of offers is typically more expensive than another group with expected higher underlying costs, this could be a signal that price competition may not be effective in the first group.

21 GreenPower is a government managed scheme that enables Australian households and businesses to displace their electricity usage with certified renewable energy, which is added to the grid on their behalf.

22 The consumption levels adopted are consistent with those used for the AEMC's 2014 Residential Electricity Price Trends report. Details on average consumption levels for a representative customer in each state and territory are in Appendix H.

23 See footnote 23.

We have estimated the annual electricity expenditure of a representative customer in each state using data from price comparator websites in each jurisdiction. Cross state comparisons should be treated with caution because consumption levels are significantly different in each state and retailers may also face significantly different costs to supply electricity or gas. We conducted our analysis on flat rate offers only using the representative annual consumption level, but acknowledge that two rate or time of use offers may affect the results.

We expect that the total annual expenditure for offers with similar characteristics will converge to a narrower range than would be observed across all electricity offers available in a jurisdiction (to the extent that these characteristics are drivers of cost). Our analysis is limited as the offers cannot be split into groups that reflect all significant cost differences. Based on the data available, we grouped electricity offers within a jurisdiction by distribution network, contract length and the level of GreenPower to reduce the variation in offer characteristics. We recognise that a number of cost differences are likely to persist between offers within these groupings.

As part of our analysis of this indicator we also considered the relationship between the total annual expenditure (reflecting all discounts and price-incentives) and the effective discount where data was available for a jurisdiction. The “effective discount” is the percentage off the total estimated bill after the conditions associated with the discount have been taken into consideration.²⁴

See chapters 4 to 10 for details of this analysis as the data available varied by jurisdiction. The analysis provides a ‘snapshot’ of prices for a representative customer on a selection of offers available on a certain day, and should therefore be interpreted with caution.

²⁴ For example, an offer that has a 20 per cent discount off usage could equate to an effective discount of 17 per cent off the total expenditure.

3 Overview and Main Findings

This chapter provides the Commission's assessment of energy retail competition in eastern and southern Australia. Details of our research results, analysis and findings for each jurisdiction are set out in subsequent chapters. This chapter discusses:

- the evolving stages of competition across NEM jurisdictions (section 3.1);
- the present state of competition (section 3.2);
- potential future market developments (section 3.3); and
- recommendations to improve competition and customer outcomes (section 3.4).

Box 3.1 Key findings

- In most jurisdictions, competition continues to evolve in a way that will contribute to the long-term interests of consumers. Where effective, competition is providing customers choice and the opportunity to save on their energy bills.
- Retail energy markets have developed at different rates and the state of competition varies between jurisdictions and between electricity and gas markets.
- At the time of the Commission's analysis, competition was found to be effective in retail electricity markets in Victoria, NSW, South East Queensland and South Australia. Effective competition is yet to emerge in the ACT, Tasmania and regional Queensland.
- In retail gas markets, there are generally lower levels of competition with significant differences across jurisdictions due to factors such as smaller customer bases and geographic constraints. Competition is effective in most of Victoria, South Australia and NSW. In some areas of regional Victoria, NSW and South Australia there are just one or two gas retailers. There is limited competition in South East Queensland with only two retailers operating. Effective competition is yet to emerge in the ACT, regional Queensland and Tasmania.
- Several indicators are steady or have improved since the AEMC's 2014 retail competition review in the electricity markets with effective competition:
 - New firms have entered and second tier retailers have gained market share, leading to declines in market concentration.
 - The proportion of customers satisfied with their electricity retailer and value for money has increased.
 - Rates of customer switching between retailers remain high.
- Customers who shop around could save on their energy bills. Representative customers comparing flat rate electricity market offers through government run price comparator websites could find offers that were as much as \$720 cheaper than the most expensive (as much as \$720 in

NSW, \$570 in Victoria, \$400 in South Australia, \$330 in the ACT and \$250 in South East Queensland). The level of potential savings differs with distribution network, energy consumption, discount eligibility and type of contract.

- Retail customers have diverse energy demands. An energy offer that is good value for one customer may be expensive for another customer with a different consumption level or different needs and circumstances. It is important that customers have access to clear information about what they are signing up to and that customers consider their personal circumstances when choosing a plan.
- Many retailers are competing through discounts but the biggest discount may not always equal the cheapest price, particularly if the discount has conditions, such as paying the bill on time, and the customer does not meet these.
- Customers who used price comparator websites to investigate their options were significantly more aware of the choices available to them and also more confident they could find the right information to help choose an energy plan.
- Government run price comparator websites that are independent of retailers are available to help customers choose a plan that suits their needs. However awareness of comparator websites, such as Energy Made Easy and My Power Planner, was low. Governments have a role in promoting the availability of this information and educating customers about the options available. Active customers can drive better outcomes for themselves and the market overall.
- The majority of customers surveyed were satisfied with their retailer and their level of customer service, as well as value for money. Sixty nine per cent of residential electricity customers were satisfied with their retailer.
- While the majority report being satisfied, the number of customer complaints raised with retailers and Ombudsmen highlights the negative experiences of some customers, such as inaccurate billing and wrongful disconnections. Between 0.1 and three per cent of customers made a complaint to their Ombudsman in 2013-14 across the jurisdictions. The proportion of customers with unsatisfactory experiences is higher than those making complaints, as demonstrated by the nine per cent of surveyed residential customers who were dissatisfied with their electricity retailer.
- Customers that reported difficulty paying their energy bills were more likely to be concerned about hidden fees or find it complicated to compare the various offers available. As energy is an essential service these customers may need additional support to access the best prices for energy and appropriate financial support and hardship programs.
- Solar customers are actively participating in retail electricity markets. They reported being more active and confident in shopping around for an energy deal and switching retailer or plan than customers without solar. They also

reported higher levels of satisfaction with their retailer and the level of choice in the market.

- To promote competition in retail markets and improve customer outcomes, the Commission recommends that jurisdictions:
 - consider options for raising awareness of the tools available to simplify comparing energy offers to improve customer confidence in the market, for instance, through tailored communications to different audiences as set out in the AEMC’s consumer engagement blueprint;²⁵
 - ensure concession schemes are delivering on their intended purpose in an efficient and targeted way;
 - continue to harmonise regulatory arrangements to reduce the long term costs of competing across jurisdictions;
 - implement the recommendations of the AEMC’s review of electricity customer switching to improve the accuracy and timeliness of the customer transfer process; and
 - remove energy retail price regulation where competition is effective.

3.1 Competition is evolving and NEM markets are at different stages

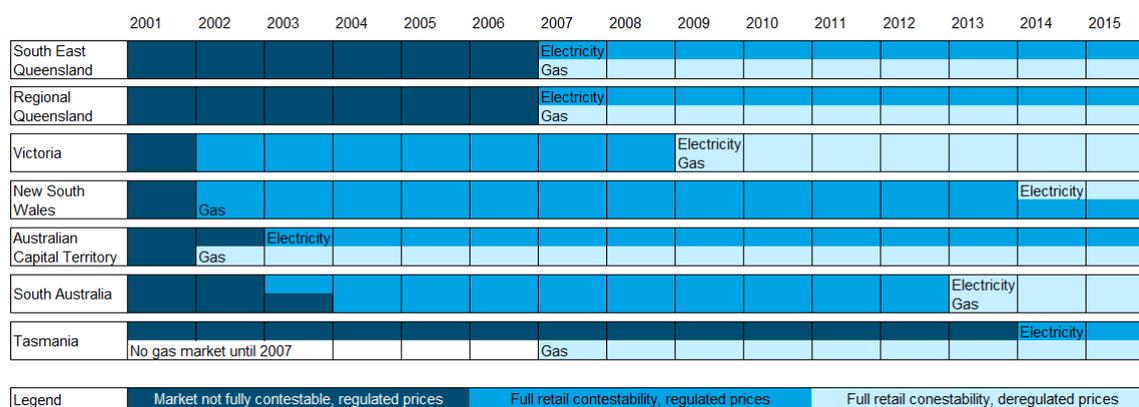
Markets are dynamic: conditions change as the cost of inputs and technologies change, demand levels vary, innovation occurs, firms enter and exit the market and customer preferences change. Markets provide the mechanism for retailers to discover what customers want and for customers to discover the price and service combinations that retailers are offering. Higher retailer returns can reward innovation and strong customer service, and also drive new entry which in turn creates further incentives for differentiation and cost reduction. This is a continuous, iterative process and one that does not always happen smoothly, but through the process of discovery and experimentation businesses adapt in order to meet the varying needs of customers.

Government policies and regulation can influence the pace of a market’s transition through competitive stages. Regulation of energy retail markets has changed over time to promote greater competition. Energy markets traditionally involved vertically integrated, government-owned monopolies. Jurisdictional regulation prohibited new energy retailers from entering the market and customers did not have a choice of energy retailer.

Jurisdictions are currently at different stages in progressing regulatory reforms in retail energy markets, as shown in Figure 3.1.

²⁵ Prepared for the NSW Government, however recommendations are applicable in other jurisdictions. Australian Energy Market Commission, *Review of Competition in the Retail Electricity and Natural Gas Markets in New South Wales*, Supplementary Report: Increasing consumer engagement, AEMC, 31 October 2013, Sydney.

Figure 3.1 Stages of energy retail market reform



State, territory and Commonwealth energy ministers developed the National Energy Customer Framework (NECF) to promote national consistency in retail energy markets. The NECF commenced operation in the ACT and Tasmania on 1 July 2012, followed by South Australia on 1 February 2013 and NSW on 1 July 2013. The Queensland Parliament has passed legislation to implement NECF from 1 July 2015. Victoria has retained Victorian-specific legislation.

As part of the 2004 Australian Energy Market Agreement, Council of Australian Governments states and territories agreed to a package of reforms including the removal of retail price regulation where competition is found to be effective. Electricity retail price regulation remains in place in the ACT, Tasmania and Queensland. Retail price regulation has been removed for gas in all jurisdictions, except NSW.

Research by the International Energy Agency draws on the experiences of advanced markets and suggests that once competitive pressures have reached a certain level, maintaining price regulation is likely to cause more harm than good. The report states:

“Regulated prices can significantly delay the timely development of dynamic and innovative retail markets, with significant economic costs for consumers and the potential to substantially reduce effective customer choice and demand response. They can serve as policy-induced ‘focal points’ for standardisation of competitive behaviour, with the potential to induce tacit collusion in the market. Standardisation of prices, whether resulting from the actions of cartelists or regulators, has the potential to undermine new entry, reduce choice and discourage innovation. They can seriously distort supply-side incentives, which might also distort efficient and timely investment responses needed to ensure future reliability and affordability.”²⁶

The Commission recommends the removal of retail price regulation where competition is effective. The full set of recommendations of this review is set out in section 3.4 and their implementation should promote the ongoing evolution of competition in energy retail markets in the interest of consumers.

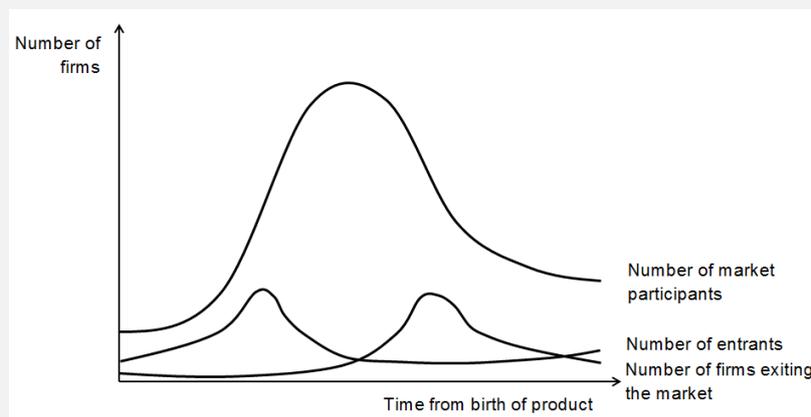
²⁶ Cooke D, International Energy Agency, *Empowering Customer Choice in Electricity Markets*, Information Paper, October 2011, p29.

Box 3.2 Competition as an evolving process

Competition is an evolving process, with multiple stages driven by a combination of variables. The various stages and their characteristics have been examined in economic literature over several decades.²⁷

Figure 3.1 illustrates how firms may enter and exit a market as competition evolves. A similar model could be applied to other indicators of competition such as customer switching levels, product differentiation and price-based competition.

Figure 3.2 Firm entry and exit in the competitive process



Adapted from R Agarwal, M Gort, 'The Evolution of Markets and Entry, Exit and Survival of Firms', *The Review of Economics and Statistics*, Vol 78, No 3, 1996, p490.

As a market opens up to competition, firms enter to compete with incumbents and competition is commonly price-based, particularly where there is limited differentiation between the products or services offered. Retailers will continue to enter and compete if they expect to earn a profit and there are low barriers to entry.

In the presence of strong price-based competition, retailer profits erode as prices move closer to costs. As a market matures, firms will not continue to enter forever. New and incumbent firms attempt to increase profits by introducing innovations to either reduce costs or improve the quality of products such that customers are willing to pay more. The erosion of profits may be short-lived and will likely be reversed and then reversed again as the market evolves and innovates its way through various stages.

In the more advanced stages of market development, competitors innovate and differentiate their products to compete on more than just prices. As the market

²⁷ See, for example, M Gort, S Klepper, 'Time Paths in the Diffusion of Product Innovations', *Economic Journal*, Vol 92, 1982, pp630-653; S Klepper, 'Firm Survival and the Evolution of Oligopoly', *Rand Journal of Economics*, Vol 33, No 1, 2002, pp37-61; B Jovanovic, G MacDonald, 'The Life Cycle of a Competitive Industry', *Journal of Political Economy*, Vol 102, No 2, 1994, pp322-347; R Agarwal, BL Bayus, 'The Market Evolution and Sales Takeoff of Product Innovations', *Management Science*, Vol 48, No 8, 2002, pp1024-1041; R Agarwal, M Gort, 'The Evolution of Markets and Entry, Exit and Survival of Firms', *The Review of Economics and Statistics*, Vol 78, No 3, 1996, pp489-498 and R Agarwal, M Gort, 'Firm and Product Life Cycles and Firm Survival', *American Economic Review*, Vol 92, No 2, 2002, pp184-190.

matures, marketing practices will also mature and the initiative may increasingly shift from retailers approaching customers to customers approaching retailers.

In a competitive market, positive outcomes depend on engaged suppliers and customers. Customers who engage can drive better outcomes for themselves and the market overall by influencing the design of products and level of service provided.

In practice these different stages of rivalry and innovation mean that the indicators used to determine the effectiveness of competition can be ambiguous if considered in isolation. For instance, a judgement based solely on the number of active market participants could misleadingly conclude that the level of competition is weak, despite the potentially more rapid pace of innovation and price reductions observable through other measures.

Similarly, a market that exhibits effective competition may from time to time see increased profits, a reduced number of firms or reduced customer satisfaction. Far from being a failure of competition, this may be a reflection of the evolving state of that market and the many factors underpinning its development.

3.2 Findings on the state of competition

The Commission has found that competition continues to be effective in retail electricity markets in Victoria, South Australia, NSW and South East Queensland, based on evidence gathered up to the first quarter of 2015. This assessment draws together information on a broad range of competitive indicators including the level of customer activity, customer outcomes, market barriers, retailer rivalry and retail prices.

While competition is effective in these markets, there are a number of issues that governments, non-government bodies or retailers could address to improve customer outcomes. These are discussed further in sections 3.2.7, 3.2.10 and 3.2.11.

Competition is at an earlier stage of development in electricity markets of the ACT, Tasmania and regional Queensland and in retail gas markets in Queensland, the ACT and Tasmania. There are also some regional areas in Victoria, NSW and South Australia where effective gas market competition is yet to emerge.

Some common issues have been identified across all jurisdictions, which are discussed in this section and vary in terms of their importance depending on the stage of the market's development.

3.2.1 The value of indicators

An assessment of competition cannot be based on observing one indicator at one point in time and determine whether there is effective competition in a market. Multiple indicators are required to form a more complete picture of the state of competition. There are also no 'critical thresholds' for these indicators that tell us when competition is operating effectively. Competition can be effective in markets with three firms or ineffective in a market with thirty. Competition can also be effective in a market where firms are making large losses or profits in the short term.

Information on a range of indicators needs to be considered collectively before a judgement can be formed on the overall state of competition. This is the approach taken for the AEMC's annual retail competition review, which is discussed in more detail in Chapter 1.

3.2.2 Barriers to entry and expansion are low in competitive electricity markets

Barriers to entry and expansion do not appear to be significantly impeding competition in the retail electricity markets of Victoria, NSW, South East Queensland and South Australia, however several impediments were reported by retailers that can create additional costs:

- Jurisdictional specific policies such as concessions schemes, NECF derogations and state based energy efficiency schemes were reported as adding costs due to a lack of consistency and certain policy design features.
- Access to wholesale hedging products was raised as a challenge by some retailers in each jurisdiction, particularly in South Australia and South East Queensland.
- Smaller retailers noted that prudential arrangements and credit support required by the Australian Energy Market Operator (AEMO), generators, financial intermediaries, the ASX and electricity networks can tie up working capital and limit their ability to expand.
- Some retailers cited complexities associated with AEMO market system certification and registration processes as an impediment.

The Commission notes that prudential arrangements and credit support are important to address the risk of short payment in the event of a participant default. The Commission therefore considers that these requirements are necessary to safeguard the integrity of the NEM. The Commission also considers that market system certification and registration are necessary for the integrity of the market.

Significant barriers were reported for the retail electricity markets of Tasmania, the ACT and regional Queensland in addition to those above. These included retail price regulation, the size of the markets, the dominance of incumbents and the way in which the Uniform Tariff Policy is implemented in regional Queensland.

While the impediments outlined above and in jurisdictional chapters are largely unchanged from those cited in the 2014 survey, it would appear that wholesale purchase costs and spot price volatility at the Queensland reference node are starting to have a more pronounced negative effect on the Queensland retail market than they have in the past.

In retail gas markets, fewer retailers are competing, however the median response from surveyed retailers indicated entry and expansion was not considered difficult outside of the ACT, regional Queensland and Tasmania. NSW is the only state where retail price regulation remains for gas and this was also cited as a barrier. Other impediments reported by retailers included:

- increasing wholesale prices and volatility due to tightening supply and demand conditions in wholesale markets;
- the complexity and design of wholesale gas markets;

- access to, and the price of, capacity on transmission pipelines;
- the size and geographic spread of customer bases; and
- state regulations and policy risks.

One retailer noted the importance of being able to offer dual fuel arrangements in some markets. Therefore barriers to entry and expansion in the gas market may also affect how a retailer competes in some electricity markets.

Barriers vary between urban and regional areas as discussed in section 3.2.13.

3.2.3 Second tier retailers are growing their share of customers across the NEM

Customers continue to move away from the 'big three' retailers – AGL Energy, EnergyAustralia and Origin Energy – to second tier retailers, which collectively gained market share in all jurisdictions between December 2013 and December 2014.²⁸

Market concentration is falling in the competitive NEM jurisdictions and Victoria continues to have the lowest level of market concentration. Second tier electricity retailers in Victoria grew the most of any state, gaining an additional five per cent market share between December 2013 and December 2014 to reach a collective share of 35 per cent.

Switching to second tier retailers can be considered a good indicator of competition as it shows that customers are not necessarily biased towards larger incumbent retailers and have the confidence to try smaller, lesser known brands.

The big three retailers appear to be responding to the increased rivalry from second tier retailer through efforts to retain existing customers and attract new customers. Interim results and submissions from retailers suggest a focus on the quality of customer service and product offerings to improve customer retention rates.²⁹

Second tier retailers continue to hold ten per cent or less of customers in NSW and South East Queensland. Switching data and customer research suggests there is rivalry between the big three retailers in these states with approximately 15 per cent of small customers moving between these retailers in 2014, primarily in response to better prices. Price-related reasons were cited by most customers surveyed who had switched retailer in these states.

3.2.4 Markets with effective competition are delivering greater choice to customers

In Victoria, South Australia and NSW, customers have a greater choice of retailers and plans, higher reported levels of customer activity and higher reported satisfaction with the level of choice available. In these jurisdictions:

- between 16 and 21 electricity retail brands are available to residents;

²⁸ Tasmania is the exception as there are currently no second tier retailers for the residential market. Data was not available for the small business market.

²⁹ Origin Energy submission to the AEMC 2015 Retail Competition Review Approach Paper and AGL, *AGL reports underlying profit increase of 24.8 percent*, ASX & Media release, February 2015.

- around 30 per cent of customers shopped around for a better energy deal in the last 12 months;
- around 60 per cent were satisfied with the level of choice available;
- a higher level of product differentiation is occurring; and
- customers were more confident they could choose the right energy deal than in other NEM jurisdictions.

Customer choice is slightly lower in South East Queensland with 11 electricity retail brands. One quarter of customers surveyed in South East Queensland shopped around for a better energy deal in the last 12 months and 48 per cent of customers surveyed were satisfied with the level of choice.

The level of choice was lower for electricity customers in the ACT and Tasmania. Three retailers are available to residential customers in the ACT and 34 per cent were satisfied with the level of choice. There is currently just one retailer for Tasmanian residents.³⁰ Small business customers in Tasmania have a choice of two electricity retailers and 10 per cent were satisfied with the level of choice.³¹

3.2.5 Close to one third of customers shopped around for a better deal

Customers in the NEM continue to actively shop around for energy deals at a rate on par with the 2014 survey, with 31 per cent of all residents surveyed stating they had actively investigated energy options to switch to in the past 12 months.

Significant changes in activity were observed in the ACT where 19 per cent of ACT residents investigated energy options in the last 12 months. While this remains below the NEM average, it is almost double the rate reported in the ACT in the 2014 customer survey. This may have been driven by greater retailer activity in the ACT with Origin Energy entering. Nearly three times as many residential customers in the ACT reported being approached by an energy company in the last 12 months than in the 2014 survey, increasing from 10 to 29 per cent of customers.

3.2.6 Changes in retailer strategies may be leading to customer retention and less switching

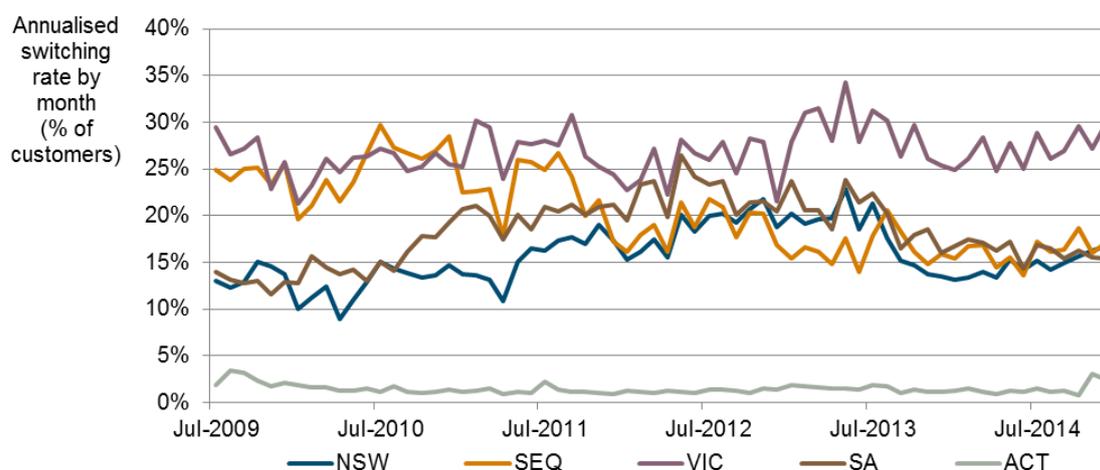
Fewer customers appear to have switched retailer during 2014 in competitive NEM jurisdictions. In the ACT the annual average switching rate remained unchanged at 1.5 per cent.³² Switching rates in NSW, South Australia and South East Queensland converged around 15 per cent for 2014, while Victoria's reduced by two percentage points to 27 per cent on average for the year (Figure 3.2).

³⁰ In Tasmania, 12 per cent of residents investigated energy options in the last 12 months and 23 per cent were satisfied with the level of choice. The customer survey was conducted in Tasmania to form a baseline for future years as the Government continues to promote competition.

³¹ Across the NEM, 47 per cent of small businesses were satisfied with the level of choice available.

³² Though there was a spike in switching in November and December 2014.

Figure 3.3 Annualised switching rates by month - all NEM jurisdictions



Source: AEMC analysis based on AEMO data

As discussed in section 2.4.5, switching rates should be carefully interpreted in conjunction with other indicators and there may be a number of drivers of switching behaviour.

Lower switching rates may reflect higher satisfaction with their current energy provider, with this being the most commonly cited reason of customers surveyed who did not change retailer or plan. However, differences in satisfaction ratings in the Newgate customer survey do not appear to explain the difference in switching levels between jurisdictions or between years.³³

It is possible the decline in switching has been partly driven by changes in retailer marketing, with fewer customers stating they were approached by retailers compared to last year's survey. The average proportion of customers who were approached by retailers reduced across the NEM from 53 to 39 per cent. The decline in direct approaches may reflect changes in retailer direct marketing policies, where the big three retailers ceased door-knocking. However this is unlikely to be the sole driver, with some research suggesting most switches are customer-led, rather than being driven by the retailer.³⁴

Lower switching rates could also reflect a shift in retailer focus away from customer acquisition towards customer retention. A number of retailers are responding to competition by changing their market practices, extending call service hours, removing exit fees from market contracts or improving their loyalty programs.

³³ Customers in the ACT were less likely to cite being happy with their retailer as their reason for not switching, with 15 per cent of ACT residents citing this reason compared to 27 per cent in Victoria, 26 per cent in NSW, 24 per cent in South Australia and 20 per cent in South East Queensland.

³⁴ Surveys by AMR, an independent market research provider commissioned by AGL, on residential customers' attitudes to service in NSW, Victoria, South Australia and Queensland showed that in 2014, 82% of respondents actively chose their electricity supplier and 83% actively chose their gas supplier. AGL submission to the *AEMC 2015 Retail Competition Review Approach Paper*, p2:

Origin Energy noted in its submission to the Approach Paper:³⁵

“As price competition becomes more intense, retailers need to invest to retain customers. Rivalry builds between retailers as they strive to create brands that are associated with desirable product offerings and efficient customer service. Improving customer experience is one of the best ways to hold onto existing customers and promote a brand reputation that leads to new acquisitions.”

The AEMC’s 2014 Review of Electricity Customer Switching found that customer transfers generally occur in an efficient manner, however some customer transfers can be lengthy or inaccurate. Unsatisfactory experiences for a few customers, made known more widely, can undermine confidence in the retail market. The AEMC recommended changes to improve the timing and accuracy of the customer transfer process.³⁶

3.2.7 The majority of customers are satisfied but some customers had negative experiences

Most customers surveyed were satisfied with their retailer and their level of customer service, as well as value for money. Sixty nine per cent of electricity customers and 73 per cent of gas customers were satisfied with their retailer across the NEM (Figure 3.3). The highest proportion of electricity customers satisfied with their retailer was in NSW at 74 per cent, followed by South Australia at 68 per cent, Victoria and the ACT at 67 per cent, South East Queensland at 63 per cent and Tasmania at 60 per cent.

While the majority report being satisfied, the number of customer complaints raised with retailers and Ombudsmen highlights the negative experiences of some customers, such as inaccurate billing and wrongful disconnections. Between 0.1 and three per cent of customers made a complaint to their Ombudsman in 2013-14 across the jurisdictions. The proportion of customers with unsatisfactory experiences is higher than those making complaints, as demonstrated by the nine per cent of surveyed residential customers who were dissatisfied with their electricity retailer. The quality of interactions with customers is important and may vary between retailers. For example, in its review of hardship policies, the Australian Energy Regulator, noted different levels of retailer commitment to assisting hardship customers.

There has been an increase in complaints to retailers in Victoria, New South Wales, South Australia and South East Queensland. It is unclear what has caused higher complaints to retailers in some jurisdictions relative to others. There are issues associated with comparing complaints data across jurisdictions as it is collected and reported in different ways across jurisdictions. Other possible drivers of differences in complaints include:

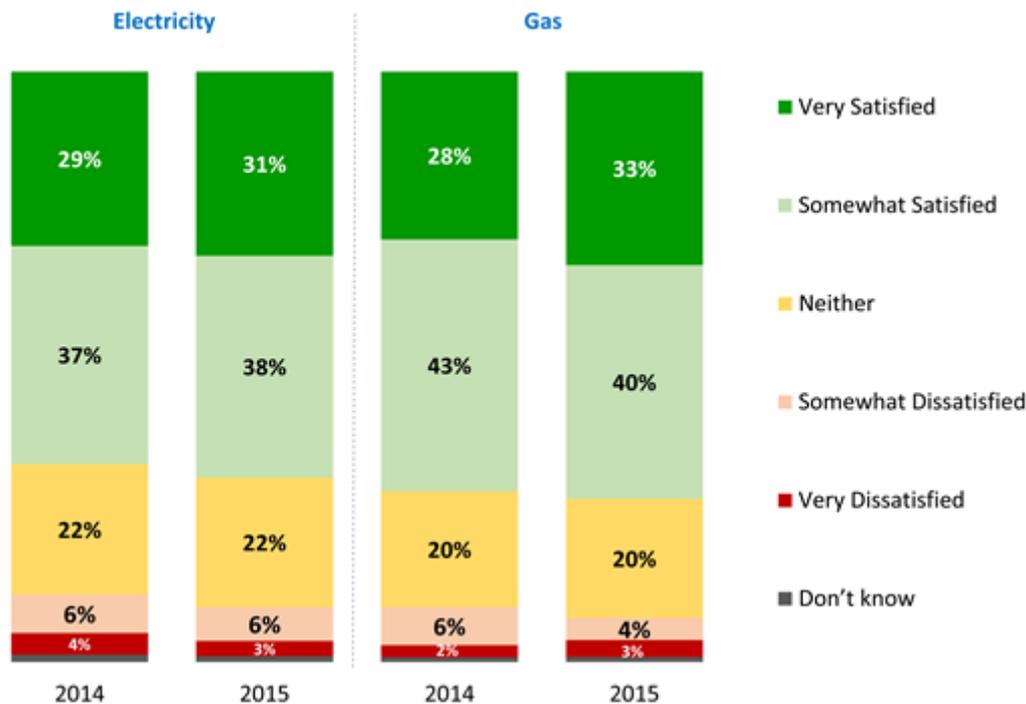
- that limited retailer marketing and lower switching between retailers means there are no complaints relating to these issues in the ACT, regional Queensland and Tasmania; and

³⁵ Origin Energy submission to the AEMC 2015 Retail Competition Review Approach Paper, p5.

³⁶ Australian Energy Market Commission, *Review of Electricity Customer Switching*, AEMC, April 2014, pi.

- that customers in the ACT, regional Queensland and Tasmania may be less engaged and therefore less inclined to complain than in other jurisdictions since electricity customers have few or no alternatives to the incumbent retailer.

Figure 3.4 Customer satisfaction with their retailer



Source: Newgate Research, Consumer Research for Nationwide Review of Competition in Retail Energy Markets, report for the AEMC, June 2015, p7. Survey question: How satisfied are you with your current electricity or gas company? Customers surveyed: All.

It is important that customers who are dissatisfied with their retailer experience are able to leave that retailer and find a better alternative. Newgate research found that customer service issues were not commonly raised by customers as the primary reason for switching, but most customers said they would switch retailer if they were unhappy. Customers can also escalate their complaints to Ombudsmen, state-based fair trading agencies or the Australian Competition and Consumer Commission as a last resort.

While complaints to retailers have increased in some jurisdictions, the number of complaints investigated by Ombudsmen has not significantly increased. The Australian Energy Regulator (AER) notes:³⁷

“While the number of complaints may indicate customer satisfaction levels, the manner in which complaints are handled is perhaps a more effective measure of retailer performance. Retailers with effective customer service will resolve customer complaints when they are made to them. Customers may contact their energy ombudsman if their complaint is unresolved or dealt with unsatisfactorily.”

There has been a shift in the nature of complaints to Ombudsmen. Billing issues have historically been the largest proportion of complaints raised with Ombudsmen in most

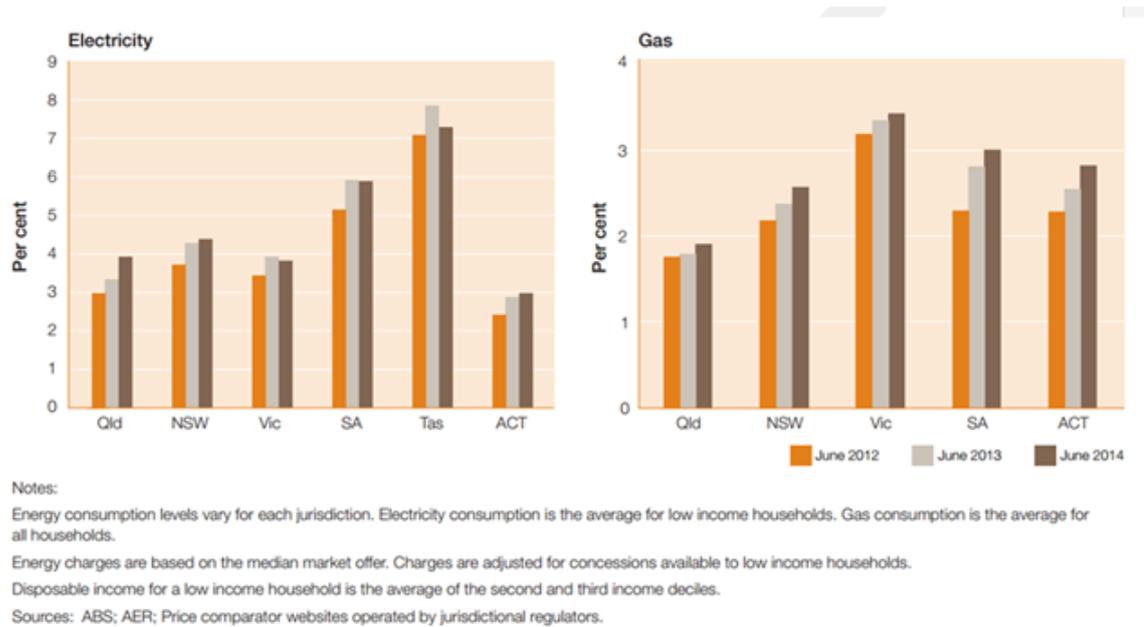
³⁷ Australian Energy Regulator, 2013-14 Annual Report on the Performance of the Retail Energy Market, 2014, p15.

jurisdictions. This category includes, among other things, issues with high or incorrect bills. The proportion of billing complaints and marketing issues has declined across most jurisdictions, which may have been temporarily elevated due to issues from two major retailers moving to new billing platforms and retailer mergers and takeovers where systems and processes were consolidated. Rising electricity prices across the NEM in previous years may also have driven higher billing complaints. Additionally, some retailers may have improved the way they address complaints so that fewer are referred to the Ombudsman.

Submissions and complaints data highlight that a much higher proportion of complaints to Ombudsmen and retailers now relate to credit issues. Credit issues include disconnections and restriction of supply, debt collection and payment difficulties.³⁸ Retailer's obligations regarding disconnections are set out in the National Energy Retail Rules for NECF jurisdictions. Depending on the circumstances of the customer, these obligations can include sending bill and disconnection notifications as well as using its best endeavours to contact the customer by phone or other means to inform them of the potential disconnection.

Growing credit complaint numbers may be an indicator of changes in retailer approaches or underlying affordability issues. Increases in affordability issues can be driven by a range of factors, including higher prices, higher consumption levels, lower income or less effective financial assistance. For low income households, the AER's 2014 State of the Energy Market report found energy costs as a proportion of household disposable income were higher across the NEM in 2014 than in 2012, though there were some decreases between 2013 and 2014.³⁹

Figure 3.5 Annual electricity and gas costs as a proportion of household disposable income, lower income households



³⁸ For case studies see, for example, Urbis for the Public Interest Advocacy Centre Ltd, *Cut Off III: The Experience of Utility Disconnections*, 2013, pp50-1.

³⁹ Australian Energy Regulator, *State of the Energy Market*, 2014, p135.

As part of this year's customer survey, the AEMC explored the experiences of customers who may be experiencing affordability issues in more detail. The findings specific to customers who receive concessions, are on retailer hardship programs or said they were having difficulty paying their bills are summarized in Box 3.3.

Box 3.3 Survey results for customers with affordability issues

Newgate Research conducted a survey of customer attitudes and experience on behalf of the AEMC to inform the competition review. Survey respondents were asked a range of background questions, including three questions regarding whether they were currently receiving a rebate or concession, had a special payment arrangement with their retailer as a result of financial hardship or were experiencing difficulty paying their energy bills.⁴⁰ Responses to questions on attitudes and experiences were analysed for these subsets of customers for any significant differences relative to the whole survey sample.

Customers currently experiencing difficulty paying their energy bills were less likely to be satisfied with their retailer and the customer service of their retailer. On the other hand, those customers currently receiving a concession or on hardship arrangements were more likely to be satisfied with their retailer and the customer service provided by their retailer.

The difference in responses is more marked when customers were asked to rate the value for money provided by their energy retailers. Those experiencing difficulty paying their energy bills are significantly less satisfied than those who are not having payment difficulties.

The survey results suggest that customers who were currently receiving a rebate or concession, had a special payment arrangement with their retailer as a result of financial hardship or were experiencing difficulty paying their energy bills were:

- more likely to have investigated their options;
- more interested in seeking out a better deal;
- more likely to have switched energy retailer or plan;
- more likely to consider that it is easy to compare energy plans and options;
- more concerned about hidden fees and charges; and
- less trusting of energy companies who promise a better deal.

Information independent of the retailer on the options available is likely to be important for this group of customers if they have lower trust of retailers.

Supporting customers with affordability issues to access appropriate concessions and retailer hardship programs is also likely to lead to more positive customer experiences based on these survey results.

⁴⁰ Some of these categories will necessarily overlap, for example, customers currently experiencing difficulty paying their bills may also be receiving concessions or be on hardship arrangements with their retailer.

Well-functioning regulators and enforcement of customer protection and consumer issues are important to ensure effective competition. The AER and jurisdictional regulators have a key role in monitoring the performance and compliance of retailers. For example, the AER's retail market performance reports include information on customer service and complaints, the handling of customers experiencing payment difficulties, prepayment meters, security deposits, concessions, disconnections and reconnections. The performance reports also include an overview of the retail market and the hardship program indicators. Additionally, the ACCC promotes competition and fair trade in markets and examples of recent ACCC actions concerning electricity retailers are set out below.

Affordability related outcomes for customers are not just impacted by the compliance of retailers with their hardship obligations, but also the quality of their compliance with those obligations. The AER found in its Review of Energy Retailers' Customer Hardship Policies and Practices that some retailers seemed more committed than others to assisting hardship customers in a range of areas, such as earlier identification of hardship customers, staff training and innovating in ways to assist customers.⁴¹

The consumer protections in the NECF and other jurisdictional protections operate in addition to the protections afforded under the Australian Consumer Law (ACL) which are enforced by the ACCC. The ACCC stated that consumer protection in the energy sector would be a priority throughout 2014.⁴² During 2014 the ACCC took action against a number of energy retailers for breaches of the ACL, including EnergyAustralia, AGL and Origin Energy.⁴³

In one action the ACCC alleged that Origin Energy had misled customers in South Australia by representing that under their DailySaver energy plan they would receive a discount of 16 per cent for electricity and 12 per cent for gas, when in fact in each case the discount was off rates that were higher than Origin's standard retail plan. The Federal Court ruled that the representations breached the misleading and deceptive conduct provisions of the ACL.

The ACCC took action against AGL South Australia alleging that a notice given to customers when their prices were increased during their contract was misleading. The notice stated that customers would continue to receive their discount. However, the rate the discount was off had increased to be more than the rate for customers commencing on AGL's standard retail plan. The Federal Court ruled that the notice breached the misleading and deceptive conduct provisions.

The ACCC also took action against EnergyAustralia and its sales representatives. It alleged that customers were told by sales representatives during door to door sales that

⁴¹ Australian Energy Regulator, *Review of Energy Retailers' Customer Hardship Policies and Practices*, January 2015, p3.

⁴² Australian Competition & Consumer Commission, *Compliance and Enforcement Priorities*, 2014.

⁴³ These include three cases relating to misleading and deceptive conduct (*Australian Competition and Consumer Commission v AGL South Australia Pty Ltd* [2014] FCA 1369, *Australian Competition and Consumer Commission v Origin Energy Limited* [2015] FCA 55 and *Australian Competition and Consumer Commission v EnergyAustralia Pty Ltd* [2014] FCA 336) and one case relating to unsolicited consumer agreements (*Australian Competition & Consumer Commission v Origin Energy Electricity Limited* [2015] FCA 278).

there was a mandated tariff that customers were required to be charged, that EnergyAustralia's tariff had some sponsorship or affiliation with the government, and the customer would become eligible for additional government entitlements if they changed their electricity supplier to EnergyAustralia.

The ACCC also alleged that the sales representatives did not provide information relating to their identity, did not clearly advise the customers that their purpose was to seek their agreement to enter an electricity supply contract and did not advise of the customer's right to request the sales representative to leave the premises. The Federal Court found that the sales representatives, and through them EnergyAustralia, had breached the misleading and deceptive conduct provisions, and also the unsolicited consumer agreement provisions, of the ACL.

3.2.8 Customers who regularly shop around are likely to find savings

The Commission's assessment of electricity offers in NEM jurisdictions suggests that many customers who shop around for a better deal could make significant savings on their annual electricity expenditure. The potential savings appear greater in Victoria, New South Wales and South Australia, however the analysis is indicative only as it looks at one point in time and the most common tariff type. Potential savings may be higher or lower, depending on a customer's consumption, discount eligibility and type of contract.

Customers receiving energy concessions should, in particular, be supported and encouraged to regularly check if they are on a good energy deal. Higher prices can erode the value of the concession for the customer. In the case of Victoria, where concessions are provided as a percentage of the total bill, lower energy bills should also lead to lower total concession expenditure for the government.

Options to support customers to find a suitable energy deal are discussed in sections 3.2.10 and 3.2.11.

3.2.9 Competition is driving price diversity and product and service differentiation

Competition through price and product differentiation appears greatest in Victoria, New South Wales and South Australia, with large and small retailers competing on price and different product and service features. These forms of competition are also occurring in South East Queensland, though retailer interviews suggest that some retailers were not planning to actively compete in this region until price regulation is removed.

Product differentiation appears to be greatest in jurisdictions where competition is effective. A number of innovative new offers have been released on the market with features such as the initial month or one day per week of "free" electricity and contracts without termination fees have become widely available.

Analysis of prices can provide insights into the behaviour of retailers and customers. The Commission's analysis suggests the big three and second tier retailers are competing on price and there are considerable savings if customers shift from standing offers to market offers or from high to low market offers.

Effective competition does not mean that all prices will decline as competition increases. In a competitive market, prices are driven by underlying costs, which vary by product, retailer and jurisdiction. The AEMC 2014 Residential Electricity Price Trends report identifies a number of cost drivers that differ by jurisdiction, including wholesale costs, network costs and environmental schemes.

Costs will also vary by retailer according to their business models, including how they seek to hedge their wholesale positions, whether they operate an in-house or an outsourced service provider model and whether they are operating under a single service model or are seeking to offer multiple services and whether they are able to achieve relative economies of scale or scope.⁴⁴

Costs will also vary according to the features of the products on offer. Retailers are competing by offering a range of different products to suit the needs and preferences of different customer segments.⁴⁵ These product differences will result in price differences where the underlying costs vary or where customers are willing to pay more for different features that they may value.

The merit of using price-based analysis to draw overall conclusions on the state of competition is limited, however, due to:

- different underlying costs for different retailers, products and jurisdictions making it difficult to estimate whether prices are trending towards costs;
- prices changing regularly, with observations differing depending on the point in time of the analysis;
- differences in non-price features making comparisons of offer prices difficult and averages of prices across a jurisdiction becoming a crude measure in an increasingly differentiated market; and
- the need to consider a range of competitive indicators when forming a judgement on the overall state of competition, as discussed in sections 3.2.1 and Chapter 2.

The Commission's analysis of prices and product differentiation suggest customers who regularly shop around could save on their energy bills. Representative customers comparing flat rate electricity market offers through government run price comparator websites could find offers that were as much as \$720 cheaper than the most expensive (as much as \$720 in NSW, \$570 in Victoria, \$400 in South Australia, \$330 in the ACT and \$250 in South East Queensland). The level of potential savings differs with distribution network, energy consumption, discount eligibility and type of contract.

Retail customers have diverse energy demands. An energy offer that is good value for one customer may be expensive for another customer with a different consumption level or different needs and circumstances.

Many retailers are competing through discounts off usage charges or off the total bill. Some of these discounts are unconditional, while others require a customer to pay their bill on time, pay by direct debit or meet other conditions. Retailers are also discounting

⁴⁴ Alinta Energy submission on the AEMC 2015 Retail Competition Review Approach Paper, p7.

⁴⁵ AGL submission on the AEMC 2015 Retail Competition Review Approach Paper. See also the Commission's assessment of product differentiation..

off different prices, which can make it difficult for customers to compare the offers available. AEMC analysis for representative customers in Victoria, New South Wales and South Australia found that higher effective discount levels were an indicator of lower expected annual bills. However, the biggest discount may not always equal the cheapest price, particularly if a customer is unable to pay on time. It is important that customers have access to clear information about what they are signing up to and that customers consider their personal circumstances when choosing a plan.

As discussed in section 3.2.7 the ACCC has taken action against retailers for misleading conduct in relation to discounts. The AER has also proposed changes to the way information is communicated regarding discounts in its review of Retail Pricing Information Guidelines.

3.2.10 Governments should raise awareness of comparator websites

Research suggests that customers who have shopped around for an energy deal, on average, have had a better experience than those who have not engaged. Customers surveyed that investigated their energy options were more confident to find an energy deal that suited their needs. Customers that switched energy retailer or plan were also more satisfied with their retailer and the value for money provided by their retailer.

There are a number of price comparator websites that are available for customers in the NEM. Comparator websites that are operated by Australian state and federal governments and regulators provide free and impartial price comparisons of electricity and gas market offers. These websites are as follows:

- Energy Made Easy: for electricity and gas market offers in South Australia, New South Wales, the Australian Capital Territory and Queensland from 1 July 2015.
- QCA Price Comparator: for electricity and gas market offers in South East Queensland, until 30 June 2015.
- My Power Planner: for electricity market offers in Victoria.
- YourChoice: for gas market offers in Victoria.

A key issue deterring customers from shopping around is the amount of time and effort involved. Issues regarding the amount of time or effort involved were the second most common category of reasons people cited for not investigating or switching. Reducing the effort involved through the use of a comparator tool could increase customer participation.

The Commission considers online and over the phone support offered by tools like Energy Made Easy is important for the following reasons:

- Between 17 and 25 per cent of customers who switched energy plan said it was difficult to compare the options available.⁴⁶ Comparing electricity options was considered more difficult than comparing options in other industries, such as banking, mobile phone and internet.

⁴⁶ The highest proportion of customers rating this as difficult were in the ACT (25 per cent), followed by South East Queensland (19 per cent) and Victoria, NSW and South Australia (17 per cent).

- Comparator websites simplify the comparison process, providing information customers value including tariffs, discounts and estimates of the total bill for every offer available, which customers said were the top three pieces of information used by customers when deciding whether to switch.⁴⁷
- Product differentiation and innovation can make comparison of energy offers more challenging for consumers, particularly with the introduction of flexible pricing.⁴⁸ Comparator websites can tailor the information provided to customers to present relevant offers depending on their preferences.
- Retailers use different language and marketing approaches to communicate information about their offers, which can make cross-comparisons difficult.
- Some customers report low levels of trust in retailers, which suggests there is an important role for information that is independent of retailers or other commercial operators.
- Customers surveyed by Newgate who used price comparator websites to investigate their options were significantly more aware of the choices available to them and also more confident they could find the right information to help choose an energy plan.

Customer research conducted for this review suggests few customers are aware that these independent comparator tools are available. On average one per cent of residential customers were able to name the website available in their jurisdiction without prompting. When prompted, 18 per cent of residential customers said they had heard of the website. The Commission has recommended that Governments consider options for raising awareness of these tools, through tailored communications to different audiences as set out in the AEMC's consumer engagement blueprint.⁴⁹

In NSW, some improvements in survey responses since 2014 may be due to a NSW Government campaign to help households and small businesses seek out an energy deal that better meets their needs. "The Power's in Your Hands" campaign included mass media to raise awareness and the creation of the "Your Energy" website⁵⁰ for NSW households and small businesses to access tips and information on ways to compare energy plans, as detailed in Box 3.4.

3.2.11 Further support is required to help some customers make informed decisions

The AER is currently reviewing its Retail Pricing Information Guidelines. The Guidelines aim to help small customers compare energy offers and make an informed decision on the offer that is best for them. The AER's guideline review includes

⁴⁷ Newgate Research, *Consumer Research for Nationwide Review of Competition in Retail Energy Markets, report for the AEMC*, June 2015, p219.

⁴⁸ CUAC submission on the AEMC 2015 Retail Competition Review Approach Paper, p1.

⁴⁹ Prepared for the NSW Government, however recommendations are applicable in other jurisdictions. AEMC, *Review of Competition in the Retail Electricity and Natural Gas Markets in New South Wales, Supplementary Report: Increasing consumer engagement*, 31 October 2013, Sydney.

⁵⁰ <http://yourenergy.nsw.gov.au>.

identifying potential amendments to assist in improving the clarity, quality, accessibility and prioritisation of information on retail energy offers.⁵¹

There is a role for government information and education campaigns to encourage customers to shop around regularly, inform them of their rights, and address common misconceptions that may be a barrier to switching. The AEMC developed a 'consumer engagement blueprint' for the New South Wales Government to inform an information and education campaign, which is also applicable to other governments in addressing the information needs of customers of different ages, locations, languages and backgrounds.⁵²

The New South Wales government launched its campaign “The Power’s in Your Hands” following deregulation of the NSW retail electricity market on 1 July 2014. This was a mass media campaign designed to:

- maximise awareness of the changes in the NSW electricity market;
- educate NSW energy consumers that changing energy plans is an easy and worthwhile task; and
- provide NSW energy customers with access to sufficient information to make informed decisions.

The campaign also included tailored information for different parts of the community, including materials printed in different languages, radio activity across 92 stations including nine culturally and linguistically diverse stations and four indigenous stations. Further detail on the campaign provided by the NSW Government is set out in Box 3.4.

Box 3.4 The Power's in Your Hands

Information provided by the NSW Government on its education campaign for the NSW retail electricity market is set out below.

The NSW Government ran “the Power’s in Your Hands” education campaign following deregulation of the NSW retail electricity market on 1 July 2014. The campaign has been highly successful in raising awareness about how to change energy plans and where to access information to make informed decisions.

The Power’s in Your Hands campaign was a mass media campaign designed to:

1. maximise awareness of the changes in the NSW electricity market;
2. educate NSW energy consumers that changing energy plans is an easy and worthwhile task; and
3. provide NSW energy customers with access to sufficient information to make informed decisions.

The campaign ran from 28 September 2014 for approximately eleven weeks

⁵¹ See the Australian Energy Regulator’s website: <http://www.aer.gov.au/node/29505>.

⁵² AEMC, *Review of Competition in the Retail Electricity and Natural Gas Markets in New South Wales, Supplementary Report: Increasing consumer engagement*, 31 October 2013, Sydney. Available at <http://www.aemc.gov.au> (project reference: RPR0001).

through to 13 December 2014. The campaign featured advertising across television (TV), online TV, radio, digital, a campaign website: “Your Energy”, as well as supporting activity such as fact sheets, collateral and newsletter publications. Campaign materials were produced in the four most commonly spoken languages other than English in NSW – Cantonese, Mandarin, Vietnamese and Arabic.

The campaign’s creative strategy focused on driving empowerment for NSW energy consumers by showing that with the deregulation of retail electricity prices, the changing competitive environment and the ‘potential’ for savings, it was an opportune time to seek a better energy deal.

From 1 July 2014 with the commencement of deregulation of the retail electricity market, any customers who had not already switched to a market contract were automatically transferred to a “transitional tariff”. This was introduced to serve as a safety net for regulated customers in their move to a market contract.

Since deregulation, approximately 225,000 or 22 per cent of customers who were on the transitional tariff (former regulated customers) have moved on to a competitive market contract. This means that only about 24 per cent of the 3.3 million NSW electricity customers remain on a transitional tariff.

Some of the key campaign results are outlined below.

- Of those surveyed, one in five people (21 per cent) were exposed to the campaign and exposure to the campaign was particularly high amongst owners or managers of small business (31 per cent) and those who speak a language other than English at home (28 per cent).
- The campaign increased awareness that the NSW Government had changed the rules around electricity pricing.
- The campaign also increased awareness that there was a free and impartial government website to compare energy plans – energymadeeasy.gov.au.
- Most customers who visited the campaign website: Your Energy, felt it was useful in providing information on how to change energy plans. Around a third of respondents (32 per cent) thought the website was “extremely useful” or “very useful” and a further six in ten (57 per cent) thought it was “fairly useful” in providing information on how to change energy plans.
- The Your Energy campaign website has had over 101,000 sessions since the campaign’s launch. Most of these sessions came from the digital advertising or google searches.
- There was a 60 per cent increase in traffic from NSW customers to the Commonwealth Government’s Energy Made Easy website over the length of the campaign.
- Radio activity in Sydney was particularly successful, reaching nearly half of the target market. Radio activity also ran in regional NSW across 92 stations including nine culturally and linguistically diverse stations and four indigenous stations.

While the “Power’s In Your Hands” campaign was developed in relation to the removal of price regulation, all governments could consider campaigns to improve awareness of the benefits of shopping around for an energy deal and the tools available to simplify this process. The majority of customers surveyed by Newgate Research for this review reported positive experiences and outcomes from investigating energy offers and switching retailers, with many saying they had saved money or experienced better customer service as a result. However, a key issue preventing many customers from shopping around is the perception that there are no savings or it is too difficult to compare offers. Government campaigns could generate greater awareness of the potential savings available and the existing tools to simplify the comparison process, such as My Power Planner in Victoria and Energy Made Easy in other jurisdictions.

3.2.12 Competition in gas markets is lower than for electricity, with customers and retailers less focussed on gas

Gas switching rates are slightly below electricity, with customer and retailer surveys suggesting that some customers who prefer dual fuel offers may switch gas plans when they switch electricity. Gas may therefore be a secondary consideration for most customers.

With the exception of Victoria, jurisdictions continue to have highly concentrated gas retail markets with fewer retail brands competing compared to electricity. Ten gas retail brands are currently competing in Victoria, compared with six in New South Wales, five in South Australia, three in the ACT and two in South East Queensland and Tasmania. The small customer numbers in South East Queensland, Tasmania and the ACT may be deterring additional gas retailers from entering these markets, along with uncertainty regarding future wholesale gas prices.

Retailing gas constitutes a very different proposition than retailing electricity because the upstream supply and transportation arrangements are fundamentally different. Combined with a typically smaller customer base, we would therefore expect fewer retailers to enter the market than in electricity. Structural and market design features in gas markets have also led to significant differences in market outcomes between and within jurisdictions.

The choice of alternative fuels may impact the level of competition in retail gas markets by constraining the demand for distributed gas. The impact on demand for distributed gas from substitute fuels such as electricity, wood and LPG is influenced by the cross price elasticity of demand, which measures the impact of a change in the price of one fuel on the demand for another fuel.⁵³ This will also be influenced by the availability of alternative fuels, whether a connection exists, the cost of switching and the time taken to switch gas and electricity retailers. The relative importance of these factors and their effect on retail gas competition may vary across jurisdictions and will largely depend on the substitutability of alternative fuels for particular end users.⁵⁴ The Commission has not identified significant changes in the gas market since the 2014 retail competition

⁵³ Acil Allen Consulting, Gas Consumption Forecasting – Report to the Australian Energy Market Operator, June 2014, p41.

⁵⁴ NERA Economic Consulting, The Gas Supply Chain in Eastern Australia – A report to the Australian Energy Market Commission, March 2008, p5.

review, with the exception of retailer perceptions of increasing price volatility in the wholesale gas market.⁵⁵

3.2.13 Small businesses are shopping around to find savings

For the 2015 review, we conducted customer research with small businesses and analysed the number of retailers and types of products available to them. While there are fewer offers available to small businesses, a number of retailers are specifically catering to their needs and small business customers are shopping around for energy deals.

Five hundred small businesses were interviewed by Newgate Research across the NEM. On average, there was a significant increase in awareness of being able to choose their electricity retailer. There was a significant decrease in the proportion of small business customers who actively investigated offers in the past 12 months from 43 to 34 per cent in 2015. This was largely driven by a decrease in Victoria from 57 to 36 per cent. Switching rates among small business customers remained fairly consistent with the 2014 survey across the NEM. Twenty nine per cent of small business customers reported changing their energy retailer or plan in the past 12 months.

Analysis of the barriers to switching shows that the time and effort required remained the main reason that small business customers did not investigate offers or switch their energy retailer or plan. These were stronger factors than for non-business customers. Small business customers wanted to see a saving of \$610 on their electricity bill and \$250 off their gas bill in order to seriously consider switching.

Across the NEM, small business customers were not as confident in being able to find the right information to help choose an energy plan as residential customers. Forty-five per cent gave a rating of seven out of 10 or higher, compared with 54 per cent for residents.

When it came to value for money provided by their electricity company, there was a significant decline in ratings among small business customers. Thirty-seven per cent gave a rating of seven out of 10 or higher in 2015 compared to 52 per cent in 2014. Satisfaction with current electricity and gas companies remained consistent across all NEM jurisdictions and was slightly below the satisfaction levels of residential customers.

Information on the retailers available to small businesses was gathered through the retailer survey. Product differentiation for small business customers was considered separately in Victoria, NSW, South Australia and ACT. A number of retail brands specifically cater to the business market, including small business (see Appendix B). For example ERM Power and BlueNRG only offer electricity to businesses. Commander Power & Gas was introduced in 2014 as a separate brand by the owner of Dodo to supply small businesses, however in February 2015 the brand also had residential offers available on Energy Made Easy. Click Energy and QEnergy only supply businesses in some jurisdictions but supply residential customers as well in others. Almost all

⁵⁵ For further discussion of key issues for competition in retailer gas markets, refer to section 3.2.4 of the AEMC, *2014 Retail Competition Review, Final Report*, AEMC, 22 August 2014, Sydney.

retailers that offer energy to residential customers also offer to small business customers in the same jurisdictions, though there are some exceptions.

The number of offers and the range of options available to small business electricity customers were similar to those available to residential customers in NSW, Victoria, South Australia and the ACT. Retailers appear to be differentiating their small business offerings in similar ways to their residential offers, though there was less use of non-price incentives.

3.2.14 Some rural customers have fewer choices than urban customers and may be less inclined to shop around

Competition tends to be more limited in rural and regional areas than in urban areas in some jurisdictions. In the retail gas market, some customers only have access to a limited number of offers from one retailer. For example, as observed by the Consumer Action Law Centre in its submission to the Approach Paper, some rural areas in Victoria (e.g. Horsham) are only served by one retailer. Across the NEM, rural and regional gas customers appear to have access to a less varied selection of offers from fewer retailers than urban customers.

Retailers surveyed attributed the more limited entry and expansion in the rural and regional areas of the retail gas market to the size of the customer base (which is associated with higher acquisition costs), the limited pipeline penetration, the limited capacity of regional pipelines and issues with pipeline access.

In Tasmania, retailers identified additional impediments to entry and expansion in rural and regional areas. The issues they identified included low customer awareness of the benefits of natural gas, the lower socio-economic status of some rural and regional areas and gas not being an essential service.

Similar to the gas market, retailers raised the size and geographic dispersion of customers as an issue inhibiting entry and expansion in regional electricity markets. Additionally, in regional Queensland, the way in which the Uniform Tariff Policy is implemented makes it difficult for retailers other than Ergon Energy Retail to enter the market at a competitive price. Regional Queensland is discussed in more detail in Chapter 5.

The level of product differentiation was broadly consistent for urban and rural customers for electricity. Our analysis of competitive prices suggests that rural and regional distribution networks are associated with higher total annual expenditure for a representative customer on average, likely due to the higher associated network costs.

The Newgate customer survey results suggest rural and regional customers tend to be slightly less engaged in retail energy markets than urban customers. Thirty three per cent of urban customers actively investigated different energy offers in the past 12 months, compared to 26 per cent of rural and regional customers. Fifty two per cent of urban customers are interested or currently looking for a better deal, compared to 45 per cent of rural and regional customers.

3.3 Future developments in retail market competition

Changes have occurred in the twelve months since the last competition review, but more significant developments are likely to be evident over a longer period of time. Key issues that have the potential to impact the market in the short to medium term are discussed below.

3.3.1 The removal of retail price regulation is expected to drive further competition

Further improvements in retail competition are expected in New South Wales, following the removal of retail price regulation in 2014. Positive signs are emerging, but the full impact of this policy change is likely to become more evident over the longer term as it will take time for retailers and customers to respond to new opportunities.

Similarly for South East Queensland, improvements in competition are expected over time if retail price regulation is removed. The Queensland Government has delayed retail electricity price deregulation in South East Queensland for 12 months to enable the Queensland Productivity Commission to undertake a public inquiry into electricity prices. Price deregulation had been due to commence on 1 July 2015. It will be important that customers are appropriately informed and supported to find a good energy deal and benefit as competition increases in this market. Developments in the wholesale electricity market may also impact the level of competition in South East Queensland, as discussed below.

3.3.2 Changes in wholesale markets may affect conditions in retail markets

For competition to be effective in retail markets it is important that there is effective competition in wholesale markets. Price uncertainty and volatility in electricity and gas wholesale markets can raise costs for existing retailers and deter new entry and expansion. The development of wholesale electricity and gas prices will be influenced by several factors including the developments in domestic and global economies and government policy settings on wholesale markets.

For example, there is a degree of uncertainty about how changes to gas supply and demand will affect wholesale gas prices and volatility. This, in turn, creates uncertainty about retail gas prices in some jurisdictions, and therefore the demand for gas by small customers. Faced with this uncertainty, prospective entrants may delay their entry until the conditions in the wholesale market are more certain.

In surveys conducted in February 2015, retailers in South East Queensland considered entry and expansion in the retail electricity market had become more difficult in the last few months due to the conditions in the Queensland wholesale market, citing higher wholesale purchase costs and a greater degree of spot price volatility at the Queensland reference node. Retailers had different views on what had caused the recent volatility in the wholesale market. One retailer claimed that it was due to rebidding by generators, while other retailers attributed it to the ramp up in Queensland liquefied natural gas (LNG) development, which was claimed to result in relatively cheap gas fired generation being made available until the LNG plant came online. Whilst retailers had different views on the cause of the recent volatility in the wholesale market, most held

the view that the uncertainty was adversely affecting retailers, including through increasing their hedging costs and reducing their margins.⁵⁶ This, in turn, may affect entry and expansion plans of retailers in the South East Queensland retail electricity market in the short to medium term.

3.3.3 Product and service innovation is expected to increase

Enabling technology and regulatory reforms are creating new opportunities for customers and retailers alike and will change the way in which energy has traditionally been supplied and consumed. Innovation is increasing as technology advancements enable new products and services to be developed and as customers become more active in the market.

Retailers are increasingly competing through additional service elements such as energy audits and appliance swaps, advice about energy efficiency initiatives, energy cap plans, providing better information about energy usage profiles and providing 'free' electricity or gas on certain days of the week.

Further innovation is expected with increased installation of advanced metering technology. Customers with advanced meters will be able to choose from a range of electricity services and pricing options, giving them new ways to monitor, manage and adjust their electricity consumption in response to competitive price signals. With the exception of Victorians, most customers in the NEM have old accumulation meters. One per cent or less of small customers in South Australia, the ACT and Queensland are estimated to have meters that enable time of use pricing. Penetration is higher in New South Wales at approximately 15 per cent.⁵⁷

Benefits that advanced metering is expected to provide to customers include easy access to detailed usage data, real-time consumption information, better management of energy use, time of use pricing, more control of price-sensitive remote-controlled appliances and the ability to compare retailers and switch offers faster. It is also expected to lead to future cost savings through more efficient network investment decisions, lower cost meter reading, remote connections and faster responses to outages.

3.3.4 Conditions are changing in the growing solar market

As part of this review, the Commission has considered whether there are significant differences in customer activity and outcomes for customers with solar panels who are an increasingly large segment of market. Estimates suggest 14 per cent of all Australian households were using energy from solar panels in 2014, which is close to a three-fold

⁵⁶ K Lowe Consulting and F Swier Consulting, *AEMC 2015 Retail Competition Review: Retailer Surveys - Report for the AEMC*, June 2015, p37.

⁵⁷ These figures are derived from confidential AEMO data provided to the AEMC in September 2014. The data may underestimate the number of interval meters in some jurisdictions due to the way in which meters have been progressively integrated into AEMO's Market Settlement and Transfer Solution (MSATS) system and the consumption thresholds used to define a 'small' meter.

increase in three years.⁵⁸ Fifteen per cent of respondents to the Newgate customer survey stated they had solar panels and nine per cent had solar hot water installed.

The Commission has not identified differences that are significantly impacting the effectiveness of competition in this segment of the market, but this may change over time as a result of any changes in technology or regulatory arrangements. Subsequent competition reviews can continue to monitor these issues, including the impact of 'exempt energy suppliers'.

Our findings suggest that solar customers are more active and satisfied than non-solar customers. Analysis of feed-in tariff arrangements across jurisdictions highlights that most solar customers do not face additional barriers to switching. Customer surveys also found that few solar customers cited barriers to switching that were specific to having solar panels. Details of these findings are set out in Appendix E.

Submissions from retailers and consumer representatives highlight the emergence of new business models providing solar energy, which compete for a proportion of traditional retailers' sales and may not be subject to the same customer protection requirements.⁵⁹ Some energy suppliers that sell energy to small customers in retail electricity and gas markets are exempted from the full range of obligations on retailers under the NECF, which currently operates in NSW, the ACT, South Australia and Tasmania and will operate in Queensland from 1 July 2015. The AER generally grants exemptions where it considers such sellers have a 'lesser' involvement in the market, in accordance with its Exempt Selling Guidelines.

Exempt energy suppliers include some solar energy suppliers and embedded non-network energy suppliers. Some other solar businesses are not captured by NECF because they do not supply *energy* to their customers, rather they supply *solar equipment*. As a result of exemption from NECF or because it does not apply, solar businesses are generally not required to comply with the suite of obligations that apply to energy retailers under the NECF. Together these are referred to as 'alternative energy suppliers'.

Similar issues are arising in Victoria and Queensland, where the NECF does not currently apply.⁶⁰ In these jurisdictions solar businesses selling under a power purchase agreement model are able to obtain an authority or licence to provide energy services. The licence conditions broadly mirror the conditions of exemption from authorisation as a retailer under the NECF.

Submissions from retailers and consumer groups argue that the AEMC should consider these energy suppliers in conducting this and future reviews of competition in retail energy markets.⁶¹ Origin Energy considers that alternative energy suppliers are increasing the level of competition for energy services and opening up new markets for

58 Note that this increases to 19 per cent if solar hot water is included. ABS, *One in five households now use solar energy*, media release, December 2014.

59 See the following submissions on the AEMC 2015 Retail Competition Review Approach Paper: Alinta Energy, p3; CALC, p1-2; CUAC, p3; EnergyAustralia, p3; ERAA, p1 and Origin Energy, p5.

60 The NECF is scheduled to be implemented in South East Queensland from 1 July 2015.

61 See the following submissions on the AEMC 2015 Retail Competition Review Approach Paper: Alinta Energy p3, CALC p1-2, CUAC p3, EnergyAustralia p3, ERAA p1 and Origin Energy p5.

energy products.⁶² Origin and others therefore consider that it is important to look at the impact on competition of such emerging business models and technologies.⁶³ A number of consumer groups agree that new business models and technologies are likely to impact competition and should be considered in future competition reviews in order to provide a more comprehensive understanding of competition in energy markets.⁶⁴

There are currently around 50 exempt energy sellers that offer or intend to offer solar power purchase agreements to customers.⁶⁵ There is no public information regarding the number of customers of these exempt energy sellers. As at 7 April 2015, the Clean Energy Regulator had recorded 1,209,977 solar PV systems installed on rooftops in NEM jurisdictions and participating in the Small-scale Renewable Energy Scheme. It is likely that only a small fraction of these solar systems are provided to customers by exempt energy sellers under a power purchase agreement.

Additionally, these alternative energy suppliers have not replaced all of the services offered by 'traditional retailers.' An increased uptake of energy storage technologies could result in these businesses having a greater impact on retail energy markets over time.

The AER is currently considering the regulation of alternative energy suppliers in the NECF. In particular the AER has consulted on whether a retailer authorisation or a retail exemption is required for the business activities of certain new and emerging business models.⁶⁶

The Council of Australian Governments (COAG) Energy Council is also consulting on a review of New Products and Services in the Electricity Market. This consultation seeks to consider the impact of new products and services on retail energy markets and whether the regulatory frameworks that govern the NEM are appropriate in the context of new products and services being offered to small electricity customers.⁶⁷

The Commission does not intend for this review to duplicate the AER's work on the regulation of innovative energy selling business models or the work of the COAG Energy Council's review of New Products and Services in the Electricity Market. The current market definition is appropriate for this review, but may be expanded for future competition reviews, subject to developments in the market.

62 Origin Energy submission on the AEMC 2015 Retail Competition Review Approach Paper, p5.

63 Ibid.

64 See the following submissions on the AEMC 2015 Retail Competition Review Approach Paper: CALC pp1-2 and CUAC p3.

65 AER public register of retail exemptions, available at: <http://www.aer.gov.au/node/11037>.

66 AER 2014, *Issues paper - Regulating innovative energy selling business models under the National Energy Retail Law*, AER, 18 November 2014, Melbourne.

67 For more information on the COAG Energy Council *New Products and Services in the electricity market* project see: <https://scer.govspace.gov.au/workstreams/energy-market-reform/demand-side-participation/new-products-and-services-in-the-electricity-market/>.

3.4 Recommendations to improve competition

The Commission's recommendations from the 2014 competition review continue to be relevant.

To promote competition in retail markets and improve customer outcomes, the Commission recommends that jurisdictions:

- consider options for raising awareness of the tools available for comparing energy offers to improve customer confidence in the market, for instance, through tailored communications to different audiences as set out in the AEMC's consumer engagement blueprint;
- ensure concession schemes are delivering on their intended purpose in an efficient and targeted way;
- continue to harmonise regulatory arrangements to reduce the long term costs of competing across jurisdictions;
- implement the recommendations of the AEMC's review of electricity customer switching to improve the accuracy and timeliness of the customer transfer process; and
- remove energy retail price regulation where competition is effective.

4 South East Queensland

Box 4.1 Key findings

- Competition continues to be effective in the South East Queensland retail electricity market, based on evidence gathered up to the first quarter of 2015. At the time of our analysis, electricity customers could choose from a range of energy plans from 11 different retail brands.
- Competition is less effective in the gas retail market compared to electricity, with just two retailers competing. The Commission does not expect a material improvement in the level of competition in the retail gas market due to the small size of the market (180,000 customers) and the tightening demand and supply conditions in the wholesale gas market.
- Sixty two per cent of residential customers surveyed were satisfied with their electricity retailer, though satisfaction levels were slightly lower than in Victoria, NSW and South Australia. Some customers have negative experiences; 11 per cent of residential customers were dissatisfied with their electricity retailer in South East Queensland and 0.7 per cent of small customers made a complaint to the Ombudsman. Common issues behind complaints include high bills, errors in billing, disconnection and debt collection.
- Customers are actively shopping around for an energy deal, with 25 per cent residential and 38 per cent of small business customers actively investigating energy options in the last 12 months.
- Many customers can save by shopping around to find a retailer and energy plan that best meets their needs. AEMC analysis shows that a representative customer comparing electricity flat rate market offers through the Queensland Competition Authority (QCA) price comparator website could find an offer that is as much as \$250 a year cheaper than the most expensive. The level of possible savings differs with energy consumption, discount eligibility and type of contract.
- Retail customers have diverse energy demands. An energy offer that is good value for one customer may be expensive for another customer with a different consumption level or different needs and circumstances. It is important that customers have access to clear information about what they are signing up to and that customers consider their personal circumstances when choosing a plan.
- There is low customer awareness of the availability of price comparator websites that are independent of retailers and can help customers find a suitable energy plan. Customers surveyed who used price comparator websites to investigate their options were significantly more aware of the choices available to them and also more confident they could find the right information to help choose an energy plan.
- The Australian Energy Regulator's Energy Made Easy website and phone

service should be promoted to assist customers to compare and choose energy offers. It will become available for customers in South East Queensland from 1 July 2015 when the National Energy Customer Framework is legislated to start.

- Competition in the retail electricity market appears to be less intense than in earlier years and in some other jurisdictions. Some retailers reported increased barriers to entry and expansion due to wholesale purchase costs and spot price volatility at the Queensland reference node. One retailer was considering exit due to the wholesale market conditions. A competitive wholesale electricity market is an important enabler of effective competition in retail markets. For customers to have choice between retailers, retailers need to have choice of wholesale contracts.
- Based on the findings of this review, the Commission considers there is sufficient competition in the South East Queensland electricity market for customers to benefit from removal of retail price regulation. This can be expected to promote further competition in the market to deliver innovation, greater choice and competitive prices in South East Queensland.

4.1 Overview

The Commission's assessment is that competition in the retail electricity market continues to be effective in South East Queensland, based on the evidence gathered on the five competitive market indicators up to the first quarter of 2015. Competition in South East Queensland is delivering customers a range of choice of retailers and plans and is resulting in high levels of customer satisfaction.

Competition remains less effective for gas with only two retailers competing. The Commission does not expect a material improvement in the level of competition due to the small size of the gas retail market and the tightening demand and supply conditions in the gas wholesale market.

The Queensland Government has delayed the commencement of retail electricity price deregulation in South East Queensland for 12 months to enable the Queensland Productivity Commission to undertake a public inquiry into electricity prices. Price deregulation was due to commence on 1 July 2015. The NECF is scheduled to be implemented from 1 July 2015.

The findings against our competitive market indicators are summarised below for South East Queensland.

Customer activity: The majority of South East Queensland customers are aware of their ability to choose retailers and are confident choosing the right energy option. One quarter of residential and 38 per cent of small business customers had actively investigated energy options in the last 12 months. The 2014 average electricity switching rate in South East Queensland was 16 per cent, down from 17 per cent in 2014.

Customer outcomes: Most Queensland customers were satisfied with their retailer, however satisfaction levels were slightly lower than NEM averages. Sixty two per cent

of residential customers surveyed were satisfied with their electricity retailer. However, some customers have negative experiences, as highlighted by the number of complaints raised with the Ombudsman and retailers. Eleven per cent of residential customers were dissatisfied with their electricity retailer in South East Queensland and 0.7 per cent of small electricity customers made a complaint to the Ombudsman.

Barriers to entry, exit and expansion: No new brands entered the retail energy markets since the 2014 competition review. Four electricity retailers surveyed in February 2015 were planning to expand following the then expected removal of retail price regulation. The median responses to the February 2015 retailer survey suggest entry and expansion in gas or electricity markets is not difficult, though views varied. Some retailers noted that electricity wholesale purchase costs and associated price volatility at the Queensland reference node was a significant barrier to entry and one was considering exit due to these conditions.

Independent rivalry: There is evidence of rivalry between the 11 retail electricity brands active in the market. Further retailer activity and product differentiation may occur over time if price regulation is removed. Rivalry is weaker in the gas retail market with just two retailers currently competing for customers.

Competitive retail prices: Based on analysis for a representative electricity customer, different offers would result in a range of total expenditure and customers should shop around to get the best deal for their needs.

We observed several changes in retail markets in the last year as competition continues to evolve and mature:

- Market concentration improved, with a slight decline in Origin and AGL's collective market share as second tier firms and EnergyAustralia gained customers.
- Electricity retailer switching has declined by one percentage point to reach its lowest level in five years but remains at a level similar to NSW and South Australia markets. A decline in switching was observed across most jurisdictions in 2014 and may be driven by changes in retailer marketing practices.
- Customer reports of direct approaches by retailers in South East Queensland were down from last year's survey, which coincides with some retailers no longer undertaking door knocking.
- Some retailers reported higher barriers to entry due to conditions in the wholesale electricity and gas markets. This included retailers claiming generator behaviour in the electricity wholesale market driving price volatility, as well as tightening wholesale gas market conditions.
- Complaints to retailers doubled but complaints to the Ombudsman declined slightly during the same period. Common issues behind complaints include high bills, errors in billing, disconnection and debt collection. Most customers surveyed said they would switch retailer if they were unhappy with the level of customer service.

The Commission's overall assessment is that competition is effective and the majority of customers are satisfied with market outcomes, based on evidence gathered up to the first quarter of 2015.

There are opportunities to address complaints and provide better experiences for the ten per cent of residential customers surveyed who were not satisfied with their retailer. The Commission considers that some retailers should consider improvements to address complaint numbers in all NEM jurisdictions.

Governments also have a role to play in building the confidence of customers to shop around for a better deal. The Commission recommends that governments in all jurisdictions raise awareness of the availability of comparator websites to simplify the process of comparing energy offers and give customers greater confidence to shop around to find a good energy plan. Across the NEM, customers who used price comparator websites to investigate their options were significantly more aware of the choices available to them and also more confident they could find the right information to help choose an energy plan.

4.2 Market characteristics

In the first quarter of 2015, there were eleven electricity retail brands (10 electricity retail businesses) supplying approximately 1.36 million customers and two gas retail brands supplying approximately 180,000 customers in South East Queensland.⁶⁸

Full retail competition was introduced in retail electricity and gas markets in Queensland in July 2007. At this time, retail price regulation was removed for gas but retained for electricity.

In September 2014, the Queensland Parliament passed legislation to replace electricity retail price regulation with market monitoring in South East Queensland from 1 July 2015. However the Government announced in April 2015 that retail price deregulation in South East Queensland would be delayed for 12 months to enable the Queensland Productivity Commission to undertake a public inquiry into electricity prices.

4.3 Customer activity in the market

Our analysis of this indicator considers the findings of a customer survey performed by Newgate Research and data provided to the AEMC on customer switching. See Chapter 2 for further details of our methodology.

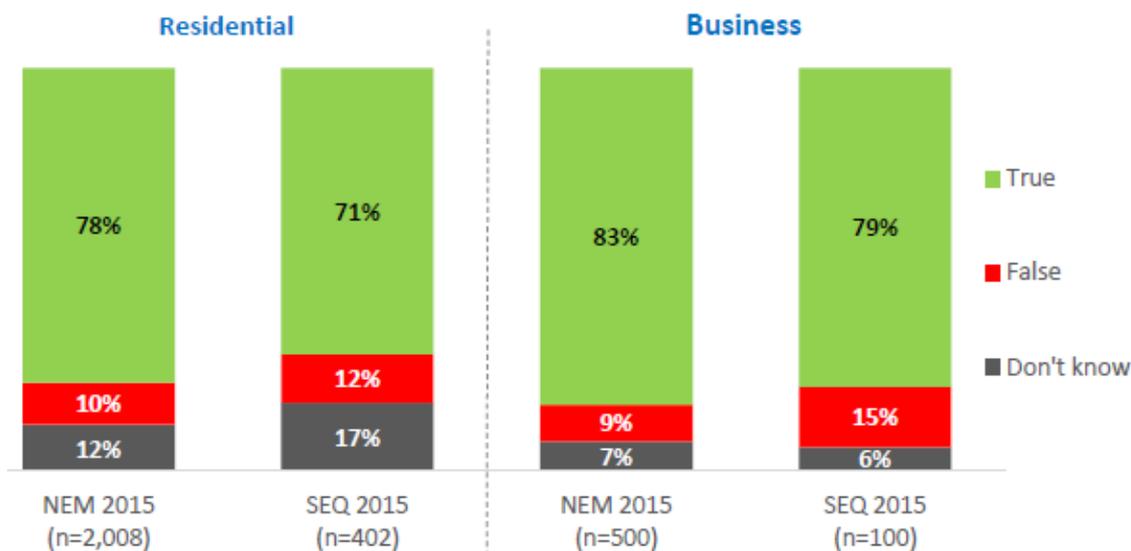
4.3.1 Customer awareness and confidence

Close to 90 per cent of South East Queensland survey respondents were aware that they could choose their electricity and gas retailers. There was also a high level of awareness that they have a choice between multiple plans in the market, although these levels were lower than the NEM average (Figure 4.1). Awareness was slightly lower for

⁶⁸ Australian Energy Regulator, Retail statistics on customer numbers, accessed 30 May 2015: <http://www.aer.gov.au/Industry-information/industry-statistics/retail>.

customers with reticulated gas, with 65 per cent aware that they could choose between different gas plans and options, about 12 per cent less than the NEM average.

Figure 4.1 Consumers in your state can choose their electricity plans or options?

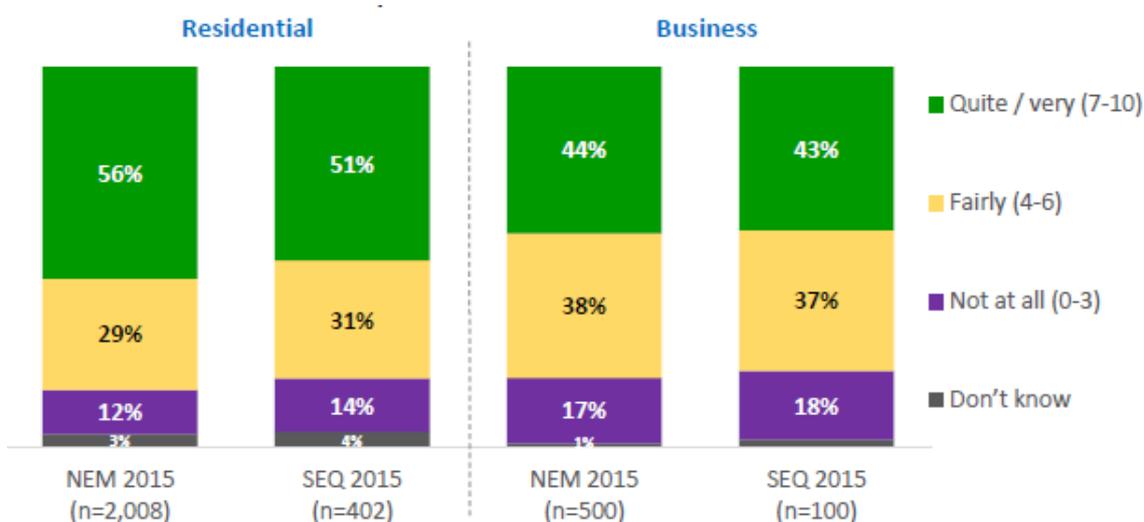


Source: Newgate Research, Consumer Research for Nationwide Review of Competition in Retail Energy Markets, June 2015, p203. Survey question: Do you think it is true or false that consumers in your state can choose from a range of different types of electricity plans, price structures, contract lengths and terms. Customers surveyed: All.

Customer confidence

Most customers are at least fairly confident they can choose an energy plan that is right for their household or business (Figure 4.2). Confidence levels in South East Queensland were similar to the NEM average, with 51 per cent of residential customers

Figure 4.2 Confidence in choosing the right energy option



Source: Newgate Research, Consumer Research for Nationwide Review of Competition in Retail Energy Markets, June 2015, p206. Survey question: How confident are you that you can choose an energy offer that is right for your household or business? Customers surveyed: All.

and 43 per cent of small business customers surveyed rating their confidence to choose an energy option that is right for their household or business as seven out of 10 or higher.

Confidence levels were significantly higher for South East Queensland customers that were between 18 and 34 years of age, had actively investigated energy offers in the past 12 months, on special payment or hardship arrangements with their retailer or on concession arrangements. Confidence was also higher for customers with solar panels.

Customers reported similar levels of confidence finding the right information to choose a suitable energy offer. Customers that had been approached by a retailer in the past 12 months or actively investigated energy offers in the past 12 months were significantly more likely to be confident that they could find the right information to choose a suitable energy offer.

These survey results suggest that customers may feel more confident about switching plan or retailer if they are encouraged to take the first step of investigating the options available to them or contacting a retailer.

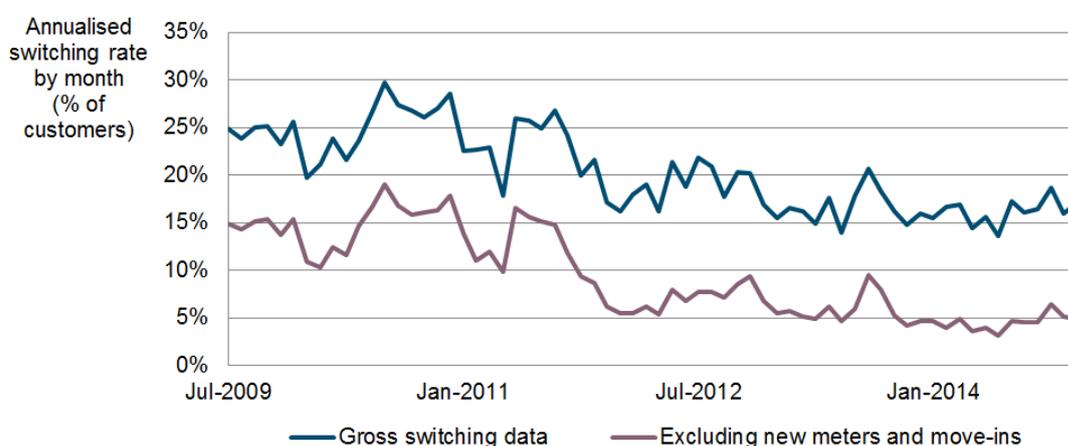
4.3.2 Customers investigating options and switching

Around one quarter of residential and 38 per cent of small business customers actively investigated energy options in the past 12 months. For residential customers this is a decrease from 30 per cent in 2014 and is slightly less than the NEM average. For small business customers this is an increase from 27 per cent in 2014 and is slightly higher than the NEM average.

AEMO data on customer transfers between retailers for electricity illustrates that customer switching rates declined in 2014 (Figure 4.3). AER data on gas customer transfers between retailers illustrates that customer switching decreased in the year to 2013-14. This data should be interpreted with caution, as discussed in Chapter 2, but can provide an indication of the level of customer activity in a market.

For electricity, the average gross switching rate during 2014 was 16 per cent, the lowest level of the last five years. This switching rate remains comparable to rates in New South Wales and South Australia.

Figure 4.3 Electricity customer switching rate - South East Queensland

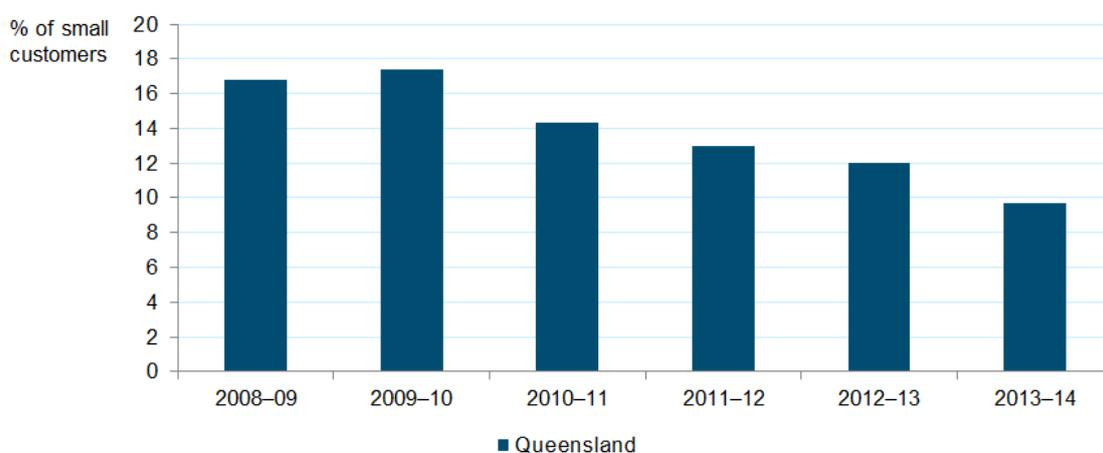


Source: AEMO data, AEMC analysis.

Gas switching rates have also declined, broadly following the trend for electricity (Figure 4.4). The gross switching rates for gas are lower than for electricity with an average of 9.7 per cent in 2013-14 for Queensland customers, most of which are in South East Queensland. This figure does not include switching to AGL as a result of AGL’s purchase of Australian Power and Gas.

This state-wide switching rate may understate the level of switching in South East Queensland. Electricity switching is generally higher in South East Queensland than the rest of Queensland (where there is only one active electricity retailer) and gas switching rates are linked to this.

Figure 4.4 Gas customer switching rate – whole of Queensland



Source: AER data, AEMC analysis

Similar to the AEMO switching data, the Newgate survey found there was a decline in reported switching rates between the 2014 and 2015 surveys. Forty six per cent reported they had switched electricity retailer or plan in the last five years and a quarter reported they had switched gas retailer or plan. This is a decrease of 11 percentage points and is consistent with a decrease in the NEM average, however South East Queensland switching remains below the average of all NEM customers surveyed.

Switching data for electricity and gas does not capture customers who have chosen to switch plans with their existing retailer. Data provided by retailers for the 2014 retail competition review suggested that up to 20 per cent of customers changed their electricity plan and 16 per cent of customers changed their gas plan with their existing retailer in 2013.⁶⁹ Respondents to the 2015 retailer survey rated switching between a retailer’s different offers as between minimal and moderate in South East Queensland, whereas switching between retailers was rated as high.

While electricity and gas switching has declined, it appears to remain higher than for other service providers. More South East Queensland customers reported switching electricity and gas retailers than those who said they had switched service providers of car insurance, phone, internet, banking, home insurance or health insurance.

⁶⁹ Some retailers cautioned that these estimates are indicative only.

Declines in retailer direct marketing may be leading to less switching

The decline in electricity switching appears to coincide with a reduction in door to door marketing by the major retailers in NEM jurisdictions, from 2013. Fewer customers reported they had been directly approached by retailers in the previous 12 months compared to the 2014 survey results. Twenty eight per cent of South East Queensland residents had been approached by at least one retailer in the past 12 months, down from 42 per cent in 2014. The rate of direct approaches in South East Queensland remains around 10 percentage points below the NEM average. Customers were also approached by fewer retailers, an average of 2.1 retailers approached customers surveyed in 2015 compared with 2.4 retailers in 2014.

Price remains a key driver for switching behaviour

Customer surveys suggest the key reason for switching energy retailer or plan in all NEM jurisdictions was to obtain a better price. In South East Queensland, 63 per cent of residential and 67 per cent of small business customers cited price related reasons for switching electricity retailer or plan.

Residential customers on average considered that they would need to save \$230 annually to seriously consider changing electricity retailer or plan. This was higher than the NEM average of \$210. Residential customers would on average consider switching gas retailer or plan for annual savings of \$140. Small business electricity customers considered they would on average need to save \$630 in order to seriously consider switching.

Other drivers for switching include moving house and wanting improved customer service. Similar to last year, twelve per cent of respondents cited moving house as their key reason for switching electricity retailer or plan and eight per cent cited service related reasons.

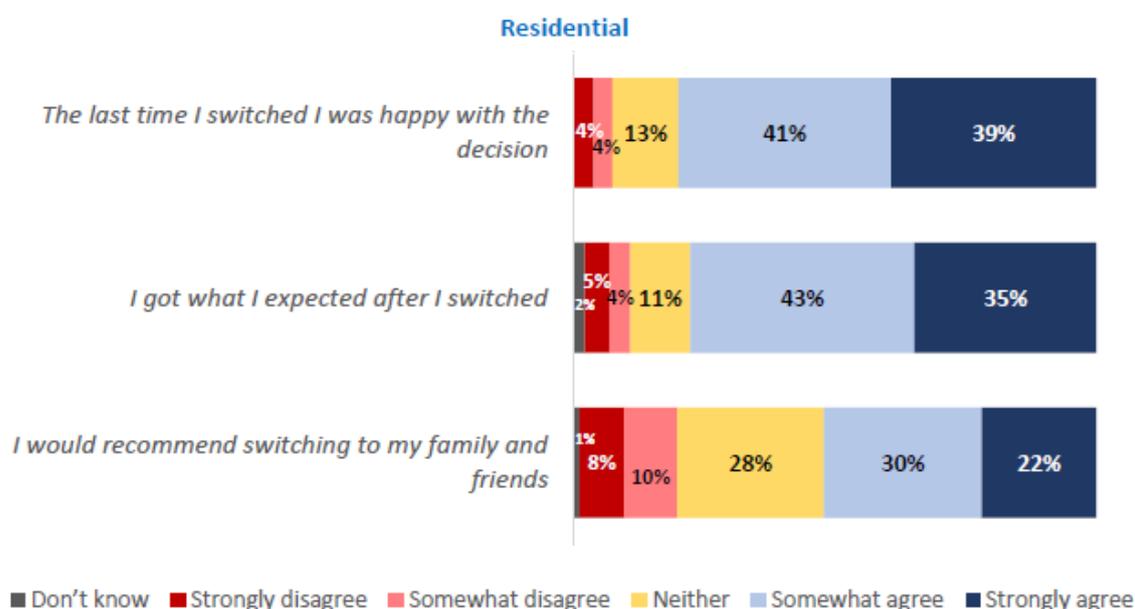
Surveyed customers who had switched energy retailer or plan considered the most important factors in making the decision to switch to be the estimated total bill amount, the discounts offered, the price per kWh (or MJ for gas), and whether that price can change.

Most customers are satisfied with their decision to switch retailer or plan

Eighty per cent of residential and 69 per cent of small business customers who switched electricity retailer or plan were subsequently happy with the decision to switch (Figure 4.5).

Seventy eight per cent of residential and 68 per cent of small business customers considered that they got what they expected after they switched.

Figure 4.5 Satisfaction with decision to switch electricity retailer or plan



Source: Newgate Research, Consumer Research for Nationwide Review of Competition in Retail Energy Markets, report for the AEMC, June 2015, p220. Survey question: To what extent do you agree or disagree with the following? Customers surveyed: Respondents who had switched electricity company or plan.

Just over half of residential customers considered they would recommend to family and friends switching electricity retailer or plan. Just under half of small business customers would recommend switching. This is not considered unusual for low customer involvement products such as energy.

Around three quarters of residential and small business electricity customers listed their main reasons for being satisfied with switching as being related to savings and cheaper prices. Improved customer service was the next most common reason.

Results for satisfaction with switching gas retailer or plan are not shown due to the small sample size of residents that had switched gas retailer or plan.

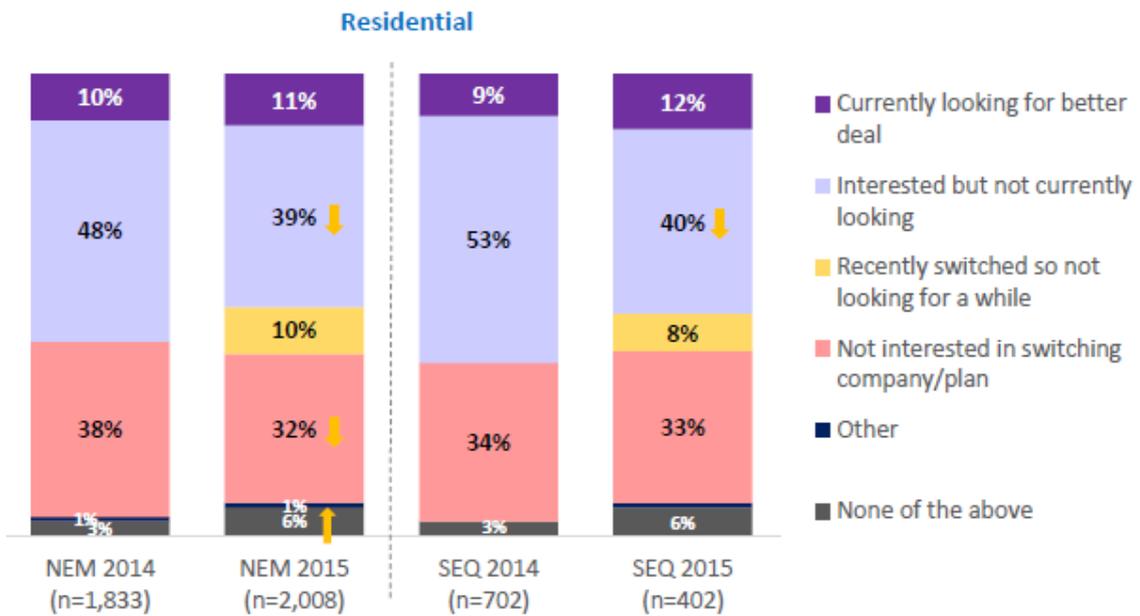
Interest in looking for a better deal

Just over half of surveyed South East Queensland customers are currently looking for a better energy deal or are interested in doing so (Figure 4.6 and Figure 4.7).

Compared with 2014, slightly more residential and small business customers are currently looking for a better energy deal. Twelve per cent of residential customers are looking for a better energy deal, similar to the NEM average.

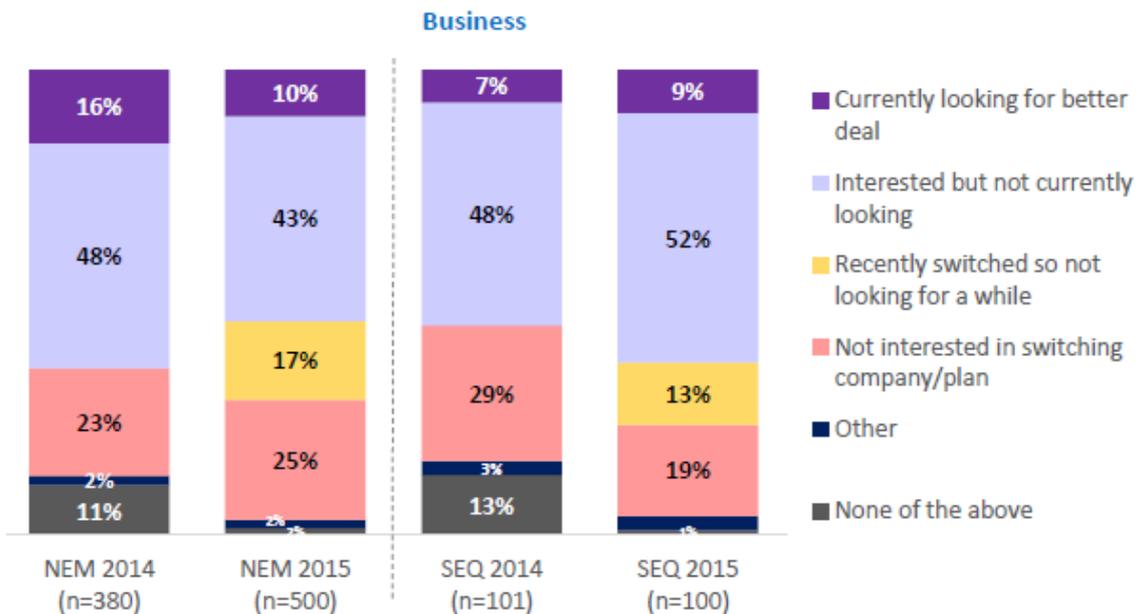
Thirty three per cent of residential and 19 per cent of small business customers surveyed said they were not interested in switching retailer or plan. Some of the change from 2014 can be explained by a change in the response options for this question to include those not looking for a better deal because they recently switched. Eight per cent of residential and 13 per cent of business customers fall into this category.

Figure 4.6 Interest in looking for a better energy deal – residential



Source: Newgate Research, Consumer Research for Nationwide Review of Competition in Retail Energy Markets, June 2015, p225. Survey question: Which of the above statements is most applicable to your household? Customers surveyed: All.

Figure 4.7 Interest in looking for a better energy deal – small business

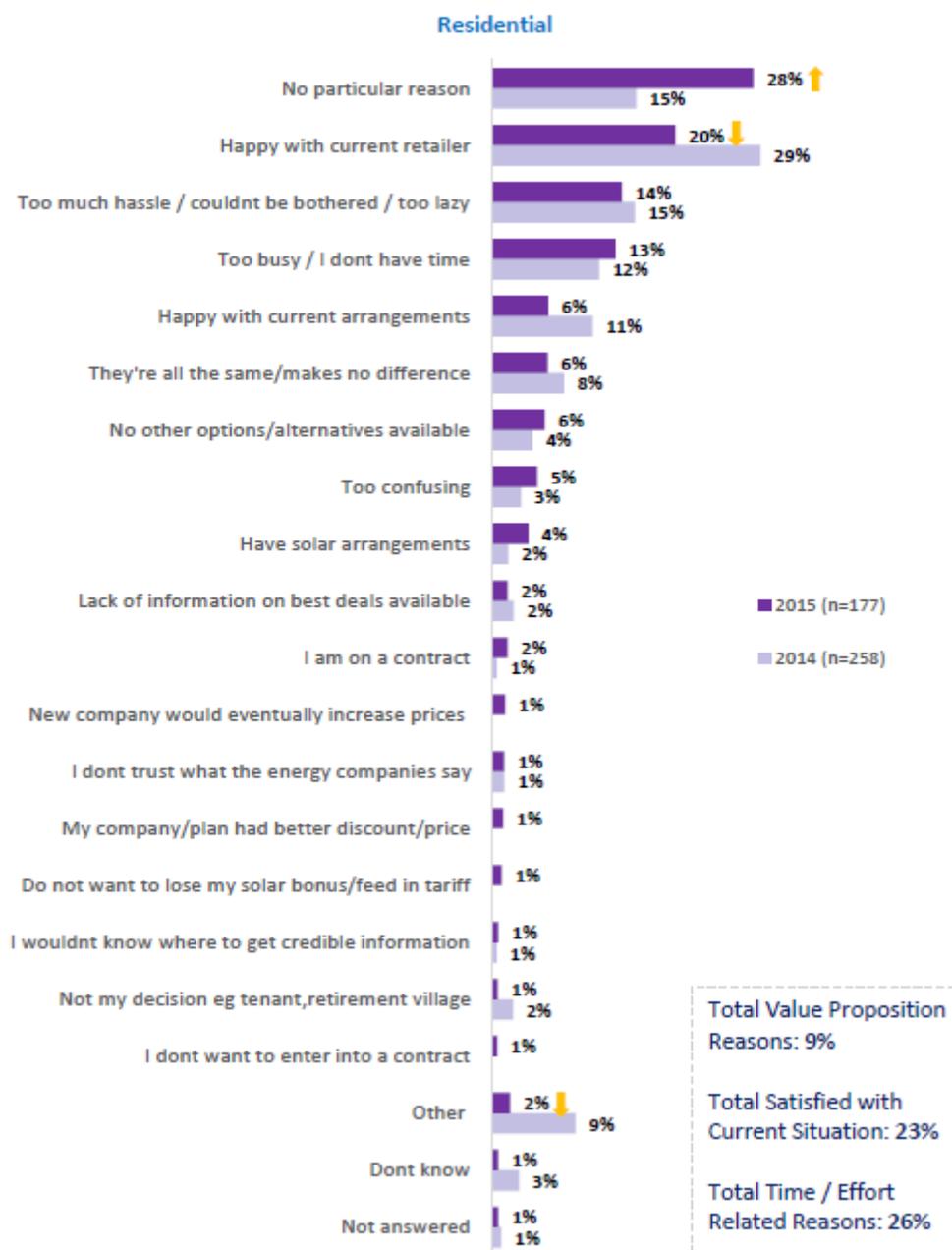


Source: Newgate Research, Consumer Research for Nationwide Review of Competition in Retail Energy Markets, June 2015, p225. Survey question: Which of the above statements is most applicable to your business? Customers surveyed: All.

Barriers to switching

The reasons most commonly cited by residential customers for not investigating offers or switching were "no particular reason", satisfaction with their current retailer or arrangements, that it would be too much hassle, not having enough time or that there is little difference between options (Figure 4.8).

Figure 4.8 Reasons for not investigating or switching – residential



Source: Newgate Research, Consumer Research for Nationwide Review of Competition in Retail Energy Markets, June 2015, p224. Survey question: Are there any reasons you haven't investigated different options or why you haven't changed your energy company or plan in the last 12 months? Customers surveyed: Respondents who had not investigated offers and options or switched in the past 12 months.

Around a third of residents who had investigated their options did not switch retailer or plan. Of these, 36 per cent did not switch because they did not consider there was value in doing so, such as a cheaper price or better discount. Around 14 per cent of these customers considered that switching makes no difference as retailers are all the same. This was up from nine per cent last year.

In the short term, customers in South East Queensland may have some difficulty finding energy offers with savings sufficient for them to seriously consider switching retailer or plan. The AEMC's 2014 Residential Electricity Price Trends report found that residential customers in South East Queensland may have saved around \$93 or seven

per cent off their total annual bills by switching from the regulated standard offer to the representative market offer in 2013-14.⁷⁰ This is less than half the \$210 amount respondents considered they would need to save in order to seriously consider switching. However, the Price Trends report figure does not capture the full savings that could be available, in particular, the discount that may be available for switching to the lowest advertised market offer or by negotiating with retailers to obtain a lower price.

AEMC analysis shows that a representative customer comparing electricity flat rate market offers through the Queensland Competition Authority (QCA) price comparator website could find an offer that is as much as \$250 a year cheaper than the most expensive. The level of possible savings differs with energy consumption, discount eligibility and type of contract. See section 4.7 for more detail on this analysis.

The AEMC undertook further analysis of customers on standard offers in 2014 (see Box 4.2).

Box 4.2 Analysis of customers on standard offers

The AEMC undertook quantitative research into the state-wide prevalence of customers on standard offers and correlated these findings with socio-economic and demographic indicators. Due to the confidential nature of the data underpinning this analysis, much of which was provided to the Commission by energy retailers, we are unable to publish these findings in full. However, we are able to provide an overview of some important characteristics of customers who remain on standard offers. Key findings from this analysis include:

- Customers living in the West and South West of South East Queensland are more likely to be on regulated tariffs than those living near the seaboard.
- Areas with an older median population are more likely to have a higher proportion of customers on regulated tariffs.
- Areas with lower median rents and a lower proportion of the population employed are more likely to have a higher proportion of customers on regulated tariffs.

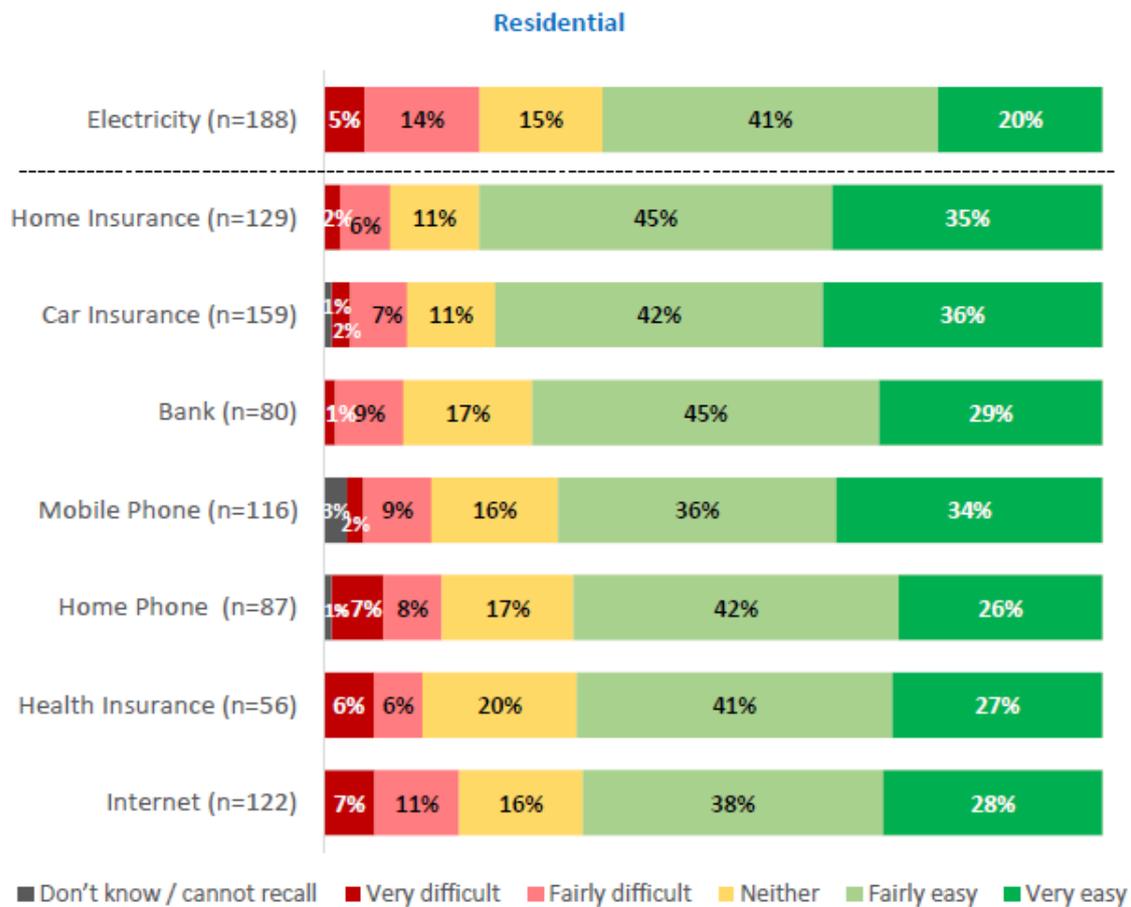
The findings suggest that, if the Government is considering tailored information and awareness campaigns to target certain community segments, these could include older customers and customers living in regional areas of South East Queensland.

The AEMC's assessment of the offers available in South East Queensland found there are fewer retailers and less differentiation in the offers available relative to Victoria, New South Wales and South Australia. Some retailers have stated in surveys and interviews they were waiting until the removal of price regulation before they increase their activity in South East Queensland.

⁷⁰ Actual savings will depend on individual circumstances and more savings can be achieved if consumers shop around and choose the best market offer to meet their needs. AEMC, 2014 *Residential Electricity Price Trends Report*, AEMC, 5 December 2014, Sydney.

Most residential customers considered that it was easy to compare different electricity offers when deciding whether or not to switch, however other industries performed better in this regard (Figure 4.9). More residents considered that it was difficult to compare offers for electricity in South East Queensland than other products and services.

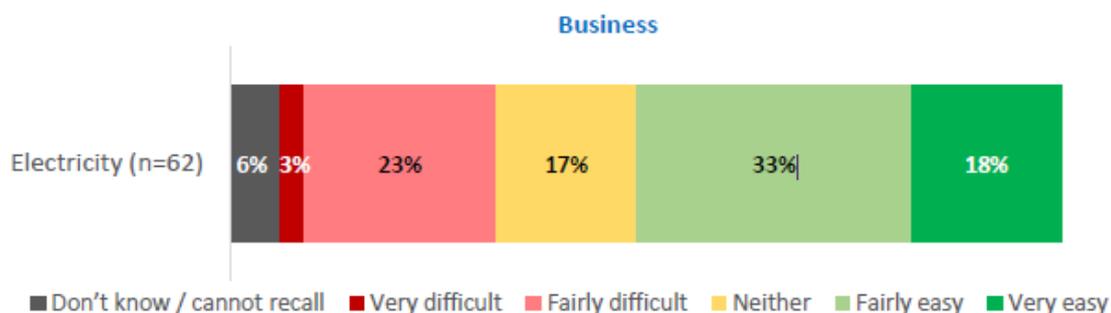
Figure 4.9 Ease of comparing offers when making switching decisions - residential



Source: Newgate Research, Consumer Research for Nationwide Review of Competition in Retail Energy Markets, report for the AEMC, June 2015, p222. Survey question: The last time you switched, how easy or difficult was it for you to compare the different offers when deciding whether or not to switch? Customers surveyed: Respondents who had switched electricity or gas company or plan.

Fewer small business customers than residential customers considered that it was easy to compare different electricity offers (Figure 4.10). Twenty six per cent of small business respondents considered that it was difficult to compare offers.

Figure 4.10 Ease of comparing offers when making switching decisions – small business



Source: Newgate Research, Consumer Research for Nationwide Review of Competition in Retail Energy Markets, report for the AEMC, June 2015, p222. Survey question: The last time you switched, how easy or difficult was it for you to compare the different offers when deciding whether or not to switch? Customers surveyed: Respondents who had switched electricity company or plan.

Despite the difficulty for some customers in comparing electricity options, the switching rates in the last five years for electricity and gas retailers or plans were higher than those reported for these other products and services (Figure 1.11).

Figure 4.11 Switching energy and other services

| Provider (% switched at least once) | Residential | | | |
|-------------------------------------|-------------------|-------------------|----------------------|-----------------|
| | NEM | | Southeast Queensland | |
| | 2014 (n=1,833) | 2015 (n=2,008) | 2014 (n=702) | 2015 (n=402) |
| Electricity Company | 48% | 39% ↓ | 44% | 36% ↓ |
| Electricity Plan | 39% | 31% ↓ | 31% | 25% ↓ |
| TOTAL Electricity | 60% | 50% ↓ | 57% | 46% ↓ |
| Gas Company | 40% | 35% ↓ | 27% | 22% |
| Gas Plan | 30% | 24% ↓ | 21% | 17% |
| TOTAL Gas | 49% | 40% ↓ | 33% | 24% |
| TOTAL Electricity or Gas | 64% | 51% ↓ | 57% | 47% ↓ |
| Car Insurance | 37% | 35% | 39% | 39% |
| Mobile | 32% | 31% | 34% | 29% |
| Internet | 30% | 29% | 32% | 32% |
| Home Insurance | 22% | 26% ↑ | 27% | 31% |
| Home Phone | 22% | 20% | 26% | 22% |
| Banking | 18% | 19% | 19% | 21% |
| Health Insurance | 13% | 16% | 14% | 15% |

Source: Newgate Research, Consumer Research for Nationwide Review of Competition in Retail Energy Markets, report for the AEMC, June 2015, p211. Survey question: In the last five years, how many times have you changed any of the following providers or companies with which you have products and services? Customers surveyed: All.

Clearer information and the use of price comparator websites could help customers make decisions more easily

Some of the customer issues highlighted above could be addressed through promoting greater awareness of the Energy Made Easy website, which will be available to

customers in South East Queensland from July 2015.⁷¹ This website is operated by the AER and can help reduce the time and complexity of finding and comparing energy plans.⁷²

In South East Queensland, 19 per cent of residential customers who investigated different energy offers used a price comparator website as their main source of information and around 13 per cent considered a price comparator website to be the most useful source of information.

Across the NEM those customers who used price comparator websites to investigate their options were significantly more aware of the choices available to them and also more confident they could find the right information to help choose an energy plan. Of customers who had used comparator websites, 88 per cent were aware they could choose from a range of different electricity plans and 64 per cent rated their confidence to find the right information as seven out of 10 or higher. For customers who had not used a comparator website, these figures were 77 per cent and 53 per cent respectively.

Price comparator websites can also assist customers in considering whether there is value in switching retailer or plan. For example, the Energy Made Easy website can estimate a customer's bill for different energy plans and highlight that there may be some appealing alternative product and service offers available.

All customers should be encouraged to reassess their energy needs and shop around regularly to take advantage of new offers or move to more suitable plans as their energy needs change. A campaign to promote awareness of the Energy Made Easy website could encourage and support customers to shop around for a better energy deal.

4.4 Customer outcomes

Our analysis of this indicator considered the findings of customer surveys and data on customer complaints. See Chapter 2 for further details of our methodology.

4.4.1 Satisfaction with the level of choice

Residential customers are about as satisfied with their level of choice in South East Queensland as they were a year ago. Satisfaction with the level of choice in South East Queensland is slightly lower than in most other jurisdictions, with 48 per cent of residential customers satisfied, compared with the NEM average of 56 per cent. Small business customers were slightly less satisfied with the level of customer choice than they were in 2014.

The AEMC's assessment of the offers available in South East Queensland (section 4.6) found there are fewer retailers and less differentiation in the offers available relative to Victoria, New South Wales and South Australia. The removal of price regulation may lead to an increase in retailer activity in South East Queensland.

⁷¹ The Queensland government has passed legislation to implement the National Energy Customer Framework from 1 July 2015. The Energy Made Easy website allows customers to compare energy offers available in all jurisdictions that have implemented the Framework.

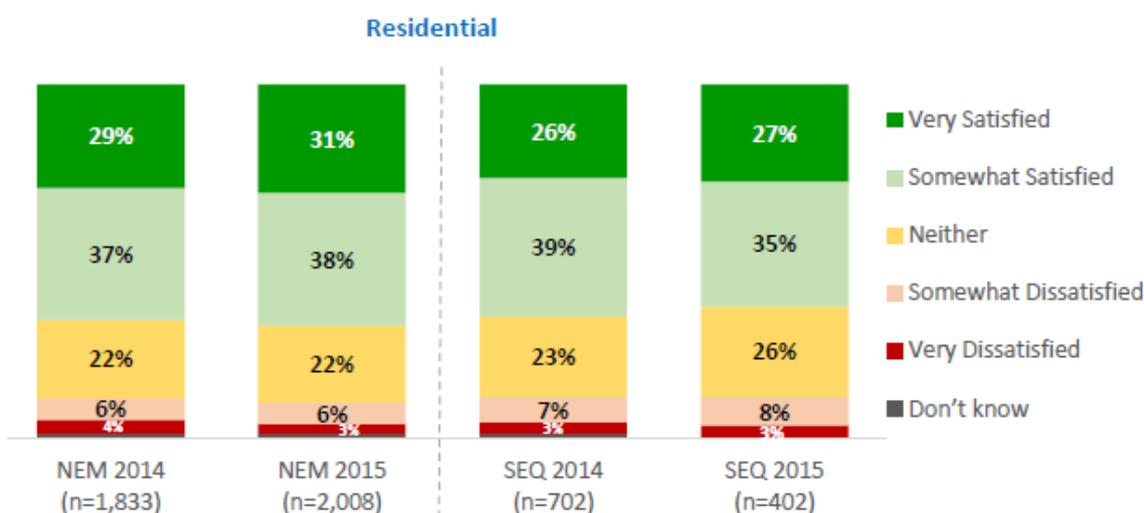
⁷² Energy Made Easy website: <http://www.energymadeeasy.gov.au>.

4.4.2 Satisfaction with retailers

In South East Queensland, 62 per cent of residential customers were somewhat or very satisfied with their electricity retailer, similar to last year but remaining lower than the NEM average (Figure 4.12). Customers with solar panels or currently receiving a rebate or concession were more likely to be satisfied with their current retailer. The proportion of customers dissatisfied with their retailer remained consistent with last year for residential customers, but increased for small business customers (Figure 4.13).

Satisfaction levels should be interpreted carefully. Focus groups conducted in 2014 suggest high satisfaction ratings often related to an absence of negative issues with their retailer rather than a particularly positive experience. Similarly, low levels of dissatisfaction do not necessarily imply high levels of satisfaction.

Figure 4.12 Satisfaction with current electricity retailer – residential



Source: Newgate Research, Consumer Research for Nationwide Review of Competition in Retail Energy Markets, report for the AEMC, June 2015, p231. Survey question: How satisfied are you with your current electricity company? Customers surveyed: All.

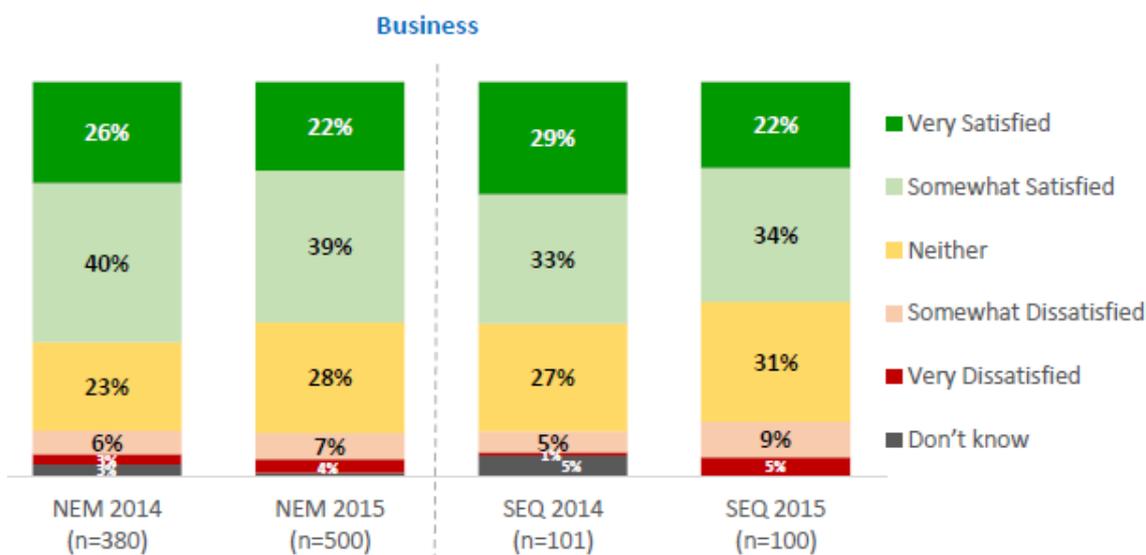
The overall quality of customer service for electricity and gas retailers was largely perceived as fairly to very good by residential and small business survey respondents, consistent with responses to a similar question last year.⁷³ Customers with special payment arrangements with their energy retailer were far more likely to consider that the quality of customer service was high, possibly because they have more opportunity to interact with their retailers.

Forty seven per cent of residential electricity customers (Figure 4.14) and 60 per cent of residential gas customers in South East Queensland rated the value for money provided by their retailer as 7 out of 10 or higher. These results remain slightly lower than the NEM average, potentially due to increases in electricity bills in Queensland.⁷⁴

⁷³ In 2014 customers were asked how they would rate the overall quality of service provided by their retailer. This year, they were specifically asked to rate the quality of their retailer's customer service.

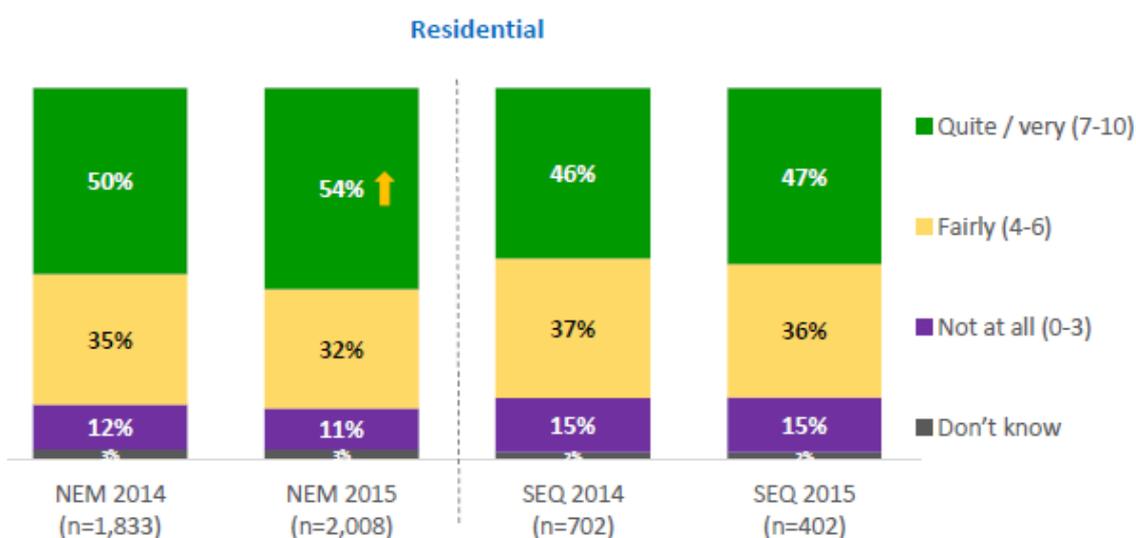
⁷⁴ See, for example, successive iterations of the AEMC's *Residential Electricity Price Trends* report, available on the AEMC's website.

Figure 4.13 Satisfaction with current electricity retailer – small business



Source: Newgate Research, Consumer Research for Nationwide Review of Competition in Retail Energy Markets, report for the AEMC, June 2015, p231. Survey question: How satisfied are you with your current electricity company? Customers surveyed: All.

Figure 4.14 Satisfaction with value for money – electricity



Source: Newgate Research, Consumer Research for Nationwide Review of Competition in Retail Energy Markets, report for the AEMC, June 2015, p232. Survey question: How would you rate the overall value for money of the products and services provided by your electricity company? Customers surveyed: All.

Fewer small business customers were very satisfied with the value for money provided by their retailers, however a similar proportion were either fairly or very satisfied.

Customers receiving concessions and those on hardship payment arrangements with their retailer were more likely to consider that their retailer provided a high overall value for money. Those currently experiencing difficulty paying their energy bill were less likely to consider that their retailer provided a high overall value for money.

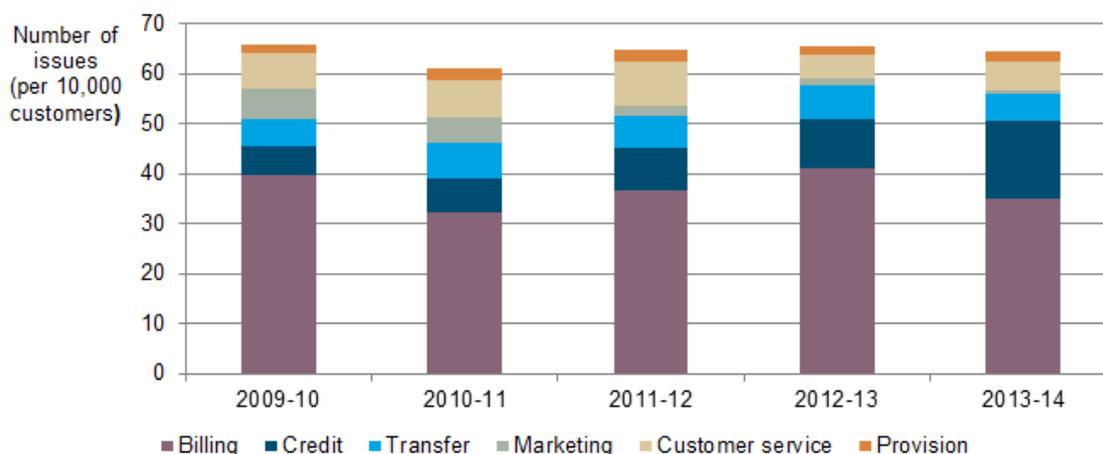
Queensland customers may be eligible for concessions or emergency relief. Pensioners, seniors and veterans can be eligible for concessions through Electricity Rebates, Reticulated Natural Gas Rebates or the Home Energy Emergency Assistance Scheme.

Concessions are also available to customers with medical issues through the Medical Cooling and Heating Electricity Concession Scheme and the Electricity Life Support Concession Scheme. These energy-related concession schemes are paid as a lump sum, irrespective of consumption levels and are discussed in Appendix F.

Complaints to the Ombudsman

The overall number of complaints made to the Energy & Water Ombudsman in Queensland about electricity retailers in South East Queensland was similar in 2013-14 to previous years (Figure 4.15).⁷⁵ Note that issues raised with the Ombudsman include referrals back to retailers, which are also captured in complaints to retailers described below. It is difficult to accurately compare the South East Queensland Ombudsman complaints figures to some of the other NEM jurisdictions. In some other jurisdictions, the number of issues raised has been recorded, rather than the number of complaints (there may be more than one issue per complaint).

Figure 4.15 Electricity complaints to the Ombudsman – number of complaints – South East Queensland

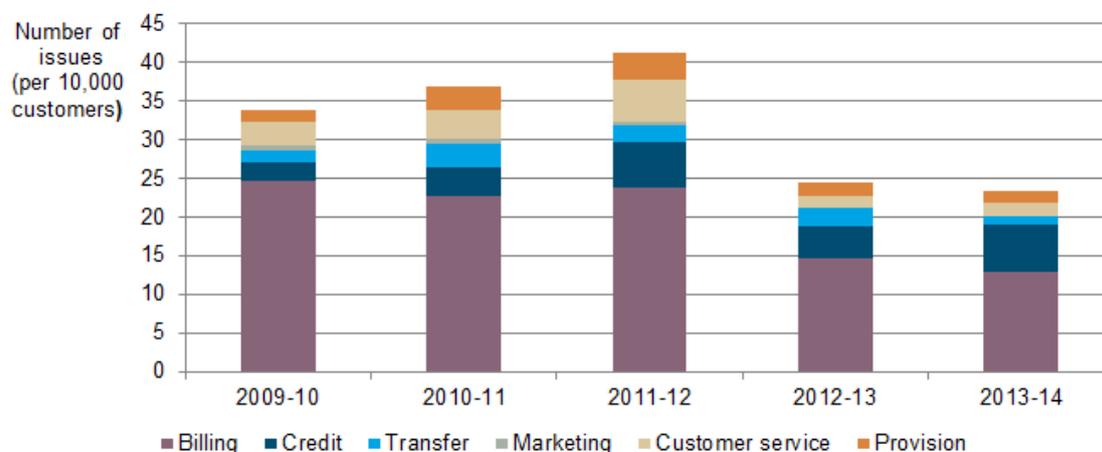


Source: Complaints data from the Ombudsman, Annual Report 2012-13, customer numbers from AEMO, AEMC analysis.

Historically, the number of retail gas issues raised with the Ombudsman has been much lower than for electricity, even when adjusted for market size. Gas complaints to the Ombudsman for the whole of Queensland decreased by around 40 per cent in 2012-13 and have also decreased slightly in 2013-14 (Figure 4.16). This is the lowest number of gas complaints to the Ombudsman in the last five years.

⁷⁵ Data on complaints to the Energy and Water Ombudsman in Queensland excludes cases which were out of jurisdiction or not complaints. Complaints regarding Ergon Energy have been removed.

Figure 4.16 Gas complaints to the Ombudsman – number of complaints – whole of Queensland



Source: Complaints data from the Ombudsman, Annual Report 2012-13, customer numbers from AEMO and ESAA Electricity Gas Australia reports, AEMC analysis.

The largest proportion of electricity and gas complaints relate to billing issues. This category includes high or disputed bills and a range of billing errors including in relation to bill estimations, fees, charges, tariffs and meter readings. Billing complaints and transfer complaints decreased for both electricity and gas in 2013-14. Marketing complaints decreased for electricity and remained low for gas. Customer service complaints increased for electricity and remained consistent for gas.

The largest increase in both electricity and gas complaints related to credit issues. This category of issues includes payment difficulties, credit rating and disconnection issues. This is consistent with an increase in credit related issues arising across NEM jurisdictions. The Ombudsman notes that this increase has been caused by the increasing cost of electricity in Queensland as well as some retailers taking a “tougher stance” on consumer debt.⁷⁶

It is important to be aware that many issues raised with the Ombudsman represent serious negative experiences for customers. For example, one customer that contacted the Ombudsman reported that he had been receiving bills for two separate meters, including one that he had arranged to be disconnected a year earlier.⁷⁷ When the customer disputed the bills he received a disconnection notice charging a further amount of \$250, after which he called the Ombudsman. The Ombudsman contacted the retailer and found that the distributor had not informed the retailer of the disconnection of the customer's meter, leading to the customer's overbilling by the retailer.⁷⁸ The bills were rectified resulting in crediting the customer's account for the full amount overbilled. Although ultimately a positive outcome for the customer, the issue would likely have taken a significant amount of the customer's time and caused the customer some stress.

⁷⁶ For more information see Energy and Water Ombudsman Queensland, *2013-2014 Annual Report*, p4.

⁷⁷ Ibid, p27.

⁷⁸ Note that the AEMC has considered similar issues in Australian Energy Market Commission, *Review of Electricity Customer Switching*, AEMC, April 2014, Sydney

Complaints to retailers

While complaints raised with the Ombudsman decreased slightly for retail electricity and retail gas in 2013-14, the number of complaints raised directly with retailers over the same period doubled.⁷⁹ The number of complaints raised with retailers also increased by around 50 per cent in 2012-13 relative to the previous year. The Queensland Competition Authority provided data on the number of complaints raised with retailers, whereas other jurisdictions provide data on the number of issues raised with retailers where one complaint may raise multiple issues.

Despite the significant increase in total complaints raised with electricity and gas retailers, marketing complaints increased at a far slower rate. This coincides with the big three retailers no longer engaging in door to door selling activity. Billing complaints increased significantly. These include complaints about prices, billing errors, payment arrangements, debt recovery practices and disconnections. The largest increase was in “other” complaints, which has now overtaken billing as the largest category of complaints. This category of complaints includes, among others, customer service issues.

4.5 Barriers to entry, exit and expansion

Our analysis of this indicator considers evidence of entry, exit or expansion and the findings of a retailer survey performed by K Lowe Consulting and Farrier Swier Consulting.⁸⁰ This survey was conducted in February 2015 and the views of retailers may have subsequently been influenced by the April 2015 decision to defer deregulation of the retail electricity market for 12 months.

There has been no new entry into the small customer segment of the South East Queensland electricity or gas retail markets since the 2014 competition review. Red Energy and Lumo Energy came under the common ownership of Snowy Hydro since the last review

4.5.1 Retail electricity market - Ease of entry and expansion

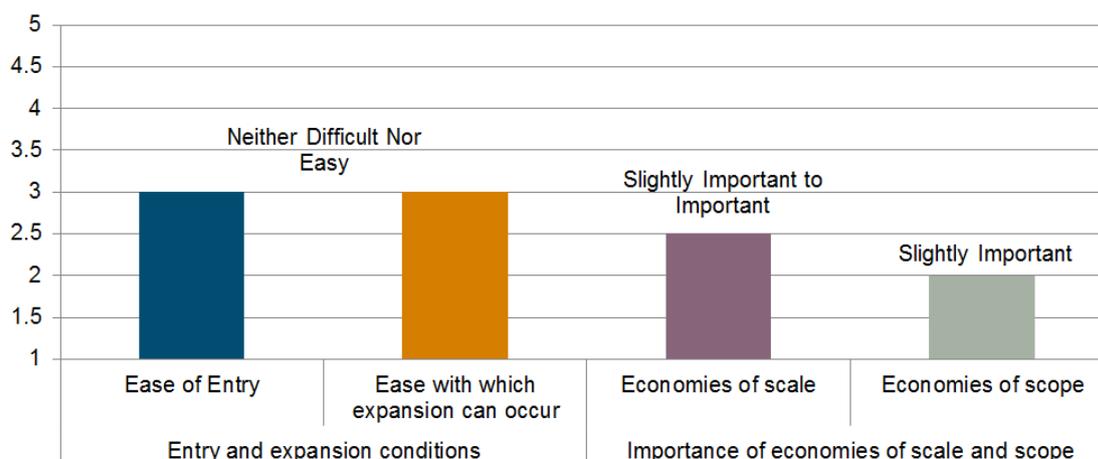
In the South East Queensland retail electricity market, the median rating from the retailer survey suggest that entry and expansion was not difficult, however views varied (Figure 4.17).⁸¹ A retailer’s ability to compete effectively due to economies of scale and scope had a median rating of slightly important to important and slightly important, respectively.

⁷⁹ Queensland Competition Authority, *Disconnections, Hardship and Complaints* reports 2008-9 to 2013-14.

⁸⁰ See Chapter 2 for further details of our methodology.

⁸¹ Respondents were also asked to rate the ease with which exit can occur in this market. The median rating in this case suggests that exit is neither difficult nor easy.

Figure 4.17 Median rating survey results - South East Queensland retail electricity market barriers



Source: K Lowe, AEMC Retail Competition Review: Retailer Surveys - Report for the AEMC, 2015

Respondents considered that there was little change in the state of competition in the past year as retail price regulation has not yet been removed and wholesale electricity purchase costs and spot price volatility at the Queensland reference node have impeded entry by exposing retailers to a greater level of risk.

No new retailer has entered the electricity market and 2015 survey responses reported that entry and expansion have become more difficult in the last few months due to the conditions in the Queensland wholesale electricity market. This is highlighted in the following survey response:

"Wholesale market conditions in Queensland are particularly volatile and present a higher barrier to entry than in other states and territories."

Respondents expressed different views on the cause of the recent change in conditions in the Queensland wholesale electricity market. One respondent claimed that the state-owned generators (Stanwell and CS Energy) "have been aggressively rebidding their generation and causing artificially high pool prices." Other respondents attributed the volatility to the ramp up in the Queensland LNG development, which resulted in relatively cheap gas being made available for gas-fired generation until the LNG plant came online.

Rebidding behaviour is discussed in the AEMC's bidding in good faith draft rule determination.⁸² While the NEM has maintained the same broad market design since commencement, an assessment undertaken for the AEMC suggests that the more widespread occurrence of late rebidding has been a recent phenomenon, occurring within the last two years and predominantly in Queensland and to some extent in South Australia.

Strategic late rebidding behaviour by generators has the potential to result in inefficient price outcomes if high price plant is dispatched ahead of lower price plant that does not have sufficient time to change output to meet its generation targets.

⁸² Australian Energy Market Commission, *Bidding in good faith, Draft Rule Determination*, AEMC, 16 April 2015, Sydney.

Spot prices which do not reflect underlying conditions of supply and demand will tend to reduce their effectiveness as consumption, production and investment signals and may affect the availability of price-reflective hedge products to the market. This may impact the efficiency of investment and result in higher costs being passed through to consumers.

Most respondents found that the increased wholesale spot price volatility and higher wholesale purchase costs are adversely affecting electricity retailers as:

- retailers have to provide greater levels of capital to AEMO to satisfy its prudential requirements and to other counterparties as credit support;
- retailers' hedging costs are increasing; and
- retail margins in Queensland are falling.

Impediments to entry and expansion

Respondents expressed conflicting views about the impediments to entry and expansion in this market, with larger established retailers stating that there are no impediments, while smaller retailers identified a number of impediments.

Respondents identified that the following factors affected entry and expansion in the retail electricity market in South East Queensland:

- **Retail price regulation:** The continued application of retail price regulation and the manner in which it has been applied by the Queensland Competition Authority (QCA). While the QCA's most recent decision was viewed more favourably by respondents than prior decisions, concerns were still raised about the way in which the QCA estimates wholesale prices.
- **Policy and regulatory risk:** Respondents cited a number of these risks, including that the NECF had not yet been implemented and there was a lack of clarity surrounding the new Queensland policy position on the introduction of NECF and the removal of retail price regulation. Another example cited was the decision by the previous Queensland Government to place a \$20 cap on early termination fees and not to make provision for the value of other inducements paid by the retailer to customers. Respondents also had a negative view of the suggested merger of two state-owned generators due to the additional market power this could confer to the merged entity.
- **Prudential arrangements and credit support:** These are required by AEMO, generators, financial intermediaries, the ASX and electricity networks. Smaller retailers noted that this has become more of an issue in Queensland recently due to increasing market volatility as it can "tie up working capital" and limit their ability to expand.
- **AEMO market system certification and registration:** One respondent cited the complexities associated with this as an impediment to enter the market.
- **Changes to the feed-in tariff scheme:** The new Queensland Government has a different policy on the solar feed-in-tariff to the previous government and has

committed to a target of one million solar rooftops in Queensland by 2020.⁸³ There was some uncertainty over the policy arrangements at the time of the survey and some respondents suggested the final design may affect barriers to entry and expansion, especially for smaller retailers.

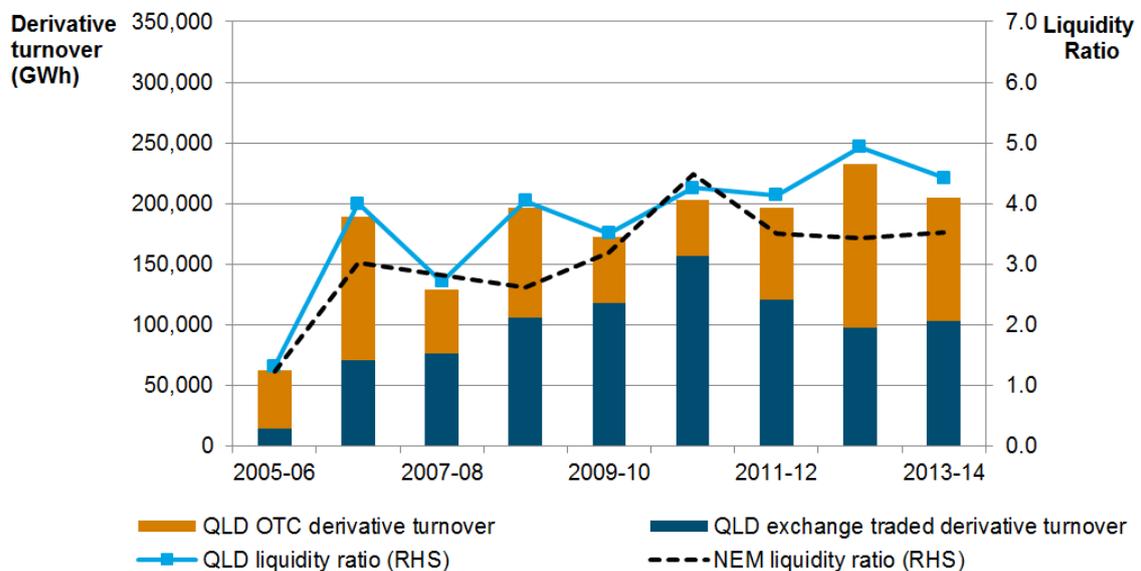
While the impediments outlined above are largely unchanged from those cited in the 2014 survey, it would appear that the conditions prevailing in the Queensland wholesale market are starting to have a more pronounced effect on the retail market than they have in the past.

Access to wholesale hedging products

Respondents raised concerns that the current conditions in the wholesale electricity market limited the ability of retailers to access competitively priced hedging instruments and that this impeding entry and expansion by small energy retailers. Smaller retailers were concerned about the trading terms offered by the state-owned generators, with one respondent describing the terms as “onerous and prohibitive for small retailers”.

The AEMC’s analysis of the degree of liquidity in OTC and exchange traded (futures) markets, found it has declined slightly from 2012-13 however remains higher than the average liquidity ratio in the NEM (Figure 4.18).

Figure 4.18 Annual electricity derivatives turnover and liquidity ratios



Source: AEMO National Electricity Forecasting Report, the Australian Financial Markets Association, Australian Financial Markets Report and ASX Energy. See Chapter 2.

Outlook for barriers in the next one to two years

Respondents stated that the ease with which entry and expansion occurs in the electricity market will depend on whether retail price regulation is removed and the introduction of NECF proceeds. If these changes occur, the ability to enter and expand

⁸³ Australian Labor Party, *A Solar Future – Powering Queensland’s renewable energy industries*, January 2015.

should improve. However, one respondent noted that provisions in the National Energy Retail Law (Queensland) Act (the Act) that prevent retailers from raising the price under their standing offers for one year after they establish these for 2015-16, will expose retailers to the risk of rising input costs.⁸⁴ Respondents stated that if these changes don't occur, respondents expect conditions to become more difficult.

Some retailers suggested this could be exacerbated if the Government decides to merge Stanwell and CS Energy and the current issues in the wholesale market are not addressed. That is, if retail price regulation continues to be applied retailers may be unable to pass changes to wholesale costs to customers.

The February 2015 survey responses indicate that:

- three retailers may consider entry into the electricity market in the next one to two years if retail price regulation is removed, but they have no firm plans to do so at this stage;
- four existing retailers in this electricity market plan to expand if retail price regulation is removed; and
- one retailer is considering exiting the electricity market given the conditions currently prevailing in the wholesale market.

A number of other retailers noted the potential for new entry to occur particularly by second tier retailers and for further consolidation to occur amongst second tier retailers in this and other markets.

One respondent predicted that retailers may exit the electricity market or reduce operations if conditions in the Queensland wholesale electricity market do not improve.

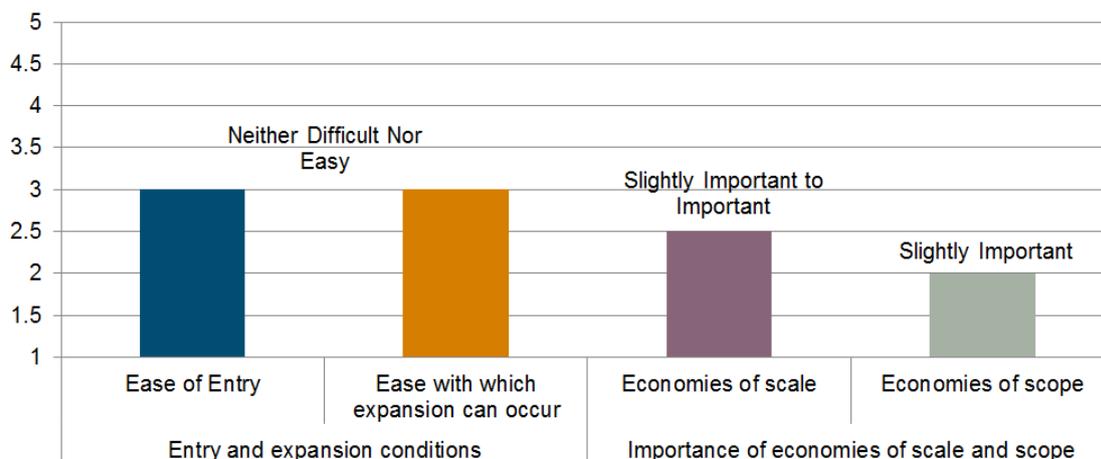
4.5.2 Gas retail market - Ease of entry and expansion

In the South East Queensland retail gas market, the survey also found that the median rating for entry and expansion into the gas market was not difficult, although views varied (Figure 4.19).⁸⁵ A retailer's ability to compete effectively due to economies of scale and scope had a median rating of between slightly important to important and slightly important, respectively. Respondents had conflicting views however in general considered that there has been little change in the state of competition in the past year. The most significant impediments to entry and expansion were the ability to access competitively priced gas, the small size of the market and the design of the Brisbane Short Term Trading Market and contract carriage model.

⁸⁴ One particular risk that respondents informed us about was that the Australian Energy Regulator is due to release its final decision on Energex' network charges four months after retailers have to lock in their standing offers for 2015-16. If the AER decides that network charges should increase then retailers will have to absorb these costs until the following year.

⁸⁵ Respondents were also asked to rate the ease with which exit can occur in this market. The median rating in this case suggests that exit is neither difficult nor easy.

Figure 4.19 Median rating survey results - South East Queensland retail gas market barriers



Source: K Lowe, AEMC Retail Competition Review: Retailer Surveys - Report for the AEMC, 2015

Respondents did not observe a change in entry and expansion in gas market conditions in Queensland over the last year.

Impediments to entry and expansion

Respondents expressed mixed views about the impediments to entry and expansion in this gas market, with larger retailers claiming there are no significant impediments, while other respondents perceived the following impediments:

- **Wholesale market conditions:** Access to, and the price of, gas given the tightening demand and supply conditions in the wholesale gas market and the proximity of the market to the LNG developments. Respondents noted this could make it more difficult for a new entrant retailer to secure a firm supply of gas.
- **Small customer base:** The small size of the customer base in Queensland.
- **Capacity on transmission pipeline:** Access to, and the price of, capacity on transmission pipelines.⁸⁶
- **Brisbane Short Term Trading Market:** Issues with the Brisbane Short Term Trading Market included:⁸⁷
 - the complexity of the market;
 - the inability to effectively hedge against all risks in the market;
 - AEMO’s prudential requirements; and
 - AEMO’s registration, accreditation and certification process.
- **Absence of NECF to date:** Legislation to apply the NECF in Queensland is scheduled to commence on 1 July 2015.

Respondents viewed that the first two of these factors were the most significant impediments to entry and expansion in Queensland, which is consistent with the

⁸⁶ The survey responses did not identify any specific concerns about access to particular pipelines.

⁸⁷ The same concerns were raised about the Sydney and Adelaide short term trading markets.

findings of the 2014 survey. Political and regulatory risk was also cited as an impediment, although no specific examples of this risk were identified in the survey responses.

Outlook for gas retail barriers in the next one to two years

Most respondents were silent on the outlook for entry and expansion conditions in the Queensland gas market over the next one to two years. However two respondents noted the potential for entry to become more difficult given the conditions prevailing in the wholesale gas market and the proximity of this market to the LNG developments.

The survey responses indicate that:

- one larger retailer may consider entry in the next one to two years, but made it clear that this is not a priority and just a potential opportunity; and
- one retailer may consider entry into new regional areas over the next one to two years, but has no firm plans to do so at this stage.

4.6 Independent rivalry

The AEMC's assessment of this competitive indicator has considered information on market concentration, customer switching between retailers of different tiers and product differentiation. See Chapter 2 for further details of our methodology.

4.6.1 Market concentration

Retail electricity market

As at February 2015, there are 11 retail electricity brands active in South East Queensland. The 11 brands are owned by 10 separate businesses. One of these retail brands serves only the business customers and not residential customers.⁸⁸

The big two retailers in South East Queensland, Origin and AGL, collectively have 84 per cent of the market share (June 2014; Figure 4.20). The big two and EnergyAustralia collectively have 91 per cent of the market share.⁸⁹

The market concentration as measured by the Herfindahl-Hirschman Index (HHI) is 3,895 (December 2014), down from 4,079 a year prior.⁹⁰ Only Tasmania and the ACT have a higher level of market concentration in the electricity retail market.⁹¹

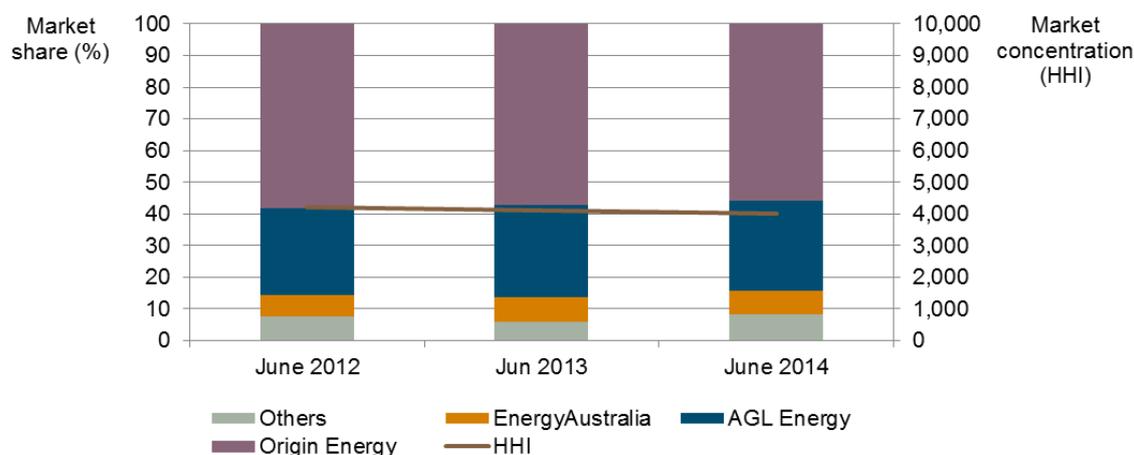
⁸⁸ See Appendix B for a complete list of the retail electricity brands serving small residential and/or business customers in Victoria, as well as which brands are under the same ownership.

⁸⁹ AEMC analysis based on AER data.

⁹⁰ The HHI is calculated by summing the squares of the market shares of each retailer, thereby giving more weight to larger retailers. The HHI ranges from 0 to 10,000. In an extremely competitive market the HHI approaches zero, and in a pure monopoly the HHI is 10,000. The ACCC in its Merger Guidelines notes that it is less likely to identify horizontal competition concerns when the post-merger HHI is less than 2,000.

⁹¹ AEMC analysis based on AEMO data.

Figure 4.20 Market shares in the South East Queensland retail electricity market



Source: Market share calculated from AER data; market concentration calculated from AEMO data; AEMC analysis

Retail gas market

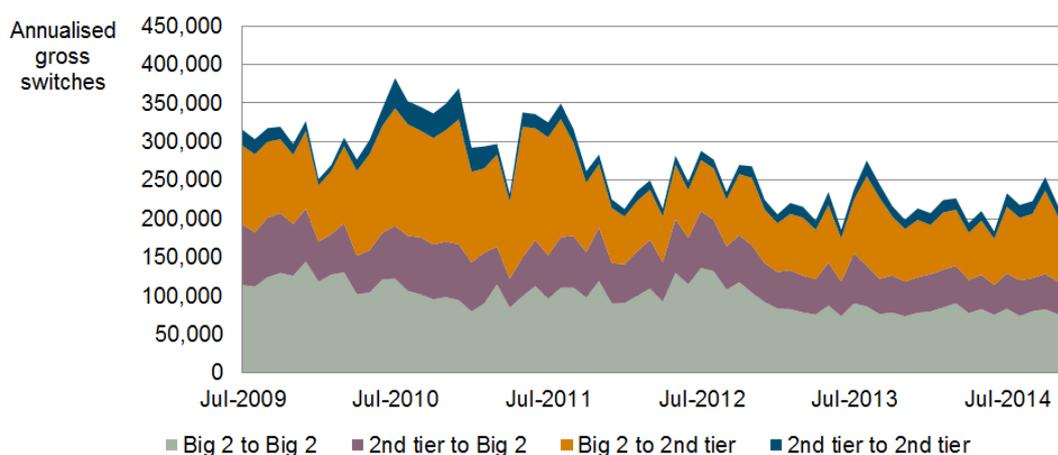
As at February 2015, there are only two retailers in the South East Queensland retail gas market, Origin and AGL. In Queensland, Origin have 56.5 per cent of the market and AGL have 43.5 per cent of the market (June 2014). In light of this, the market concentration (or HHI) is very high at 5,085, down from 5,162 a year prior. Only Tasmania and the ACT have a higher level of market concentration.⁹²

4.6.2 Switching between retailers of different tiers

Despite the relatively high market concentration in South East Queensland, there is evidence that customers are switching between electricity retailers, especially from the big two retailers Origin and AGL to EnergyAustralia or second tier retailers (Figure 4.21). Thirty seven per cent of electricity retailer switches in South East Queensland in December 2014 were from a big two retailer to EnergyAustralia or a second tier retailer. Twenty per cent of all electricity retailer switches were from a second tier retailer or EnergyAustralia to a big two retailer. Seven per cent were from one second tier retailer to another.

⁹² AEMC analysis based on AER data.

Figure 4.21 Electricity switching rates in South East Queensland



Source: AEMO data; AEMC analysis.

Note: The AEMC has considered EnergyAustralia as a second tier retailer in this specific analysis in South East Queensland only.

4.6.3 Product differentiation

Small customers in South East Queensland have access to a wide range of electricity and gas offers from multiple retailers.

The AEMC assessed the level of product differentiation in the retail electricity and gas markets in South East Queensland through information collected from the price comparator website operated by the QCA. The analysis considers the level of differentiation in flat rate market offers available to residential and small business customers on a particular day.⁹³ We did not consider two-rate or time of use offers as part of this analysis for reasons set out in Chapter 2, but note that retailers will differentiate offers through different tariff types. We also did not consider product differentiation in the small business segment of the market, as the QCA Price Comparator website does not cover small business offers. See Chapter 2 for a more detailed description of our methodology.

In addition to the differentiation features specific to certain market offers, retailers also differentiate their brand through service quality. Points of brand differentiation can include call centre operation hours, information provision, policies on hardship and complaints, policies on door knocking and cold calling, online account access and shop fronts for customers to visit and discuss their options.

Retail electricity market

For residential customer, the QCA price comparator website had 67 flat rate electricity market offers from nine different retailers available on 28 February 2015.⁹⁴ The offers may not have been available in all postcode areas.

⁹³ See Appendix G for a description of different types of offers.

⁹⁴ Refer to Appendix B for a complete list of retailers operating in the residential and small business segments in South East Queensland. Note that we did not find any offers from Sanctuary Energy on the Queensland Competition Authority website on the particular date the analysis was undertaken.

Multiple retailers offer discounts (conditional and/or unconditional) and GreenPower options. Other incentives include frequent flyer points and credits toward the final bill. Customers also had access to offers with or without a fixed term (Table 4.1).⁹⁵

In the third quarter of 2014, 190,697 customers (around 9 per cent) in Queensland had accredited GreenPower.⁹⁶

Table 4.1 Product differentiation in residential flat rate market offers for electricity

| | Range | Number of retailers |
|---------------------------------------|--------------|----------------------------|
| All offers | - | 9 |
| Unconditional discounts | 1-5% | 3 |
| Conditional discounts | 3-12% | 8 |
| Other incentives | Yes | 5 |
| GreenPower options | 10-100% | 6 |
| No fixed term / benefit period | Yes | 5 |
| Fixed term / benefit period | 1-3 years | 7 |

Source: QCA accessed on 28 February 2015; AEMC analysis

Retail gas market

There is less differentiation in the retail gas market in South East Queensland than in the retail electricity market, with just two retailers offering gas products.

For residential customers, the QCA website had eleven offers on 27 February 2015. Both conditional and unconditional discounts were available to residential customers, however the range of these discounts is smaller than in other states. There are offers available with and without termination fees. Only one retailer offered contracts without a fixed term. Retailers were also offering a small number of other incentives, including a once off credit on the first bill and credits on the bill if customers sign up online (Table 4.2).⁹⁷

⁹⁵ We do not have information on termination fees for electricity offers in South East Queensland.

⁹⁶ Industry & Investment NSW, *National GreenPower Accreditation Program Status Report, Quarter 3: 1 July to 30 September 2014*, p4.

⁹⁷ Termination fee refers to that single fee only and exclude other fees that may be incurred if a customer ends the contract during their fixed term (for example, disconnection fees are excluded).

Table 4.2 Product differentiation in residential market offers for gas

| | Range | Retailers |
|-------------------------|-----------|-----------|
| All offers | - | 2 |
| Unconditional discounts | 2-4% | 2 |
| Conditional discounts | 1-6% | 2 |
| Other incentives | Yes | 2 |
| No fixed term | Yes | 1 |
| Fixed term | 1-2 years | 2 |
| No termination fee | Yes | 2 |
| Termination fee | \$50-75 | 1 |

Source: QCA accessed on 27 February 2015, AEMC analysis

4.7 Competitive retail prices

Our analysis of this indicator considers the total annual expenditure of a representative residential customer on the electricity market offers available in South East Queensland.⁹⁸

We grouped flat tariff residential market offers available in South East Queensland on the 28 February 2015 by offer characteristics, on the expectation that the total annual expenditure for offers with similar characteristics will converge to reflect a narrower range than would be observed across all products. In South East Queensland, we grouped offers by GreenPower and contract term.⁹⁹ The analysis provides a ‘snapshot’ of prices for a representative customer on a selection of offers available on a certain day, and should therefore be interpreted with caution. See Chapter 2 for a full description of our methodology.

Figure 4.22 shows the range of total annual expenditure for each residential market offer available in South East Queensland on 28 February 2015. The total annual expenditure reflects all unconditional and conditional discounts and price incentives. We have distinguished between big three retailers (which includes second tier retailers owned by a big three retailer, such as Powerdirect) and second tier retailers.

The total annual expenditure available across all offers, including all GreenPower options, had a total range of \$420. The range decreased to \$360 when we considered only offers with some GreenPower. The corresponding range for offers with no GreenPower was \$250. The range for offers with no GreenPower and no fixed term

⁹⁸ See Appendix H for definition of the representative consumer in each jurisdiction.

⁹⁹ In other states, we have also grouped offers by distribution network and whether an offer is market or standing, however, there is only one distribution network in South East Queensland (Energyex), and Queensland Competition Authority does not cover standing offers, as the price is still regulated. In regards to standing offers, data from the AER indicates approximately 70 per cent of electricity customers are on market offers in South East Queensland.

contract was also \$250. The range for offers with no GreenPower and a fixed term contract decreased further to \$150. That is, the range decreased as the offer definition became narrower.

This analysis shows that a representative customer comparing electricity flat rate market offers without GreenPower through the QCA price comparator website could find an offer that is as much as \$250 a year cheaper than the most expensive. The level of possible savings differs with energy consumption, discount eligibility and type of contract. Retail customers have diverse energy demands. An energy offer that is good value for one customer may be expensive for another customer with a different consumption level or different needs and circumstances. It is important that customers have access to clear information about what they are signing up to and that customers consider their personal circumstances when choosing a plan.

The most expensive offers in this particular analysis are offers that include some GreenPower, and the cheapest offers have zero GreenPower. GreenPower is an underlying cost driver and these differences would be expected where prices are reflective of underlying costs.

For offers without GreenPower in South East Queensland, there were a number of second tiers and big three retailer market offers in the lower end of the price range, with a median price towards the lower end. This could indicate price rivalry between retailers. It could also indicate additional differences in the underlying costs of offers within each category above.

At the time of this analysis, there were fewer retailers with residential market offers in South East Queensland relative to Victoria, New South Wales and South Australia.

The total estimated expenditure cannot be compared across jurisdictions as different consumption levels were used to reflect a 'representative' customer in each state. Also, different distribution networks will result in different underlying costs. Further, the way the discounts and price incentives have been taken into account in the total annual expenditure differs between the different jurisdictions as a result of data availability.

Figure 4.22 Total annual expenditure for a representative customer on flat rate market offers



Source: QCA accessed on 28 February 2015, AEMC analysis

5 Regional Queensland

Box 5.1 Key findings

- Competition in regional Queensland is not effective in the electricity retail market with one retailer – Ergon Energy Retail - supplying most small electricity customers. Electricity prices remain regulated and Ergon Energy Retail is not permitted to offer market contracts, so customers are limited in their ability to shop around for different energy plans.
- The main impediment to electricity retail competition in regional Queensland is the means by which the Uniform Tariff Policy is implemented. This subsidy is provided to Ergon Energy Retail and is not available to other retailers, making it difficult for other retailers to enter the market at a competitive price. Higher electricity wholesale purchase costs and spot price volatility at the Queensland reference node were also cited by some retailers as a deterring entry and expansion.
- Three retailers indicated they may enter the electricity market if the current policy settings change.
- Competition in the retail gas market is also not effective. Gas customers in Toowoomba and Oakey have access to two competing gas retailers, while customers in Wide Bay-Burnett, Gladstone and Rockhampton only have access to one retailer. A material improvement in the level of competition is not expected due to the small size of the retail market and tightening demand and supply conditions in the wholesale gas market.
- On 1 July 2015, the National Energy Customer Framework is legislated to take effect in Queensland with some state-specific variations.

5.1 Overview

The Commission's assessment is that competition in the retail electricity and gas markets is not effective in regional Queensland, based on the evidence gathered on the competitive market indicators. Our overall assessment is consistent with the 2014 retail competition review.

Effective electricity retail competition is yet to develop in regional Queensland due to the means by which the Uniform Tariff Policy is implemented. This subsidy is provided to Ergon Energy Retail and is not available to other retailers, making it difficult for other retailers to enter the market at a competitive price. Less than one per cent of small customers are supplied with electricity by a retailer other than Ergon Energy Retail.

The Queensland Government is seeking advice from the Queensland Productivity Commission on options to improve retail competition in regional Queensland.

The findings for regional Queensland against our competitive market indicators are summarised below:

Customer activity: In practice small customers currently have no choice of retailer. Small electricity customers can choose between types of regulated tariffs. There is some choice between gas retailer and plans, varying by area.

Customer outcomes: Electricity complaints to the Ombudsman increased, off a very low base, to around 12 per 10,000 customers driven by credit issues. Conversely, issues raised with Ergon Energy Retail and reported to the Queensland Competition Authority reduced significantly. Gas complaints cannot be distinguished between regional Queensland and South East Queensland.

Barriers to entry, exit and expansion: Electricity retailers are not able to profitably enter the retail market due to the means by which the Uniform Tariff Policy is implemented. Entry in the retail gas market is impeded by its small size and wholesale market conditions. The retailer survey indicated three retailers may enter the electricity market if the current policy settings change and one retailer may enter the gas market.

Independent rivalry: There is no effective rivalry in the electricity retail market, with less than one per cent of small regional customers in Queensland being supplied with electricity on a market contract by a retailer other than Ergon Energy Retail. Rivalry in the gas market is limited, with few retailers and offers available to customers. Four offers were available from two retailers in Toowoomba and Oakey and two offers available from one retailer in Gladstone, Rockhampton and Bundaberg.

5.2 Market characteristics

The Uniform Tariff Policy in regional Queensland provides a subsidy to Ergon Energy Retail. The way in which the subsidy is implemented makes it difficult for other retailers to enter the market at a competitive price. Less than one per cent of small customers are supplied with electricity by a retailer other than Ergon Energy Retail.¹⁰⁰ There are two retailers supplying gas in regional Queensland.

There are significant differences in the geographical area and customer density of South East Queensland and regional Queensland. There are around 710,000 small electricity customers in regional Queensland, compared to 1.4 million in South East Queensland.¹⁰¹ Regional Queensland's electricity customers are spread out over a much larger area, with Energex covering 25,000 square kilometres compared to Ergon Energy's distribution network which covers over one million square kilometres.¹⁰²

Full retail contestability was introduced in regional Queensland for small electricity and gas customers in July 2007. Regulated prices were retained for electricity but not for gas customers.

The Queensland Government is committed to the Uniform Tariff Policy in which Ergon Energy Retail receives a subsidy to supply customers in regional Queensland at the same regulated prices as in South East Queensland.

¹⁰⁰ Queensland Competition Authority, *Uniform Tariff Policy & Regional Retail Electricity Price Regulation*, April 2014, p10.

¹⁰¹ Australian Energy Regulator, *Service Providers & Assets*, accessed 30 May 2015, for Ergon and Energex: <http://www.aer.gov.au/node/4771> and <http://www.aer.gov.au/node/1107>.

¹⁰² Queensland Competition Authority, *Review of Small Customer Gas Pricing and Competition in Queensland*, final report, November 2008, p25.

Effective retail competition is yet to develop in regional Queensland due to the way the Uniform Tariff Policy is implemented, where a subsidy is provided to Ergon Energy Retail and is not available to other retailers.

In late 2014, Queensland adopted the NECF which is scheduled to commence in Queensland on 1 July 2015. Under the NECF, all retailers in regional Queensland are required to offer a standard retail contract at the regulated price.

We have used the Energex and Ergon Energy electricity distribution network areas to define the areas of South East Queensland and regional Queensland, respectively. However, this definition is less applicable in the gas market. While Toowoomba and Oakey fall into the Ergon Energy distribution network, gas customers in these areas are supplied from the same pipeline as customers in South East Queensland (the Roma to Brisbane pipeline). Consequently, gas customers in Toowoomba and Oakey have access to the same offers as customers in South East Queensland.

The only areas in regional Queensland where reticulated gas is currently available are Gladstone, Rockhampton, the Wide Bay-Burnett region (Bundaberg, Maryborough and Hervey Bay), Toowoomba and Oakey.¹⁰³

5.3 Customer activity in the market

Electricity customers in regional Queensland are technically contestable,¹⁰⁴ however, in practice, most small customers currently have no choice of retailer because the government-owned incumbent, Ergon Energy Retail, is the only retailer accepting customers in their area.

Further, Ergon Energy Retail is not permitted to offer market contracts so customers in regional Queensland are limited in their ability to shop around for different energy plans. For this reason, customer research was not conducted in regional Queensland.

The only choice available for most small regional electricity customers is in regards to the type of regulated tariff that they are on. For residential customers these fall into three categories:

- general supply tariffs, where usage is charged at a flat rate;
- time of use tariffs, where different prices apply depending on the time of day that electricity is used; and
- economy tariffs, which can be used to connect hot water systems, pool pumps and other controlled load appliances.

¹⁰³ Reticulated liquefied petroleum gas (LPG) is also available in some areas, including parts of Rockhampton, Townsville and Cairns. Competition in the LPG market is outside the scope of this review. There are two small distribution networks in Roma and Dalby which are owned and operated by their respective local governments. These customers do not have a choice of their retailer.

¹⁰⁴ A small number of customers in regional Queensland are excluded through legislation from being able to choose their electricity retailer, including small customers in 33 isolated communities and in Mount Isa, Cloncurry (who are not connected to the main grid) and Weipa (who are supplied by a private network). Customers who buy their electricity through an on-supplier are also unable to choose their retailer.

To change household tariffs, customers are asked to complete an application so that Ergon Energy Retail can check whether the household is eligible and whether they can offer that tariff in the customer's area.¹⁰⁵

Businesses have similar options to residential customers, but have an additional option of a 'demand tariff' where a demand charge is added based on measuring the maximum amount of electricity used at any point during the billing period.

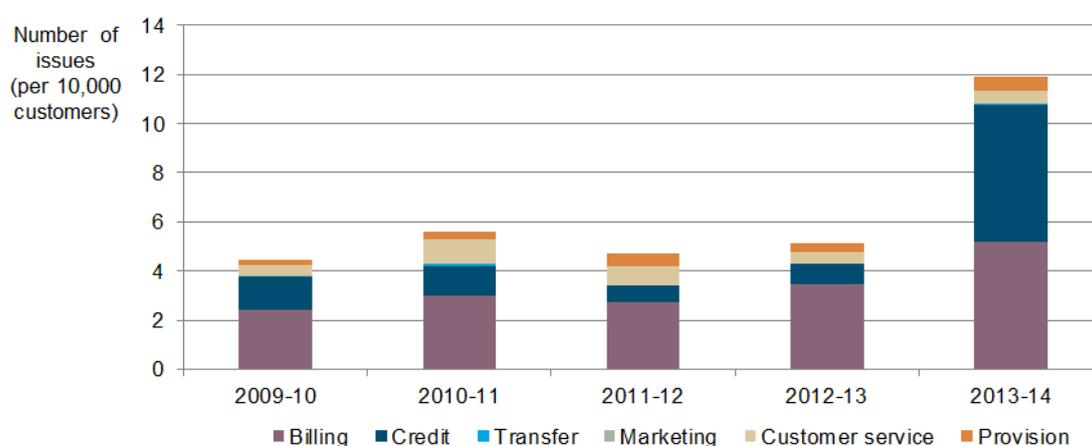
5.4 Customer outcomes

As an indicator of customer outcomes in the regional Queensland electricity market, we looked at trends in complaints made to Ergon Energy Retail. No customer research was undertaken in regional Queensland.

5.4.1 Complaints to the Ombudsman

The overwhelming majority of customers in regional Queensland are serviced by Ergon Energy. The number of retail electricity issues raised by Ergon Energy Retail customers with the Electricity and Water Ombudsman Queensland in 2013-14 increased by 124 per cent against complaint levels from the previous year, though this increase was from a much lower base than other jurisdictions and remain low relative to other NEM jurisdictions (Figure 5.1).¹⁰⁶

Figure 5.1 Electricity complaints to the Ombudsman – regional Queensland



Source: Complaints data from the Ombudsman, customer numbers from AEMO, AEMC analysis.

Credit cases accounted for 80 per cent of the increase in complaints. This may be attributed to a change in Ergon Energy Retail's business practice, in which it shifted from a relatively lenient approach to non-payment of bills in 2012-13 (i.e. not disconnecting customer who repeatedly failed to pay their bills) to a more standardised approach to retail debt recovery in 2013-14.¹⁰⁷

¹⁰⁵ Ergon website, available at: <http://www.ergon.com.au>.

¹⁰⁶ Data on complaints to Energy and Water Ombudsman in Queensland excludes cases which were out of jurisdiction or not complaints.

¹⁰⁷ Energy and Water Ombudsman in Queensland, *Annual Report 2013-14*, September 2014, p23.

Credit issues relate to debt collection, disconnection or service restriction and payment difficulties. This year, credit issues have increased by over 600 per cent and are now the largest proportion of issues raised. This may be partly attributed to the change in Ergon Energy Retail's business practice detailed above. Credit issues now make up almost half of all retail electricity complaints regarding Ergon Energy Retail. There has been a general increase in credit complaints across the NEM.

Billing, customer service and other issues increased moderately between 2012-13 and 2013-14. In 2012-13 the billing issues were the largest proportion of issues raised with the Ombudsman regarding Ergon Energy Retail.

5.4.2 Complaints to retailers

While issues raised with the Ombudsman increased significantly in 2013-14, issues raised with Ergon Energy Retail and reported to the Queensland Competition Authority reduced by around 40 per cent. The most significant reduction occurred in billing issues, which include complaints about prices, billing errors, payment arrangements, debt recovery practices and disconnections. Marketing issues raised almost doubled, but remained very low in overall terms, with just 44 such issues raised over the year. There was a much smaller reduction in "other" issues, which, among others, includes customer service issues.

Lower complaint numbers could be indicative of higher satisfaction than in other NEM jurisdictions. However, other reasons for fewer complaints could also include:

- there is limited or no marketing and no switching between retailers since there are no other retailers currently in the market and Ergon Energy Retail cannot offer market contracts. Consequently there are no complaints relating to these issues; and
- customers in regional Queensland may have a higher level of disengagement than in other jurisdictions since electricity customers have no alternative retailer.

For gas, it is not possible to distinguish between complaints received by customers in regional Queensland and those received in South East Queensland. This issue is therefore addressed in section 4.4.2.

5.5 Barriers to entry, exit and expansion

Our analysis of this indicator considers evidence of entry, exit and expansion and the findings of a retailer survey performed by K Lowe Consulting and Farrier Swier Consulting.¹⁰⁸

Since the 2014 retail competition review, there has been no new entry into the small customer segment of the regional Queensland retail electricity or gas markets.

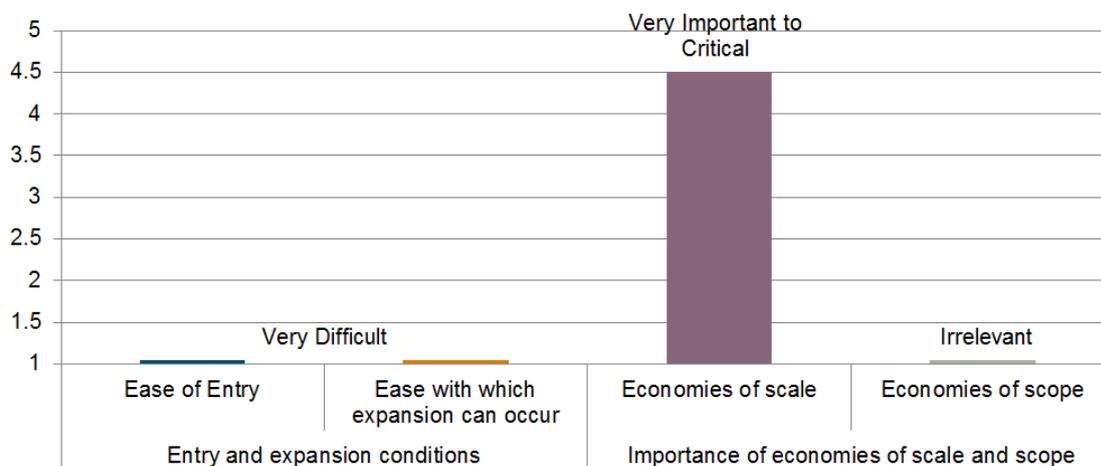
5.5.1 Retail electricity market - Ease of entry and expansion

In the regional Queensland retail electricity market, the median rating from the retailer survey suggests that entry and expansion into the market was very difficult (Figure 5.2).

¹⁰⁸ See Chapter 2 for discussion of our methodology.

The median ratings from the retailer survey also suggested that economies of scale were very important to critical, while economies of scope were irrelevant.

Figure 5.2 Median rating survey results - Regional Queensland retail electricity market



Source: K Lowe, AEMC Retail Competition Retailer Survey - Report for the AEMC, 2015

Retail respondents considered that there have been no significant changes in the past year. The way in which the Uniform Tariff Policy is implemented in regional Queensland remains the most significant impediment to competition emerging in this electricity market.

Under this policy, all customers of the same class in Queensland must have access to the same ‘notified’ (regulated) price. The notified price is currently based on the cost of serving a customer in South East Queensland. The notified price is therefore based on Energex’s network, rather than equivalent measures for Ergon Energy's distribution network, which are much higher than for Energex. To account for the difference between Ergon Energy Retail's costs and the revenues from selling electricity at the notified price, the Queensland government pays Ergon Energy Retail a subsidy.

A subsidy is also paid by the Queensland Government to Origin Energy so that around 5,700 small customers in Goondiwindi, Texas and Inglewood areas of southern Queensland, who are supplied by Origin via Essential Energy's New South Wales distribution network, also pay the same price as other Queenslanders.¹⁰⁹

Impediments to entry and expansion

Retail respondents considered that the way the Uniform Tariff Policy is implemented remained the most significant impediment to competition emerging in Regional Queensland because:

- the subsidy provided to Ergon Energy Retail to maintain the Uniform Tariff Policy is not available to other retailers; and

¹⁰⁹ Queensland Competition Authority, *Final Advice - Uniform Tariff Policy & Regional Retail Electricity Price Regulation*, April 2014, p26.

- retailers are unable to supply electricity to regional areas of Queensland at the same price as in South East Queensland because network costs are higher in regional areas.

Some retail respondents also considered the following factors impediments to entry in the regional Queensland electricity market:

- **Wholesale electricity supply arrangements:** The potential for the wholesale electricity supply arrangements between Ergon Energy Retail and the state-owned generators, CS Energy and Stanwell, to confer an unfair advantage on Ergon Energy Retail in terms of managing its hedging risk. Wholesale market volatility and access to competitively priced hedging products were also highlighted as impediments.
- **Size and geography:** The size, geographic dispersion and, in some cases, geographic isolation of customers in regional Queensland can make customers costly to serve. The importance of this factor is reflected in the relatively high rating for importance of economies of scale in this market.

Similar to some other NEM jurisdictions, prudential arrangements were also raised as impediments (see section 3.2.2).

Outlook for barriers in the next one to two years

Retail respondents did not expect any changes in the level of competition until the Uniform Tariff Policy is removed or changes are made to the way in which the subsidy is paid, such as paying the subsidy to the distribution network rather than the final retailer.

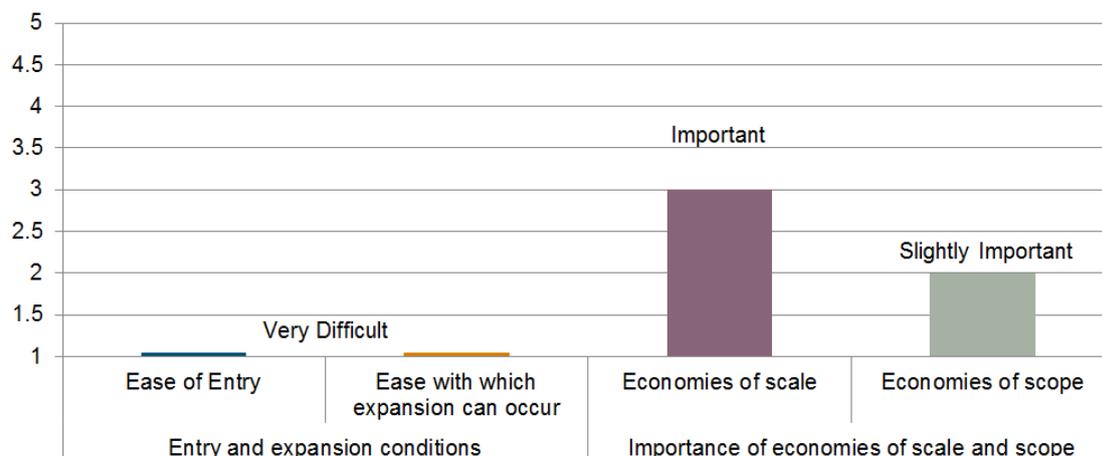
The survey responses indicate that three retailers may consider entering the market if the current policy settings change.

5.5.2 Retail gas market - Ease of entry and expansion

In the Queensland retail gas market, the median rating from the retailer survey suggests that entry and expansion were very difficult (Figure 5.3). The most significant impediments to entry and expansion were the ability to access competitively priced gas and the small size and geographic dispersion of the market. The median rating considered that economies of scale were important and economies of scope were slightly important.

Retail respondents had conflicting views but, in general, considered there had been little change in the state of competition in the past year.

Figure 5.3 Median rating survey results - Regional Queensland retail gas market



Source: K Lowe, AEMC Retail Competition Retailer Survey - Report for the AEMC, 2015

5.5.3 Impediments to entry and expansion

Retail respondents stated that entry and expansion in regional Queensland can be impeded by the following factors:

- **Geographic coverage of gas networks:** There is limited geographic coverage of pipeline networks in rural and regional areas.
- **Size of customer base:** The size of the customer base may be too small in some areas to warrant entry, particularly given the additional costs associated with negotiating access to pipeline and the fixed cost nature of gas transportation services.
- **Pipeline capacity:** The capacity of some regional pipelines has been fully contracted to a single retailer and the cost of expanding capacity is unlikely to be justified for the relatively small customer base.
- **High customer acquisition costs:** There are higher customer acquisition costs due to the small size of the customer base. This is coupled with the fact that retailers are unable to attain economies of scope by retaining both gas and electricity in these areas, due to the impact of the Uniform Tariff Policy in the electricity market.
- **Wholesale market conditions:** The tightening of demand and supply conditions in the wholesale gas market, triggered by LNG developments, is reportedly making it “extremely difficult” for retailers to secure competitively priced gas in Queensland. These conditions are not expected to ease in the short to medium term, and will therefore continue to act as a barrier to entry in regional Queensland.

The perceived impediments outlined above are largely the same as those identified in the 2014 survey.¹¹⁰

¹¹⁰ K Lowe Consulting and Farrier Swier Consulting, *AEMC 2014 Retail Competition Review: Retailer Interviews*, report to the AEMC, June 2014, p85.

Outlook for retail gas barriers in the next one to two years

Most retail respondents did not respond to questions regarding the outlook for entry and expansion conditions in the next one to two years. However, two retail respondents noted the potential for entry to become more difficult in the next one to two years given the price conditions prevailing in the wholesale gas market.

The survey also revealed that one retailer may enter into regional areas over the next one to two years, but has no firm plans to do so at this stage.

5.6 Independent rivalry

As noted above, the way in which the Uniform Tariff Policy is given effect impedes retailers other than Ergon Energy Retail from entering the retail electricity market and earning a reasonable return. Consequently there is very limited rivalry in the retail electricity market for small customers.

The number of gas offers and retailers differs between locations. The four retail gas offers available from two retailers in the South East Queensland region are also available in Toowoomba and Oakey. Two retail gas offers were available from one retailer in Gladstone, Rockhampton and Bundaberg. The range of gas offer features is greater in Toowoomba and Oakey and includes offers with conditional and unconditional discounts, contracts with fixed terms or no fixed term, exit fees and no exit fees (section 4.6.3).

6 New South Wales

Box 6.1 Key findings

- Competition continues to be effective in the NSW retail electricity market, delivering customers a range of energy plans from 20 different retail brands. Four new retail brands entered the retail electricity market since the 2014 retail competition review, Blue NRG, Commander Power & Gas, CovaU and Powershop.
- Competition is effective though less intense in the retail gas market in most of NSW, with six retail brands competing. One new retailer entered the retail gas market since the 2014 retail competition review, CovaU. In some regional areas there is just one gas retailer operating.
- Since the NSW Government removed retail electricity price regulation in July 2014 new firm entry and higher switching rates were observed. The full impact of this policy change is likely to become more evident over the long term as it will take time for retailers and customers to respond to new opportunities.
- Customers continue to actively shop around for an energy deal, with around a third of customers actively investigating energy options in the last 12 months. Electricity retailer switching fell from mid-2013, but increased again towards the end of 2014.
- The big three retailers hold 94 per cent of the retail electricity market share, however second tier retailers are growing and market concentration has fallen since the 2014 retail competition review. Most retailers considered that entry and expansion in the retail electricity market is not difficult, and that the removal of price regulation has lowered barriers to entry and expansion.
- Most customers surveyed were satisfied with their electricity and gas retailers, the value for money and the customer service provided. Seventy four per cent of residential customers were satisfied with their electricity retailer. However some customers have negative experiences; six per cent of residential customers were dissatisfied with their retailer and one per cent of small customers made a complaint to the Ombudsman. Common issues behind complaints include high bills, errors in billing, disconnection and debt collection.
- Many customers can save by shopping around to find a retailer and energy plan that best meets their needs. AEMC analysis shows that a representative customer comparing electricity flat rate market offers through the Energy Made Easy website could find an offer that is as much as \$720 a year cheaper than the most expensive. The level of possible savings differs with distribution network, energy consumption, discount eligibility and type of contract.
- Retail customers have diverse energy demands. An energy offer that is good

value for one customer may be expensive for another customer with a different consumption level or different needs and circumstances. It is important that customers have access to clear information about what they are signing up to and that customers consider their personal circumstances when choosing a plan.

- Customers should be supported and encouraged to regularly shop around through initiatives like the NSW Government's "The Power's in Your Hands" campaign. Some of the observed increases in customer activity may be due to this campaign.

6.1 Overview

The Commission's assessment is that competition in retail electricity and gas markets continues to be effective in NSW, based on the evidence gathered on the five competitive market indicators. Competition is effective to a lesser extent for gas in certain regional areas. We observed several changes in retail markets in the last year, however our overall assessment is consistent with the 2014 retail competition review.

Competition in NSW continues to deliver customers a wide range of choices of retailers and plans and result in relatively high levels of customer satisfaction. New firms have entered and existing firms have expanded.

The NSW Government removed retail price regulation on 1 July 2014. There is some evidence this has already contributed to the development of competition, for example, by encouraging firm entry. The full impact of this policy change is likely to become more evident over the long term as it will take time for retailers and customers to respond to new opportunities.

Competition in NSW continues to evolve and mature and is expected to deliver further benefits for customers over time. There were several changes in the markets since the 2014 retail competition review:

- Market concentration remained relatively high but continued to fall as second tier firms gained market share.
- Three new firms entered the retail electricity market, one existing retailer launched a new brand and two retail brands came under the ownership of one business. One new firm entered the retail gas market.
- The proportion of customers satisfied with their electricity retailer rose to 74 per cent, from 69 per cent in 2014. There was also an increase in positive ratings of the value for money provided by electricity retailers.
- Customer reports of direct approaches by retailers were down, coinciding with a reduction in door to door marketing.
- Issues raised during 2013-14 with the Ombudsman increased by 37 per cent for gas and 3 per cent for electricity compared with 2012-13 levels. Complaints to retailers during 2013-14 increased by 102 per cent on 2012-13 levels.

- AGL acquired Macquarie Generation in September 2014, however retailer views varied on whether this had increased or decreased access to wholesale hedging products.

While the Commission's overall assessment is that competition is effective, some findings highlighted groups of customers with negative experiences. Six per cent of residential customers were not satisfied with their retailer and nine per cent were not confident to shop for a better energy deal. One per cent of small customers made a complaint to the Ombudsman. We note that data on complaints to retailers is not reported consistently year to year and needs to be interpreted with caution. There are opportunities for retailers who can offer better deals and better services to dissatisfied and neutral customers. Governments have a role to play in building the confidence of customers to shop around.

Confidence to choose the right energy option was significantly higher for customers that had investigated energy options in the last 12 months. This suggests that encouraging customers to shop around for an energy deal may improve overall confidence and generate savings for customers. Across the NEM, customers who used price comparator websites to investigate their options were significantly more aware of the choices available to them and also more confident they could find the right information to help choose an energy plan.

Many customers who shop around may be able to make significant savings. AEMC analysis shows that a representative customer on the Essential Energy distribution network comparing electricity flat rate market offers through the Energy Made Easy website could find an offer that is as much as \$720 a year cheaper than the most expensive. The level of possible savings differs with distribution network, energy consumption, discount eligibility and type of contract. The corresponding potential savings on the Ausgrid and Endeavour Energy distribution networks are \$520 and \$550, respectively.

Retail customers have diverse energy demands. An energy offer that is good value for one customer may be expensive for another customer with a different consumption level or different needs and circumstances. It is important that customers have access to clear information about what they are signing up to and that customers consider their personal circumstances when choosing a plan.

The findings for NSW against our competitive market indicators are summarised below.

Customer activity: The majority of NSW customers are aware of their ability to choose retailers and are confident of choosing the right energy option. Around one third of customers had actively investigated energy options in the last 12 months. Electricity retailer switching fell from mid-2013 but increased towards the end of 2014.

Customer outcomes: Most NSW customers were satisfied with their retailer in general and the value for money and customer service provided. However, some customers have negative experiences, as highlighted by the number of complaints raised with Ombudsmen and retailers.

Barriers to entry, exit and expansion: The NSW markets continued to attract new entrants. Retailers considered the removal of price regulation had lowered barriers to

entry and expansion. The median responses to the retailer survey suggest entry and expansion in gas or electricity markets is not difficult, though views varied.

Independent rivalry: There is evidence of rivalry between the 20 retail electricity brands operating in NSW despite high market concentration. The big three retailers hold 94 per cent of the market share, however second tier retailers are growing and market concentration has fallen. Rivalry in the gas market is weaker, particularly in regional areas.

Competitive retail prices: Based on analysis for a representative electricity customer, different offers would result in a range of total expenditure and customers should shop around to get the best deal for their needs. Effective discount levels can be a useful indicator of total expenditure, however there are some offers with low discount levels that would be cheaper for a representative customer than offers with higher discount levels.

6.2 Market characteristics

In the first quarter of 2015, there were 20 electricity retail brands (16 retail electricity businesses) supplying approximately 3.29 million electricity customers, and six gas retail brands (five gas retail businesses) supplying approximately 1.24 million customers in NSW.¹¹¹

Full retail competition was introduced for retail electricity and gas markets in NSW in 2002 when new retailers were permitted to enter the market but price regulation was retained.

The NSW Government removed retail price regulation for electricity on 1 July 2014. Gas prices continue to be subject to multi-year pricing agreements (known as Voluntary Pricing Arrangements) between incumbent retailers and the Independent Pricing and Regulatory Tribunal.

NSW adopted the National Energy Customer Framework (NECF) in July 2013 with a number of variations. Under the NECF, all electricity and gas retailers are required to offer a standard contract with regulated terms and conditions. Retailers can also offer market contracts that include minimum terms and conditions prescribed by law. The prices of standard and market electricity contracts are determined by retailers and monitored by the Independent Pricing and Regulatory Tribunal.

6.3 Customer activity in the market

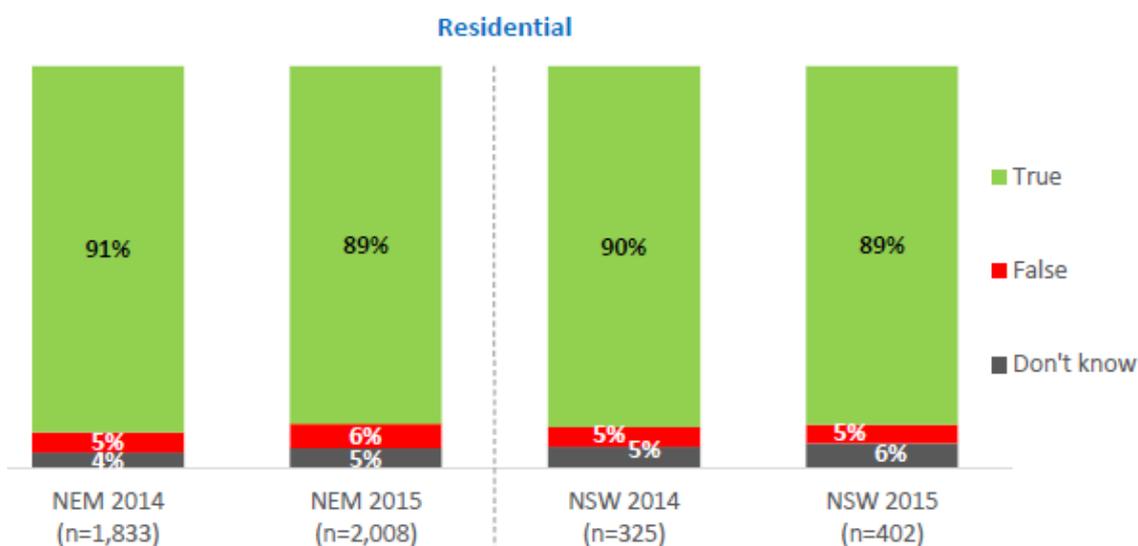
Our analysis of this indicator considers the findings of a customer survey performed by Newgate Research and data provided to the AEMC on customer switching. See Chapter 2 for further discussion on our methodology.

6.3.1 Customer awareness

There was a high level of awareness among survey respondents that they have a choice between different retailers and plans in the market (Figure 6.1).

¹¹¹ Australian Energy Regulator, NSW – small customers, accessed 30 May 2015: <https://www.aer.gov.au/node/23455>

Figure 6.1 Consumers in your state can choose their electricity retailer?



Source: Newgate Research, Consumer Research for Nationwide Review of Competition in Retail Energy Markets, June 2015, p143. Survey question: Do you think it is true or false that consumers in your state can choose their electricity company. Customers surveyed: All.

Around 89 per cent of residential electricity customers and 88 per cent of residential gas customers in NSW were aware they could choose their retailer. These results are similar to those for participants surveyed in 2014. Ninety five per cent of small business customers were aware they could choose their electricity retailer, up from 86 per cent in 2014.

Regional customers are increasingly aware that they can choose between different energy retailers. The proportion of regional customers that were aware they have a choice of electricity retailer has increased significantly from 83 per cent in 2014 to 91 per cent in 2015. The proportion of regional customers that were aware they have a choice of gas retailer has also increased significantly from 67 per cent in 2014 to 83 per cent in 2015.

A similar proportion of customers were aware they could choose from a range of different electricity plans. Sixteen per cent of residential gas customers did not know if they could choose from a range of gas plans.

Most customers in NSW are not aware of the full extent of the choice of electricity retailers available in NSW. A total of 19 retail electricity brands and six retail gas brands were available in urban NSW at the time of the survey.¹¹² On average, urban customers estimated there were five electricity and gas retailers they could choose from.

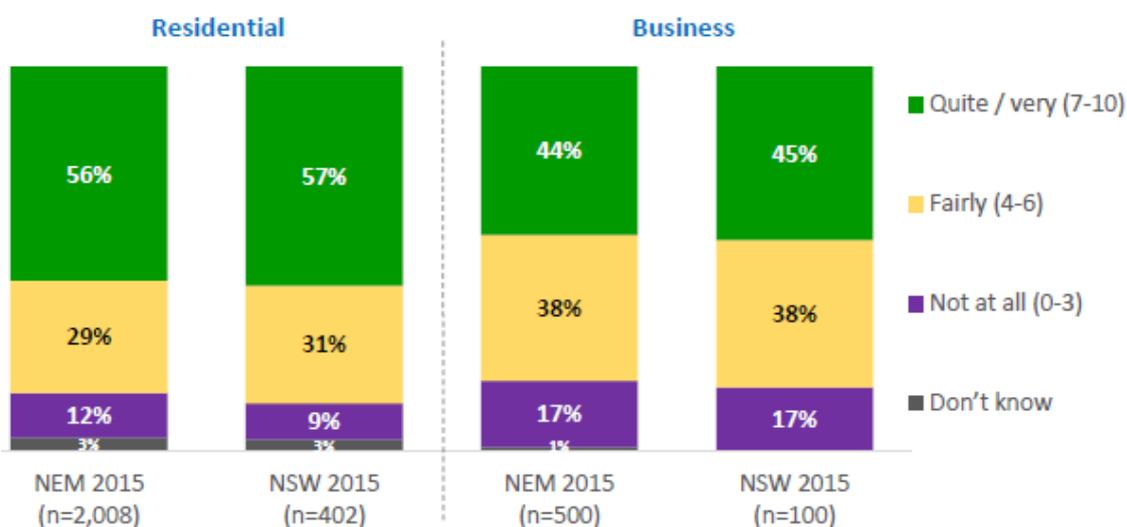
Customer confidence

Confidence levels in NSW were comparable with the NEM average, with survey responses suggesting that 57 per cent of residential customers and 45 per cent of small business customers were very confident that they can choose an energy option that is right for their household or business (Figure 6.2).

¹¹² Some of these brands are owned by the same company, with a total of 16 retail electricity businesses and five retail gas businesses operating in NSW at the time of the survey.

Confidence levels were significantly higher for those customers who were between 18 and 34 years of age, or customers on special payment or hardship arrangements with their retailer.

Figure 6.2 Confidence in choosing the right energy option



Source: Newgate Research, Consumer Research for Nationwide Review of Competition in Retail Energy Markets, June 2015, p147. Survey question: How confident are you that you can choose an energy offer that is right for your household or business? Customers surveyed: All.

Those customers who had actively investigated energy offers in the past 12 months were significantly more likely to be confident that they could find the right information and choose a suitable energy offer. These survey results suggest that customers may feel more confident about switching plan or retailer if they are encouraged to take the first step of investigating the options available to them.

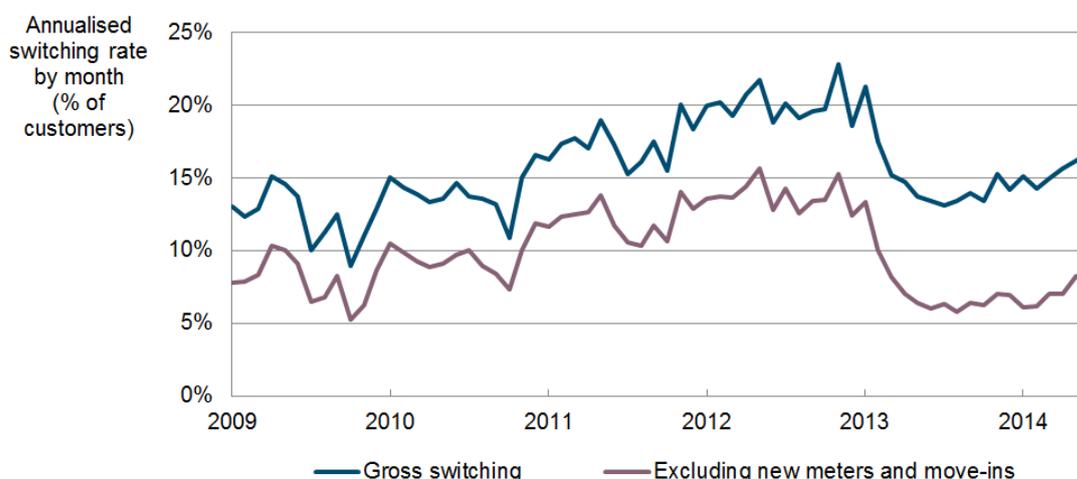
6.3.2 Customers investigating offers and switching

Around a third of NSW customers reported they had actively investigated energy options to switch to in the past 12 months, which is similar to the NEM average. For residential customers this is an increase of six percentage points and for small business customers this is a decrease of nine percentage points.

While more customers may be investigating offers, slightly fewer customers have switched retailer based on AEMO data and survey responses. AEMO data on customer transfers between retailers for electricity in Figure 6.3 illustrates that customer switching rates fell in late 2013 but steadily increased throughout 2014. This data should be interpreted with caution, as discussed in Chapter 2, but can provide an indication of the level of customer activity in a market.

For electricity, the average gross switching rate during 2014 was just over 14 per cent. This is a reduction from 2013 when the average gross switching was 18 per cent. By the end of 2014 the rate of switching had returned to over 16 per cent per annum trending to a continued increase. This upturn may be associated with the removal of retail price regulation in July 2014 and could be attributable to the NSW Government's associated education campaign, "the Power's in Your Hands", which ran from late September to early December 2014 (Box 3.4).

Figure 6.3 Electricity customer switching rates - NSW

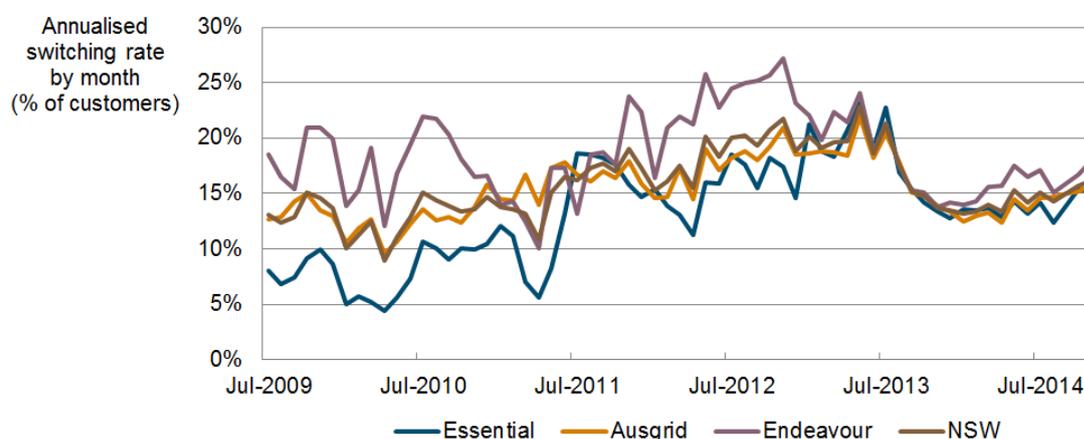


Source: AEMO data, AEMC analysis.

Switching rates for electricity in NSW have historically been lower in regional areas, represented by Essential Energy’s distribution network area. However, switching rates in regional areas have more closely matched those in urban areas since the three formerly integrated distribution and retail businesses were separated and the retail businesses sold in March 2011 (Figure 6.4).

Throughout 2014 switching rates for the Endeavour Energy distribution area have been slightly higher than the NSW average.

Figure 6.4 Electricity switching rates by distribution network area



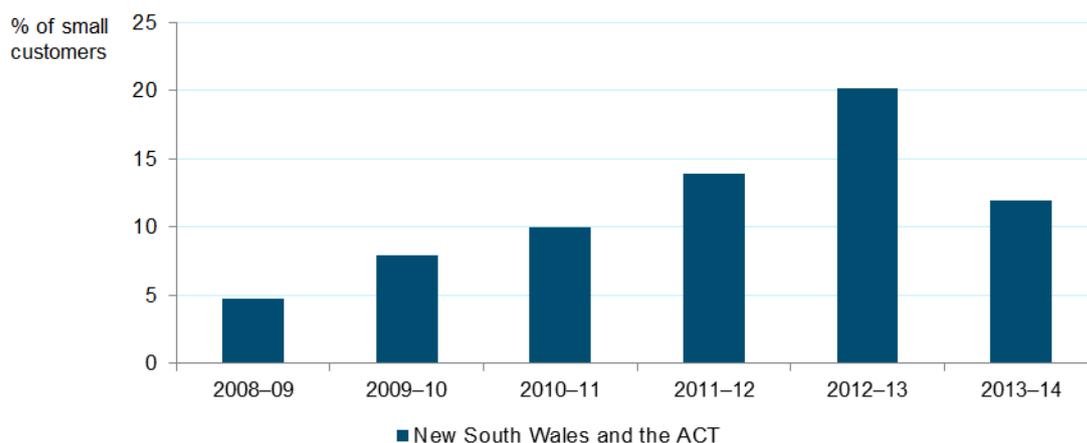
Source: AEMO data, AEMC analysis.

Gas switching broadly mirrors electricity switching with the rate increasing steadily up until 2012-13 and dropping in 2014 (Figure 6.5). The average gas switching rate in NSW and ACT for 2013-14 was 12 per cent.¹¹³

This excludes switching to AGL as a result of AGL's purchase of Australian Power and Gas.

¹¹³ The Australian Energy Regulator’s gas switching data is aggregated for NSW and the ACT.

Figure 6.5 Gas customer switching rate – NSW and the ACT



Source: AER data, AEMC analysis

Switching data for electricity and gas does not capture customers who have chosen to switch plans with their existing retailer. Data provided by retailers for the 2014 retail competition review suggested that up to 30 per cent of a retailer's customers changed their electricity plan with that retailer in 2013. For gas, up to 24 per cent of a retailer's customers changed plans with their retailer. Retailers that responded to the 2015 retailer survey rated switching between a retailer's different offers as moderate, whereas switching between retailers was moderate to high in NSW.

Declines in retailer direct marketing may be leading to less switching

Similar to the AEMO switching data, the Newgate survey found there was a decline in reported switching rates between the 2014 and 2015 surveys. Consistent with the NEM average, around half of all customers surveyed in NSW reported they had switched gas retailer or plan in the last five years. For both electricity and gas, this is a decrease of approximately 10 percentage points. That decrease is also consistent with the NEM average.

In the 2015 Newgate customer survey, fewer customers reported direct approaches by retailers in the previous 12 months compared to the 2014 survey. Thirty nine per cent of residential NSW customers had been approached by at least one retailer in the past 12 months, down from 49 per cent in 2014. Customers were also approached by fewer retailers. An average of 2.3 retailers approached customers surveyed in 2015 compared with 2.9 retailers for customers surveyed in 2014.

Price remains the key driver for switching behaviour

Customer surveys suggest obtaining a better price was the key reason for switching energy retailer or plan in all NEM jurisdictions. In NSW, 75 per cent of residential and 68 per cent of small business customers stated that they switched electricity retailer or plan for price related reasons. Similarly for gas, more than half of the NSW residents surveyed who had switched gas retailer or plan did so for price reasons.¹¹⁴

¹¹⁴ Unlike the results for electricity, results for gas only include responses from residents as the sample size was too small for business customers.

Residential customers on average considered that they would need to save \$190 annually to seriously consider changing electricity retailer or plan. They would on average consider switching gas retailer or plan for annual savings of \$150. Small business electricity customers considered they would on average need to save \$700 in order to seriously consider switching.

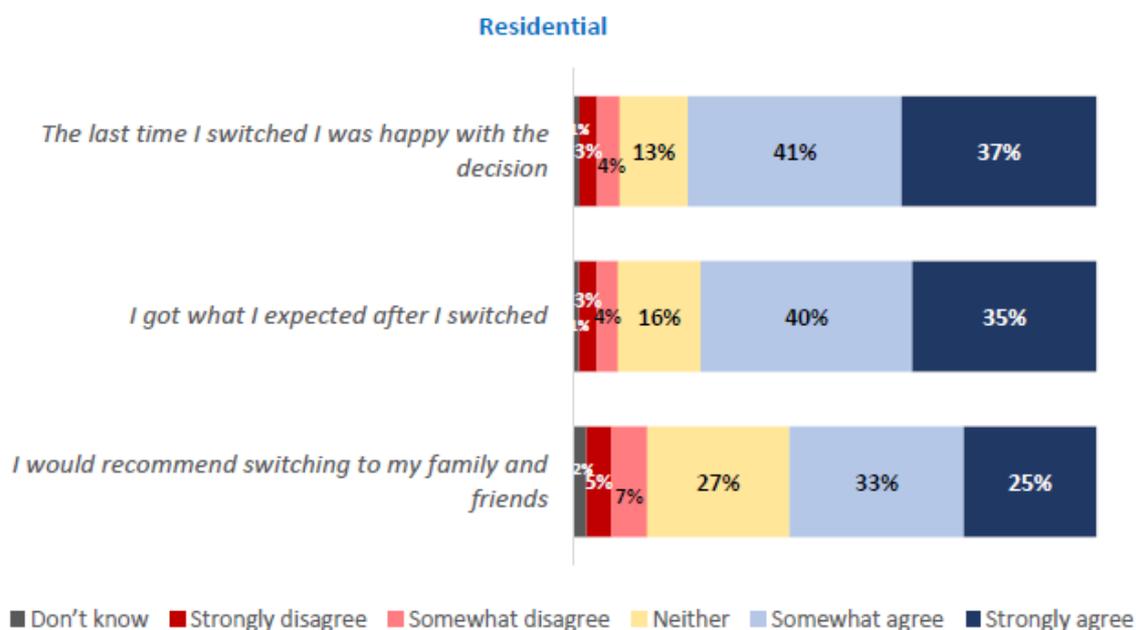
A distant second to obtaining a better electricity price was moving house, with seven per cent of respondents citing this as their key reason for switching electricity retailer or plan. This was down from 12 per cent in 2014. For gas, the second most common reason for switching retailer or plan was to have gas and electricity with the same retailer with 12 per cent of residents citing this reason, similar to 2014.

Customers who had switched energy retailer or plan considered the most important factors in making the decision were the discounts offered, the estimated total bill amount, the price per kWh (or MJ for gas) and whether that price can change.

Most customers are satisfied with their decision to switch retailer or plan

The vast majority of customers who switched electricity or gas retailer or plan were happy with their decision to switch and got what they expected (Figure 6.6). Seventy eight per cent of residential and 82 per cent of small business customers who switched electricity retailer or plan were happy with the decision to switch. Eighty seven per cent of residential customers who switched their gas retailer or plan were happy with the decision.

Figure 6.6 Satisfaction with decision to switch electricity retailer or plan



Source: Newgate Research, Consumer Research for Nationwide Review of Competition in Retail Energy Markets, report for the AEMC, June 2015, p162. Survey question: To what extent do you agree or disagree with the following? Customers surveyed: Respondents who had switched electricity company or plan.

Around three quarters of residential and small business electricity customers and 86 per cent of residential gas customers considered that they got what they expected after they switched.

Just over half of residential customers considered they would recommend to family and friends switching electricity or gas retailer or plan. Just under half of small business customers would recommend switching. This is not considered unusual for low customer involvement products such as energy.

The main reasons for satisfaction with switching decisions related to savings and cheaper prices, followed by improved customer service. Almost 80 per cent of residential and small business electricity customers listed their main reasons for being satisfied with switching as being related to savings or price. Gas customers were also satisfied with their switching decisions for price related reasons.

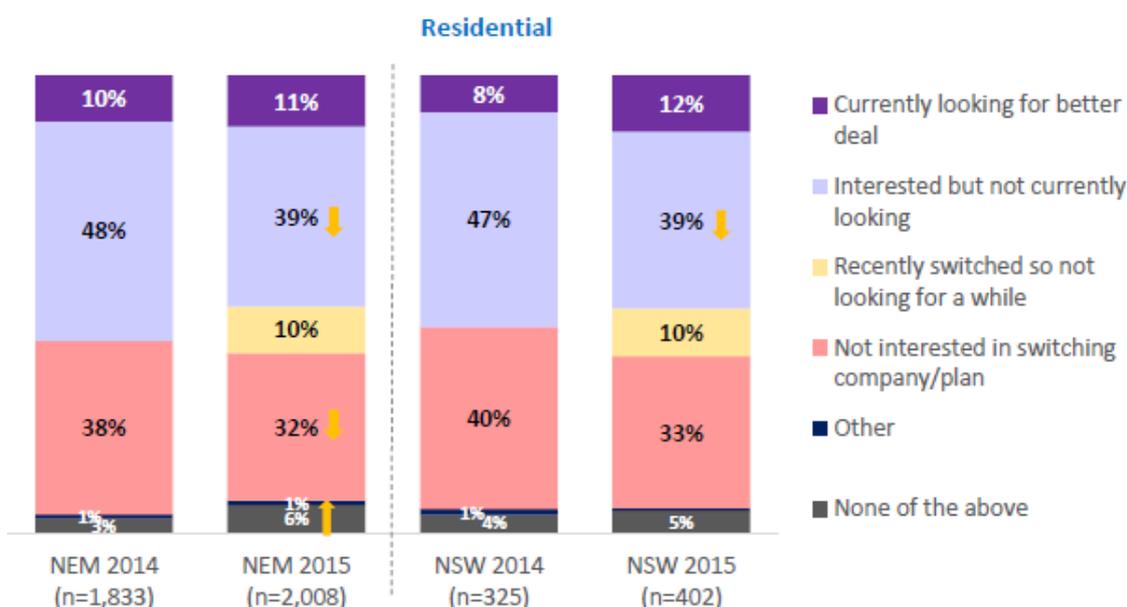
Interest in looking for a better deal

Just over half of NSW customers surveyed are either currently looking for a better energy deal or are interested in doing so (Figure 6.7 and Figure 6.8).

Compared with 2014, more residential customers are currently looking for a better energy deal. Fewer residential and business customers are interested in looking for a better energy deal compared to the 2014 survey, but some of this change may be explained by a change in the response options available for this question to include those not looking for a better deal because they recently switched. Ten per cent of residential and 16 per cent of business customers fall into this category.

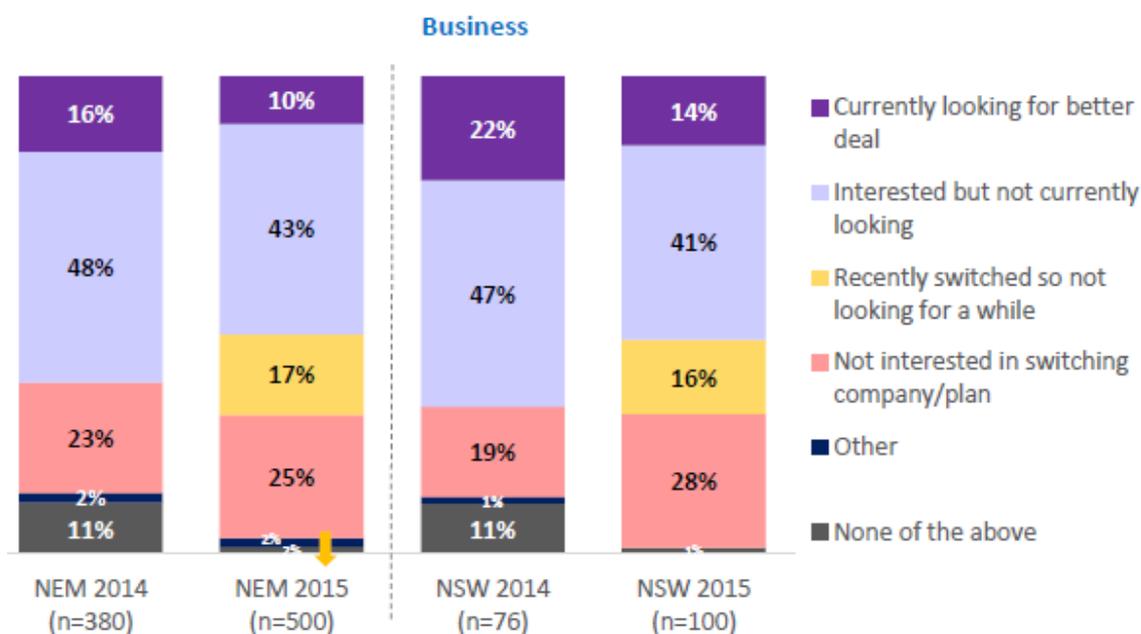
Around one third of customers surveyed in NSW said they were not interested in switching company or plan, which is slightly below the NEM average.

Figure 6.7 Interest in looking for a better energy deal - residential



Source: Newgate Research, Consumer Research for Nationwide Review of Competition in Retail Energy Markets, June 2015, p169. Survey question: Which of the above statements is most applicable to your household? Customers surveyed: All.

Figure 6.8 Interest in looking for a better energy deal – small business



Source: Newgate Research, Consumer Research for Nationwide Review of Competition in Retail Energy Markets, June 2015, p169. Survey question: Which of the above statements is most applicable to your business? Customers surveyed: All.

Barriers to switching

The reasons most commonly cited by residential customers for not investigated offers or switching were satisfaction with their current retailer, "no particular reason", that it would be too much hassle or that there is little difference between options (Figure 6.9).

Small business customers were more likely to have not investigated switching due to being too busy or not having enough time (Figure 6.10).

Just under a third of residents who had investigated their options did not switch retailer or plan. Of these, most did not switch because they did not consider there was value in doing so, such as a cheaper price or better discount.

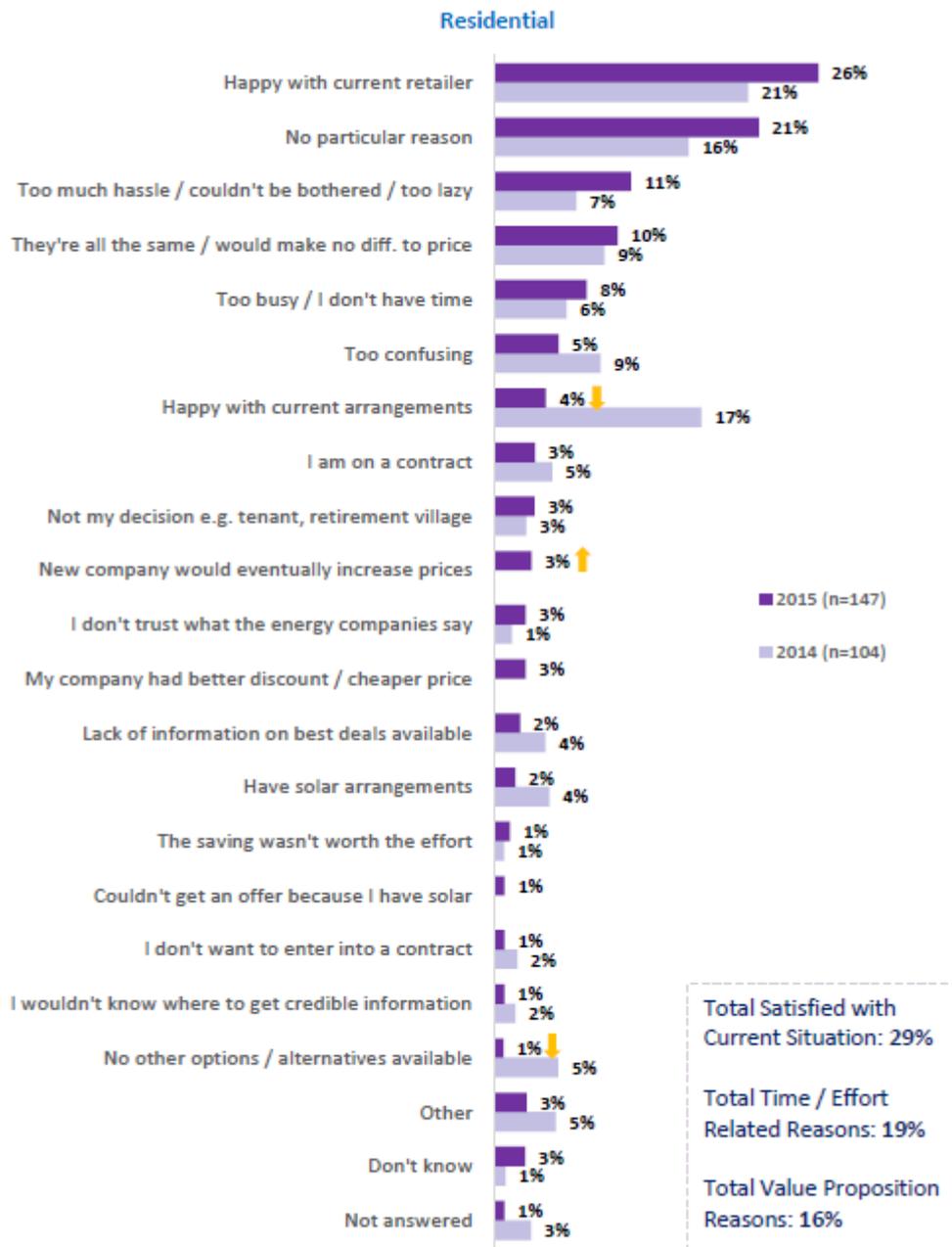
Customers may be more inclined to shop around for a better deal if they were aware of the savings that could be available for them. Around 33 per cent of small customers are on a standing offer in NSW.¹¹⁵ The AEMC's 2014 Residential Electricity Price Trends report found that residential customers in NSW may have saved around \$165 or eight per cent off their total annual bills by switching from the regulated standing offer to the representative market offer in 2013-14.¹¹⁶ This is close to the average amount of \$190 per annum respondents considered they would need to save in order to seriously consider switching, but does not capture the full savings which could be available. In particular, the amount does not capture the discount that may be available for

¹¹⁵ Australian Energy Regulator, Retail Statistics, accessed 30 May 2015: <http://www.aer.gov.au/Industry-information/industry-statistics/retail>

¹¹⁶ Actual savings will depend on individual circumstances and more savings can be achieved if consumers shop around and choose the best market offer to meet their needs. Australian Energy Market Commission, 2014 Residential Electricity Price Trends Report, AEMC, 5 December 2014, Sydney.

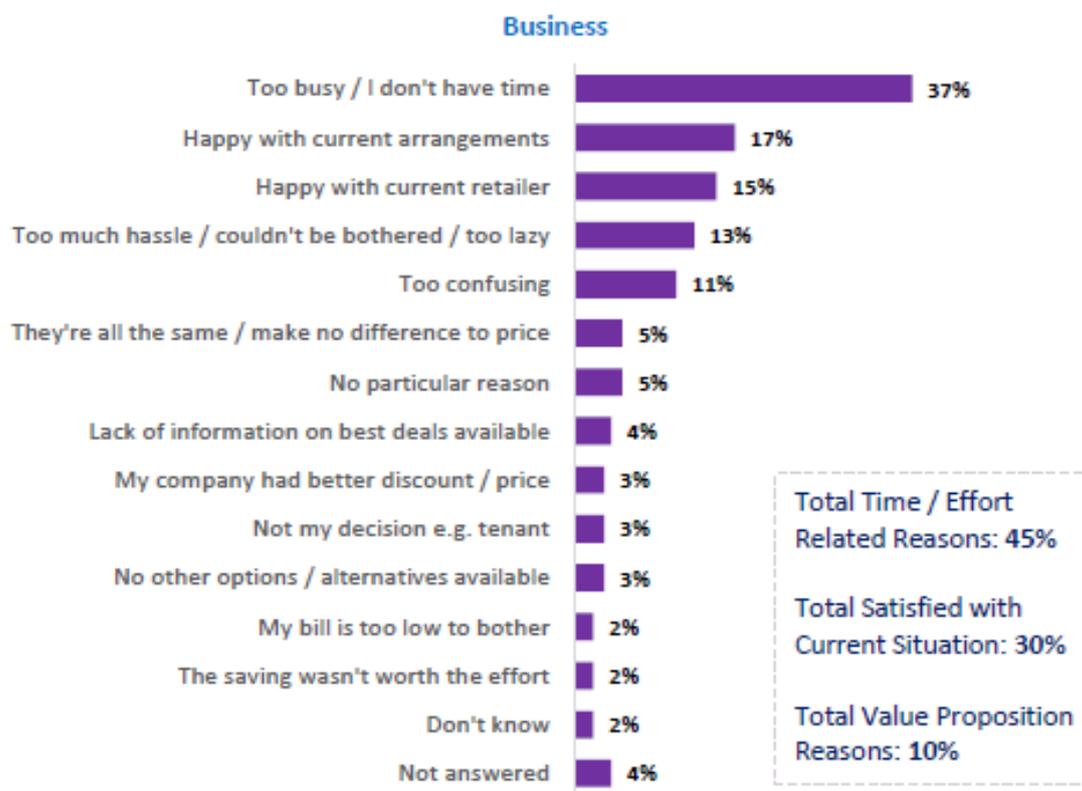
switching to the lowest advertised market offer or by negotiating with retailers to obtain a lower price.

Figure 6.9 Reasons for not investigating or switching – residential



Source: Newgate Research, Consumer Research for Nationwide Review of Competition in Retail Energy Markets, June 2015, p167. Survey question: Are there any reasons you haven't investigated different options or why you haven't changed your energy company or plan in the last 12 months? Customers surveyed: Respondents who had not investigated offers and options or switched in the past 12 months.

Figure 6.10 Reasons for not investigating or switching – business



Source: Newgate Research, Consumer Research for Nationwide Review of Competition in Retail Energy Markets, June 2015, p168. Survey question: Are there any reasons you haven't investigated different options or why you haven't changed your energy company or plan in the last 12 months? Customers surveyed: Respondents who had not investigated offers and options or switched in the past 12 months.

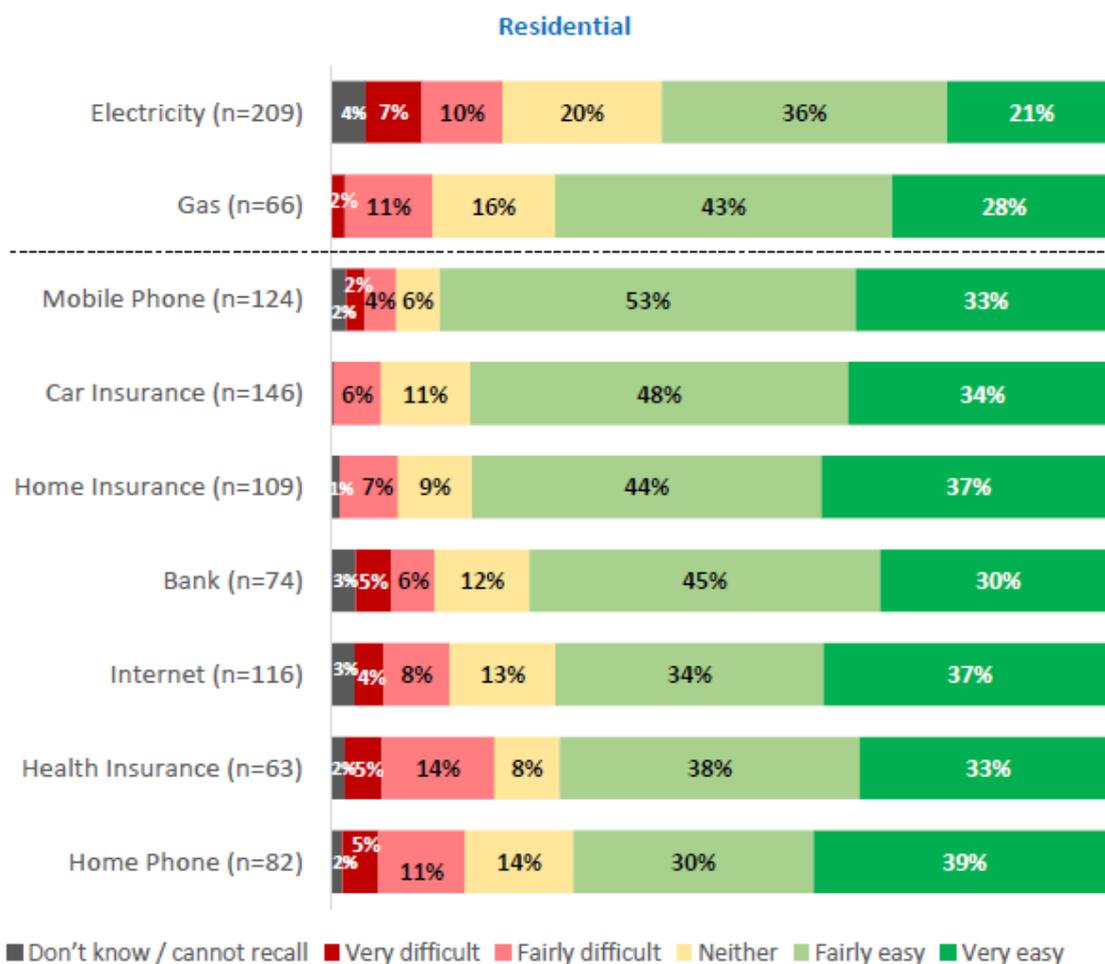
AEMC analysis shows that a representative customer comparing electricity flat rate market offers through the Energy Made Easy website could find an offer that is as much as \$720 a year cheaper than the most expensive. The level of possible savings differs with distribution network, energy consumption, discount eligibility and type of contract. This is discussed further in section 6.7 below.

The AEMC undertook further analysis of customers on regulated prices for the 2013 NSW competition review. Due to the confidential nature of the data underpinning this analysis, much of which was provided to the Commission by energy retailers, we are unable to publish these findings in full. However an overview is provided in the supplementary report on consumer engagement.¹¹⁷

Most residential customers considered that it was at least “fairly easy” to compare different offers when deciding whether or not to switch, however some other industries performed better in this regard (Figure 6.11). The number of customers that rated comparing different electricity offers as easy or fairly easy when deciding whether or not to switch was lower than other industries.

¹¹⁷ AEMC, *Review of Competition in the Retail Electricity and Natural Gas Markets in New South Wales, Supplementary Report: Increasing consumer engagement*, 31 October 2013, Sydney, p16.

Figure 6.11 Ease of comparing offers when making switching decisions – residential



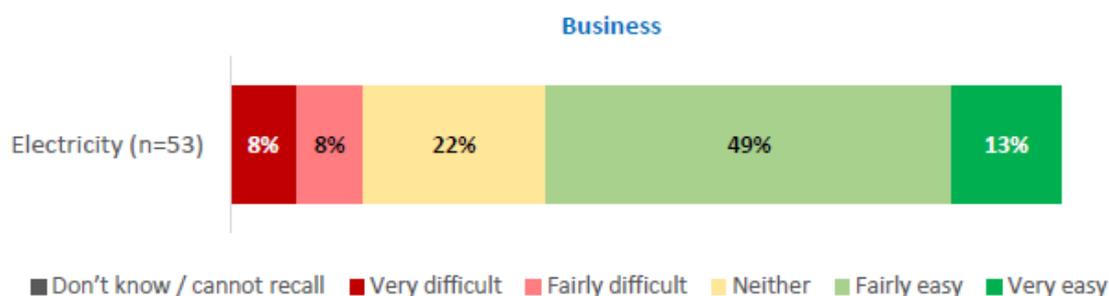
Source: Newgate Research, Consumer Research for Nationwide Review of Competition in Retail Energy Markets, report for the AEMC, June 2015, p165. Survey question: The last time you switched, how easy or difficult was it for you to compare the different offers when deciding whether or not to switch? Customers surveyed: Respondents who had switched electricity or gas company or plan.

A slightly greater proportion of small business customers than residential customers considered that it was at least “fairly easy” to compare different electricity offers when deciding whether or not to switch (Figure 6.12).

Seventeen per cent of residential and 16 per cent of small business respondents considered that it was very difficult or fairly difficult to compare offers.

Despite the difficulty for some customers in comparing electricity options, the switching rates for the last five years reported for electricity were higher than those reported for these other products and services (Figure 6.13).

Figure 6.12 Ease of comparing offers when making switching decisions – small business



Source: Newgate Research, Consumer Research for Nationwide Review of Competition in Retail Energy Markets, report for the AEMC, June 2015, p165. Survey question: The last time you switched, how easy or difficult was it for you to compare the different offers when deciding whether or not to switch? Customers surveyed: Respondents who had switched electricity company or plan.

Figure 6.13 Switching energy and other services

| Provider (% switched at least once) | Residential | | | |
|-------------------------------------|-------------------|-------------------|-----------------|-----------------|
| | NEM | | NSW | |
| | 2014 (n=1,833) | 2015 (n=2,008) | 2014 (n=325) | 2015 (n=402) |
| Electricity Company | 48% | 39% | 49% | 40% ↓ |
| Electricity Plan | 39% | 31% | 40% | 34% |
| TOTAL Electricity | 60% | 50% | 60% | 52% ↓ |
| Gas Company | 40% | 35% | 37% | 36% |
| Gas Plan | 30% | 24% | 33% | 27% |
| TOTAL Gas | 49% | 40% | 48% | 40% |
| TOTAL Electricity or Gas | 64% | 51% | 61% | 53% ↓ |
| Car Insurance | 37% | 35% | 38% | 36% |
| Mobile | 32% | 31% | 32% | 31% |
| Internet | 30% | 29% | 30% | 29% |
| Home Insurance | 22% | 26% ↑ | 20% | 26% |
| Landline | 22% | 20% | 22% | 21% |
| Banking | 18% | 19% | 18% | 20% |
| Health Insurance | 13% | 16% | 12% | 17% |

Source: Newgate Research, Consumer Research for Nationwide Review of Competition in Retail Energy Markets, report for the AEMC, June 2015, p151. Survey question: In the last five years, how many times have you changed any of the following providers or companies with which you have products and services? Customers surveyed: All.

Clearer information and the use of price comparator websites could help customers make decisions more easily

Customers should be encouraged to reassess their energy needs and shop around regularly to take advantage of new offers and move to more suitable plans as their energy needs change.

Some of the customer issues highlighted above could be addressed through promoting greater awareness of the Energy Made Easy price comparator website.¹¹⁸ This website

¹¹⁸ Energy Made Easy website: <http://www.energymadeeasy.gov.au>.

is operated by the AER and can help reduce the time and complexity of finding and comparing energy plans and demonstrate potential savings for customers.

In NSW, 18 per cent of residential customers who had investigated different energy offers used a price comparator website as their main source of information and around 12 per cent considered a price comparator website to be the most useful source of information.

Across the NEM those customers who used price comparator websites to investigate their options were significantly more aware of the choices available to them and also more confident they could find the right information to help choose an energy plan. Of customers who had used comparator websites, 88 per cent were aware they could choose from a range of different electricity plans and 64 per cent rated their confidence to find the right information as seven out of 10 or higher. For customers who had not used comparator websites, these figures were 77 per cent and 53 per cent respectively.

Price comparator websites can also assist customers in considering whether there is value in switching retailer or plan. For example, Energy Made Easy can estimate a customer's bill for different energy plans and highlight that there may be some appealing alternative product and service offers available.

Unprompted awareness of the Energy Made Easy website among residential and small business survey respondents remains low at below one per cent for each. When prompted, 16 per cent of residents and four per cent of small business customers said they had heard of the site. This is a significant increase on 2014 levels from 11 per cent for residential customers, but also a significant decrease for small business customers from 26 per cent.

Some improvements in survey responses since 2014 may be due to a NSW Government campaign to help households and small businesses seek out an energy deal that better meets their needs. "The Power's in Your Hands" campaign included mass media to raise awareness and the creation of the "Your Energy" website for households and small businesses to access tips and information on ways to compare energy plans.¹¹⁹ More information on the campaign is provided in Box 3.4 in section 3.2.11 of this report.

6.4 Customer outcomes

Our analysis of this indicator considers the findings of customer surveys and data on customer complaints. See Chapter 2 for further discussion on our methodology.

6.4.1 Satisfaction with the level of choice

Sixty per cent of residential customers surveyed were satisfied with the level of market choice in NSW, up from 47 per cent in 2014.

Increased levels of investigation by customers and three retailers entering may have contributed to the significant improvement in satisfaction with the level of choice in NSW. Although customer awareness of the ability to choose between energy retailers has remained steady, more customers had actively investigated their options in the past

¹¹⁹ Your Energy website: <http://yourenergy.nsw.gov.au>

12 months, which may have resulted in greater awareness of the various energy plans and retailers available.

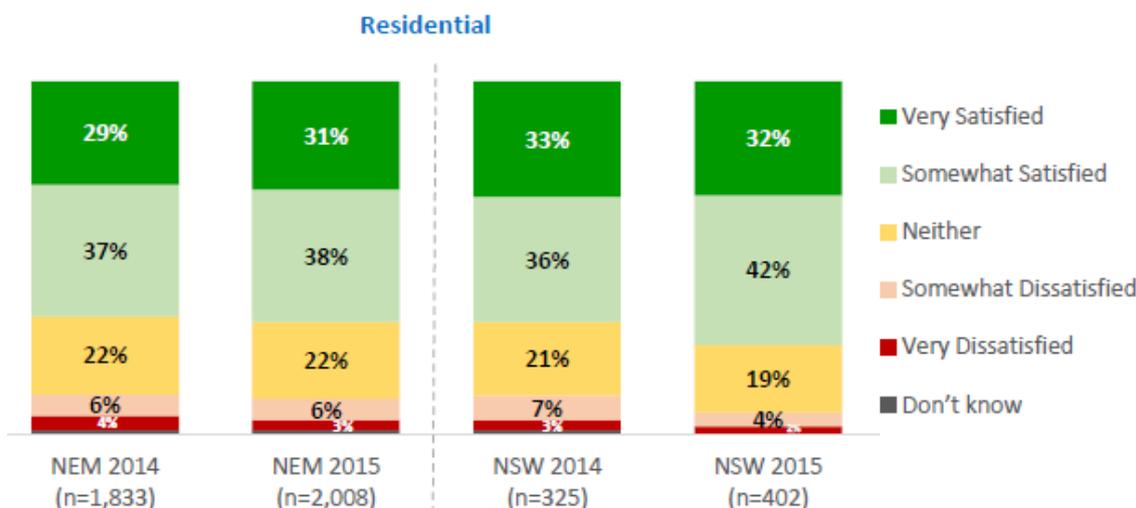
6.4.2 Satisfaction with retailers

Seventy-four per cent of residential customers were somewhat or very satisfied with their electricity retailer (Figure 6.14). This is a 5 per cent increase compared with the 2014 survey and remained higher than the NEM average.

The level of residential customers either somewhat or very dissatisfied with their retailer was down four percentage points on last year. Nine per cent of business customers surveyed were either somewhat or very dissatisfied with their retailer, the same as last year (Figure 6.15).

Satisfaction levels should be interpreted carefully. Focus groups conducted in other NEM jurisdictions in 2014 suggest high satisfaction ratings often related to an absence of negative issues with their retailer rather than a particularly positive experience. Similarly, low levels of dissatisfaction do not necessarily imply high levels of satisfaction.

Figure 6.14 Satisfaction with current electricity retailer - residential

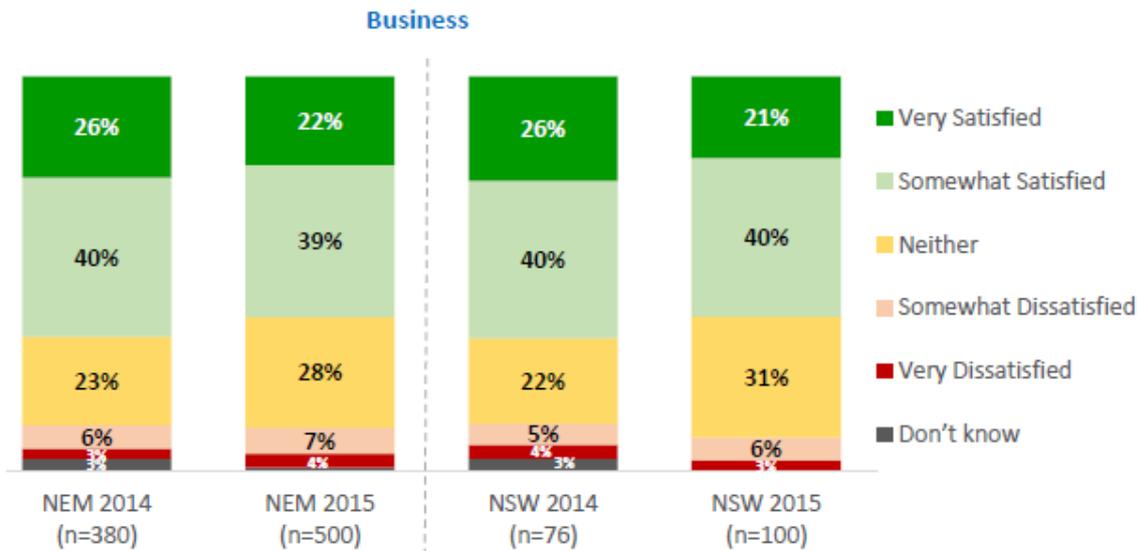


Source: Newgate Research, Consumer Research for Nationwide Review of Competition in Retail Energy Markets, report for the AEMC, June 2015, p175. Survey question: How satisfied are you with your current electricity company? Customers surveyed: All.

Survey respondents were also asked about their satisfaction with the level of their retailer’s customer service. The overall quality of customer service for electricity and gas retailers was perceived as good or excellent by the majority of residential survey respondents. For example, 65 per cent residential customers rated customer service as seven out of 10 or higher.

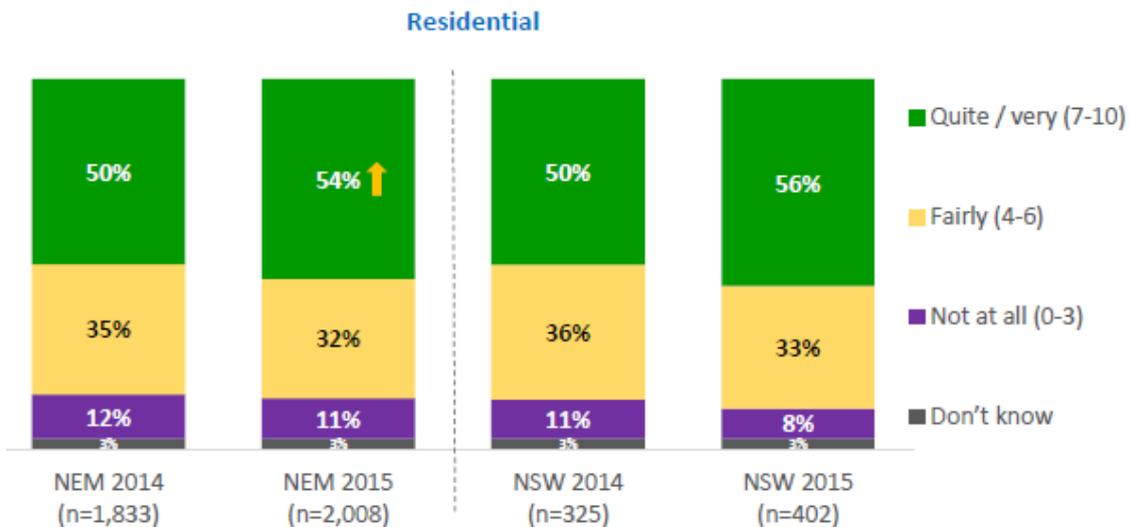
Respondents rated value for money higher in the 2015 survey (Figure 6.16 and Figure 6.17). Residents that considered value for money to be very good increased from 50 to 56 per cent. In 2014 the NSW results were consistent with the NEM average. Although the NEM average improved in 2015, the results in NSW have improved by a greater amount.

Figure 6.15 Satisfaction with current electricity retailer – small business



Source: Newgate Research, Consumer Research for Nationwide Review of Competition in Retail Energy Markets, report for the AEMC, June 2015, p175. Survey question: How satisfied are you with your current electricity company? Customers surveyed: All.

Figure 6.16 Satisfaction with value for money – electricity



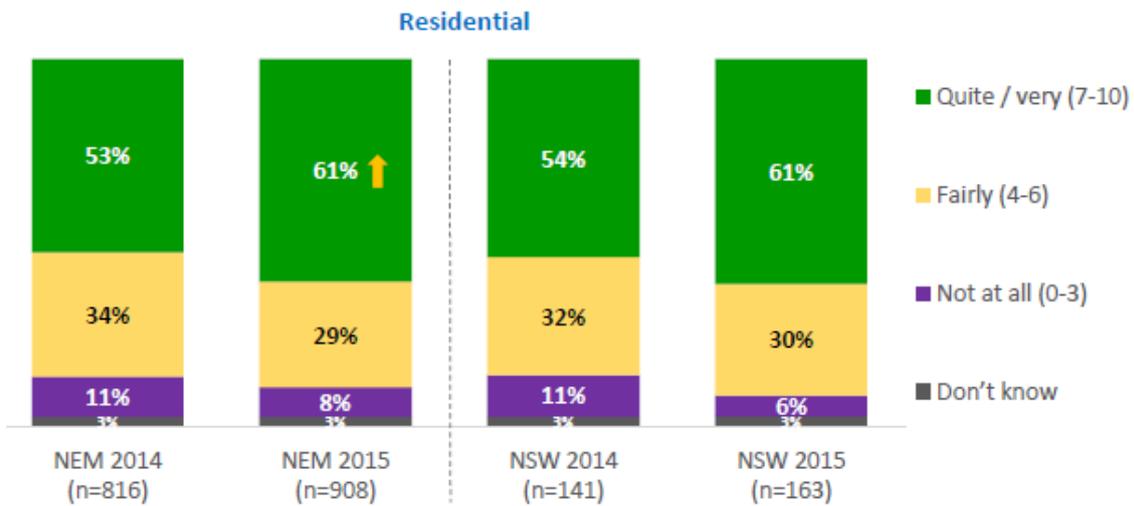
Source: Newgate Research, Consumer Research for Nationwide Review of Competition in Retail Energy Markets, report for the AEMC, June 2015, p176. Survey question: How would you rate the overall value for money of the products and services provided by your electricity company? Customers surveyed: All.

Improved value for money ratings potentially relate to a reduction in the rate of increase in electricity bills in NSW in 2014 as compared with previous years.¹²⁰

Customers currently experiencing difficulty paying their energy bills were less likely to consider that their retailer provided value for money.

¹²⁰ This can be seen in the 2013 and 2014 AEMC Residential Electricity Price Trends reports, available on the AEMC's website.

Figure 6.17 Satisfaction with value for money – gas



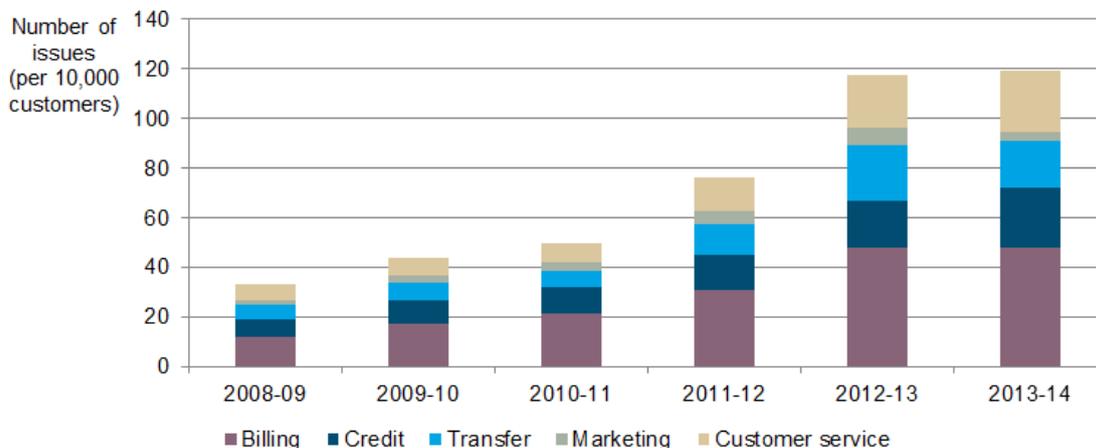
Source: Newgate Research, Consumer Research for Nationwide Review of Competition in Retail Energy Markets, report for the AEMC, June 2015, p178. Survey question: How would you rate the overall value for money of the products and services provided by your gas company? Customers surveyed: All.

NSW customers may be eligible for concessions or emergency relief. Certain pensioners, Health Care Card holders and Veterans are eligible for concessions through the Low Income Household Rebate. Concessions are also available to customers with certain medical issues through the Medical Energy Rebate. There is also a Family Energy Rebate, a Life Support Rebate and an Energy Accounts Payment Assistance Scheme which provides emergency relief for eligible customers. More information on concessions arrangements is set out in Appendix F.

6.4.3 Customer complaints

In 2013-14 the number of retail electricity issues raised with the Energy & Water Ombudsman NSW was three per cent higher than in 2012-13 (Figure 6.18). This represents a decline in the growth of electricity issues raised with the Ombudsman from approximately 50 per cent over the preceding two years.

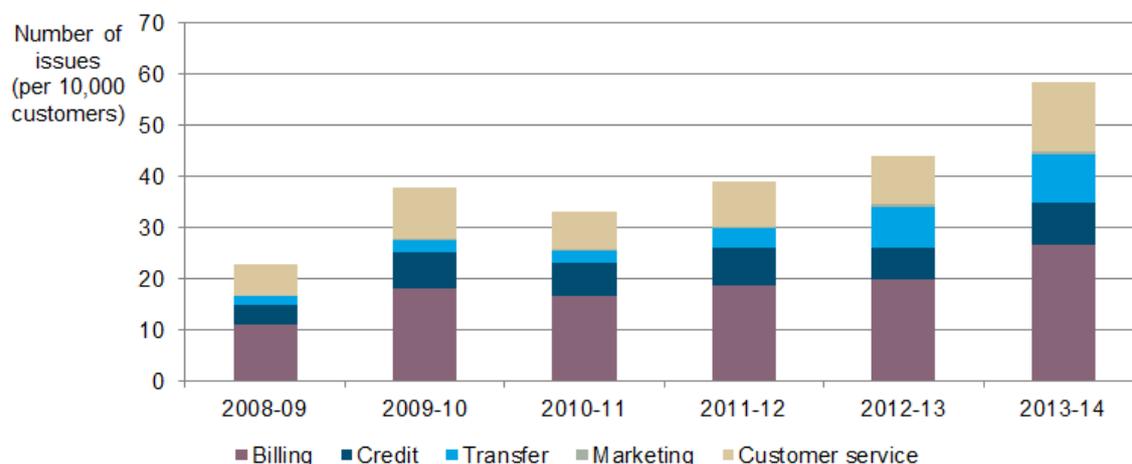
Figure 6.18 Electricity complaints to the Ombudsman - number of issues raised



Source: Complaints data from the Ombudsman, customer numbers from AEMO, AEMC analysis.

While the increase in electricity issues slowed, gas issues increased by 37 per cent between 2012-13 and 2013-14 (Figure 6.17). The number of retail gas issues raised with the Ombudsman remains much lower than for electricity, even when adjusted for market size.

Figure 6.19 Gas complaints to the Ombudsman - number of issues raised



Source: Complaints data from the Ombudsman, customer numbers from AEMO and ESAA Electricity Gas Australia reports, AEMC analysis.

Billing issues remain the most common issues raised with the Ombudsman for both retail electricity and retail gas.

Between 2012-13 and 2013-14 electricity customer service and billing issues increased moderately, transfer issues decreased moderately and marketing issues halved. These decreases may be due to the reduction in door to door marketing and switching activity over the corresponding period. The only category to record a significant increase was credit issues, such as issues related to payment arrangements, disconnections, credit ratings and debt collection, growing by 27 per cent. The Ombudsman considers the increase in credit issues highlights that affordability remains a key issue for electricity customers in NSW.¹²¹

The increase in electricity credit issues in 2013-14 does not correspond to a significant increase in electricity prices in NSW. The average standing offer increased by 2 per cent and the average market offer increased by 3 per cent from 2012-13 to 2013-14.¹²² The Ombudsman has noted that the increase in credit issues may be due to tightening credit policies and increased debt recovery activities of some retailers.¹²³

It is important to be aware that many issues raised with the Ombudsman represent serious negative experiences for customers. For example, one customer that contacted the Ombudsman reported that she had asked her retailer to investigate the accuracy of her gas bills which added to almost \$2,900, including some debt transferred from an old

¹²¹ For more information on this see the affordability issues see Energy & Water Ombudsman NSW, 2013-2014 Annual Report, 2014, p6-7.

¹²² These figures compare the base year average standing offer and market offer prices for NSW set out in the AEMC's annual Residential Electricity Price Trends reports for 2013 and 2014.

¹²³ Energy & Water Ombudsman NSW, 2013-2014 Annual Report, 2014, p7.

address.¹²⁴ The retailer advised that there were no grounds for further investigation and that she should pay the full amount. The customer then asked the Ombudsman to investigate the matter. The Ombudsman found that a credit of \$390 on the gas account from the previous address had not been transferred along with the debt. The retailer had also not applied the Low Income Household Rebate for over 13 months and the Ombudsman also found other billing inconsistencies which could have resulted in overcharging. The retailer then agreed to rectify these issues, including reversing all late payment fees. Although ultimately a positive outcome for the customer, the issue would likely have taken a significant amount of the customer's time and caused the customer some stress.

While gas marketing issues raised with the Ombudsman reduced slightly in 2013-14, issues raised in all other categories increased significantly. Customer service issues increased by 50 per cent, billing issues by 38 per cent, credit issues by 35 per cent and transfer issues by 23 per cent.

Issues raised with the Ombudsman include referrals back to retailers, which are also captured in complaints to retailers noted below.

Complaints to retailers

While issues raised with the Ombudsman increased by seven per cent for retail electricity and retail gas together in 2013-14, the number of issues raised directly with electricity and gas retailers over the same period increased by 102 per cent. This increase followed an increase of 73 per cent in 2012-13 and 47 per cent in 2011-12. When a customer makes a complaint, multiple issues may be raised with the retailer. It is not clear how much the increase in issues raised is due to more complaints being raised or more issues being raised in each complaint.

Billing issues increased significantly in 2013-14. This category of issues includes complaints about prices, billing errors, payment arrangements, debt recovery practices and disconnections. The largest increase was in "other" issues, which increased by 165 per cent. This category includes, among others, customer service issues and has now overtaken billing as the largest category of issues raised.

Despite the significant increase in total issues raised with electricity and gas retailers, marketing issues decreased by 21 per cent. This coincides with a significant reduction in door to door selling activity by major retailers.

6.5 Barriers to entry, exit and expansion

Our analysis of this indicator considers evidence of entry, exit and expansion and the findings of a retailer survey performed by K Lowe Consulting and Farrier Swier Consulting.¹²⁵

Since the 2014 competition review, three new retail businesses entered the NSW retail electricity market (CovaU, Powershop and BlueNRG). M2 Energy also introduced a new retail brand, Commander Power & Gas. One new retailer entered the NSW retail

¹²⁴ Ibid, p33.

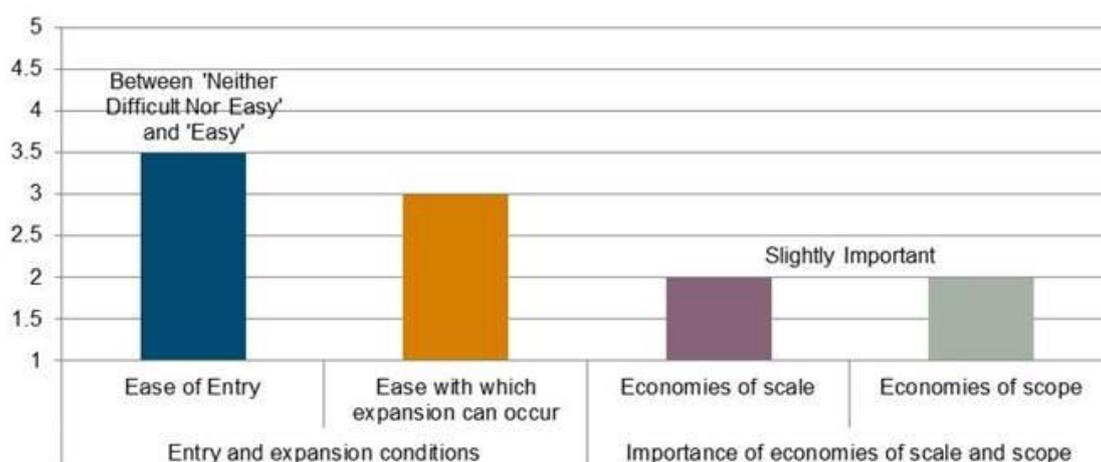
¹²⁵ See Chapter 2 for further discussion on our methodology.

gas market (CovaU). Red Energy and Lumo Energy came under the common ownership of Snowy Hydro since the last review.

6.5.1 Electricity retailer market - Ease of entry and expansion

In the NSW retail electricity market the median rating from the retailer survey suggest that entry and expansion were not difficult, however views varied (Figure 6.20). The median rating also suggested that economies of scale and scope were slightly important. In some jurisdictions there is a clear delineation between the views held by larger established electricity retailers and smaller second tier retailers. In NSW a group of large and small retailers rated entry and expansion in this market as relatively easy, while a separate group of large and small retailers rated them as difficult.¹²⁶

Figure 6.20 Median rating survey results - NSW retail electricity market barriers



Source: K Lowe, AEMC Retail Competition Review: Retailer Surveys - Report for the AEMC, 2015, p22

Respondents consider that the most significant change in barriers to entry and expansion in this electricity market in the past year was the removal of retail price regulation. One respondent found that retail price regulation made it very difficult to enter, so it only focused on retailing in certain distribution network areas and supplying certain customer classes. Following the removal of retail price regulation, this respondent has reportedly started retailing in other networks in NSW and supplying a broader range of customers.

AGL's acquisition of Macquarie Generation was also considered a significant event by a number of smaller retailers, but mixed views were expressed about its effect on entry and expansion conditions (see section on access to wholesale hedging products below).

Impediments to entry and expansion

Conflicting views were expressed by respondents about the impediments to entry and expansion in this electricity market, with larger established retailers stating that there are no impediments, while smaller retailers identified a number of impediments.

¹²⁶ Respondents were also asked to rate the ease with which exit can occur in this market. The median rating in this case suggests that exit is neither difficult nor easy, however no exit occurred so respondents do not have direct experience.

Concerns were raised during the retailer surveys about the effect that the following factors had on entry and expansion in the retail electricity market in NSW and other NEM jurisdictions:

- **Prudential arrangements:** Smaller retailers noted that prudential arrangements and credit support required by AEMO, generators, financial intermediaries, the ASX and electricity networks can “tie up working capital” and limit their ability to expand.
- **State based energy efficiency schemes:** The resources involved in managing different state-based energy efficiency schemes and costs associated with compliance.
- **AEMO certification and registration:** The complexities associated with AEMO’s market system certification and registration.
- **Jurisdictional specific concessions schemes and NECF variations:** One respondent described the concession scheme in NSW as “archaic” and not reflecting the way in which some retailers are now operating (i.e. paperless billing and communications and use of electronic payment methods).
- **Policy and regulatory risk:** Cited as an issue in NSW as the survey was conducted prior to the 2015 state election.

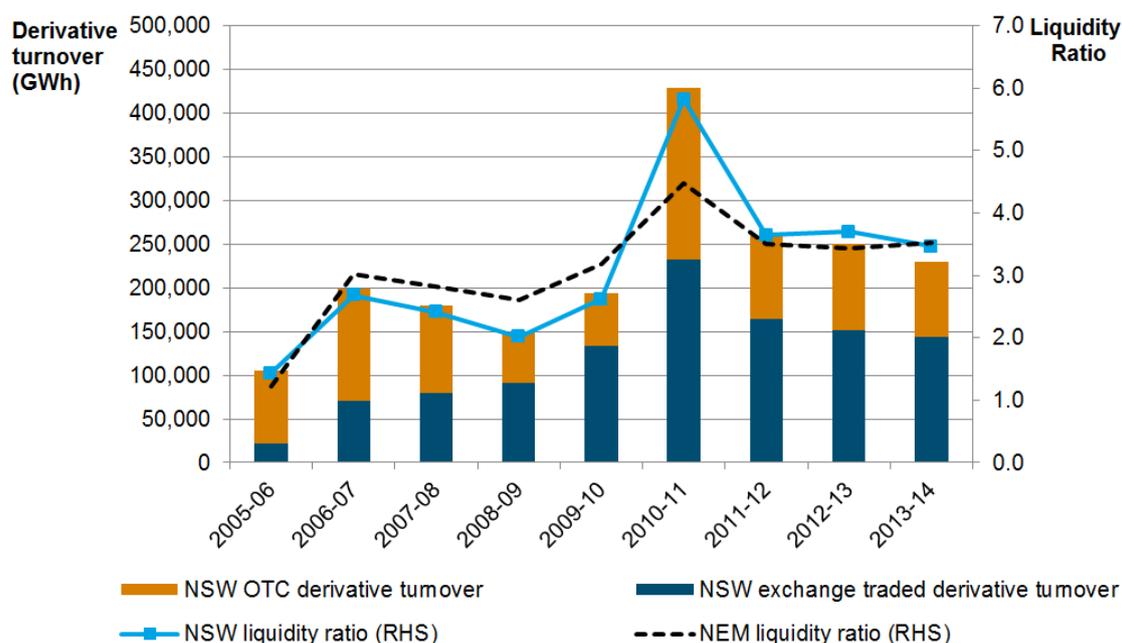
Access to wholesale hedging products

Access to competitively priced hedging products was perceived as an impediment to the entry of small energy retailers in NSW. While acknowledging that retailers can hedge their risk in NSW by using interregional hedges, financial intermediaries or the futures market, concerns were raised by a small number of retailers about the impact of an increasing degree of vertical integration and concentration in the wholesale market on the availability of competitively priced hedging instruments. These concerns relate to the whole of the NEM and not only NSW. Other respondents noted that Snowy Hydro is still a net seller of hedging products in NSW and is therefore in a position to provide smaller retailers coverage in this market.

Some retailers in previous years had reported difficulties obtaining over the counter (OTC) products from NSW Government owned generators, but they have been able to overcome this impediment by using interregional hedges, or having recourse to financial intermediaries or the futures market. This is consistent with the AEMC’s analysis of the degree of liquidity in the OTC and exchange traded (futures) market which has declined slightly from 2012-13 however remains equivalent to the average liquidity ratio in the NEM (Figure 6.21).¹²⁷

¹²⁷ Section 2.3 sets out why this data should be interpreted with caution. It is noted that the 2010-11 spike in electricity derivatives turnover in NSW was primarily due to uncertainty around the introduction of a carbon scheme and the partial privatisation of NSW generation and retail assets. Extreme weather events and the entry of new intermediaries also had an impact. For more information, refer to pages 50-52 of AFMA’s 2011 Australian Financial Market Report, available at: http://www.afma.com.au/afmawr/_assets/main/lib90013/2011%20afmr.pdf

Figure 6.21 Annual electricity derivatives turnover and liquidity ratios



Source: AEMO National Electricity Forecasting Report, the Australian Financial Markets Association, Australian Financial Markets Report and ASX Energy. See Chapter 2.

Mixed views were expressed on the impact of the acquisition of Macquarie Generation by AGL on market liquidity in the NSW retail electricity market.¹²⁸ In the 2015 survey, after the acquisition took place, one respondent stated that better generator trading arrangements were now available in NSW than were available when the generation assets were owned by the NSW Government, although it acknowledged that this may be a function of the behavioural undertaking that AGL is subject to.¹²⁹ Another respondent claimed the acquisition had increased the barriers to expansion because it has limited the hedging options available to non-vertically integrated retailers.

Barriers in regional NSW retail electricity markets

At a rural and regional level, some respondents informed us that entry and expansion in these electricity markets can be impeded by:

¹²⁸ The AEMC's 2014 *Retail Competition Review* referred to the Australian Competition Tribunal's comments on the ability of retailers to compete in its decision to permit AGL's acquisition of Macquarie Generation. The Tribunal's view was that "retailers of electricity in NSW, including small retailers, will still have available a significant competitive "market" in NSW for the acquisition of hedge contracts". Application for Authorisation of Acquisition of Macquarie Generation by AGL Energy Limited [2014] ACompT 1 [26], cited in AEMC, 2014 *Retail Competition Review, Final Report*, AEMC, 22 August 2014, Sydney, pp 106-7.

¹²⁹ This undertaking requires AGL to offer, or enter into, a prescribed quantity of Exchange Traded Futures (ETF) or Over the Counter hedge contracts (directly with a retailer or via a broker) for a period of 6.5 years. The prescribed quantity begins at 250 MW (in each trading interval), rising to 500 MW (in each trading interval). If directly approached by a retailer (other than AGL, EnergyAustralia or Origin Energy), the price must be no more than the higher of \$0.75 above (in \$/MWh) the most recent trading day's clearing price for an equivalent ETF product; and the price of the last trade on the futures exchange for which AGL was not a party (AGL, Macquarie Generation Acquisition Presentation, 20 August 2014)

- **Small size and geographic dispersion of customers:** This can result in higher customer acquisition costs.
- **Loss factors:** In rural and regional areas, particularly in the far west of the State (e.g. Broken Hill), loss factors can be high and there may be constraints on a retailer's ability to pass the costs associated with these loss factors onto customers in these areas. The AEMC notes that in principle this should not be an issue as all retailers would face these costs, however it is possible that smaller retailers are less able to absorb these costs.
- **Higher network charges:** This can reduce the margins available to retailers and the discounts that can be offered to customers.

These perceived rural and regional impediments are not unique to NSW, but reflect respondents' comments in relation to most of the larger jurisdictions.

Outlook for barriers in the next one to two years

Respondents expect the removal of retail price regulation to continue to encourage entry and expansion in the NSW retail electricity market.

The survey responses indicate that:

- One retailer is considering entry, although it has no firm plans to do so at this stage; and
- two second tier retailers are planning to expand.

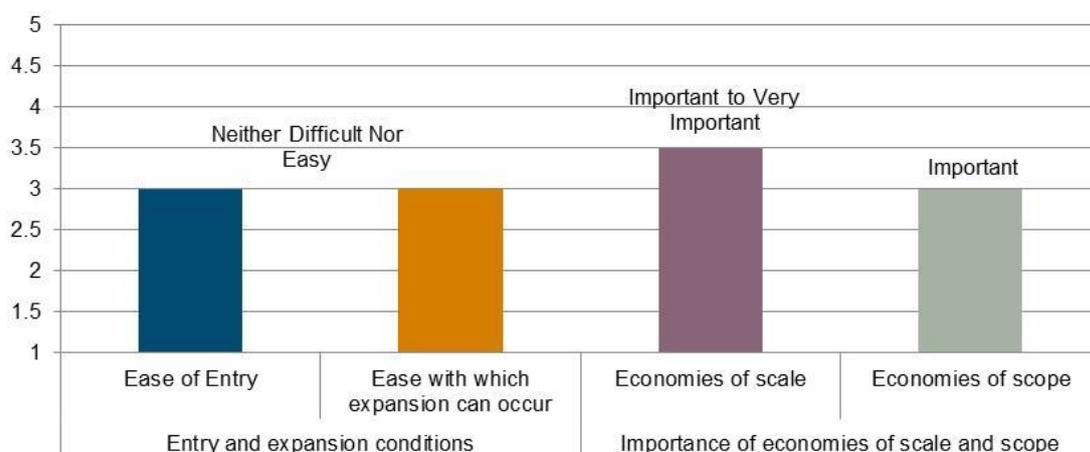
A number of other respondents also noted the potential for new entry to occur in this market and for further consolidation to occur amongst second tier retailers in this market and other markets.

6.5.2 Gas retail market - Ease of entry and expansion

In the NSW retail gas market, the median ratings from the retailer survey suggest that both entry and expansion in the NSW retail gas market are not difficult, however views varied (Figure 6.22).¹³⁰ Two of the larger established retailers in this market rated entry into this market as very easy, while other respondents rated it as neutral. In relation to expansion, one established retailer rated it as very easy, while the remainder rated it as neither difficult nor easy. The median rating from the retailer survey also suggested that economies of scale and scope were important in being able to compete effectively in the market.

¹³⁰ Respondents were also asked to rate the ease with which exit can occur in this market. The median rating in this case suggests that exit is neither difficult nor easy, however no exit occurred so respondents do not have direct experience.

Figure 6.22 Median rating survey results - NSW retail gas market barriers



Source: K Lowe, AEMC Retail Competition Review: Retailer Surveys - Report for the AEMC, 2015, p29

Respondents considered that the most significant impediments to entry and expansion were access to and the price of gas given the tightening of conditions in the wholesale gas market, access to and the price of capacity on transmission pipelines, and the continued application of retail price regulation for gas in NSW. Retailers also noted that entry and expansion in rural and regional areas can be impeded by a range of factors, including the limited coverage of pipeline networks, the small size of the customer base and the availability of capacity on some regional pipelines.

Most respondents observed no changes in entry and expansion conditions over the last year. One respondent did note, however, that tightening conditions in the wholesale gas market and the prospect of a supply shortfall in NSW were starting to affect entry and expansion conditions in this market.

Impediments to entry and expansion

Respondents identified several factors as potentially impeding entry and expansion in the NSW gas retail market:

- Wholesale market conditions:** Access to, and the price of, gas given the tightening demand and supply conditions in the wholesale gas market. Retailers noted the potential for conditions in the wholesale gas market to deter new entry in NSW and some other retail gas markets. Entry may be deterred in NSW due to its historic reliance on gas supplied from the Cooper and Bowen/Surat basins, both of which are now largely committed to the LNG developments. The Commission is aware that there is currently a degree of uncertainty about how conditions in the wholesale gas market are likely to develop in the short to medium term. This creates uncertainty about wholesale gas prices in some jurisdictions and, in turn, the demand for gas by small customers. Faced with this level of uncertainty, it is quite possible that prospective entrants into the NSW retail gas market could decide to defer their entry until conditions in the wholesale gas market settle.
- Capacity on transmission pipeline:** Access to, and the price of, capacity on transmission pipelines.

- **Retail price regulation:** NSW is the only state where retail price regulation remains for gas.
- **Sydney Short Term Trading Market:** To retail gas in NSW, a retailer must enter into gas supply and transportation contracts and participate in the short term trading market. Entry into these contractual and market arrangements can involve relatively high transaction costs. Other issues raised in relation to the Sydney Short Term Trading Market were:
 - the complexity of the market;
 - the inability to effectively hedge against all risks in the market;
 - AEMO's prudential requirements; and
 - AEMO's registration, accreditation and certification process.
- **Business to Business (B2B) procedures:** The B2B procedures currently in place on distribution networks in NSW, which differ from the procedures in other jurisdictions, have reportedly added to the cost of entry as retailers must put bespoke systems in place. These procedures are currently in the process of being harmonised, however this is not expected to be completed until April 2016.

Respondents viewed the first three of these factors as the most significant impediments to entry and expansion in this market. One retailer also noted that the size of this market is much smaller than the Victorian retail gas market and may discourage entry.

Policy and regulatory risk was also cited as an impediment by a number of respondents, although no specific examples of this risk were identified in the survey responses.

The perceived impediments outlined above are largely the same as those identified in the 2014 survey.¹³¹ However, some respondents considered that the ability to access a competitively priced firm supply of gas from the wholesale market is becoming a more significant impediment, particularly for new entrants.

Barriers in regional NSW gas retail markets

At a rural and regional level, a number of respondents informed us that entry and expansion into these gas markets can be impeded by the following factors:

- **Size of customer base:** The customer base may be too small in some areas to warrant entry or geographic expansion, particularly given the additional costs associated with negotiating access to pipelines and the fixed cost nature of gas transportation services. Economies of scale appear more important in gas retailing than they are in electricity retailing and they tend to be region specific because of the fixed costs associated with transporting gas to particular locations. Analysis undertaken for the 2013 NSW competition review suggested that there may be other structural barriers limiting entry in some regional areas.¹³²

¹³¹ K Lowe Consulting and Farrier Swier Consulting, *AEMC 2014 Retail Competition Review: Retailer Interviews*, June 2014, p18.

¹³² AEMC, *Review of Competition in the Retail Electricity and Natural Gas Markets in NSW*, Final Report, 3 October 2013, p51.

- **Limited geographical pipeline coverage:** There is limited geographical coverage of pipeline networks in rural and regional areas.
- **Capacity of regional pipelines:** the capacity of some regional pipelines has been fully contracted by a single retailer or a small number of retailers under long-term contracts and the cost of expanding capacity for what is likely to be a relatively small customer base may not be justified.
- **Higher customer acquisition costs:** There are higher customer acquisition costs due to the small size of the customer base in these areas.
- **B2B arrangements:** The lack of harmonisation of B2B arrangements on regional distribution networks.

There are currently only one or two gas retailers in some regional areas of NSW.

One retailer also noted the barrier to entry that exists in Shoalhaven as it is the only area of NSW where full retail contestability has not been introduced.¹³³ The Shoalhaven gas distribution network is explicitly excluded from AEMO's Retail Gas Market Procedures, meaning that there is no established mechanism to transfer customers in the Shoalhaven region and new retailers are therefore unable to enter the market and obtain customers. The NSW Government's position is that full retail contestability should apply to all customers and that there is a system issue meaning that competition is not effective in the Shoalhaven area.

Outlook for gas retail barriers in the next one to two years

A number of respondents expected entry and expansion conditions to improve once the B2B harmonisation process (see above) is complete and if the NSW Government decides to remove retail price regulation.

Other respondents anticipated that a continued tightening of demand and supply conditions in the wholesale gas market could result in a deterioration of entry and expansion conditions.

The survey responses indicate that:

- one retailer is in the process of entering the NSW retail gas market;
- one retailer will consider entering the NSW retail gas market if it enters the NSW electricity retail market; and
- one existing retailer is in the process of entering regional areas, while another retailer is considering entry into new regional markets but has no firm plans to do so at this stage.

Many respondents noted the potential for new entry to occur in this market if retail price regulation is removed, while others referred to the possibility of further consolidation occurring amongst second tier retailers in this market and across the NEM. A small number said it was possible that dual fuel retailers may enter, even if retail price regulation is retained, because of the sheer size of the NSW market.

¹³³ For further information see AEMC, *Review of Competition in the Retail Electricity and Natural Gas Markets in New South Wales*, 3 October 2013, p51.

6.6 Independent rivalry

The AEMC's assessment of this competitive indicator has considered information on market concentration, customer switching between retailers of different tiers and product differentiation. See Chapter 2 for further details of our methodology.

6.6.1 Market concentration

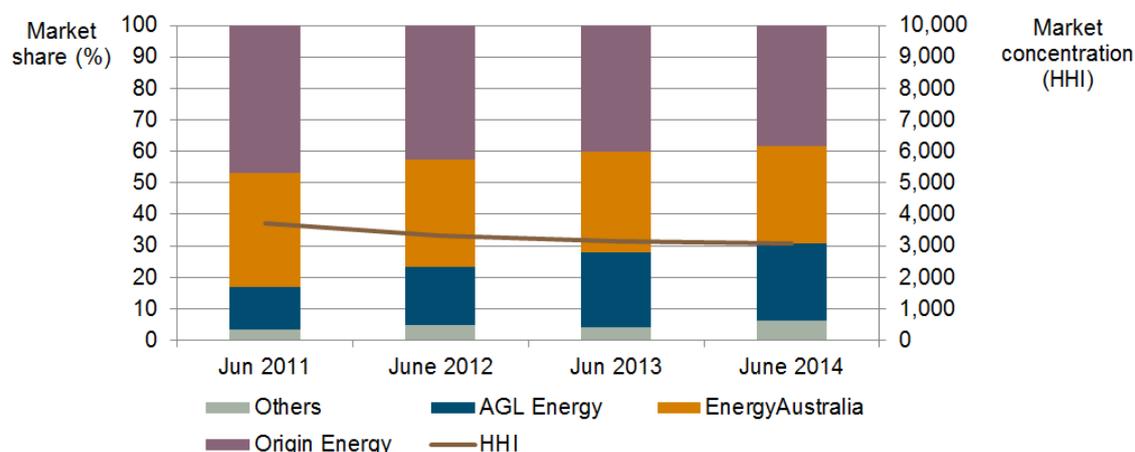
Retail electricity market

As at February 2015, there are 20 retail electricity brands active in NSW owned by 16 separate businesses. Three retail brands serve only business customers, and one retail brand serves only residential customers.¹³⁴

The big three retailers, Origin, EnergyAustralia and AGL, collectively have 94 per cent of the market share (June 2014; Figure 6.23). Three new retailers entered the market in 2014 (BlueNRG, Commander Power & Gas and CovaU), and one in early 2015 (Powershop). The market shares of the big three retailers have become more evenly distributed over time, suggesting they are competing not only against second tier retailers but also amongst themselves.¹³⁵

The market concentration in NSW as measured by the Herfindahl-Hirschman Index (HHI) is 2,991 (December 2014), down from 3,171 a year prior.¹³⁶ This is the second lowest level of market concentration across the NEM jurisdictions after Victoria.¹³⁷

Figure 6.23 Market share of big three retailers vs. second tier retailers in NSW



Source: Market shares calculated from AER data; market concentration calculated from AEMO data; AEMC analysis

¹³⁴ See Appendix B for a complete list of the retail electricity brands serving small residential and/or business customers in NSW, as well as which brands are under the same ownership.

¹³⁵ AEMC analysis based on AER data.

¹³⁶ The HHI is calculated by summing the squares of the market shares of each retailer, thereby giving more weight to larger retailers. The HHI ranges from 0 to 10,000. In an extremely competitive market the HHI approaches zero, and in a pure monopoly the HHI is 10,000. The ACCC in its Merger Guidelines notes that it is less likely to identify horizontal competition concerns when the post-merger HHI is less than 2,000.

¹³⁷ AEMC analysis based on AEMO data.

Retail gas market

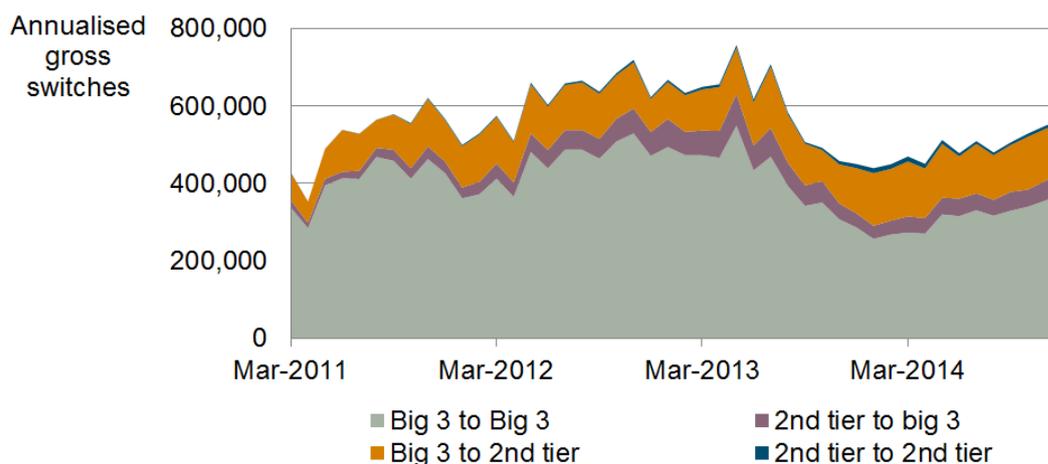
As at February 2015, there are six retail brands in the NSW retail gas market owned by five separate businesses.¹³⁸

AGL and ActewAGL have the largest market share in the gas retail market at 59 per cent (June 2014). Collectively, the big three retailers have 99 per cent of the market. The gas retail market has a higher level of market concentration than the electricity market with a HHI of 4,293, down from 5,234 a year prior. This is the third lowest market concentration in a retail gas market in the NEM, after Victoria and South Australia.¹³⁹

6.6.2 Switching between retailers of different tiers

Despite the relatively high market concentration in the retail electricity market in NSW, there is evidence that customers are switching between retailers, especially from big three retailers to second tier retailers (Figure 6.24). Twenty three per cent of electricity retailer switches in NSW in December 2014 were from a big three retailer to a second tier retailer. Sixty six per cent of all electricity retail switches were from one big three retailer to another. Less than 3 per cent were from one second tier retail to another.¹⁴⁰

Figure 6.24 Electricity switching rates in NSW



Source: AEMO data; AEMC analysis

6.6.3 Product differentiation

Small customers in NSW have access to a wide range of electricity and gas offers from multiple retailers.

The AEMC assessed the level of product differentiation in the retail electricity and gas markets in NSW through information collected from the price comparator website Energy Made Easy. The analysis considers the level of differentiation in flat rate market offers available to residential customers and small business customers on a particular

¹³⁸ See Appendix B for a complete list of the retail gas brands serving small residential and/or business customers in NSW, as well as which brands are under the same ownership.

¹³⁹ AEMC analysis based on AER data.

¹⁴⁰ AEMC analysis based on AEMO data.

day.¹⁴¹ We did not consider time of use / flexible pricing offers as part of this analysis for reasons set out in Chapter 2, but note that retailers will differentiate offers through different tariff types. See Chapter 2 for a more detailed description of our methodology.

In addition to the differentiation features specific to offers, retailers also differentiate their brand through service quality. Points of brand differentiation can include call centre operation hours, information provision, policies on hardship and complaints, policies on door knocking and cold calling, online account access and shop fronts for customers to visit and discuss their options.

Retail electricity market

For residential customers, the Energy Made Easy price comparator website had 156 flat rate electricity market offers from 14 different retailers available on 23 February 2015.¹⁴² The offers were unique to a distribution network, but may not have been available in all postcode areas of that network.¹⁴³

Multiple retailers offered discounts (conditional and/or unconditional) and GreenPower options. Other offers include for example the first month of electricity for free, frequent flyer points and vouchers.¹⁴⁴ Residential customers also had access to offers with or without a fixed term, and offers with or without a termination fee (Table 6.1).¹⁴⁵

Two major retailers have market offers on the Ausgrid and Endeavour Energy distribution networks that do not allow the price per kWh or the level of the discount to change for the duration of the contract or benefit period.

In the third quarter of 2014, 135,604 customers (around 4 per cent) in NSW had accredited GreenPower.¹⁴⁶

For small business customers, the Energy Made Easy price comparator website had 115 flat rate electricity market offers from 15 different retailers available on 23 February 2015.¹⁴⁷ The level of product differentiation available to small business customers was similar to that available to residential customers (Table 6.2).

¹⁴¹ See Appendix G for a description of different types of offers.

¹⁴² Refer to Appendix B for a complete list of retailers operating in the residential and small business segments in NSW. Note that we did not find any offers from CovaU on the Energy Made Easy website on the particular date the analysis was undertaken.

¹⁴³ Whilst retailers may have similar offers across the different distribution networks, they will likely contain different charges.

¹⁴⁴ We also note that Pooled Energy has entered the NSW retail electricity market with offers specific to pool owners based on the high electricity use of some pool equipment. They have not been included in this analysis as their offers are not generally available.

¹⁴⁵ Termination fee refers to that single fee only and excludes other fees that may be incurred if a customer ends the contract during their fixed term (e.g. disconnection fees).

¹⁴⁶ Industry & Investment NSW, *National GreenPower Accreditation Program Status Report, Quarter 3: 1 July to 30 September 2014*, p4.

¹⁴⁷ Refer to Appendix B for a complete list of retailers operating in the residential and small business segments in NSW. Note that we did not find any offers from CovaU on the Energy Made Easy website on the particular date the analysis was undertaken.

Table 6.1 Product differentiation in residential flat rate market offers for electricity

| | Ausgrid distribution area | | Endeavour Energy distribution area | | Essential Energy distribution area | |
|---------------------------------------|---------------------------|------------------|------------------------------------|------------------|------------------------------------|------------------|
| | <i>Range</i> | <i>Retailers</i> | <i>Range</i> | <i>Retailers</i> | <i>Range</i> | <i>Retailers</i> |
| All offers | - | 13 | - | 14 | - | 14 |
| Unconditional discounts | 2-10% | 4 | 2-15% | 5 | 2-15% | 5 |
| Conditional discounts | 1-20% | 12 | 1-20% | 14 | 1-20% | 14 |
| Other incentives | Yes | 8 | Yes | 8 | Yes | 8 |
| GreenPower options | 10-100% | 7 | 10-200% | 8 | 10-200% | 8 |
| No fixed term / benefit period | Yes | 7 | Yes | 7 | Yes | 8 |
| Fixed term / benefit period | 1-3 years | 9 | 1-3 years | 10 | 1-3 years | 10 |
| No termination fee | Yes | 8 | Yes | 9 | Yes | 9 |
| Termination fee | \$22-157.5 | 9 | \$22-157.5 | 9 | \$22-187 | 10 |

Source: Energy Made Easy accessed on 23 February 2015; AEMC analysis

Table 6.2 Product differentiation in small business flat rate market offers for electricity

| | Ausgrid distribution area | | Endeavour Energy distribution area | | Essential Energy distribution area | |
|---------------------------------------|---------------------------|------------------|------------------------------------|------------------|------------------------------------|------------------|
| | <i>Range</i> | <i>Retailers</i> | <i>Range</i> | <i>Retailers</i> | <i>Range</i> | <i>Retailers</i> |
| All offers | - | 14 | - | 15 | - | 15 |
| Unconditional discounts | 5-20% | 5 | 5-20% | 6 | 5-20% | 6 |
| Conditional discounts | 1-20% | 11 | 1-20% | 11 | 1-20% | 10 |
| Other incentives | Yes | 8 | Yes | 7 | Yes | 6 |
| GreenPower options | 5-100% | 7 | 5-200% | 7 | 5-200% | 8 |
| No fixed term / benefit period | Yes | 10 | Yes | 8 | Yes | 10 |
| Fixed term / benefit period | 1-3 years | 6 | 1-3 years | 10 | 1-3 years | 6 |
| No termination fee | Yes | 8 | Yes | 8 | Yes | 8 |
| Termination fee | \$22-269.5 | 10 | \$22-150 | 11 | \$22-150 | 11 |

Source: Energy Made Easy accessed on 23 February 2015; AEMC analysis

Retail gas market

For residential customers, the Energy Made Easy price comparator website had 22 gas market offers from four different retailers available in urban areas on 13 February 2015, and five market offers from one retailer in rural areas. For small business customers, the website had 14 market offers from three retailers available in urban areas, and four market offers from one retailer in rural areas. We have defined an urban area as postcode 2000 (Sydney) on the Jemena Gas Network, and a rural area as postcode 2650 (Wagga Wagga) on the Wagga Wagga Gas Distribution Network.

While there are fewer retailers offering gas than electricity, product differentiation in urban NSW is similar to electricity. A key difference is the absence of GreenPower options and lower conditional discount ranges for gas retail offers.

Many rural customers did not have a choice of retailer and have fewer options in terms of offer features than urban customers. The main differences between gas offers for residential and small business customers relate to non-price incentives and the size of the conditional discounts. Retailers were offering gas offers without termination fees to both small business and residential customers. Retailers were offering more non-price incentives to residential customers, such as frequent flyer points, credits, vouchers, online shopping programs and a guaranteed rate fix (Table 6.3 and Table 6.4).

Table 6.3 Product differentiation in residential market offers for gas

| | Urban area | | Rural area | |
|--------------------------------|--------------|------------------|--------------|------------------|
| | <i>Range</i> | <i>Retailers</i> | <i>Range</i> | <i>Retailers</i> |
| All offers | - | 4 | - | 1 |
| Unconditional discounts | 2-5% | 3 | 5% | 1 |
| Conditional discounts | 1-12% | 4 | 1-11% | 1 |
| Other incentives | Yes | 4 | Yes | 1 |
| No fixed term | Yes | 4 | Yes | 1 |
| Fixed term | 1-3 years | 4 | 1 year | 1 |
| No termination fee | Yes | 4 | Yes | 1 |
| Termination fee | \$50-90 | 3 | No | 0 |

Source: Energy Made Easy accessed on 13 February 2015; AEMC analysis

Table 6.4 Product differentiation in small business market offers for gas

| | Urban area | | Rural area | |
|--------------------------------|--------------|------------------|--------------|------------------|
| | <i>Range</i> | <i>Retailers</i> | <i>Range</i> | <i>Retailers</i> |
| All offers | - | 3 | - | 1 |
| Unconditional discounts | 3-12% | 3 | 10-12% | 1 |
| Conditional discounts | 1-3% | 3 | 1% | 1 |
| Other incentives | Yes | 2 | No | 0 |
| No fixed term | Yes | 3 | Yes | 1 |
| Fixed term | 1-3 years | 3 | 1-2 years | 1 |
| No termination fee | Yes | 3 | Yes | 1 |
| Termination fee | \$50-150 | 3 | \$110 | 1 |

Source: Energy Made Easy accessed on 13 February 2015; AEMC analysis

6.7 Competitive retail prices

Our analysis of this indicator considers the total annual expenditure of a representative residential customer on the electricity market offers available in NSW.¹⁴⁸

We grouped flat tariff residential market offers available in NSW on 23 February 2015 by offer characteristics, on the expectation that the total annual expenditure for offers with similar characteristics will converge to reflect a narrower range than would be observed across all products. In NSW, we grouped offers by distribution network, offer type, GreenPower and contract term. The analysis provides a ‘snapshot’ of prices for a representative customer on a selection of offers available on a certain day, and should therefore be interpreted with caution. See Chapter 2 for a full description of our methodology.

Figure 6.25 to Figure 6.27 show the range of total annual expenditure (after discounts had been applied) for each standing and market offer available on the 23 February 2015 on the three different distribution networks. The total annual expenditure reflects all unconditional discounts and price incentives. It also includes pay on time and direct debit conditional discounts. We have distinguished between big three retailers (which includes second tier retailers owned by a big three retailer, such as Powerdirect) and second tier retailers.

Figure 6.25 shows that the total annual expenditure available across all offers on the Ausgrid network, including all GreenPower options, had a total range of \$1,040. The range decreased to \$800 when we considered only offers with some GreenPower. The range for offers with no GreenPower and no fixed term contract was \$520. The range for offers with no GreenPower and a fixed term contract decreased further to \$300. That is, the range decreased as the offer definition became narrower. We observe similar

¹⁴⁸ See Appendix H for definition of the representative consumer in each jurisdiction.

patterns for the Endeavour Energy and Essential Energy networks as for the Ausgrid network (Figure 6.26 and Figure 6.27).

This analysis shows that a representative customer on the Essential Energy distribution network comparing electricity flat rate market offers without GreenPower through the Energy Made Easy website could find an offer that is as much as \$720 a year cheaper than the most expensive. The level of possible savings differs with distribution network, energy consumption, discount eligibility and type of contract. The potential savings for a representative customer on the Ausgrid and Endeavour Energy distribution networks were \$520 and \$550 respectively.

Retail customers have diverse energy demands. An energy offer that is good value for one customer may be expensive for another customer with a different consumption level or different needs and circumstances. It is important that customers have access to clear information about what they are signing up to and that customers consider their personal circumstances when choosing a plan.

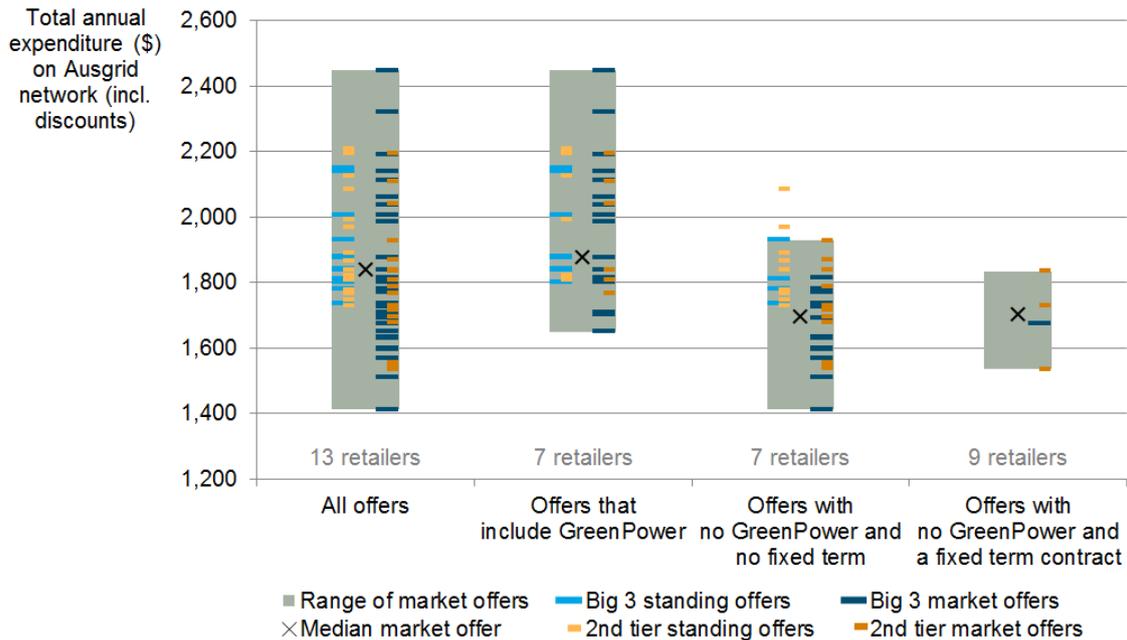
The most expensive offers in this particular analysis were the offers that include some GreenPower, and that the cheapest offers had zero GreenPower. GreenPower is an underlying cost driver and these differences would be expected where prices are reflective of underlying costs. We also observe in the category of offers with no GreenPower and no fixed term contract that standing offers were the top of the range of market offers, and in two instances above the top of the range of market offers.

For offers without GreenPower, all standing offers are above the market offer median expenditure. Approximately 33 per cent of small customers in NSW are on standing offers as at the end of 2014.¹⁴⁹ This suggests there could be savings available for a large proportion of small customers in NSW if they moved to a market offer.

The total estimated expenditure cannot be compared across jurisdictions as different consumption levels were used to reflect a 'representative' customer in each state. Also, different distribution networks will result in different underlying costs.

¹⁴⁹ Australian Energy Regulator, *Retail statistics*:
<http://www.aer.gov.au/Industry-information/industry-statistics/retail>

Figure 6.25 Total annual expenditure on flat rate market and standing offers available on the Ausgrid network



Source: Energy Made Easy accessed on 23 February 2015; AEMC analysis.

Figure 6.26 Total annual expenditure on flat rate market and standing offers available on the Endeavour Energy network



Source: Energy Made Easy accessed on 23 February 2015; AEMC analysis.

Figure 6.27 Total annual expenditure on flat rate market and standing offers available on the Essential Energy network



Source: Energy Made Easy accessed on 23 February 2015; AEMC analysis

As part of our analysis of this indicator we also considered the relationship between the total annual expenditure (reflecting all discounts and price-incentives) and the effective discount. The 'effective discount' is the percentage off the total estimated bill after the conditions associated with the discount have been taken into consideration.¹⁵⁰

Figure 6.28 shows the relationship between the total estimated bill and the effective discount for all offers on the Ausgrid network without a fixed term and without any GreenPower options taken up. Figure 6.29 and Figure 6.30 are the same as Figure 6.28 except that the offers are specific to the Endeavour Energy and Essential Energy networks respectively.

The figures suggest that the total annual expenditure decreased as the effective discount increases for most offers, but not for all. Some of the cheapest offers did not have a very high discount, especially on the Endeavour Energy and Essential Energy networks. This suggests that customers should pay close attention to the total annual expenditure and not just the discounts.

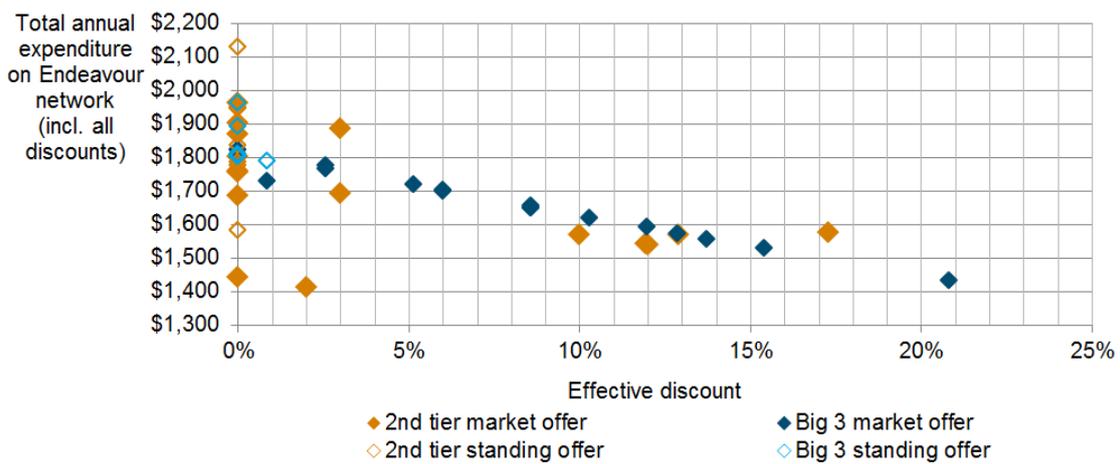
¹⁵⁰ For example, an offer that has a 20 per cent discount off usage could equate to an effective discount of 17 per cent off the total expenditure, depending on the level of consumption.

Figure 6.28 Total annual expenditure vs. effective discount on flat rate market and standing offers available on the Ausgrid network



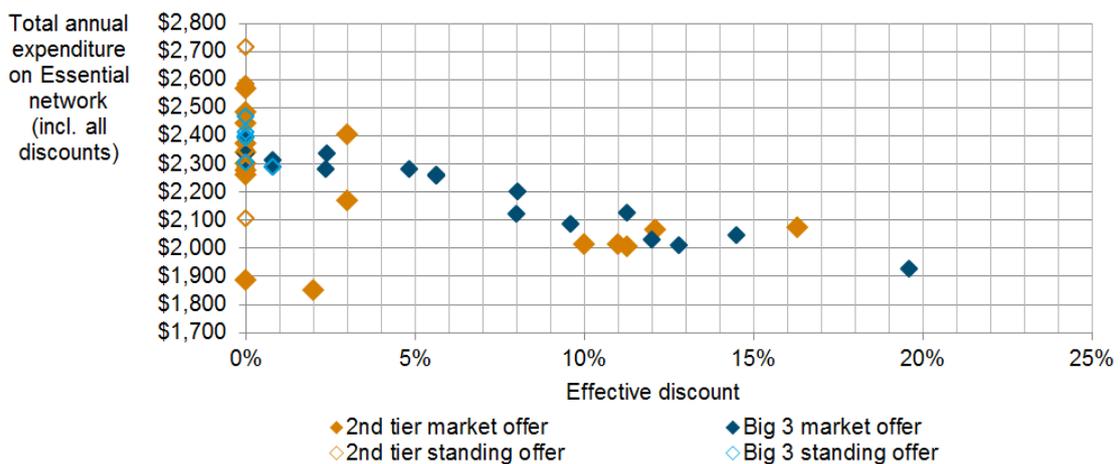
Source: Energy Made Easy accessed on 23 February 2015; AEMC analysis.

Figure 6.29 Total annual expenditure vs. effective discount on flat rate market and standing offers available on the Endeavour Energy network



Source: Energy Made Easy accessed on 23 February 2015; AEMC analysis.

Figure 6.30 Total annual expenditure vs. effective discount on flat rate market and standing offers available on the Essential Energy network



Source: Energy Made Easy accessed on 23 February 2015; AEMC analysis.

7 Australian Capital Territory

Box 7.1 Key findings

- There are signs that competition may be increasing in the ACT, though effective competition is yet to emerge. Improvements over the last 12 months include the entry of Origin in September 2014 and a doubling in the proportion of customers who said they had searched for a better energy deal.
- There are three retail brands operating in the residential retail electricity market, however ActewAGL continues to dominate the market with a 96 per cent share. Small businesses have a fourth retailer to choose from, with ERM Power operating in this segment only.
- There is also limited competition in the retail gas market, with three retail brands competing for customers. ActewAGL holds 96 per cent of the small customer market as at June 2014.
- There was a very small decline in the level of market concentration since the 2014 retail competition review mostly attributable to the entry of Origin. Retailers reported that the existing retail price regulation and the dominance of the incumbent ActewAGL made entry and expansion difficult.
- Customers in the ACT were more aware that they have a choice of retailer than they were in 2014, but their awareness remains significantly below the NEM average.
- Customer satisfaction with the level of choice in the ACT was lower than all other jurisdictions where residents have a choice of electricity retailer. ACT customers are less satisfied with the overall value for money provided by their electricity retailers than the NEM average.
- Many customers who shop around may be able to make significant savings and they should be supported and encouraged to do so. AEMC analysis shows that a representative customer comparing electricity flat rate market offers through the Energy Made Easy website could find an offer that is as much as \$330 a year cheaper than the most expensive. The level of potential savings differs with energy consumption, discount eligibility and type of contract.
- Retail customers have diverse energy demands. An energy offer that is good value for one customer may be expensive for another customer with a different consumption level or different needs and circumstances. It is important that customers have access to clear information about what they are signing up to and that customers consider their personal circumstances when choosing a plan.

7.1 Overview

The Commission's assessment is that competition in retail electricity and gas markets in the ACT is not effective, based on evidence gathered on the five competitive market indicators. We observed some changes in retail markets in the last year, however our overall assessment is consistent with the 2014 retail competition review.

There are some signs of competition emerging, however the market remains too concentrated and difficult to enter for this to be considered effective. The ACT has the highest level of market concentration of any NEM jurisdiction outside of Tasmania. ActewAGL dominates the market with 96 per cent market share and this dominance is considered a barrier to entry by other retailers.

There were some changes in the markets since the 2014 review:

- Origin Energy entered the retail electricity and gas markets in September 2014.
- The proportion of residential customers aware they could choose from a range of different retailers increased to 72 per cent from 57 per cent in 2014.
- The proportion of residential customers satisfied with their electricity retailer fell to 67 per cent from 73 per cent in 2014. There was also a decrease in high ratings of the value for money provided by electricity retailers.

Many customers who shop around may be able to make significant savings. Residential customers on average considered that they would need to save \$230 annually to seriously consider changing electricity retailer or plan. AEMC analysis shows that a representative customer comparing electricity flat rate market offers through the Energy Made Easy website could find an offer that is as much as \$330 a year cheaper than the most expensive. The level of potential savings differs with energy consumption, discount eligibility and type of contract.

Retail customers have diverse energy demands. An energy offer that is good value for one customer may be expensive for another customer with a different consumption level or different needs and circumstances. It is important that customers have access to clear information about what they are signing up to and that customers consider their personal circumstances when choosing a plan.

Governments have a role to play in building the confidence of customers to shop around, for example, by promoting price comparator websites and phone numbers. Across the NEM, customers who used price comparator websites to investigate their options were significantly more aware of the choices available to them and also more confident they could find the right information to help choose an energy plan.

The findings for the ACT against our competitive market indicators are summarised below.

Customer activity: The majority of ACT customers are aware of their ability to choose retailers but awareness remains significantly lower than the NEM average. ACT customers are also less confident than in other jurisdictions that they can find an energy offer that is right for them. Electricity retailer switching levels remained very low at 1.5 per cent in 2014.

Customer outcomes: The majority of ACT customers were satisfied with their retailer in general and the value for money and customer service provided. However, some customers have negative experiences; nine per cent of residential customers were dissatisfied with their electricity retailer and 0.1 per cent of small electricity customers made a complaint to the ACT Civil and Administrative Tribunal.

Barriers to entry, exit and expansion: One retailer entered both the retail electricity and gas markets in late 2014. The median responses to the retailer survey suggest entry and expansion in gas or electricity markets is difficult. Barriers included retail price regulation, dominance of the incumbent and the small size of the market. Three second tier retailers may consider entry into the retail electricity market and one may consider entry into the retail gas market, although they had no firm plans to do so. Retail respondents considered there had been no change in either entry or expansion conditions in the electricity market in the last year.

Independent rivalry: Despite the very high market concentration, there is some evidence of rivalry. Both electricity and gas retailers differentiate their products through a range of discounts, incentives, GreenPower options and other contract terms.

Competitive retail prices: Based on analysis for a representative electricity customer, different offers would result in a range of total expenditure and customers should shop around to get the best deal for their needs.

7.2 Market characteristics

In the first quarter of 2015, there were four electricity retail brands supplying approximately 177,000 small electricity customers, and three gas retail brands supplying 124,000 customers in the ACT.¹⁵¹

The electricity market is the smallest in the NEM, and the gas market is the second smallest in the NEM. Average household gas consumption is close to double the New South Wales average and 80 per cent of Victoria's average.

Full retail contestability was introduced for small customers¹⁵² in the ACT in 2002 for gas and 2003 for electricity. At this time, regulation of retail gas prices was removed. Price regulation has been retained for electricity and these prices are determined by the Independent Competition and Regulatory Commission. In June 2014, the Commission set the regulated standing offer electricity prices for the three year period until 30 June 2017.¹⁵³

The ACT adopted the National Energy Customer Framework (NECF) on 1 July 2012. Retailers are required to offer standard contracts with regulated terms and conditions and a regulated price. Retailers can also offer market contracts with the price determined by retailers.

¹⁵¹ Australian Energy Regulator, Service Providers & Assets for ActewAGL, accessed 30 May 2015 at: <http://www.aer.gov.au/node/4816> and <http://www.aer.gov.au/node/4775>.

¹⁵² Small customers are defined in the ACT as consuming less than 100 megawatt hours per annum.

¹⁵³ Independent Competition and Regulatory Commission, *Price Direction – Standing offer prices for the supply of electricity to small customers*, 1 July 2014 to 30 June 2017.

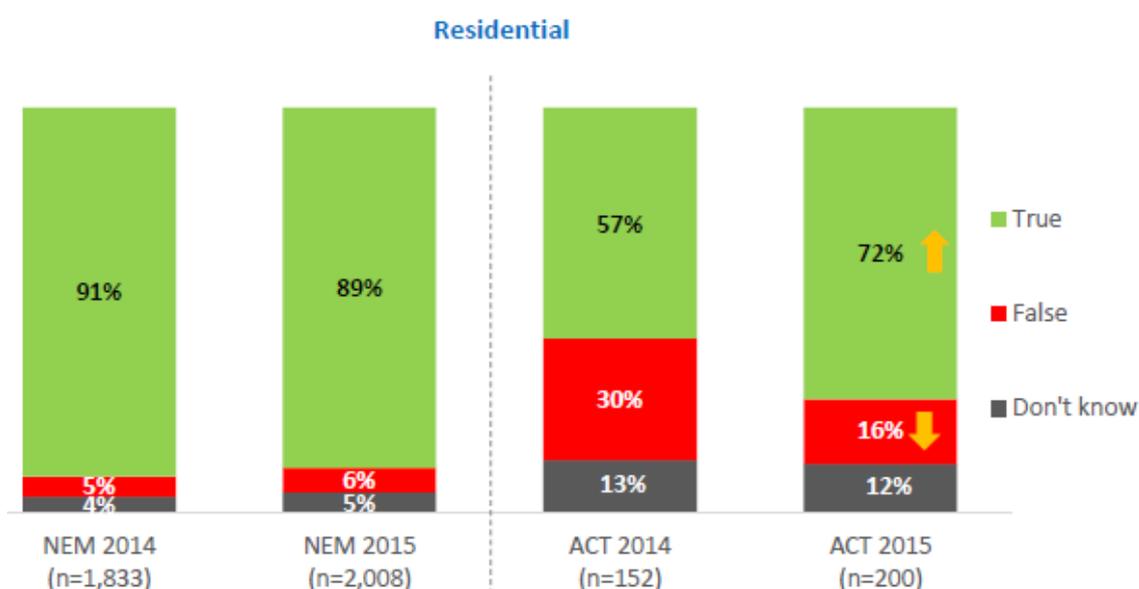
7.3 Customer activity in the market

Our analysis of this indicator considers the findings of a customer survey performed by Newgate Research and data provided to the AEMC on customer switching. See Chapter 2 for further details of our methodology.

7.3.1 Customer awareness and understanding

Customers in the ACT were more aware than they were in 2014 that they have a choice of retailer, but their awareness remains significantly below the NEM average (Figure 7.1). Of those surveyed in the ACT, 72 per cent of residential customers and 73 per cent of small businesses were aware they could choose their electricity retailer compared to the NEM average of 89 per cent and 94 per cent respectively. This is an improvement on results from the 2014 survey of 15 percentage points for residential customers and 10 percentage points for small business customers.

Figure 7.1 Customers in your territory can choose their electricity plans?



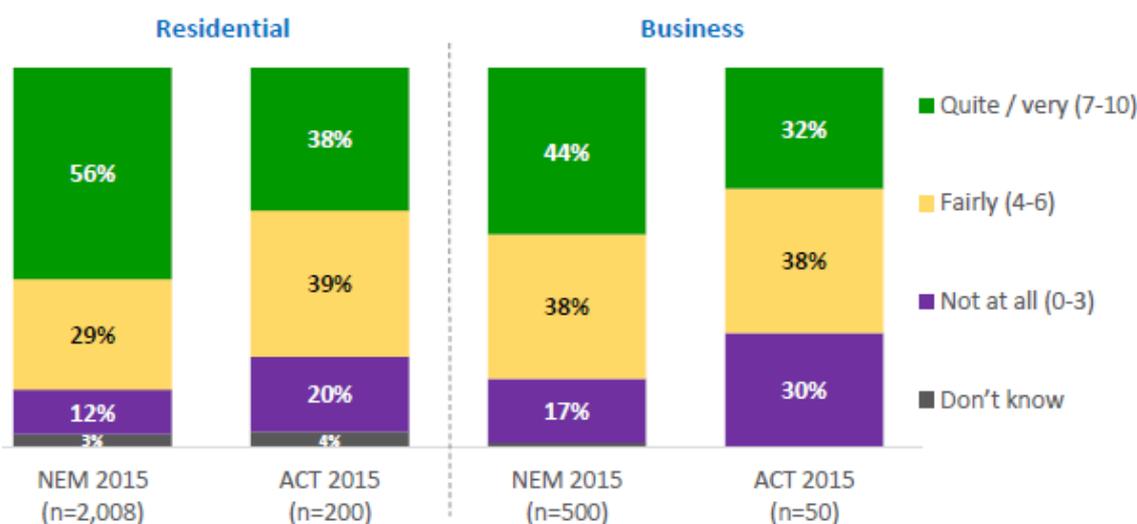
Source: Newgate Research, Consumer Research for Nationwide Review of Competition in Retail Energy Markets, June 2015, p257. Survey question: Do you think it is true or false that consumers in your territory can choose from a range of different types of electricity plans, price structures, contract lengths and terms? Customers surveyed: All.

7.3.2 Customer confidence

Residential and small business customers in the ACT appear to be less confident than in other NEM jurisdictions that they can choose an energy option that is right for their household or business (Figure 7.2). Thirty eight per cent of residents and 32 per cent of businesses were quite to very confident they can choose the right energy option.

Confidence levels varied depending on the respondent's age, financial situation and level of activity in the market. Confidence levels were significantly higher for customers that either had solar panels or received energy rebates or concessions. Customers experiencing difficulty paying their energy bills were less likely to be confident they could choose the right energy plan for their needs.

Figure 7.2 Confidence in choosing the right energy option



Source: Newgate Research, Consumer Research for Nationwide Review of Competition in Retail Energy Markets, June 2015, p260. Survey question: How confident are you that you can choose an energy offer that is right for your household or business? Customers surveyed: All.

Higher confidence levels were reported for customers that had actively investigated energy offers in the past 12 months. These survey results suggest that customers may feel more confident about switching plan or retailer if they are encouraged to take the first step of investigating the options available to them.

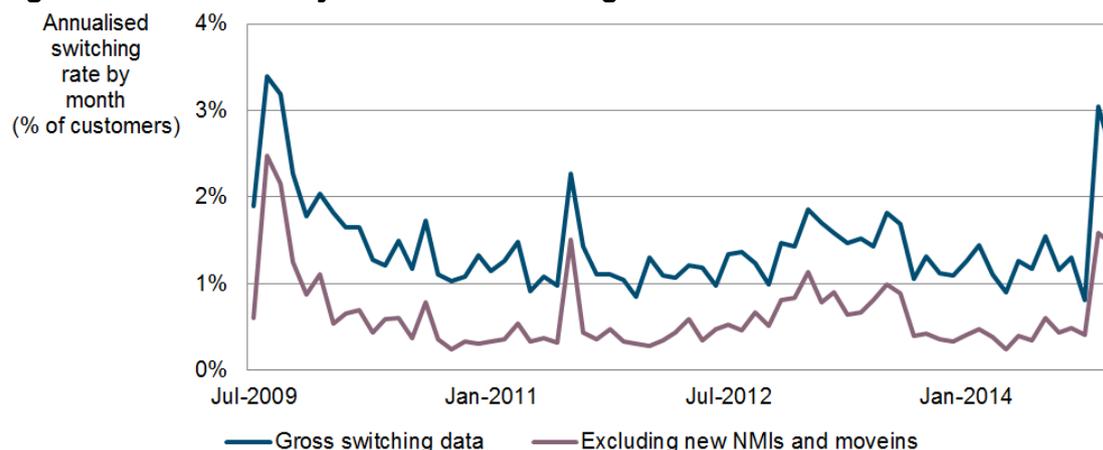
7.3.3 Customers investigating offers and switching

Almost 20 per cent of ACT residents reported that they had actively investigated energy options to switch to in the past 12 months, about 12 percentage points below the NEM average. This was an increase of nine percentage points on results reported in the 2014 survey. Almost 10 per cent of small business customers reported they had actively investigated energy options to switch to in the past 12 months, significantly below the NEM average of 34 per cent but higher than the six per cent recorded in 2014.

AEMO data on customer transfers between retailers for electricity in Figure 7.3 illustrates customer switching rates in the ACT remain low in 2014. This data should be interpreted with caution, as discussed in Chapter 2, but can provide an indication of the level of customer activity in a market.

The average gross switching rate during 2014 was 1.5 per cent, consistent with the switching rate in 2013.

Figure 7.3 Electricity customer switching rates - ACT



Source: AEMC data, AEMC analysis.

The ACT had the lowest electricity switching rate in 2013 and 2014 of all the NEM jurisdictions that allow retailers to compete for customers. Over the past five years, rates for switching retailer have not exceeded 3.5 per cent.

Switching rates can underestimate the level of customer activity as they do not include customers who switched plans with the same retailer, however this is unlikely to be significant in the ACT. Retailers that responded to the 2015 retailer survey rated switching between a retailer's different offers as between non-existent and minimal in the ACT.

Price and moving house remain key drivers of switching behaviour

Customer surveys suggest the key reason for switching energy retailer or plan in all NEM jurisdictions was to obtain a better price. Of the few customers in the ACT who did report switching electricity retailer, 48 per cent cited price related reasons for doing so.

Residential customers on average considered that they would need to save \$230 annually to seriously consider changing electricity retailer or plan. They would on average consider switching gas retailer or plan for annual savings of \$210. Small business customers considered they would on average need to save \$960 in order to seriously consider switching electricity retailer.

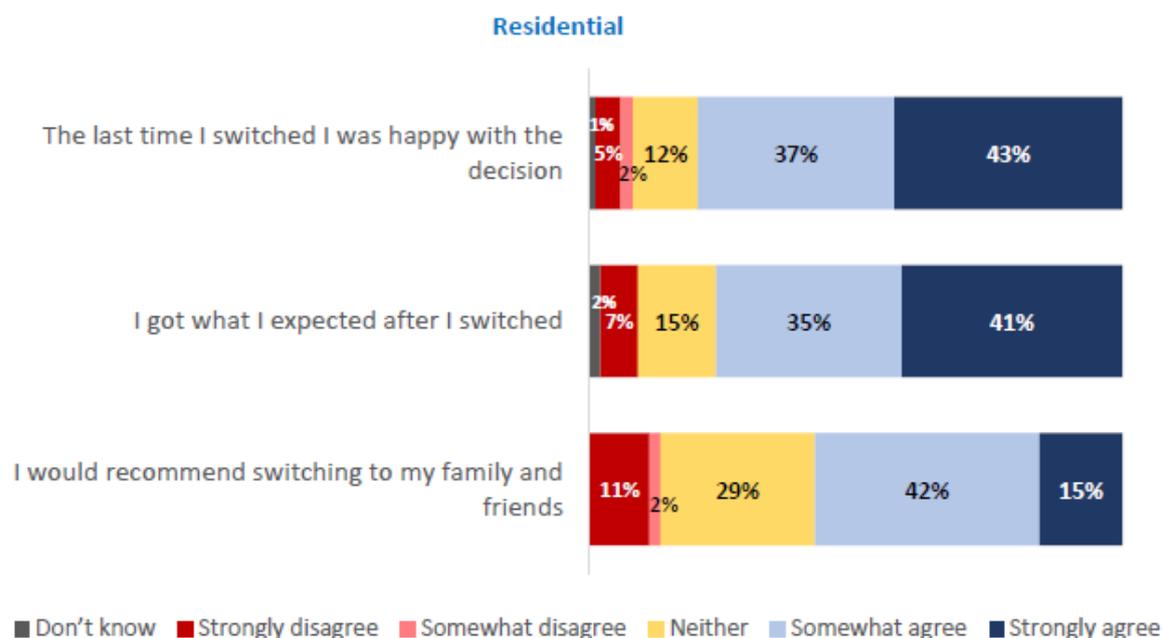
Second to price related reasons was moving house, with 26 per cent of respondents citing this as their main reason for switching. This is a reduction of six percentage points from the 2014 survey. In NEM jurisdictions that have had full retail contestability for a longer period of time, this was the main reason for between 10 and 12 per cent of those who had switched.

Most customers are satisfied with their decision to switch retailer or plan

Eighty per cent of residential customers who switched electricity retailer or plan were happy with the decision to switch (Figure 7.4). Almost 80 per cent considered that they got what they expected after switching.

Note that due to the low switching rates in the ACT the sample size for this question is relatively small, yet still above the threshold considered likely to produce robust results.

Figure 7.4 Satisfaction with decision to switch electricity retailer or plan



Source: Newgate Research, Consumer Research for Nationwide Review of Competition in Retail Energy Markets, report for the AEMC, June 2015, p270. Survey question: To what extent do you agree or disagree with the following? Customers surveyed: Respondents who had switched electricity company or plan.

Fifty seven per cent of residential customers considered they would recommend to family and friends switching electricity retailer or plan. These results are not considered unusual for low customer involvement products such as energy.

The main reasons for satisfaction with switching decisions related to savings and cheaper prices, followed by improved customer service. Almost 65 per cent of residential electricity customers listed their main reasons for being satisfied with switching as being related to savings or price.

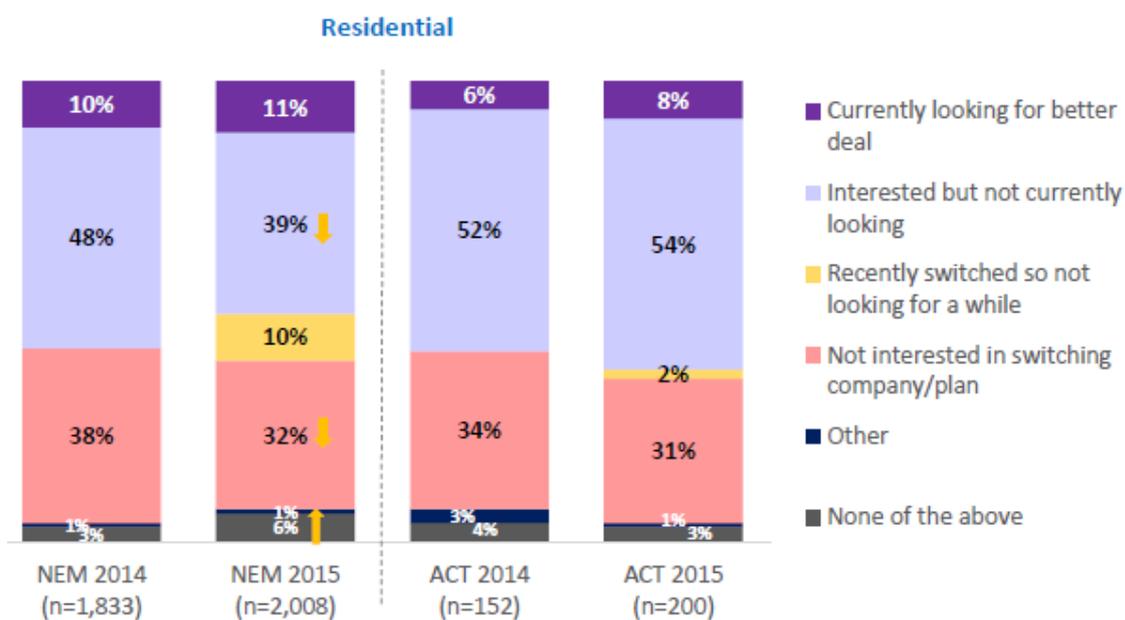
Interest in looking for a better deal

Sixty two per cent of ACT customers surveyed are currently looking for a better energy deal or are interested in doing so (Figure 7.5). This is a higher proportion than the NEM average of 50 per cent.

Compared with 2014, more residential and small business customers are currently looking for a better energy deal. Eight per cent of residential customers are currently looking for a better energy deal, up from six per cent last year. Seventeen per cent of small business customers are currently looking for a better energy deal, up from four per cent. Just under a third of customers surveyed in the ACT said they were not interested in switching company or plan.

The response options for this question changed in 2015 to include those not looking for a better deal because they recently switched. Due to low switching rates in the ACT, only two per cent of residential and three per cent of business customers fall into this category.

Figure 7.5 Interest in looking for a better energy deal



Source: Newgate Research, Consumer Research for Nationwide Review of Competition in Retail Energy Markets, June 2015, p275. Survey question: Which of the above statements is most applicable to your household? Customers surveyed: All.

Barriers to switching

The reasons most commonly cited by residential customers for not investigating offers or switching were “no particular reason”, satisfaction with their current retailer, a perception that it would be too much hassle or a perceived lack of value in switching (Figure 7.6).

The proportion of ACT residents citing no alternatives available as their key reason for not switching or investigating options halved in 2015 compared to 2014, which could reflect an increase in options with the entry of Origin Energy in late 2014.

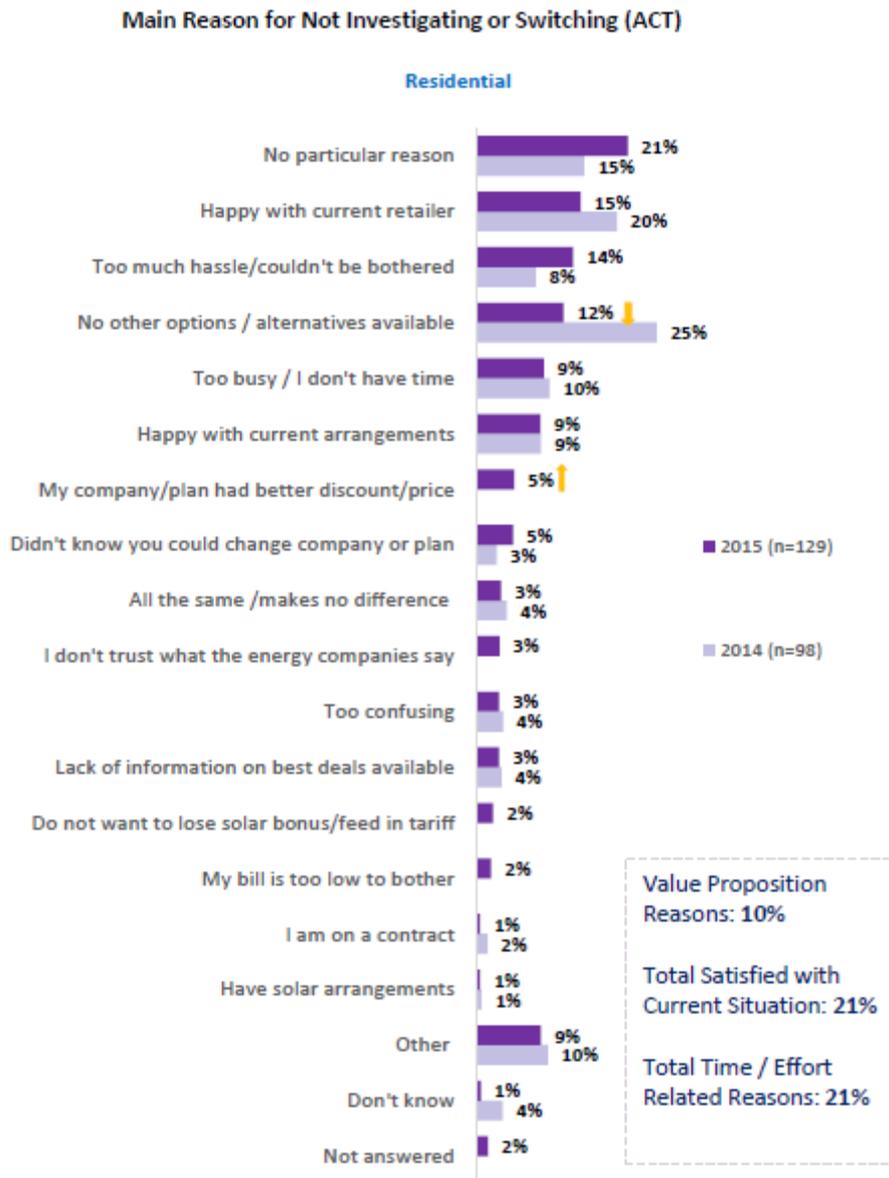
Small business customers were more likely not to have investigated switching due to being too busy or not having enough time.

Customers may be more inclined to shop around for a better deal if they were aware of the savings that could be available for them. AEMC analysis shows that a representative customer comparing electricity flat rate market offers through the Energy Made Easy website could find an offer that is as much as \$330 a year cheaper than the most expensive (section 7.7). This is significantly more than the average amount of \$230 that residential customers considered they would need to save in order to seriously consider switching. The level of potential savings differs with energy consumption, discount eligibility and type of contract.

Most residential customers considered that it was at least “fairly easy” to compare different offers when deciding whether or not to switch, however other industries performed better in this regard (Figure 7.7). More residents considered that it was difficult to compare offers for electricity in the ACT than some other products and services.

Note that due to the low switching rates in the ACT the sample size for this question is relatively small, yet still above the threshold considered likely to produce robust results.

Figure 7.6 Reasons for not investigating or switching

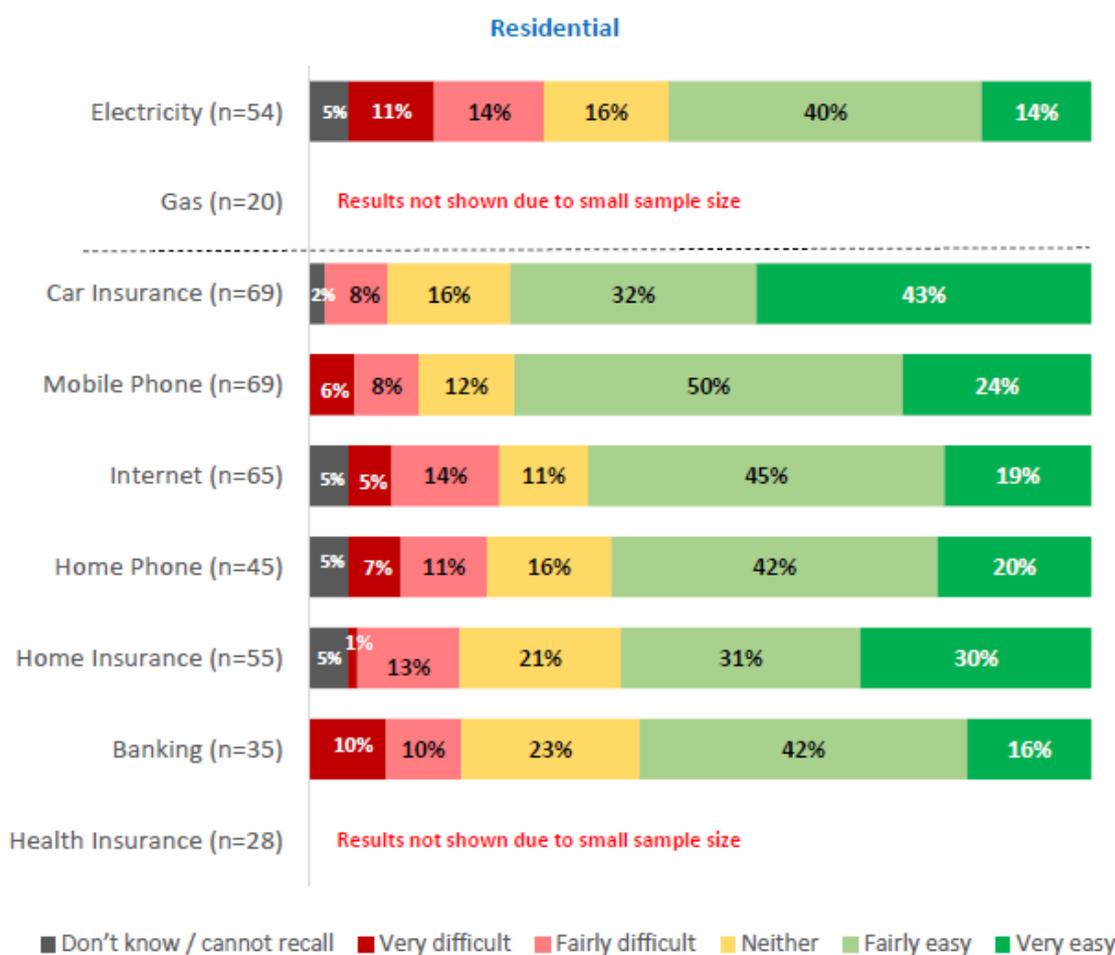


Source: Newgate Research, Consumer Research for Nationwide Review of Competition in Retail Energy Markets, June 2015, p273. Survey question: Are there any reasons you haven't investigated different options or why you haven't changed your energy company or plan in the last 12 months? Customers surveyed: Respondents who had not investigated offers and options or switched in the past 12 months.

Some of the customer issues highlighted above could be addressed through promoting greater awareness of the Energy Made Easy price comparator website.¹⁵⁴ This website is operated by the AER and can help reduce the time and complexity of finding and comparing energy plans and demonstrate potential savings for customers.

¹⁵⁴ Energy Made Easy website: <http://www.energymadeeasy.gov.au>.

Figure 7.7 Ease of comparing offers when making switching decisions



Source: Newgate Research, Consumer Research for Nationwide Review of Competition in Retail Energy Markets, report for the AEMC, June 2015, p272. Survey question: The last time you switched, how easy or difficult was it for you to compare the different offers when deciding whether or not to switch? Customers surveyed: Respondents who had switched electricity or gas company or plan.

7.4 Customer outcomes

Our analysis of this indicator considered the findings of customer surveys and data on customer complaints. See Chapter 2 for further details of our methodology.

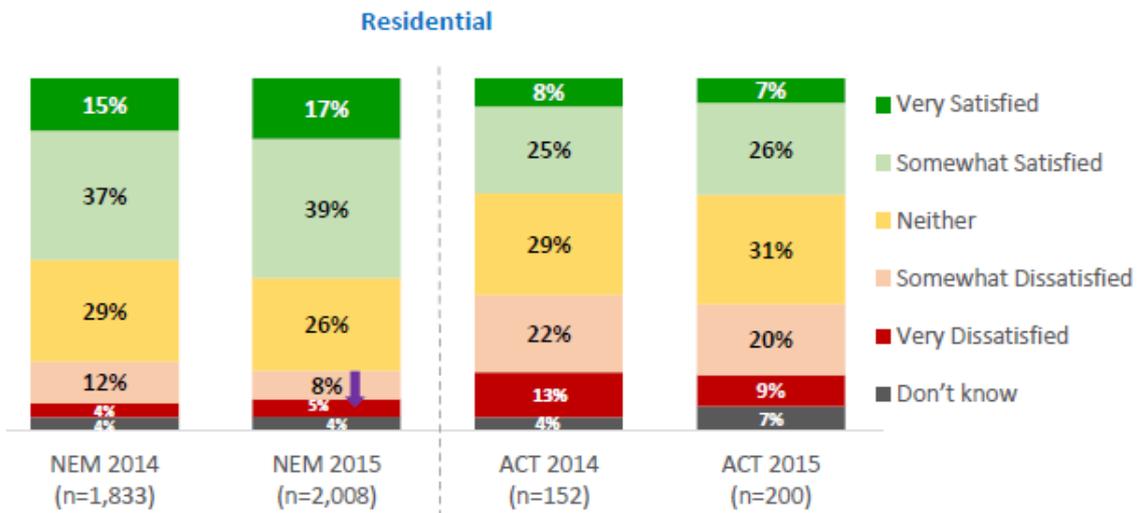
7.4.1 Satisfaction with the level of choice

Customer satisfaction with the level of choice in the ACT was the lowest of all surveyed jurisdictions in which residential customers can choose their electricity retailer.

Thirty three per cent of residential customers were at least somewhat satisfied with the level of market choice in the ACT, well below the NEM average of 56 per cent (Figure 7.8). ACT residents were more than twice as likely as those in other NEM jurisdictions to be dissatisfied with the level of market choice.

Satisfaction levels should be interpreted carefully. Focus groups conducted in 2014 suggest high satisfaction ratings often related to an absence of negative issues with their retailer rather than a particularly positive experience. Similarly, low levels of dissatisfaction do not necessarily imply high levels of satisfaction.

Figure 7.8 Satisfaction with the level of market choice



Source: Newgate Research, Consumer Research for Nationwide Review of Competition in Retail Energy Markets, report for the AEMC, June 2015, p280. Survey question: How satisfied are you with the level of choice available to consumers in your territory? Customers surveyed: All.

Thirty per cent of small business customers were dissatisfied with the level of market choice in the ACT, compared with the NEM average of 20 per cent.

7.4.2 Satisfaction with retailers

Sixty seven per cent of residential customers were somewhat or very satisfied with their electricity retailer, down from 73 per cent in 2014 (Figure 7.9). The proportion of residents that were “very” satisfied with their retailer decreased from 40 per cent to 27 per cent.

Residential customer satisfaction also decreased slightly for gas retailers, with a similar significant decrease in customers who stated they were “very” satisfied with their gas retailer.

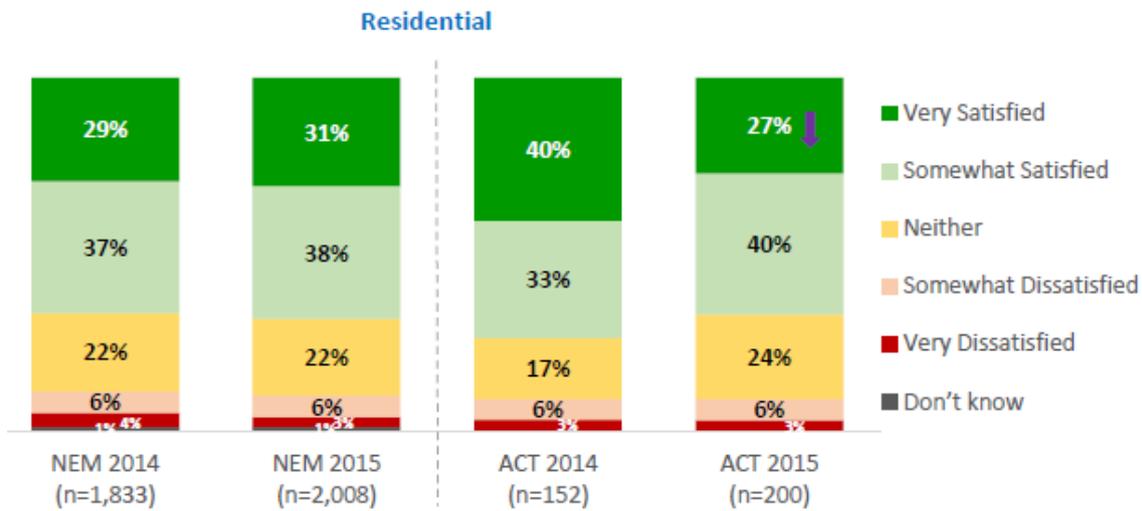
Seventy three per cent of small business customers were at least somewhat satisfied with their electricity retailer, similar to results in 2014 (Figure 7.10).

Respondents were also asked about their satisfaction with the level of their retailer’s customer service. The overall quality of customer service for electricity retailers was perceived as good or excellent by 64 per cent of residents and 69 per cent of small businesses.

Forty five per cent of residential customers rated the value for money provided by their electricity retailer as seven out of 10 or higher, a decrease of 11 percentage points from the 2014 survey (Figure 7.11).

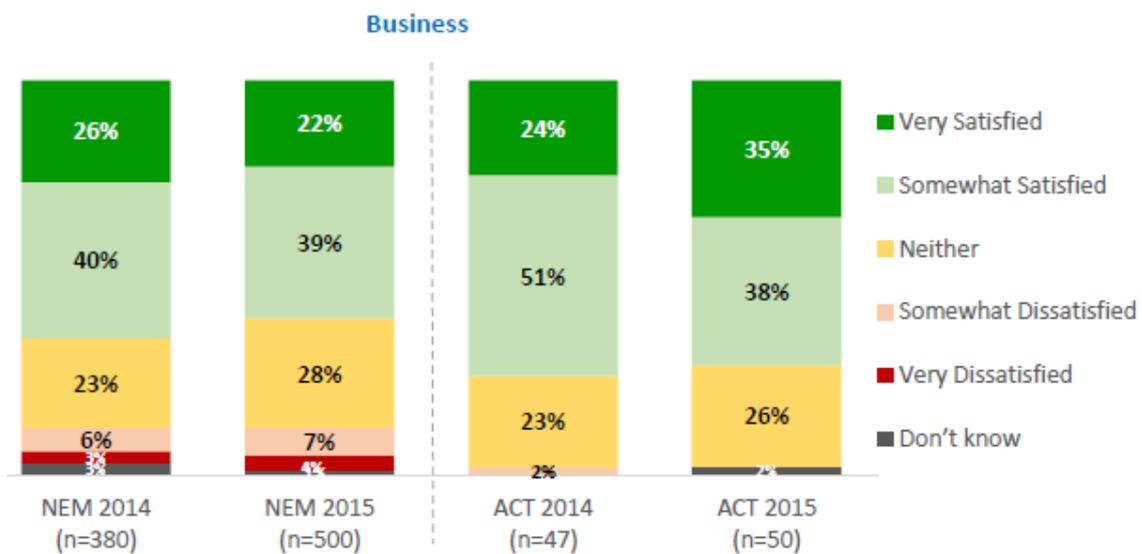
ACT customers are now less satisfied with the overall value for money provided by their electricity retailers than the NEM average, which increased in 2015 for both electricity and gas.

Figure 7.9 Satisfaction with current electricity retailer - residential



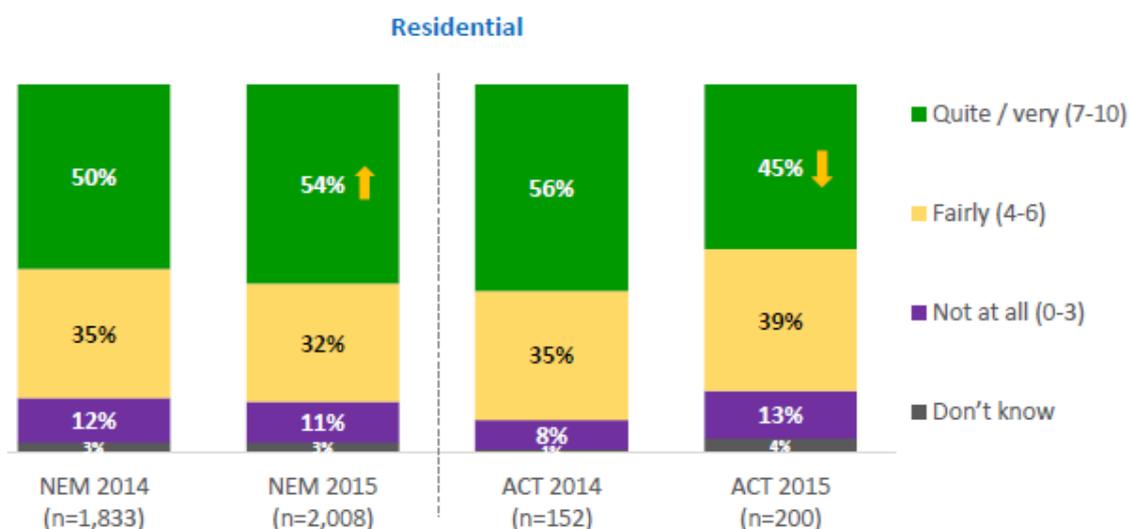
Source: Newgate Research, Consumer Research for Nationwide Review of Competition in Retail Energy Markets, report for the AEMC, June 2015, p281. Survey question: How satisfied are you with your current electricity company? Customers surveyed: All.

Figure 7.10 Satisfaction with current electricity retailer – small business



Source: Newgate Research, Consumer Research for Nationwide Review of Competition in Retail Energy Markets, report for the AEMC, June 2015, p281. Survey question: How satisfied are you with your current electricity company? Customers surveyed: All.

Figure 7.11 Satisfaction with value for money - electricity

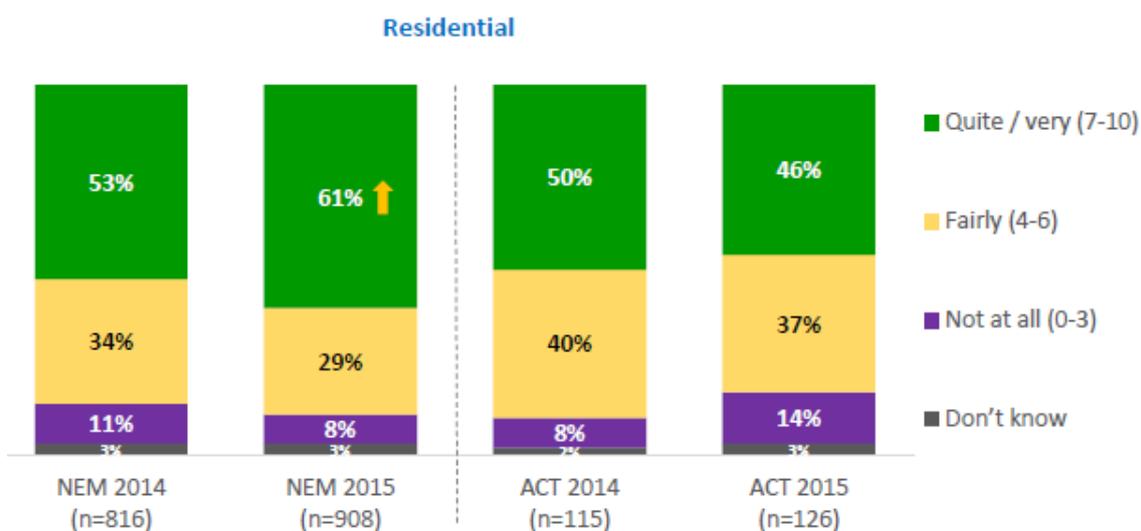


Source: Newgate Research, Consumer Research for Nationwide Review of Competition in Retail Energy Markets, report for the AEMC, June 2015, p282. Survey question: How would you rate the overall value for money of the products and services provided by your electricity company? Customers surveyed: All.

Small business customers are more satisfied than they were in 2014 with the overall value for money provided by their electricity retailer. Fifty eight per cent of small businesses rated the value for money provided by their electricity retailer as seven out of 10 or higher, up from 42 per cent in 2014. This is also well above the NEM average, which decreased from 52 per cent in 2014 to 37 per cent this year.

ACT customers are less satisfied with the value for money provided by their gas retailers than the NEM average (Figure 7.12). Satisfaction with the value for money provided by gas retailers reduced from 50 to 46 per cent, compared with the NEM average which increased from 53 to 61 per cent.

Figure 7.12 Satisfaction with value for money – gas



Source: Newgate Research, Consumer Research for Nationwide Review of Competition in Retail Energy Markets, report for the AEMC, June 2015, p284. Survey question: How would you rate the overall value for money of the products and services provided by your gas company? Customers surveyed: All.

Customers currently experiencing difficulty paying their energy bills were less likely to consider that their retailer provided value for money.

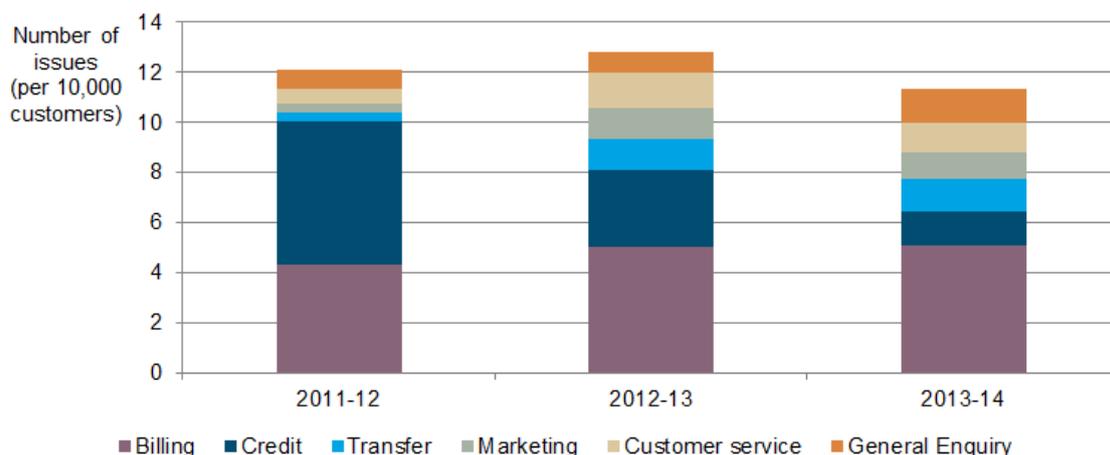
Customers in the ACT may be eligible for concessions or emergency relief. Pensioners, Health Care Card holders and veterans can be eligible for concessions through the Energy Concession and the added Utility Concession. Concessions are further discussed in Appendix F.

Complaints to the Tribunal

In 2013-14, the number of issues raised with the ACT Civil and Administrative Tribunal regarding electricity retailers was slightly lower than in 2012-13 (Figure 7.13).¹⁵⁵ The level of complaints is the lowest it has been in the three years for which data is available.

Note that issues raised with the Tribunal include referrals back to retailers, which are also captured in complaints to retailers described above.

Figure 7.13 Electricity complaints to the ACT Civil and Administrative Tribunal - number of issues



Source: Complaints data from the Tribunal, customer numbers from AEMO, AEMC analysis.

For the retail gas market in 2013-14, the number of issues raised with the Tribunal was lower than in the previous two financial years (Figure 7.14).

Billing issues remained the largest proportion of issues for both retail electricity and gas issues raised with the Tribunal, remaining steady for electricity and falling slightly for gas. Transfer issues raised with the Tribunal regarding electricity retailers increased slightly and marketing issues fell slightly. However transfer and marketing issues raised with the Tribunal regarding gas retailers both increased significantly, but remain a small portion of the total gas issues raised.

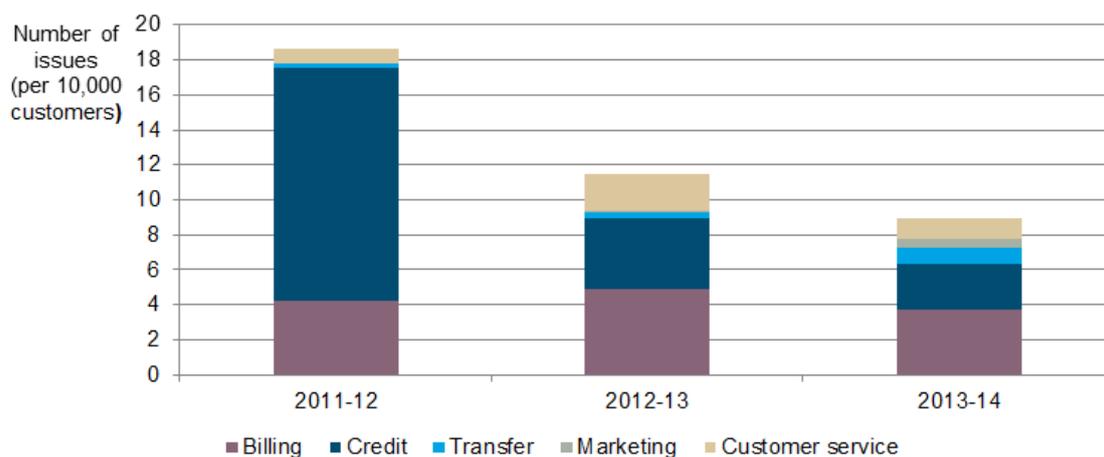
Although the data appears to show that the number of credit issues raised with the Tribunal has decreased significantly, this is unlikely to be the case. The Tribunal handles many credit issues through its hardship program and these hardship matters are not reported as complaints in the data presented in Figure 7.13 and Figure 7.14. The Tribunal received 626 electricity hardship applications and 192 gas hardship

¹⁵⁵ Data on complaints to the Tribunal excludes cases which were out of jurisdiction or not complaints.

applications in 2013-14, equating to 36 and 15 applications per 10,000 customers, respectively.

The number of credit issues raised with Ombudsmen in most other NEM jurisdictions increased significantly. Due to the differences in the way that the Tribunal handles credit issues outlined above, it is unclear if a similar increase in credit related issues has occurred in the ACT.

Figure 7.14 Gas complaints to the ACT Civil and Administrative Tribunal – number of issues



Source: Complaints data from the Tribunal, customer numbers from AEMO and Energy Supply Association of Australia (ESAA) Electricity Gas Australia reports, AEMC analysis.

Complaints to retailers

While the number of issues raised with the Tribunal in 2013-14 decreased compared to previous years, the number of issues raised directly with electricity and gas retailers over the same period increased by 34 per cent.¹⁵⁶

Billing issues includes complaints about prices, billing errors, payment arrangements, debt recovery practices and disconnections. The number of billing issues raised with retailers increased significantly and remains the largest category of issues raised. The category of “other” issues raised with retailers also increased significantly, up by 61 per cent. This category of issues includes, among others, customer service issues. This corresponds to a similar increase in “other” issues raised in other NEM jurisdictions. Marketing issues raised with retailers fell by over 90 per cent.

7.5 Barriers to entry, exit and expansion

Our analysis of this indicator considers evidence of entry, exit and expansion and the findings of a retailer survey performed by K Lowe Consulting and Farrier Swier Consulting.¹⁵⁷

Since the 2014 competition review, Origin Energy entered the small customer segment of the ACT retail electricity and gas markets.

¹⁵⁶ This is evident from data provided to the AEMC by the AER, for further details of the methodology see Chapter 2.

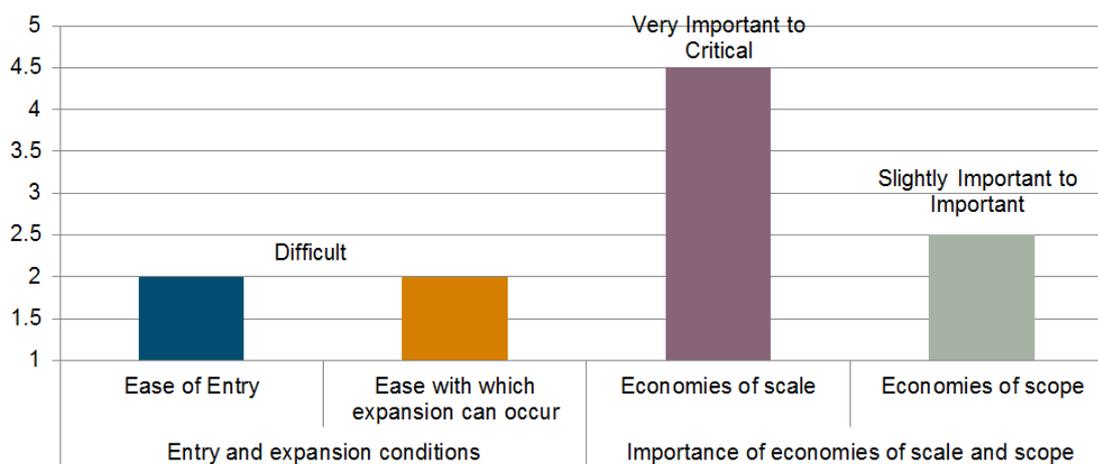
¹⁵⁷ See Chapter 2 for discussion of our methodology.

7.5.1 Retail electricity market - Ease of entry and expansion

The median rating from the retailer survey suggests that entry and expansion were difficult in the ACT retail electricity market. Views varied, with some retail respondents considering that entry and expansion were more difficult than others (Figure 7.15).

The survey's median ratings also suggest that for retailers to compete effectively, economies of scale were critical, while economies of scope were important.

Figure 7.15 Median rating survey results - ACT retail electricity markets



Source: K Lowe, Draft AEMC 2015 Retail Competition Review: Retailer Survey – Report for the AEMC, June 2015.

Retail respondents considered there had been no change in either entry or expansion conditions in the electricity market in the last year.

Impediments to entry and expansion

Retail respondents claimed the following factors were impeding entry and expansion in the ACT retail electricity market, which are broadly consistent with responses to the 2014 survey:¹⁵⁸

- Retail price regulation:** The existing retail price regulation and the way it is applied by the Independent Competition and Regulatory Commission, which has reportedly resulted in retailers having little financial incentive to enter this market. The regulated retail price does not include a customer acquisition and retention cost allowance and the retail operating costs are based on ActewAGL's costs rather than a new entrant's costs.¹⁵⁹
- Dominance of the incumbent:** The dominance of the incumbent, ActewAGL, which is reinforced by the degree of loyalty exhibited by ACT customers and ActewAGL's bundling of electricity with other services.

¹⁵⁸ K Lowe Consulting and Farrier Swier Consulting, *AEMC 2014 Retail Competition Review: Retailer Interviews*, June 2014, p13.

¹⁵⁹ In the 2014 survey, retail respondents raised a number of concerns about the way in which retail price regulation is applied in the ACT and claimed that it provides retailers with little or no incentive to enter the market.

- **State based schemes:** The obligation in the ACT for retailers to offer GreenPower products to customers in the first instance. The Energy Efficiency Improvement Scheme in the ACT was viewed as problematic by a small number of retail respondents, with one retail respondent reporting that once the customer threshold is reached, the cost to serve all customers increases because the scheme applies retrospectively in a compliance year to the whole customer base. The ACT Government is currently progressing amendments to the Energy Efficiency Improvement Scheme that ensure the scheme does not apply retrospectively.¹⁶⁰
- **Size of market:** The relatively small number of customers makes this market less attractive to some new entrants.

Similar to some other NEM jurisdictions, prudential arrangements, AEMO certification and registration costs and access to competitively-priced hedging products were also raised as impediments by retail respondents (see section 3.2.2 for a discussion of these barriers).

Outlook for barriers in the next one to two years

Retail respondents do not expect to see any change in the ease with which entry or expansion can occur in the ACT retail electricity market in the next one to two years. Three second tier retailers indicated they may consider entry into this market, although they had no firm plans to do so at this stage.

One retail respondent noted that, despite the impediments in the market, it made sense to enter given the proximity of the ACT market to the larger NSW market. Another retailer noted that while the electricity market has its own set of challenges, the application of NECF in the ACT made it an easier market to enter.

One retail respondent stated that it would not contemplate expansion until retail price regulation was removed. Another speculated that larger retailers may be placing greater emphasis on expansion now because they have recently bedded down significant investments in IT and billing systems and so are better placed to expand.¹⁶¹

7.5.2 Retail gas market - Ease of entry and expansion

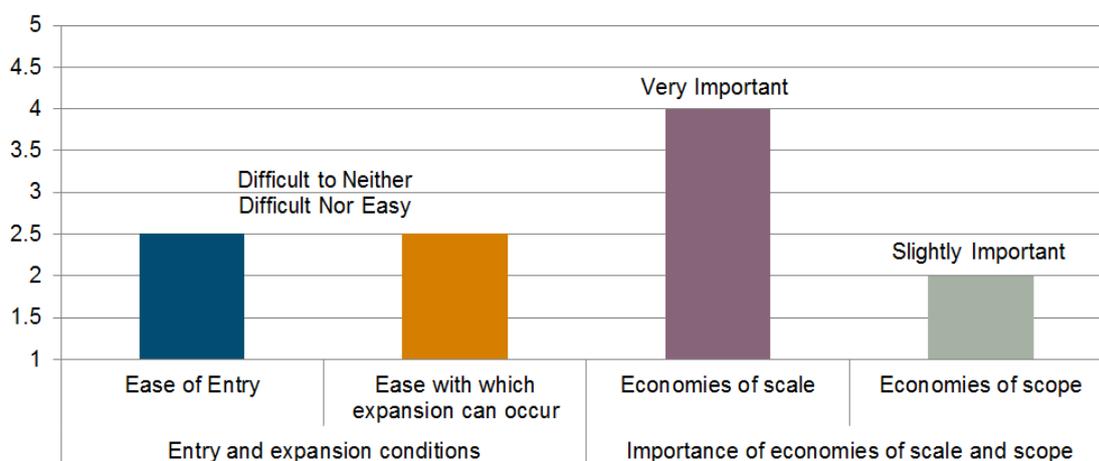
In the ACT retail gas market the median rating from the retailer survey suggests that entry and expansion into the market was difficult, however views varied with some retail respondents considering that entry and expansion were more difficult than others (Figure 7.16).

The survey's median ratings also suggest that for retailers to compete effectively in this gas market, economies of scale were very important, while economies of scope were slightly important.

¹⁶⁰ Energy Efficiency (Cost of Living) Improvement Amendment Bill 2015. Viewed 9 June 2015, http://www.legislation.act.gov.au/b/db_51862/current/pdf/db_51862.pdf

¹⁶¹ This comment has been validated to some extent by the larger retailers.

Figure 7.16 Median rating survey results - ACT retail gas markets



Source: K Lowe, Draft AEMC 2015 Retail Competition Review: Retailer Survey – Report for the AEMC, June 2015.

Impediments to entry and expansion

Retail respondents identified the following factors as potentially impeding entry and expansion in the ACT retail gas market:

- **Dominance of the incumbent:** The dominance of ActewAGL can impede entry and expansion in this market.
- **Size of market:** The relatively small number of customers makes this market less attractive to some new entrants.
- **Wholesale gas market conditions:** Access to and the price of gas, particularly given the tightening supply and demand conditions in the wholesale gas market.
- **Capacity on transmission pipeline:** Access to, and the price of, capacity on transmission pipelines.

Outlook for retail gas barriers in the one to two years

Most retail respondents do not expect to observe any changes in entry or expansion conditions in the gas market next one to two years, but a small number have noted the potential for tightening supply and demand conditions in the wholesale gas market to affect this market.

One second tier retailer indicated they may consider entering the ACT retail gas market if it enters the ACT retail electricity market. This retailer made it clear however that it has no firm plans to enter at this stage.

7.6 Independent rivalry

The AEMC's assessment of this competitive indicator has considered information on market concentration and product differentiation.¹⁶² See Chapter 2 for further details of our methodology.

7.6.1 Market concentration

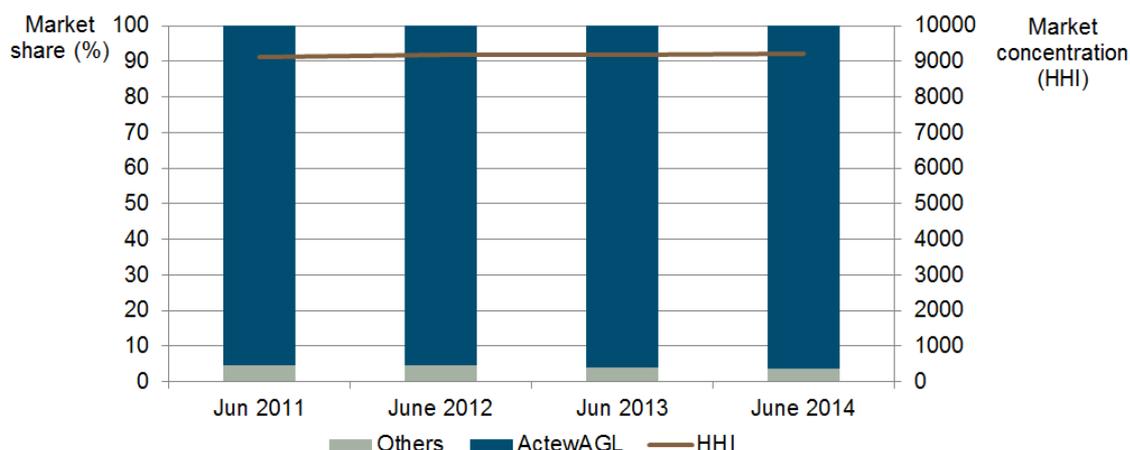
Retail electricity market

As at February 2015, there are four retail electricity brands in the ACT: ActewAGL, EnergyAustralia, Origin and ERM Power. Origin entered the ACT retail electricity market in September 2014. ERM Power only offers electricity to business customers, including small business.

ActewAGL dominates the retail electricity market, with 96 per cent of the total market share (June 2014; Figure 7.17).¹⁶³

The level of market concentration is very high as measured by the Herfindahl-Hirschman Index (HHI) at 9,165 (December 2014), down from 9,196 a year prior.¹⁶⁴ This is the highest level of market concentration out of any NEM jurisdiction outside of Tasmania.

Figure 7.17 Market shares in the ACT retail electricity market



Source: Market shares calculated from AER data; market concentration calculated from AEMO data; AEMC analysis

¹⁶² The trends in switching between different tiers are not significant in the ACT and we have not reported on these as we have in other jurisdictions.

¹⁶³ AEMC analysis based on AER data.

¹⁶⁴ The HHI is calculated by summing the squares of the market shares of each retailer, thereby giving more weight to larger retailers. The HHI ranges from 0 to 10,000. In an extremely competitive market the HHI approaches zero, and in a pure monopoly the HHI is 10,000. The ACCC in its Merger Guidelines notes that it is less likely to identify horizontal competition concerns when the post-merger HHI is less than 2,000.

Retail gas market

The retail gas market is very similar to the retail electricity market in terms of market share and concentration. There are three gas retailers: ActewAGL, EnergyAustralia and Origin Energy. Origin Energy entered the ACT retail gas market in September 2014, at the same time as it entered the retail electricity market.

ActewAGL dominates the market, with 96 per cent of the total market share (June 2014). Given the dominant position of ActewAGL the market concentration, as measured by the HHI, is very high at 9,232 down marginally from 9,250 a year prior.¹⁶⁵

7.6.2 Product differentiation

Small customers in the ACT have access to a more limited range of electricity and gas offers than small customers in other NEM jurisdictions.

The AEMC assessed the level of product differentiation in the retail electricity and gas markets in the ACT through information collected from the Energy Made Easy price comparator website. The analysis considers the level of differentiation between features of flat rate market offers available to residential customers on a particular day.¹⁶⁶ We did not consider two-rate or time of use offers as part of this analysis for reasons set out in Chapter 2, but note that retailers will differentiate offers through different tariff types. See Chapter 2 for a more detailed description of our methodology.

In addition to the differentiation features specific to certain market offers, retailers also differentiate their brand through service quality. Points of brand differentiation can include call centre operation hours, information provision, policies on hardship and complaints, policies on door knocking and cold calling, online account access and shop fronts for customers to visit and discuss their options.

Retail electricity market

For residential customers, the Energy Made Easy price comparator website had 17 flat rate market electricity offers from three different retailers on 27 February 2015.¹⁶⁷ The offers may not have been available in all postcode areas.

Two retailers offered discounts (conditional and/or unconditional) and three retailers offered GreenPower options to residential customers in the ACT. Only one 'other incentive' was available in the ACT on the date of the analysis, which was a \$25 credit towards your bill after 6 months of supply by Origin. Residential customers also had access to both offers with or without a fixed term, and offers with or without a termination fee (Table 7.1).¹⁶⁸

¹⁶⁵ AEMC analysis based on AER data.

¹⁶⁶ See Appendix G for a description of different types of offers.

¹⁶⁷ Refer to Appendix B for a complete list of retailers operating in the residential and small business segments in the ACT.

¹⁶⁸ Termination fee refers to that single fee only and excludes other fees that may be incurred if a customer ends the contract during their fixed term (e.g. disconnection fees).

For small business customers, the Energy Made Easy price comparator website had nine flat rate offers from three different retailers on 27 February 2015.¹⁶⁹ The level of product differentiation available to small business customers was similar to that available to residential customers (Table 7.2).

In the third quarter of 2014, 15,256 customers (around 9 per cent) in the ACT had accredited GreenPower.¹⁷⁰

Table 7.1 Product differentiation in residential flat tariff market offers for electricity

| | Range | Retailers |
|---------------------------------------|--------------|------------------|
| All offers | - | 3 |
| Unconditional discounts | 3-9% | 2 |
| Conditional discounts | 1-16% | 2 |
| Other incentives | Yes | 1 |
| GreenPower options | 10-200% | 3 |
| No fixed term / benefit period | Yes | 1 |
| Fixed term / benefit period | 1-3 years | 3 |
| No termination fee | Yes | 2 |
| Termination fee | \$50-90 | 2 |

Source: Energy Made Easy accessed on 27 February 2015; AEMC analysis

¹⁶⁹ Refer to Appendix B for a complete list of retailers operating in the residential and small business segments in the ACT. Note that ActewAGL only has standing offers available to small business customers so are not included in this analysis.

¹⁷⁰ Industry & Investment NSW, *National GreenPower Accreditation Program Status Report, Quarter 3: 1 July to 30 September 2014*, p4.

Table 7.2 Product differentiation in small business flat tariff market offers for electricity

| | Range | Retailers |
|--|--------------|------------------|
| All offers | - | 3 |
| Unconditional discounts | 1-14% | 2 |
| Conditional discounts | 1-3% | 2 |
| Other incentives | No | 0 |
| GreenPower options | 10-200% | 3 |
| No fixed term or fixed benefit period | Yes | 2 |
| Fixed term or fixed benefit period | 1-3 years | 3 |
| No termination fee | Yes | 3 |
| Termination fee | \$110-150 | 2 |

Source: Energy Made Easy accessed on 27 February 2015; AEMC analysis

Retail gas market

For residential customers, the Energy Made Easy price comparator website had 12 market offers from three gas retailers on 21 March 2015. For small business customers, the website had 11 offers from three retailers. In the ACT, there is no distinction between offers for urban and rural customers.

There is a slight difference in the types of features offered to gas customers in the ACT, with non-price incentives in the form of a credit on the first bill offered to residential customers but not small business customers. Conditional and unconditional discounts and contracts with fixed terms and no fixed terms are offered to both residential and small business customers. Offers with termination fees and no termination fees are available for both residential and small business customers, while the range of exit fees is larger for small business customers (Table 7.3).

Table 7.3 Product differentiation in residential market offers for gas

| | Residential | | Small business | |
|--------------------------------|--------------|------------------|----------------|------------------|
| | <i>Range</i> | <i>Retailers</i> | <i>Range</i> | <i>Retailers</i> |
| All offers | - | 3 | - | 3 |
| Unconditional discounts | 3-11% | 2 | 3-12% | 2 |
| Conditional discounts | 1-11% | 2 | 1-3% | 2 |
| Other incentives | Yes | 1 | No | 0 |
| No fixed term | Yes | 2 | Yes | 3 |
| Fixed term | 1-3 years | 2 | 1-3 years | 2 |
| No termination fee | Yes | 3 | Yes | 3 |
| Termination fee | \$50-90 | 1 | \$50-150 | 2 |

Source: Energy Made Easy accessed on 21 March 2015; AEMC analysis

7.7 Competitive retail prices

Our analysis of this indicator considers the total annual expenditure of a representative residential customer on the electricity market offers available in the ACT.¹⁷¹

We grouped flat tariff residential market offers available in the ACT on the 27 February 2015 by offer characteristics, on the expectation that the total annual expenditure for offers with similar characteristics will converge to reflect a narrower range than would be observed across all products. In the ACT, we grouped offers by offer type, GreenPower and contract term. The analysis provides a ‘snapshot’ of prices for a representative customer on a selection of offers available on a certain day, and should therefore be interpreted with caution. See Chapter 2 for a full description of our methodology.

Figure 7.18 shows the range of total annual expenditure for each market offer available in the ACT. The total annual expenditure reflects all unconditional discounts and price incentives. It also reflects pay on time and direct debit conditional discounts. We have not included bundling discounts available on the ActewAGL plans in the total annual expenditure. We have distinguished between big three retailers (which includes second tier retailers owned by a big three retailer, such as Powerdirect) and second tier retailers.

The total annual expenditure across all offers on the ActewAGL network including all GreenPower options had a total range of \$770. The range decreased to \$600 when we considered only offers which have GreenPower. The range for offers with no GreenPower was \$330. The range decreased as the offer definition became narrower.

¹⁷¹ See Appendix H for definition of the representative consumer in each jurisdiction.

This analysis shows that a representative customer comparing electricity flat rate market offers without GreenPower through the Energy Made Easy website could find an offer that is as much as \$330 a year cheaper than the most expensive. The level of potential savings differs with energy consumption, discount eligibility and type of contract.

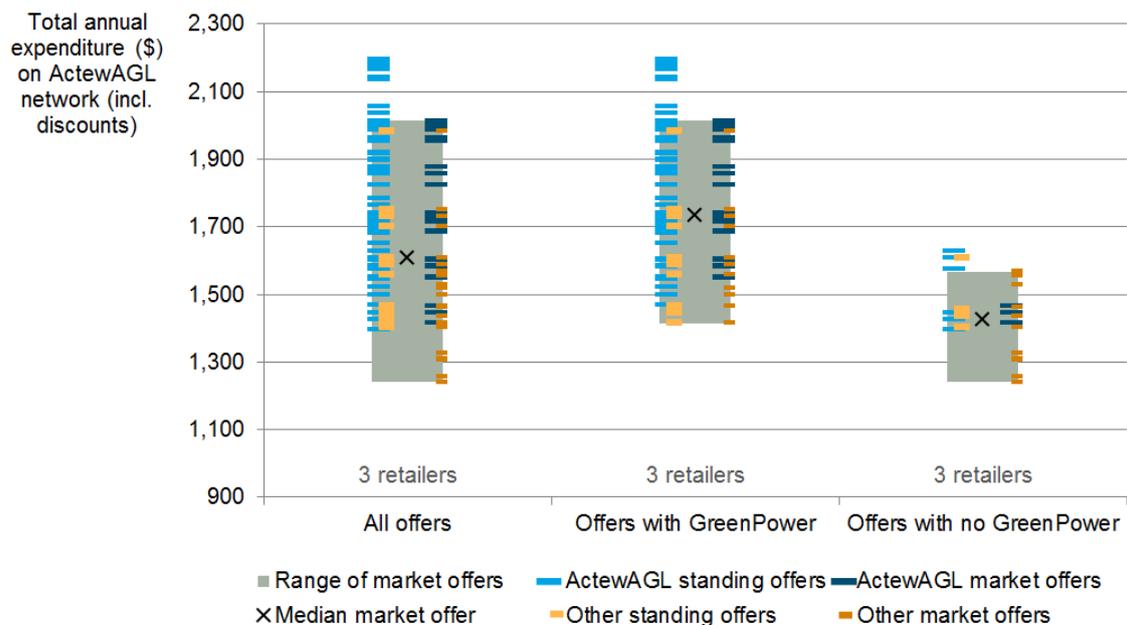
Retail customers have diverse energy demands. An energy offer that is good value for one customer may be expensive for another customer with a different consumption level or different needs and circumstances. It is important that customers have access to clear information about what they are signing up to and that customers consider their personal circumstances when choosing a plan.

The most expensive offers in this particular analysis are offers which include some GreenPower, and the cheapest offers have zero GreenPower. GreenPower is an underlying cost driver and these differences would be expected where prices are reflective of underlying costs.

We also observe that the cheapest offers were available from retailers other than ActewAGL. For offers without GreenPower there were a number of market offers that were considerably cheaper than standing offers.

The total estimated expenditure cannot be compared across jurisdictions as different consumption levels were used to reflect a 'representative' customer in each state. Also, different distribution networks will result in different underlying costs. Further, the way the discounts and price incentives have been taken into account in the total annual expenditure differs between the different jurisdictions as a result of data availability.

Figure 7.18 Total annual expenditure on flat rate market and standing offers available in the ACT on the 27 February 2015



Source: Energy Made Easy; AEMC analysis

8 Victoria

Box 8.1 Key findings

- Competition continues to be effective in the Victorian retail electricity market, delivering customers a wide range of energy plans from 21 different retail brands. Two new retail brands entered the market since the 2014 review, Commander Power and Gas and CovaU. Of all NEM jurisdictions, Victoria had the highest proportion of customers switching to second tier retailers, the lowest level of market concentration and among the highest customer satisfaction ratings. Victorian customers also had the highest levels of awareness of choices and confidence to choose the right energy option.
- Competition is also effective in the gas retail market with low market concentration and high customer activity. Two new retail brands entered the market in 2015, Click Energy and Momentum Energy, bringing the total number of retail brands to ten. Switching data suggests customers are actively shopping around between the retailers available.
- The majority of Victorians surveyed were satisfied with their retailer overall, as well as the value for money and customer service provided. Sixty seven per cent of residential customers were satisfied with their electricity retailer. However, some customers have negative experiences; eight per cent of residential customers were dissatisfied with their retailer and three per cent of small customers made a complaint to the Ombudsman. Common issues behind complaints include high bills, errors in billing, disconnection and debt collection.
- Many customers who shop around may be able to make significant savings and they should be supported and encouraged to do so. AEMC analysis shows that a representative customer comparing electricity flat rate market offers through the My Power Planner website could find an offer that is as much as \$570 a year cheaper than the most expensive. The level of potential savings differs with distribution network, energy consumption, discount eligibility and type of contract.
- Retail customers have diverse energy demands. An energy offer that is good value for one customer may be expensive for another customer with a different consumption level or different needs and circumstances. It is important that customers have access to clear information about what they are signing up to and that customers consider their personal circumstances when choosing a plan.
- Many retailers are competing through discounts but the biggest discount may not always equal the cheapest price, particularly if the discount has conditions, such as paying the bill on time, and the customer does not meet these.
- Customers could benefit from greater awareness of the government's My

Power Planner and YourChoice websites, which provide online tools to simplify the process of comparing energy offers. These tools can provide estimated bills, details on the discounts available and other details of importance to help customers shop around for a suitable energy plan.

8.1 Overview

The Commission's assessment is that competition in retail electricity and gas markets continues to be effective in Victoria, based on the evidence gathered on the five competitive market indicators. We observed several changes in retail markets in the last year, however our overall assessment is consistent with the 2014 retail competition review.

Competition in Victoria continues to deliver customers a wide range of choices of retailers and plans and result in relatively high levels of customer satisfaction. New firms have entered and existing firms have expanded. Retailer survey respondents described the Victorian retail electricity and gas markets as the most competitive in the NEM, similarly to 2014.

Competition in Victoria continues to evolve and mature and is expected to deliver further benefits for customers over time. There were several changes in the market since the 2014 retail competition review:

- Market concentration continued to decline. Second tier retailers now have a collective market share greater than any big three retailer.
- One new firm entered the retail electricity market, two firms came under the same ownership and a new brand of an existing retailer was introduced that supplies small businesses. One new firm entered the gas retail market.
- The proportion of customers satisfied with their electricity retailer rose to 67 per cent, from 63 per cent in 2014. There was also an increase in positive ratings of the value for money provided by electricity retailers.
- Customer reports of direct approaches by retailers were down, coinciding with a reduction in door to door marketing.
- Complaints to the Ombudsman were down slightly for electricity but up slightly for gas. Complaints to retailers increased by 50 per cent, following a similar increase in the previous period.

While the Commission's overall assessment is that competition is effective, some findings highlighted groups of customers with negative experiences. Eight per cent of residential customers were not satisfied with their retailer and 11 per cent were not confident to shop for a better energy deal. Three per cent of small electricity customers made a complaint to the Ombudsman. We note that data on complaints to retailers is not reported consistently year to year and needs to be interpreted with caution. There are opportunities for retailers who can offer better deals and better services to dissatisfied and neutral customers. Governments have a role to play in building the confidence of customers to shop around.

Confidence to choose the right energy option was significantly higher for customers that had investigated energy options in the last 12 months. This suggests that

encouraging customers to shop around for an energy deal may improve overall confidence and generate savings for customers. Across the NEM, customers who used price comparator websites to investigate their options were significantly more aware of the choices available to them and also more confident they could find the right information to help choose an energy plan.

Many customers who shop around may be able to make significant savings. AEMC analysis shows that a representative customer comparing electricity flat rate market offers through the My Power Planner website could find an offer that is as much as \$570 a year cheaper than the most expensive. The level of potential savings differs with distribution network, energy consumption, discount eligibility and type of contract.

Retail customers have diverse energy demands. An energy offer that is good value for one customer may be expensive for another customer with a different consumption level or different needs and circumstances. It is important that customers have access to clear information about what they are signing up to and that customers consider their personal circumstances when choosing a plan.

The findings for Victoria against our competitive market indicators are summarised below:

Customer activity: Victorian customers have the highest levels of awareness of choices and confidence to choose the right energy option. Switching levels are also highest in Victoria.

Customer outcomes: Most Victorians were satisfied with their retailer in general and the value for money and customer service provided. However, some customers had negative experiences as highlighted by the number of complaints raised with Ombudsmen and retailers.

Barriers to entry, exit and expansion: The Victorian markets continued to attract new entrants. The median responses to the retailer survey suggest entry and expansion in gas or electricity markets is not difficult, though views varied. Retailers focussed on policy and regulatory risks as impediments to entry and expansion as well as gas market conditions and arrangements. Three retailers were considering expanding in the electricity market. One retailer was considering entry into the gas market and two retailers were considering expansion.

Independent rivalry: There is evidence of strong rivalry between the 21 electricity¹⁷² and ten gas retail brands through a high level of product differentiation and marketing activity. Switching data indicates rivalry between and within big three and second tier groupings. Market concentration for electricity and gas retail markets are the lowest in the NEM. Victoria also had the highest proportion of customer switching to second tier retailers.

Competitive prices: Based on analysis for a representative electricity customer, different offers would result in a range of total expenditure and customers should shop

¹⁷² Sumo Power and Online Power and Gas also entered the Victorian retail electricity market during the first quarter of 2015 however were not included in this list as they did not have generally available offers or offers that were listed on the My Power Planner government comparator website during the first quarter of 2015.

around to get the best deal for their needs. The range of possible expenditure with different offers has decreased somewhat over time, however the expenditure for the median offer has not. Effective discount levels can be an indicator of total expenditure, however there are some offers with low discount levels that would be cheaper for a representative customer than offers with higher discount levels.

8.2 Market characteristics

In the first quarter of 2015, there were 21 electricity retail brands (some brands are under the same ownership, there are 17 retail electricity businesses total) supplying approximately 2.7 million electricity customers and ten gas retail brands (nine retail gas businesses) supplying approximately 1.9 million gas customers in Victoria.¹⁷³

Full retail contestability was introduced for Victorian small customers in January and October 2002 for the electricity and gas markets, respectively.¹⁷⁴ In January 2009, the Victorian Government removed price regulation for both markets.

The prices for standing contracts are determined by the retailer and monitored by the Essential Services Commission of Victoria. Although standing offer prices are no longer regulated in Victoria, all retailers are required to offer a standing contract for electricity and gas with regulated terms and conditions.¹⁷⁵ Retailers in Victoria are also able to offer market contracts where the terms and conditions are determined by the retailer and compliance with these minimum terms and conditions is monitored by the Essential Services Commission.

The Victorian Government is yet to implement the National Energy Customer Framework (NECF).

8.3 Customer activity in the market

Our analysis of this indicator considers the findings of a customer survey performed by Newgate Research and data provided to the AEMC on customer switching. See Chapter 2 for further details of our methodology.

8.3.1 Customer awareness

More customers in Victoria were aware they have a choice between different energy retailers and plans than customers in other NEM jurisdictions. Ninety six per cent of residents and 99 per cent of small businesses were aware they have a choice of electricity and gas retailer. Most Victorian customers were also aware they can chose from a range of different electricity plans (Figure 8.1). Eighty seven per cent of residents and 88 per cent of small businesses said they were aware they have a choice between a

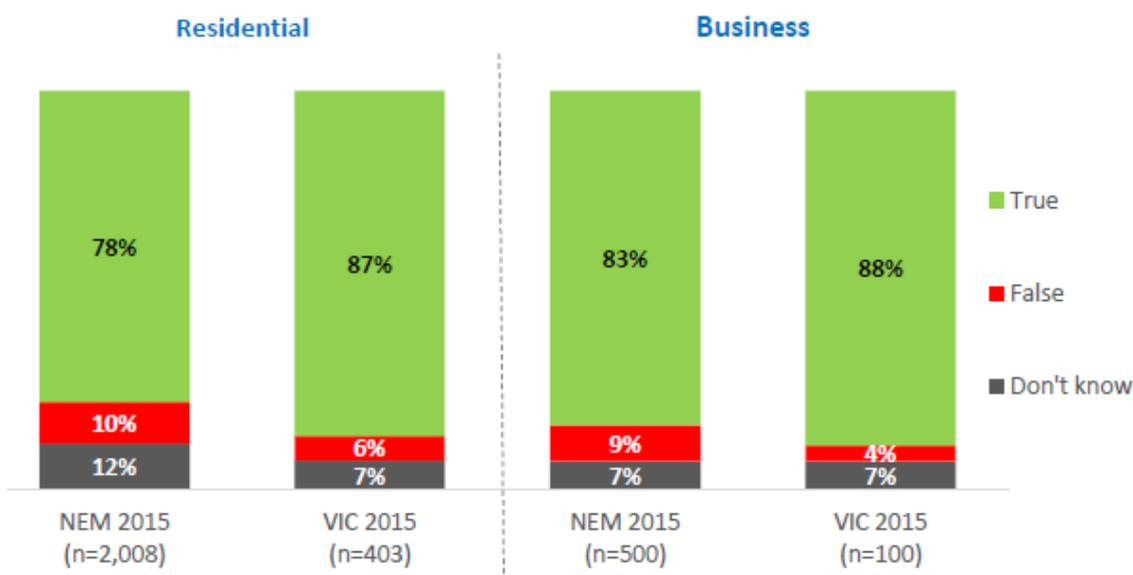
¹⁷³ Australian Energy Regulator, *Service Providers & Assets for Victorian gas and electricity distribution businesses*, accessed 30 May 2015 at: <https://www.aer.gov.au/networks-pipelines/service-providers-and-assets>

¹⁷⁴ The consumption threshold for defining small electricity customers in Victoria is below 40 megawatt hours per annum, which is lower than the 100 megawatt hour threshold of most other NEM jurisdictions. Small gas customers are defined as those consuming less than 1 TJ per annum.

¹⁷⁵ Essential Services Commission, *Progress of electricity retail competition in Victoria, Research Paper*, May 2013, p3.

range of different electricity plans and options. Similar proportions of Victorian residential and small business customers considered they could choose from a range of different gas plans and options.

Figure 8.1 Consumers in your state can choose their electricity plans and options?



Source: Newgate Research, Consumer Research for Nationwide Review of Competition in Retail Energy Markets, June 2015, p21. Survey question: Do you think it is true or false that consumers in your state can choose from a range of different types of electricity plans, price structures, contract lengths and terms? Customers surveyed: All.

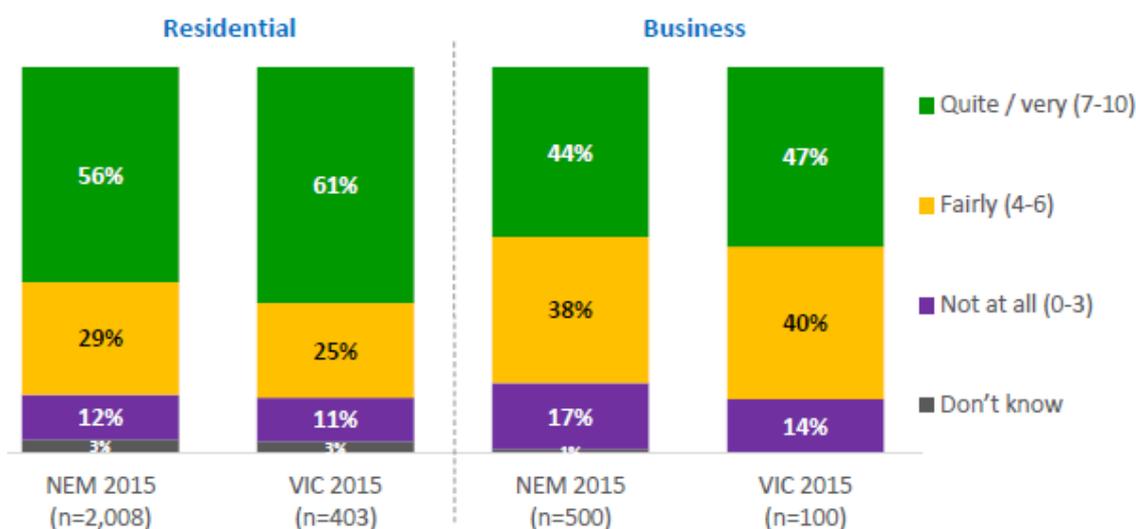
Most customers in Victoria are not aware of the full extent of the choice they have between different retailers. A total of 21 electricity and ten gas retail brands were offering plans to residents in urban Victoria at the time of the survey. When asked, residential customers in Victoria on average considered that they can choose between about eight different electricity retailers and seven gas retailers. Victorian small businesses consider they can choose between about ten electricity retailers and eight gas retailers.

8.3.2 Customer confidence

Residential and small business customers in Victoria appear to be more confident than customers in other NEM jurisdictions that they can choose an energy option that is right for their household or business (Figure 8.2). Sixty one per cent of residents and 47 per cent of businesses were quite or very confident they can choose the right energy option.

Confidence levels varied depending on the respondent's age, financial situation and level of activity in the market. Confidence levels were significantly higher for customers that were either between 18 and 34 years of age, had solar panels or were on special payment or hardship arrangements with their retailer. Those customers currently experiencing difficulty paying their energy bills were less likely to be confident they could choose the right energy plan for their needs.

Figure 8.2 Confidence in choosing the right energy option



Source: Newgate Research, Consumer Research for Nationwide Review of Competition in Retail Energy Markets, June 2015, p24. Survey question: How confident are you that you can choose an energy offer that is right for your household or business? Customers surveyed: All.

Residential and small business customers in Victoria also appear to be more confident than customers in other NEM jurisdictions that they can find the right information to choose a suitable energy plan. Those customers that had switched energy plan in the past 12 months were significantly more likely to be confident that they could find the right information to choose a suitable energy offer.

Higher confidence levels were also reported for customers that had investigated energy options in the past 12 months. These survey results suggest that customers may feel more confident about switching plan or retailer if they are encouraged to take the first step of investigating the options available to them.

8.3.3 Customers investigating offers and switching

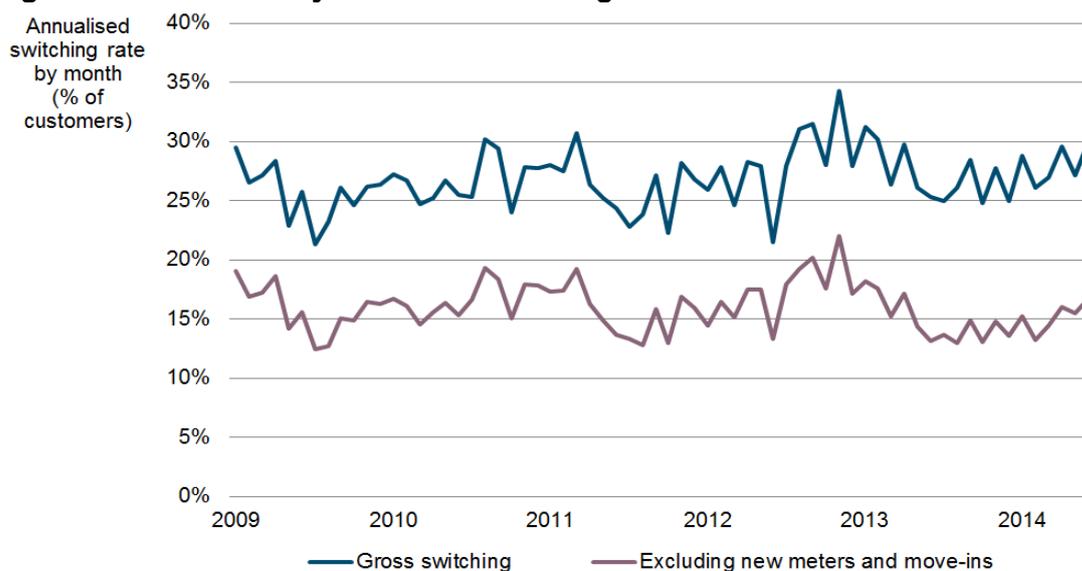
Around a third of Victorian customers reported that they had actively investigated energy options to switch to in the past 12 months, which is similar to the NEM average. For residential customers this is a decrease from the 2014 survey results of three percentage points, and for small business customers this is a decrease of 21 percentage points.

AEMO data on customer transfers between retailers for electricity illustrates that customer switching rates fell in 2013 but then increased steadily throughout 2014 (Figure 8.3). AER data on gas customer transfers between retailers illustrates that customer switching increased in the year to 2013-14. This data should be interpreted with caution, as discussed in Chapter 2, but can provide an indication of the level of customer activity in a market.

For electricity, the average gross switching rate during 2014 was just over 27 per cent. This is a slight reduction from 2013 when the average gross switching was just over 29 per cent. The lower switching rate during 2014 reflects a fall in switching towards the end of 2013.

By the end of 2014 the rate of switching had returned to around 30 per cent per annum.

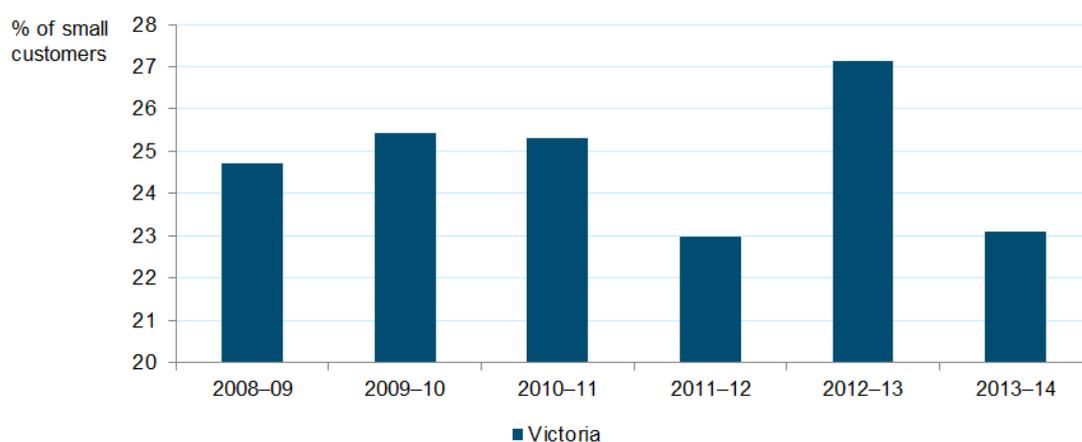
Figure 8.3 Electricity customer switching rates - Victoria



Source: AEMO data; AEMC analysis.

In 2013-14 the gas switching rate increased slightly to 23 per cent (Figure 8.4), higher than all other NEM jurisdictions. This figure does not include switching to AGL as a result of AGL’s purchase of Australian Power and Gas.

Figure 8.4 Gas customer switching rates - Victoria



Source: AER data; AEMC analysis.

Switching data for electricity and gas does not capture customers who have chosen to switch plans with their existing retailer. Data provided by retailers for the 2014 retail competition review suggested that up to 25 per cent of a retailer's customers changed their electricity plan with that retailer in 2013. For gas, up to 24 per cent of customers changed to another plan from the same retailer.¹⁷⁶ Retailers that responded to the 2015 retailer survey rated switching between a retailer’s different offers as moderate in Victoria, whereas switching between retailers was rated as very high.

Similar to the AEMO switching data, the Newgate survey found there was a decline in reported electricity and gas switching rates between the 2014 and 2015 surveys of 10

¹⁷⁶ Some retailers cautioned that these estimates are indicative only.

percentage points each. In the 2015 survey, 56 per cent of residential customers reported they had switched electricity retailer or plan in the last five years and 46 had switched gas retailer or plan. That decrease is consistent with the NEM average.

Electricity and gas switching has remained higher than for other service providers. More Victorian customers reported switching electricity and gas retailers than those who reported switching between service providers of car insurance, phone, internet, banking, home insurance or health insurance.

The decline in electricity switching appears to coincide with a reduction in door to door marketing by major retailers in NEM jurisdictions, from 2013. Fewer customers reported they had been directly approached by retailers in the previous 12 months compared to the 2014 survey results. Fifty three per cent of residential Victorian customers had been approached by at least one retailer in the past 12 months, down from 66 per cent in 2014. Customers were also approached by fewer retailers, an average of 2.5 retailers approached customers surveyed in 2015 compared with 3.6 retailers in 2014. It is noted however that while there is an apparent correlation between the decline in electricity switching and the reduction in door to door marketing, this may not indicate causation.

Price remains the key driver for switching behaviour

Customer surveys suggest the key reason for switching energy retailer or plan in all NEM jurisdictions was to obtain a better price. In Victoria, 66 per cent of residential and 69 per cent of small business customers stated that they switched electricity retailer or plan for price related reasons. Similarly, 67 per cent of the Victorian residents surveyed who had switched gas retailer or plan did so for price reasons.¹⁷⁷

Residential customers on average considered that they would need to save \$200 annually to seriously consider changing electricity retailer or plan. For gas this figure was lower at \$170. Small business customers considered they would on average need to save \$700 for electricity and \$200 for gas annually in order to seriously consider switching their retailer or plan.

A distant second to obtaining a better electricity price was moving house, with 11 per cent of respondents citing this as their key reason for switching electricity retailer or plan. This was also the second most common reason for switching gas retailer or plan, with eight per cent of residents citing this reason.

Surveyed customers who had switched energy retailer or plan considered the most important factors in making the decision to switch to be the discounts offered, the estimated total bill amount, the price per kWh (or MJ for gas), whether they are locked into a contract, the duration of the contract and whether the price can change.

Victorian customers considered more factors to be more important when making a decision to switch than customers in other NEM jurisdictions. For example, Victorian customers considered whether they are locked into a contract and the contract duration to be more important than customers in other NEM jurisdictions. They also considered

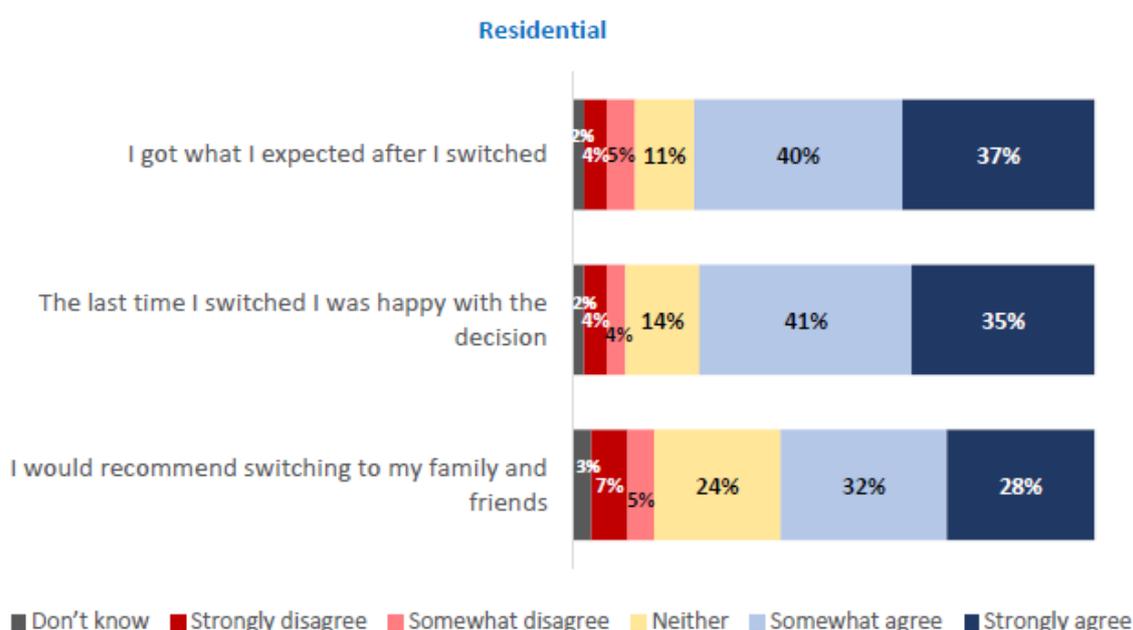
¹⁷⁷ These results on switching behaviour only include responses from residents as the sample size for business customers that had switched gas retailer was too small.

the price per kWh to be of similar importance to the discount, whereas customers in most other NEM jurisdictions considered the discount to be more important. The greater importance placed on a range of different factors may reflect greater customer experience of competitive markets in Victoria compared to other NEM jurisdictions.

Most customers are satisfied with their decision to switch retailer or plan

Seventy six per cent of residential and 80 per cent of small business customers that switched electricity retailer or plan were subsequently happy with the decision (Figure 8.5). Similarly, 76 per cent of residential customers who switched their gas retailer or plan were happy with the decision. Over three quarters of electricity and gas customers considered that they got what they expected after switching.

Figure 8.5 Satisfaction with decision to switch electricity retailer or plan



Source: Newgate Research, Consumer Research for Nationwide Review of Competition in Retail Energy Markets, report for the AEMC, June 2015, p40. Survey question: To what extent do you agree or disagree with the following? Customers surveyed: Respondents who had switched electricity company or plan.

Around 60 per cent of residential customers considered they would recommend to family and friends switching electricity or gas retailer or plan. Slightly fewer small business customers would recommend switching electricity retailer or plan. These results are not considered unusual for low customer involvement products such as energy.

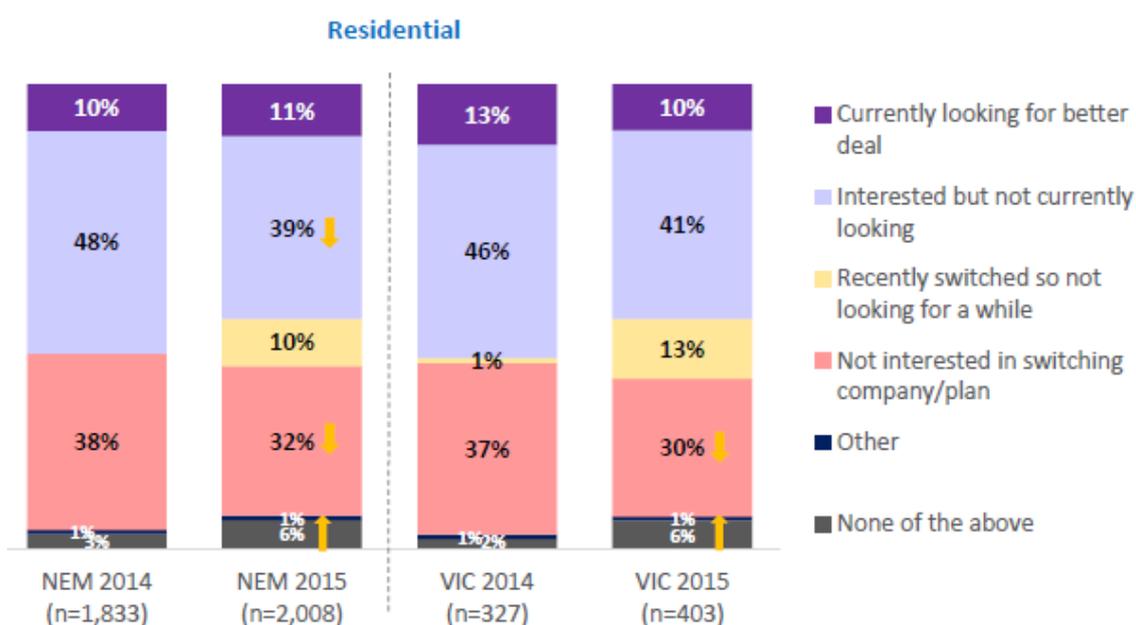
The main reasons for satisfaction with switching decisions related to savings and cheaper prices, followed by improved customer service. Almost three quarters of residential and over 80 per cent of small business electricity customers listed their main reasons for being satisfied with switching as being related to savings or price. Similarly, just over three quarters of gas customers reported they were satisfied with their switching decisions for price related reasons.

Interest in looking for a better deal

Just over half of Victorian residential customers and 42 per cent of small business customers surveyed are currently looking for a better energy deal or are interested in doing so (Figure 8.6 and Figure 8.7).

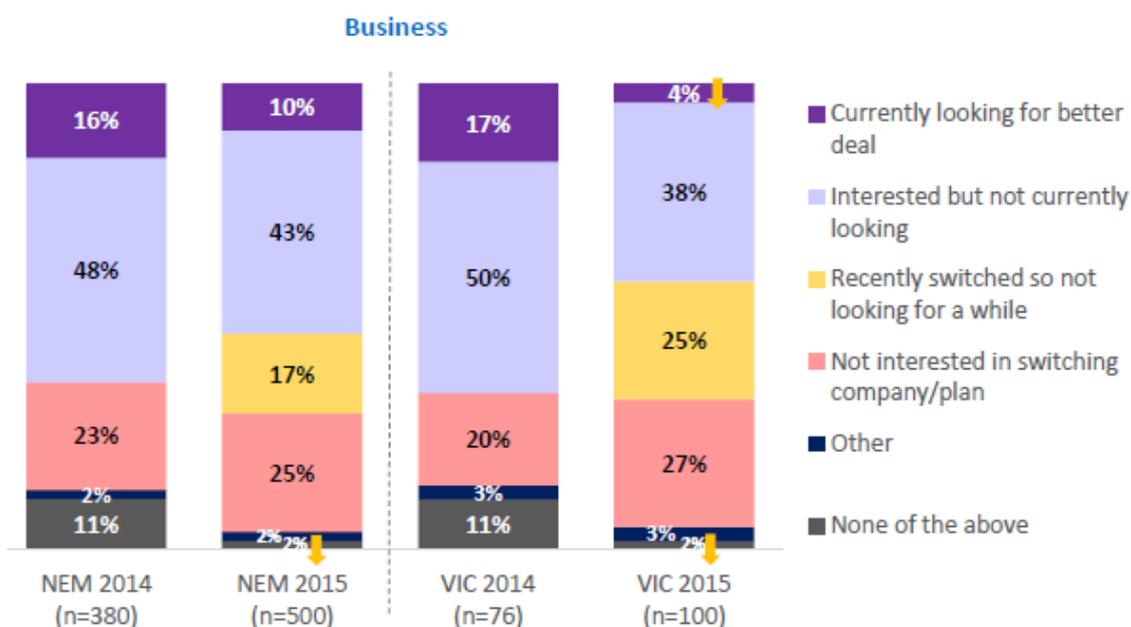
Compared with 2014, slightly fewer residential customers and significantly fewer small business customers are currently looking for a better energy deal. Four per cent of small business customers are currently looking for a better energy deal, down from 17 per cent. These shifts in customer responses appear to follow the shift in average responses for all NEM jurisdictions, however the shift for small business customers in Victoria is more pronounced than the change in the NEM average. Some of the change from 2014 can be explained by a change in the response options for this question to include those not looking for a better deal because they recently switched. Thirteen per cent of residential and 25 per cent of business customers fall into this category.

Figure 8.6 Interest in looking for a better energy deal – residential



Source: Newgate Research, Consumer Research for Nationwide Review of Competition in Retail Energy Markets, June 2015, p48. Survey question: Which of the above statements is most applicable to your household? Customers surveyed: All.

Figure 8.7 Interest in looking for a better energy deal – small business



Source: Newgate Research, Consumer Research for Nationwide Review of Competition in Retail Energy Markets, June 2015, p48. Survey question: Which of the above statements is most applicable to your business? Customers surveyed: All.

Barriers to switching

The reasons most commonly cited by residential customers for not investigating offers or switching were satisfaction with their current retailer, no particular reason, not having enough time, that it would be too much hassle or that there is little difference between options (Figure 8.8).

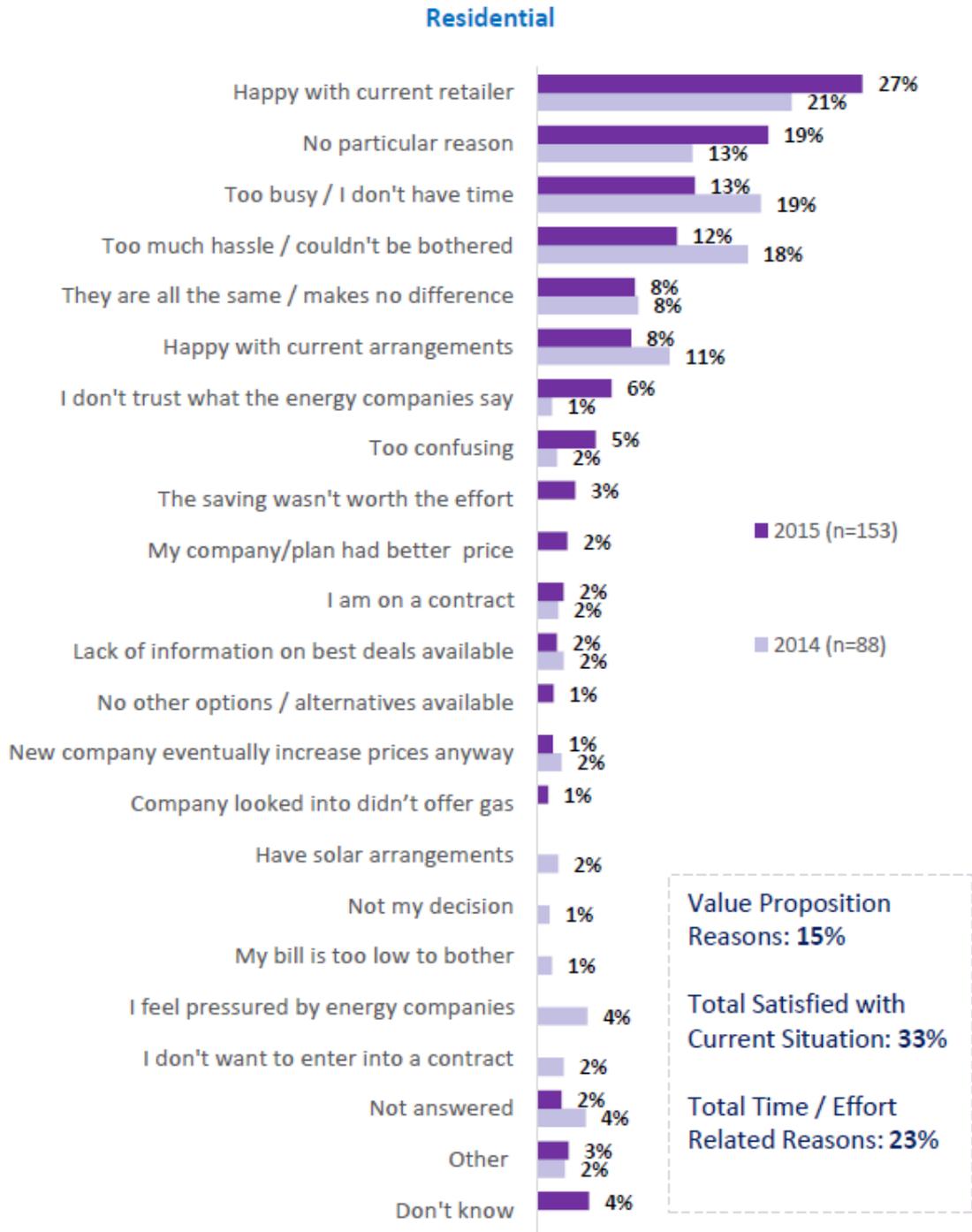
Small business customers were more likely not to have investigated switching due to being too busy or not having enough time (Figure 8.9).

One third of residents who had investigated their options did not switch retailer or plan. Of these, most did not switch because they did not consider there was value in doing so, such as a cheaper price or better discount.

Customers may be more inclined to shop around for a better deal if they were aware of the savings that could be available for them. The AEMC's 2014 Residential Electricity Price Trends report found that residential customers in Victoria may have saved around \$246 or 16 per cent off their total annual bills by switching from a standing offer to the representative market offer in 2013-14.¹⁷⁸ This is more than the average amount of around \$200 that respondents considered they would need to save in order to seriously consider switching, but does not capture the full savings that could be available. In particular, the amount does not capture the discount that may be available for switching to the lowest advertised market offer or by negotiating with retailers to obtain a lower price.

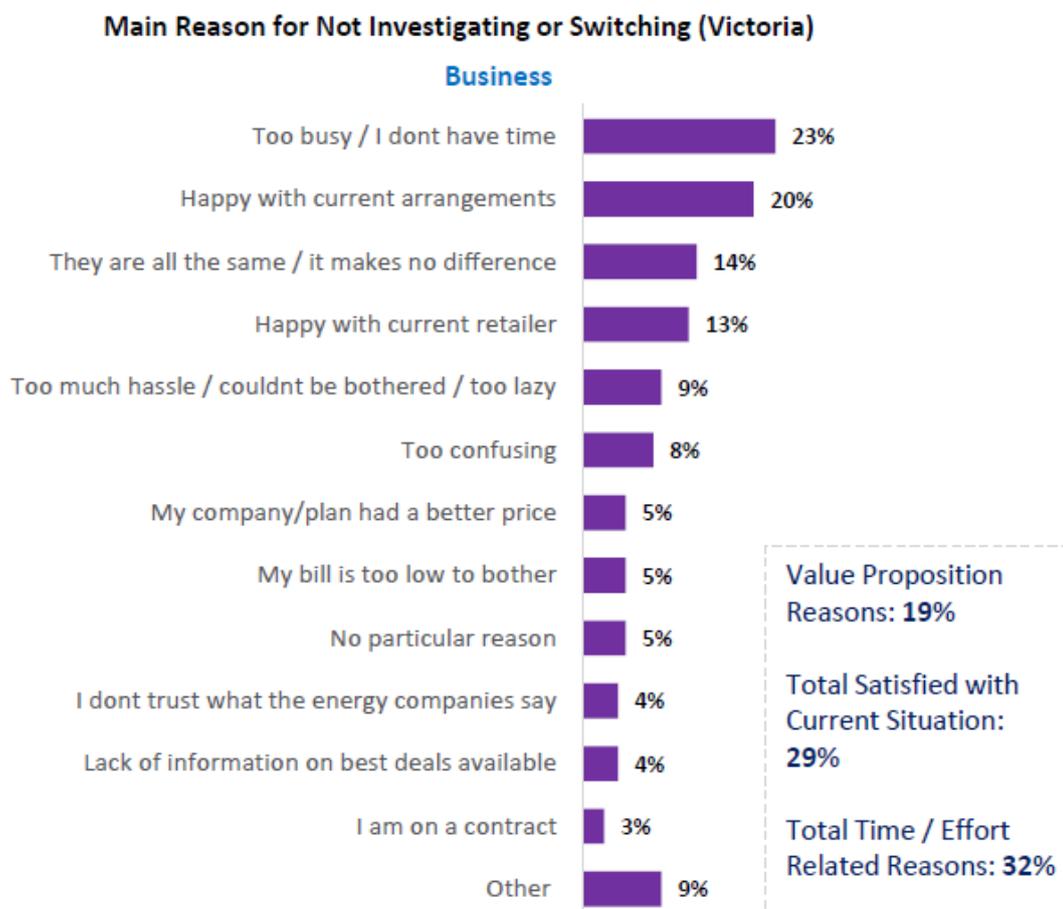
¹⁷⁸ Actual savings will depend on individual circumstances and more savings can be achieved if consumers shop around and choose the best market offer to meet their needs. AEMC, 2014 Residential Electricity Price Trends Report, AEMC, 5 December 2014, Sydney.

Figure 8.8 Reasons for not investigating or switching - residential



Source: Newgate Research, Consumer Research for Nationwide Review of Competition in Retail Energy Markets, June 2015, p46. Survey question: Are there any reasons you haven't investigated different options or why you haven't changed your energy company or plan in the last 12 months? Customers surveyed: Respondents who had not investigated offers and options or switched in the past 12 months.

Figure 8.9 Reasons for not investigating or switching - small business



Source: Newgate Research, Consumer Research for Nationwide Review of Competition in Retail Energy Markets, June 2015, p47. Survey question: Are there any reasons you haven't investigated different options or why you haven't changed your energy company or plan in the last 12 months? Customers surveyed: Respondents who had not investigated offers and options or switched in the past 12 months.

The AEMC analysis of electricity market offers available in Victoria suggests a representative customer could have saved as much as \$570 per year if they chose the cheapest rather than the most expensive flat tariff offer in February 2015. This analysis is discussed in more detail in section 8.7.

Retail customers have diverse energy demands. An energy offer that is good value for one customer may be expensive for another customer with a different consumption level or different needs and circumstances. It is important that customers have access to clear information about what they are signing up to and that customers consider their personal circumstances when choosing a plan.

The AEMC undertook further analysis of customers on standing offers in 2015 (see Box 8.3).

Most residential customers considered that it was at least "fairly easy" to compare different offers when deciding whether or not to switch, however other industries performed better in this regard (Figure 8.10). The number of customers that rated comparing different electricity offers as easy or fairly easy when deciding whether or not to switch was lower than other industries.

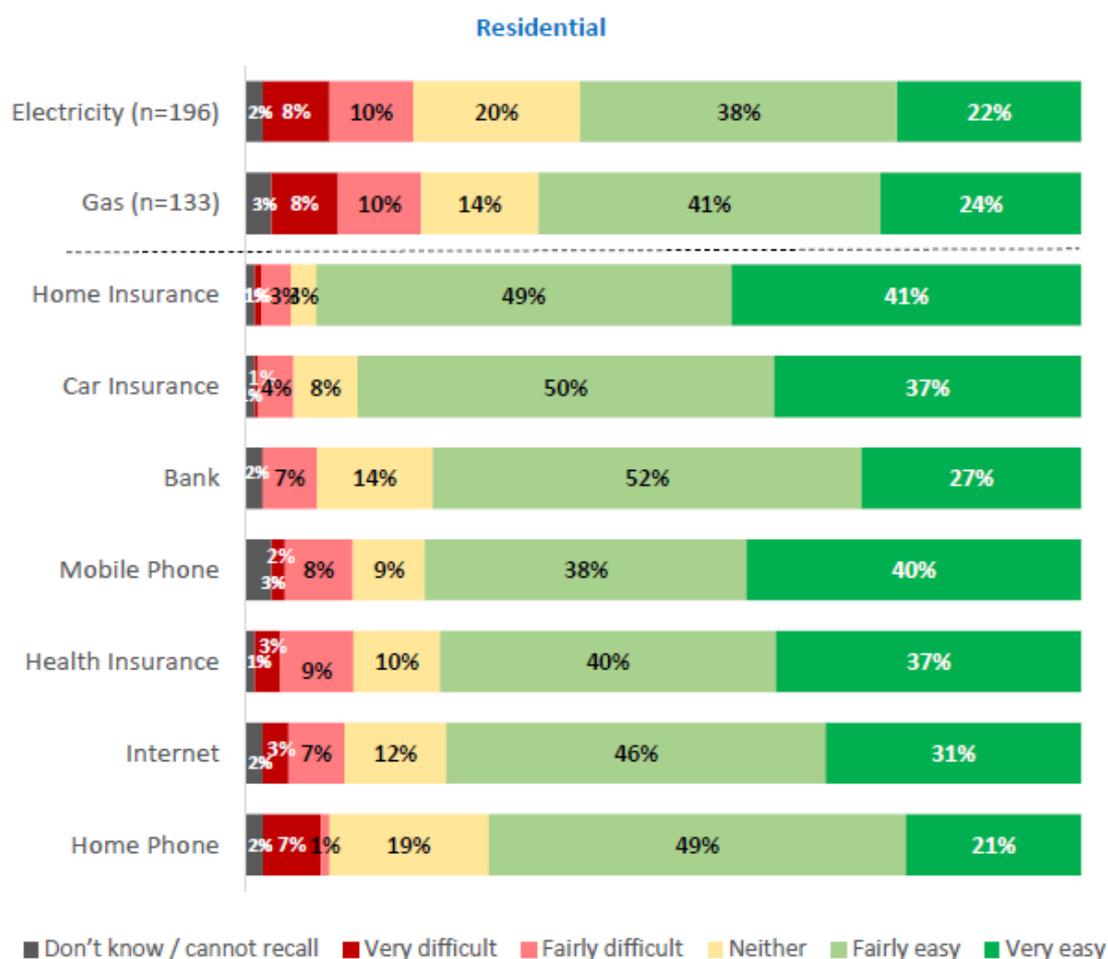
Box 8.3**Analysis of customers on standing offers**

The AEMC undertook quantitative research into the state-wide prevalence of customers on standing offers and correlated these findings with socio-economic and demographic indicators. This analysis was conducted in order to understand more about the 11 per cent¹⁷⁹ of electricity customers who remain on standing offers. Due to the confidential nature of the data underpinning this analysis, much of which was provided to the Commission by energy retailers, we are unable to publish these findings in full. However, we are able to provide an overview of some important characteristics of customers who remain on standing offers. Key findings from this analysis include:

- Older customers are more likely to be on standing offers. This is the strongest demographic feature of areas with high proportions of customers on standing offers. This is consistent with the findings of similar analysis in New South Wales and South East Queensland.
- Areas with higher percentages of customers on standing offers tend to have one or more of the following characteristics:
 - an older population;
 - lower levels of employment participation;
 - higher levels of education and occupation; and
 - lower average household size.
- In Melbourne, higher income areas are more likely to have customers on standing offers. The reverse applies outside of Melbourne, where lower incomes areas are more likely to have customers on standing offers.
- Areas with higher proportions of customers on standing offers tend to be outside of Melbourne in regional and coastal areas.
- Less than 1 per cent of Victorian customers are in retailer hardship programs and less than 20 per cent of these customers are on standing offers.
- Around 30 per cent of customers are receiving a Victorian Government electricity concession and less than 14 per cent of these customers are on standing offers.

¹⁷⁹ Essential Services Commission 2014, *Energy Retailers Comparative Performance Report – Customer Service*, 2013-14, December 2014.

Figure 8.10 Ease of comparing offers when making switching decisions – residential



Source: Newgate Research, Consumer Research for Nationwide Review of Competition in Retail Energy Markets, report for the AEMC, June 2015, p44. Survey question: The last time you switched, how easy or difficult was it for you to compare the different offers when deciding whether or not to switch? Customers surveyed: Respondents who had switched electricity or gas company or plan.

A slightly smaller proportion of small business customers than residential customers considered that it was at least “fairly easy” to compare different electricity offers when deciding whether or not to switch (Figure 8.11).

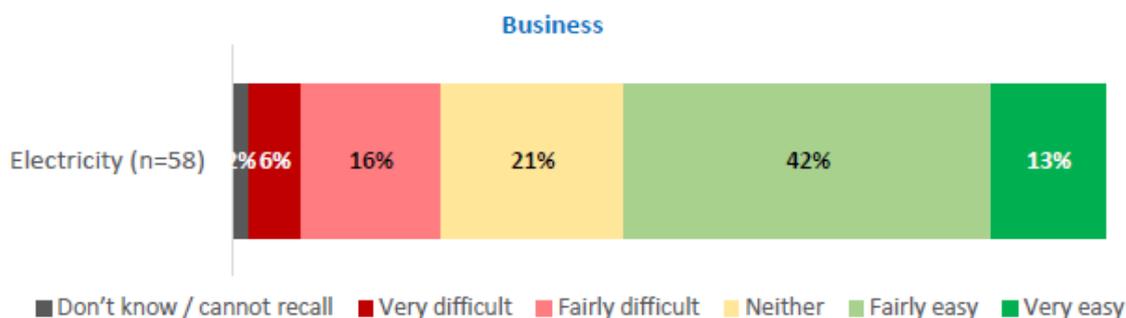
Eighteen per cent of residential and 22 per cent of small business respondents considered that it was fairly or very difficult to compare energy offers.

Despite the difficulty for some customers in comparing electricity options, the switching rates in the last five years for electricity and gas retailers or plans were higher than those reported for other products and services (Figure 8.12).

Clearer information and the use of price comparator websites could help customers make decisions more easily.

Customers should be encouraged to shop around regularly to take advantage of new offers and move to more suitable plans as their energy needs change.

Figure 8.11 Ease of comparing offers when making switching decisions – small business



Source: Newgate Research, Consumer Research for Nationwide Review of Competition in Retail Energy Markets, report for the AEMC, June 2015, p44. Survey question: The last time you switched, how easy or difficult was it for you to compare the different offers when deciding whether or not to switch? Customers surveyed: Respondents who had switched electricity company or plan.

Figure 8.12 Switching energy and other services

| Provider (% switched at least once) | Residential | | | |
|-------------------------------------|-------------------|-------------------|-----------------|-----------------|
| | NEM | | Victoria | |
| | 2014 (n=1,833) | 2015 (n=2,008) | 2014 (n=327) | 2015 (n=403) |
| Electricity Company | 48% | 39% ↓ | 54% | 48% |
| Electricity Plan | 39% | 31% ↓ | 43% | 35% ↓ |
| TOTAL Electricity | 60% | 50% ↓ | 65% | 56% ↓ |
| Gas Company | 40% | 35% ↓ | 47% | 39% |
| Gas Plan | 30% | 24% ↓ | 31% | 23% ↓ |
| TOTAL Gas | 49% | 40% ↓ | 56% | 46% ↓ |
| TOTAL Electricity or Gas | 64% | 51% ↓ | 67% | 57% ↓ |
| Car Insurance | 37% | 35% | 33% | 31% |
| Mobile | 32% | 31% | 32% | 32% |
| Internet | 30% | 29% | 28% | 27% |
| Home Insurance | 22% | 26% ↑ | 22% | 23% |
| Home Phone | 22% | 20% | 21% | 17% |
| Banking | 18% | 19% | 18% | 17% |
| Health Insurance | 13% | 16% | 13% | 17% |

Source: Newgate Research, Consumer Research for Nationwide Review of Competition in Retail Energy Markets, report for the AEMC, June 2015, p29. Survey question: In the last five years, how many times have you changed any of the following providers or companies with which you have products and services? Customers surveyed: All.

Some of the customer issues highlighted above could be addressed through promoting greater awareness of the My Power Planner and YourChoice price comparator websites.¹⁸⁰ The My Power Planner website is operated by the Victorian Government while YourChoice is operated by the Victorian Essential Services Commission. These websites can help reduce the time and complexity of finding and comparing energy

¹⁸⁰ The Victorian Government advised the AEMC that My Power Planner is currently undergoing upgrades so that it can also compare gas offers later in 2015.

plans and demonstrate potential savings for customers.¹⁸¹ Current awareness of these websites is low.

In Victoria 16 per cent of residential customers who had investigated different energy offers used a price comparator website as their main source of information and 17 per cent considered a price comparator website to be the most useful source of information.

Across the NEM those customers who used price comparator websites to investigate their options were significantly more aware of the choices available to them and also more confident they could find the right information to help choose an energy plan. Of customers who had used comparator websites, 88 per cent were aware they could choose from a range of different electricity plans and 64 per cent rated their confidence to find the right information as seven out of 10 or higher. For customers who had not used a comparator website, these figures were 77 per cent and 53 per cent respectively.

Price comparator websites can also assist customers in considering whether there is value in switching retailer or plan. For example, YourChoice and My Power Planner can estimate a customer's bill for different electricity or gas plans and highlight that there may be some appealing alternative offers available.

Unprompted awareness of the YourChoice and My Power Planner websites among residential and small business survey respondents remains low. Less than one per cent of residents and around four per cent of small businesses named YourChoice or My Power Planner website when asked to name comparator websites. Similar to levels in 2014, 29 per cent of residents and 31 per cent of small business customers said they had heard of the sites when prompted.

8.4 Customer outcomes

Our analysis of this indicator considered the findings of customer surveys and data on customer complaints. See Chapter 2 for further details of our methodology.

8.4.1 Satisfaction with the level of choice

Just over sixty per cent of residential customers were satisfied with the level of market choice in Victoria and 11 per cent were dissatisfied, the remainder being neutral or undecided. The level of satisfaction remains higher than the NEM average.

Satisfaction with the level of choice in regional Victoria is lower than for Melbourne, but is still consistent with the NEM average.

Satisfaction among small business customers with the level of choice in Victoria declined by 13 percentage points compared to levels in 2014, but remains higher than the NEM average.

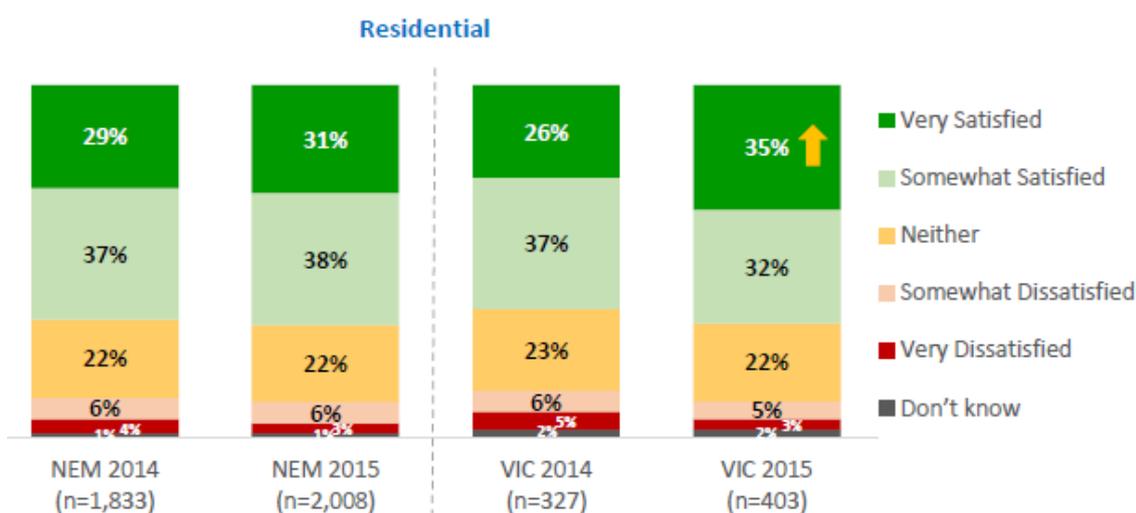
Satisfaction levels should be interpreted carefully. Focus groups conducted in 2014 suggest high satisfaction ratings often related to an absence of negative issues with their retailer rather than a particularly positive experience. Similarly, low levels of dissatisfaction do not necessarily imply high levels of satisfaction.

¹⁸¹ Websites are available at: <http://www.mpp.switchon.vic.gov.au> and <http://www.yourchoice.vic.gov.au>.

8.4.2 Satisfaction with retailers

Most Victorian customers were satisfied with their retailer, with an increase in the proportion who said they were “very” satisfied compared to the 2014 survey (Figure 8.13). Sixty seven per cent of residential customers were somewhat or very satisfied with their electricity retailer, up from 63 per cent in 2014. Residential customer satisfaction also improved for gas retailers, up from 67 to 70 per cent.

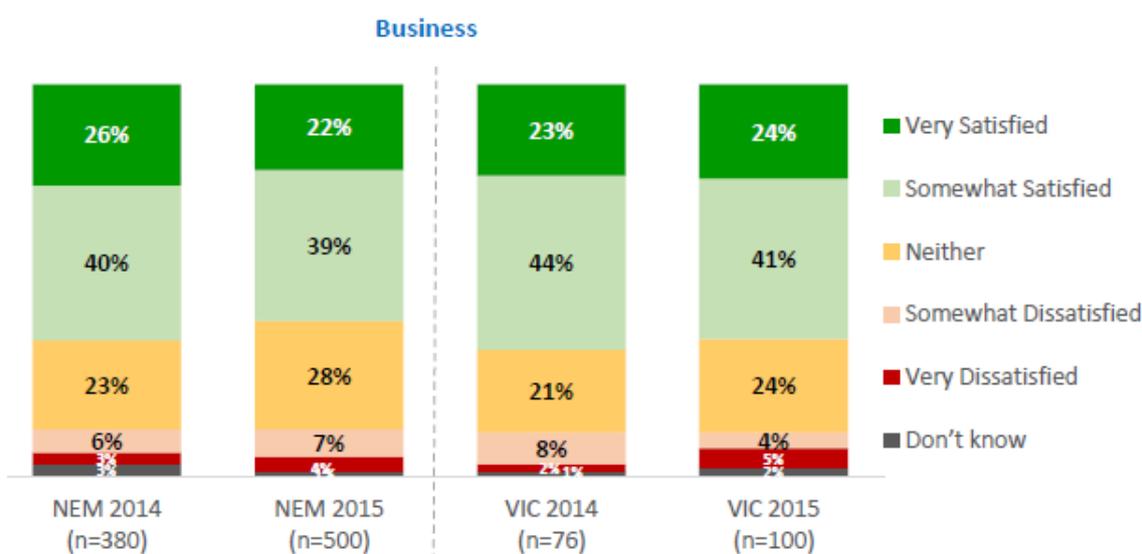
Figure 8.13 Satisfaction with current electricity retailer – residential



Source: Newgate Research, Consumer Research for Nationwide Review of Competition in Retail Energy Markets, report for the AEMC, June 2015, p55. Survey question: How satisfied are you with your current electricity company? Customers surveyed: All.

Sixty five per cent of small business customers were at least somewhat satisfied with their electricity retailer, similar to results in 2014 (Figure 8.14).

Figure 8.14 Satisfaction with current electricity retailer – small business

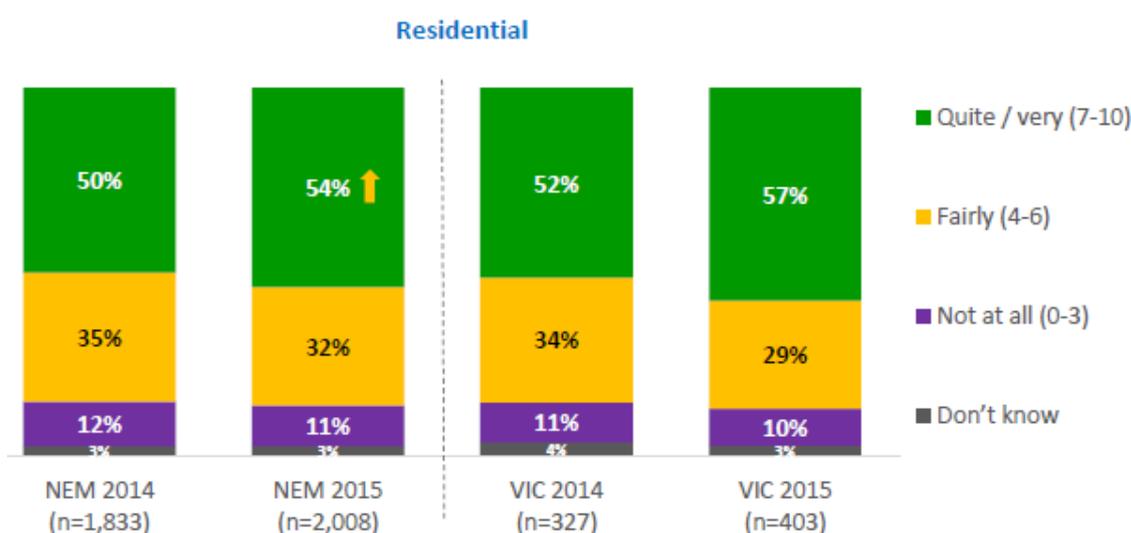


Source: Newgate Research, Consumer Research for Nationwide Review of Competition in Retail Energy Markets, report for the AEMC, June 2015, p55. Survey question: How satisfied are you with your current electricity company? Customers surveyed: All.

Respondents were also asked about their satisfaction with the level of their retailer’s customer service. The overall quality of customer service for electricity and gas retailers was perceived as good or excellent by 67 per cent of residents and 53 per cent of small businesses.

Fifty seven per cent of residential customers rated the value for money provided by their electricity retailer as seven out of 10 or higher, an increase of five percentage points from the 2014 survey (Figure 8.15). Improved value for money ratings potentially relate to a reduction in the rate of increase in average electricity bills in Victoria in 2014 as compared with previous years. Victorian customers remain more satisfied with the overall value for money provided by their electricity retailers than the NEM average, which also increased in 2015.

Figure 8.15 Satisfaction with value for money - electricity



Source: Newgate Research, Consumer Research for Nationwide Review of Competition in Retail Energy Markets, report for the AEMC, June 2015, p56. Survey question: How would you rate the overall value for money of the products and services provided by your electricity company? Customers surveyed: All.

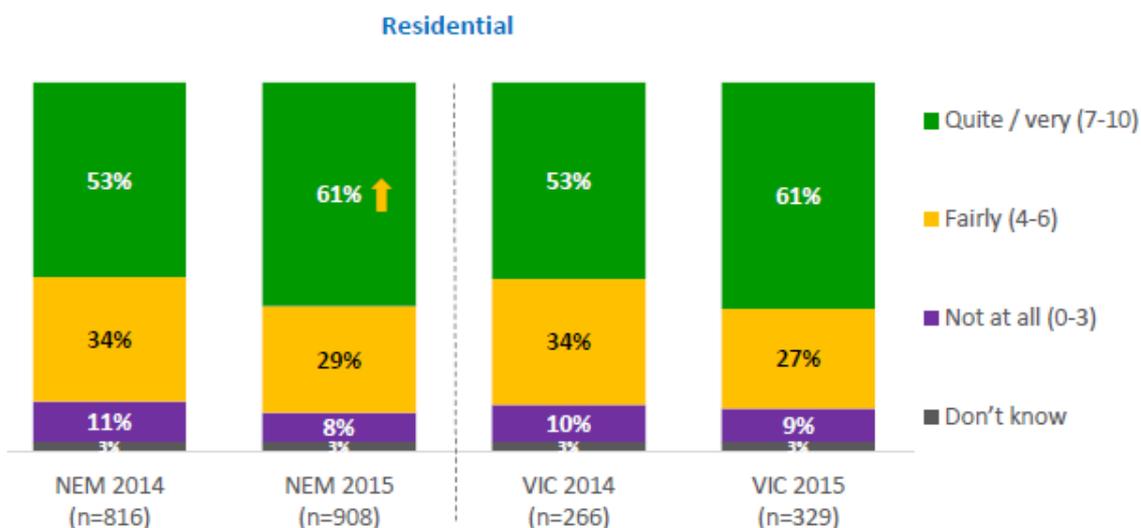
Surveyed residential customers who rated the value for money provided by their gas retailer as seven out of 10 or higher increased from 53 per cent in the 2014 survey to 61 per cent in the 2015 survey (Figure 8.16). Victorian customers are similarly satisfied with the value for money provided by their gas retailers as the NEM average.

Customers currently experiencing difficulty paying their energy bills were less likely to consider that their retailer provided value for money.

Victorian customers may be eligible for a government concession and /or hardship assistance. Energy providers in Victoria are also required to provide hardship programs for customers in financial need and having trouble paying their energy bills.

The Victorian Government concessions program is an entitlement program under the State Concessions Act 2004. Provided people meet the eligibility criteria, they are guaranteed access to concessions. Customers holding a Centrelink Health Care Card, a Centrelink Pensioner Concession Card or a Veterans’ Affairs Gold Card for some issues are eligible for a variety of electricity concessions in Victoria. Electricity concessions include a 17.5 per cent discount on all electricity costs after the first \$171.60 and concessions for electricity related to medical cooling and life support machines.

Figure 8.16 Satisfaction with value for money - gas



Source: Newgate Research, Consumer Research for Nationwide Review of Competition in Retail Energy Markets, report for the AEMC, June 2015, p59. Survey question: How would you rate the overall value for money of the products and services provided by your gas company? Customers surveyed: All.

The Utility Relief Grant Scheme is available to eligible concession cardholders who are unable to pay their electricity, gas or water bill due to temporary financial crisis. The amount of the grant is based on the balance owing at the time of application and is capped at six months' worth of usage up to a maximum of \$500.

In addition, account holders who do not hold a concession card but are registered with their utility company's hardship program and are part of a low income household with an outstanding electricity, gas or water debt can apply for a grant.

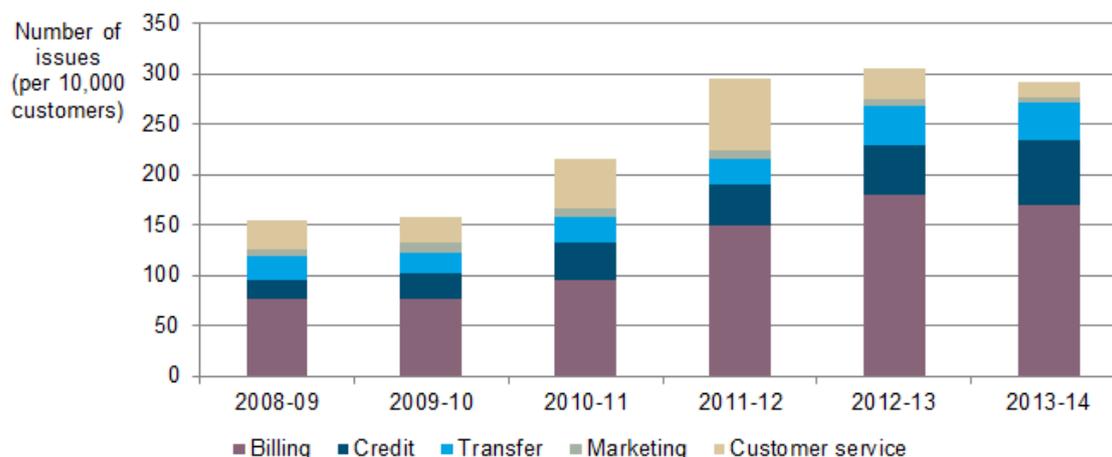
At the request of the Victorian Government, the Essential Services Commission is currently reviewing the hardship practices of energy companies. This is due to an increase in the number of households whose gas and electricity supply is being disconnected. The review will examine whether energy companies in Victoria are doing enough to identify customers struggling to pay bills and whether they have best practice hardship programs in place to help these customers.

Further information on concessions is provided in Appendix F.

Complaints to the Ombudsman

The number of issues raised with the Energy and Water Ombudsman (Victoria) about electricity retailers in 2013-14 fell by four per cent from the previous year (Figure 8.17). The number of issues raised is close to the number raised in the 2011-2012 financial year.

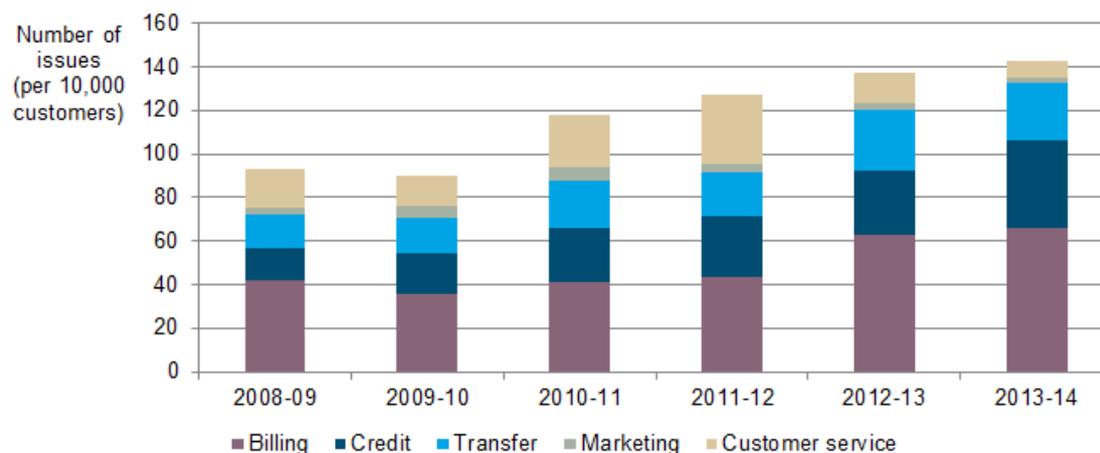
Figure 8.17 Electricity complaints to the Ombudsman – issues raised



Source: Complaints data from the Ombudsman, customer numbers from AEMO, AEMC analysis.

The number of retail gas issues raised with the Ombudsman increased by six per cent in 2013-14 (Figure 8.18). The number of gas issues raised remains lower than for electricity, even when adjusted for market size.

Figure 8.18 Gas complaints to the Ombudsman – issues raised



Source: Complaints data from the Ombudsman, customer numbers from AEMO and Energy Supply Association of Australia (ESAA) Electricity Gas Australia reports, AEMC analysis.

Most categories of retail electricity and retail gas issues raised with the Ombudsman reduced slightly or significantly. Marketing issues raised with the Ombudsman reduced by 29 per cent for retail electricity and 28 per cent for retail gas. Transfer issues reduced slightly for both retail electricity and retail gas and billing issues reduced slightly for retail electricity and increased by seven per cent for retail gas. Credit issues increased significantly, consistent with other NEM jurisdictions.

Billing issues remain the most common issues raised with the Ombudsman for both retail electricity and retail gas in Victoria. The main issues in this category are high bills, errors in billing and back-billing.¹⁸²

¹⁸² Energy and Water Ombudsman (Victoria), 2014 Annual Report, 16 October 2014, p22.

Credit issues are the second largest category for both retail electricity and retail gas, and the fastest growing. Credit issues increased by 35 per cent for retail electricity and 38 per cent for retail gas. The main issues in this category are disconnections and restriction of supply, debt collection and payment difficulties.¹⁸³ The Ombudsman considers that the main driver for the increase in credit issues was a greater focus by energy retailers on recovering debt and resolving long-term issues of poor payment history or non-payment of bills.¹⁸⁴

It is important to be aware that many issues raised with the Ombudsman represent serious negative experiences for customers. For example, one customer that contacted the Ombudsman reported that while she had been disputing her bills with her retailer on the basis that she believed the meter readings were not correct, she had received correspondence from a debt collection agency seeking to recover around \$1,450 plus \$200 in legal fees.¹⁸⁵ The local distributor confirmed to the Ombudsman that the customer had been disputing the meter readings and that the customer's meter readings had indeed been mixed with her neighbour's. The retailer then attempted to recover 50 per cent of the outstanding amounts based on the correct meter read. However, the retailer was ultimately unable to recover this amount due to Victorian limitations on back-billing.

A significant contributor to the reduction in electricity issues and a slowing of gas issues raised with the Ombudsman has been a reduction in customer service issues, largely due to a change in procedures for recording complaints.¹⁸⁶ Over the past two years customer service issues have reduced by between 75 and 80 per cent.

Complaints to retailers

While the number of issues raised with the Ombudsman in 2013-14 was similar to the previous year, the number of complaints raised directly with electricity and gas retailers over the same period increased by 41 per cent.¹⁸⁷ This follows a 53 per cent increase in 2012-13.

The greatest increase in complaints raised was in “other” complaints, which increased by 71 per cent. This category of complaints includes, among others, customer service and transfer complaints. Billing complaints raised with retailers increased by 28 per cent and remains the largest category of complaints raised. These include complaints about prices, billing errors, payment arrangements, debt recovery practices and

183 Ibid, p22.

184 Ibid, p23.

185 Ibid, p26.

186 In 2010-11 and 2011-12 many of the customer service issues recorded were secondary to other issues raised with the Ombudsman, such as credit or transfer issues. The Ombudsman recognised that many complaints are raised with the Ombudsman because the retailer's customer service could not resolve the issue. The Ombudsman therefore changed its processes to avoid the double counting of such issues.

187 See Essential Services Commission, *Energy Retailers Comparative Performance report - Customer Service 2013-14*, December 2014.

disconnections.¹⁸⁸ Despite the significant increase in total complaints raised with electricity and gas retailers in 2013-14, marketing complaints raised with retailers decreased for electricity customers by five per cent and increased for gas customers by 77 per cent. The reduction in marketing complaints for electricity customers may reflect the big three retailers stopping door to door selling activity in 2013.

The Essential Services Commission reported several reasons for the increase in complaint numbers in 2013-14; these included an incorrect categorisation of customer enquiries as complaints, implementation of new billing systems and the transfer of customers through a company acquisition.

It is important that customers who are dissatisfied with their retailer experience are able to leave that retailer and find a better alternative.¹⁸⁹ Customers can also escalate their complaints to Ombudsmen, state-based fair trading agencies, jurisdictional regulators or the ACCC as a last resort. While complaints to retailers have increased, the number of complaints investigated by Ombudsmen has not significantly increased over the same period.

8.5 Barriers to entry, exit and expansion

Our analysis of this indicator considers evidence of entry, exit and expansion and the findings of a retailer survey performed by K Lowe Consulting and Farrier Swier Consulting. See Chapter 2 for further discussion on our methodology.

There has been one new entry into the small customer segment of each of the Victorian electricity and gas retail markets. The new entrants were both second tier retailers, with CovaU entering the retail electricity market and Momentum entering the retail gas market. An existing retailer, M2, also introduced a new brand, Commander Power & Gas. Red Energy and Lumo Energy came under the common ownership of Snowy Hydro since the last review. One retailer reportedly ceased supplying residential electricity customers in Victoria in the last year but continued to supply small business.

Respondents in 2015 described the Victorian retail electricity and gas markets as the most competitive in the NEM, as per the 2014 retail survey.

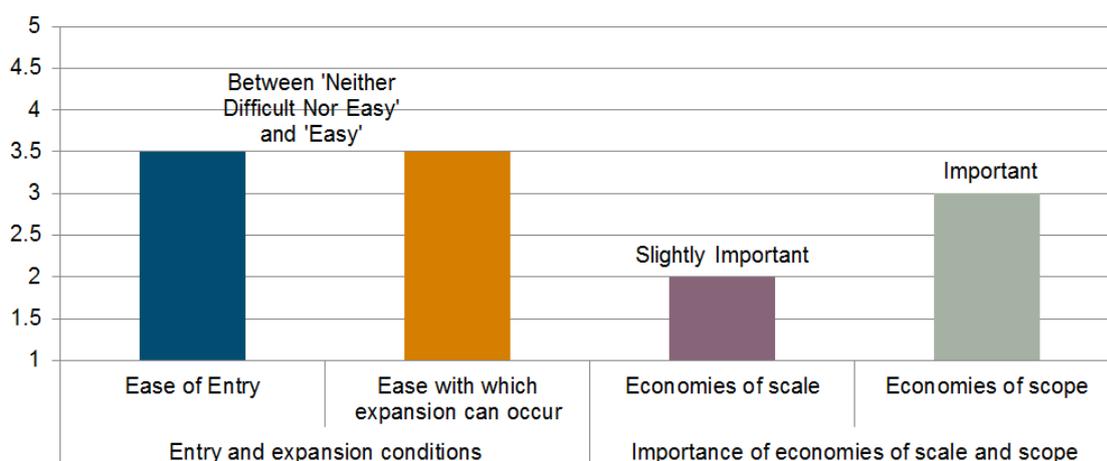
8.5.1 Retail electricity market - Ease of entry and expansion

In the Victorian retail electricity market, the survey found a median rating for entry and expansion into the market was not difficult, however views varied (Figure 8.19). Notwithstanding the high level of competition and the fact that entry has occurred in the last year, respondents focused on the effect on entry and expansion of Victoria's regulatory and consumer protection framework and the perceived increase in policy risk. A retailer's ability to compete effectively due to economies of scale and scope had a median rating of slightly important and important, respectively.

¹⁸⁸ Case studies showing examples of credit issues that customers may be experiencing can be seen in Consumer Action Law Centre, *Problems with Payment – How energy retailers can assist consumers having trouble paying bills*, July 2014.

¹⁸⁹ Newgate research found that customer service issues were not commonly raised by customers as the primary reason for switching, but most customers said they would switch retailer if they were unhappy.

Figure 8.19 Median rating survey results - Victorian retail electricity markets



Source: K Lowe, Draft AEMC 2015 Retail Competition Review: Retailer Survey - Report for the AEMC, June 2015

Similar to the 2014 retail survey, respondents considered that Victoria’s regulatory and consumer framework and an increase in the perceived degree of policy risk were the most significant changes in entry and expansion conditions in the last year.

Impediments to entry and expansion

Respondents stated that the Victorian electricity market is the preferred entry point for new retailers, because retail price regulation has been removed, the level of customer awareness and engagement is high and wholesale market conditions have been relatively conducive to entry to date.¹⁹⁰

Respondents raised concerns about the effect on entry and expansion conditions of Victoria’s regulatory and consumer protection framework, and the perceived increase in policy risk. These concerns were due to the following factors:

- **NECF:** Respondents identified the fact that Victoria has not yet signed up to the NECF as a concern, however acknowledged that harmonisation of the Victorian Energy Retail Code with the NECF has been an improvement. They were concerned about the potential for the Essential Services Commission and the AER to interpret provisions differently, which may increase compliance costs.
- **The Victorian concession scheme:** Respondents claimed that the Victorian scheme is more costly to administer and more cumbersome than schemes in other jurisdictions and suggest that concession schemes be harmonised across the NEM.
- **The consumer protection framework:** Some respondents described this framework as more onerous, costly and risky than protections provided in other jurisdictions and the nature of obligations have prompted one retailer to cease retailing to residential electricity customers in Victoria. Some respondents raised the following specific issues about the current consumer protection framework:

¹⁹⁰ While most respondents expressed this view, we understand that CovaU entered the NSW market before the Victorian market.

- The framework results in retailers holding higher levels of debt for longer in Victoria, which can be problematic for small retailers because it can tie up working capital.
 - Restrictions on retailer’s ability to recover costs (e.g. through restrictions on back billing and disconnections) may impede entry and expansion decisions and adversely affect market behaviour.
 - It was also noted that the increased focus on consumer protection may go beyond that envisioned under the original licence assumptions.
- **Essential Services Commission reviews:** Respondents were concerned about the potential for Essential Services Commission reviews, such as the recent review of wrongful disconnection and upcoming review of hardship arrangements, to result in more onerous obligations, higher compliance costs and penalties.

Concerns were raised during the retailer surveys about the effect that the following factors had on entry and expansion in the retail electricity market in Victoria and all other NEM jurisdictions:

- **Prudential arrangements:** Smaller retailers noted that prudential arrangements and credit support required by AEMO, generators, financial intermediaries, the ASX and electricity networks can tie up working capital and limit their ability to expand.
- **State based energy efficiency schemes:** The resources involved in managing different state-based energy efficiency schemes and costs associated with compliance. Therefore the policy decision to maintain the Victorian Energy Efficiency Target was viewed negatively by most small retailers.

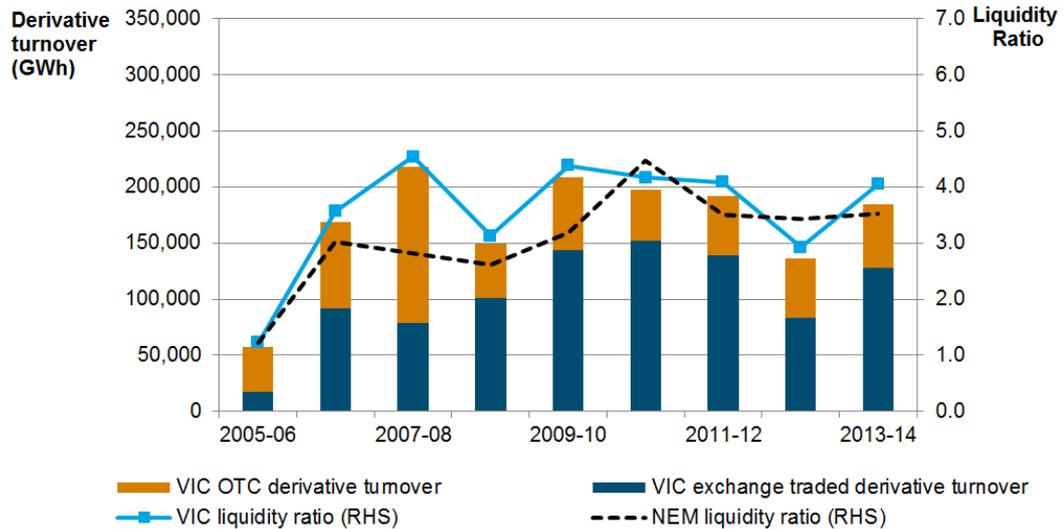
Access to wholesale hedging products

Respondents raised concerns that access to wholesale electricity hedging products is becoming increasingly challenging given the increased level of vertical integration in the market and the recent closure of an independent generator in Victoria (i.e. the Energy Brix Power Station). However, while there has been an increase in the degree of vertical integration in the last two years, the ability to access competitively price electricity hedging products does not appear to constitute a significant barrier to entry or expansion in Victoria at present for the following reasons:

- There are still a small number of independent generators operating in Victoria that are able to offer over the counter (OTC) hedging products.
- The generation capacity controlled by both Snowy Hydro and GDF Suez is much larger than is necessary to supply their respective electricity customer bases. Therefore, SnowyHydro and GDF Suez are likely to be in a position to offer OTC hedging products to non-integrated retailers.
- There have been losses of large industrial loads in Victoria over the past few years, including the Alcoa aluminium smelter in Point Henry, which should free up contracted capacity.

- The AEMC’s analysis of degree of liquidity in OTC and exchange traded (futures) markets, found that the Victorian liquidity ratio has increased from 2012-13 and is now above the average liquidity ratio in the NEM (Figure 8.20).¹⁹¹

Figure 8.20 Annual electricity derivatives turnover and liquidity ratios



Source: AEMO National Electricity Forecasting Report, the Australian Financial Markets Association, Australian Financial Markets Report and ASX Energy. See chapter 2.

Barriers in regional Victorian retail electricity markets

At a rural and regional level, some respondents informed us that entry and expansion into the electricity market can be impeded by:

- **Small size and geographic dispersion of customers:** This can result in higher customer acquisition costs.
- **Loss factors:** These can be high in rural and regional areas and there may be constraints on a retailer’s ability to pass the costs associated with these loss factors onto customers in these areas. The AEMC notes that in principle this should not be an issue as all retailers would face these costs, however it is possible that smaller retailers are less able to absorb these costs.
- **Higher network charges:** This can reduce the margins available to retailers and the discounts that can be offered to customers.

These perceived rural and regional impediments are not unique to Victoria, but reflect respondents’ comments in relation to most of the larger jurisdictions.

Outlook for barriers in the next one to two years

Respondents note the potential for entry and expansion to become more difficult over the next one to two years, if any new regulations are implemented to deal with wrongful disconnections, hardship and other aspects of the consumer protection framework. One respondent noted the potential for some improvement in entry conditions if Victoria decides to implement NECF.

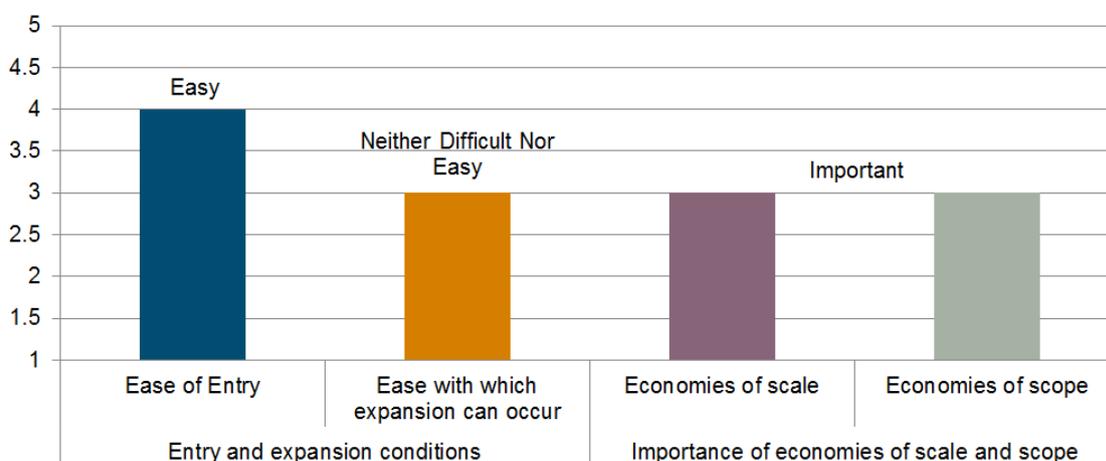
¹⁹¹ Section 2.3 sets out why this data should be interpreted with caution.

The survey responses indicate that three retailers are considering expanding in Victoria in the next one to two years. Respondents also noted the potential for new entry to occur in this market and for further consolidation to occur amongst second tier retailers in this market and other markets.

8.5.2 Retail gas market - Ease of entry and expansion

In the Victoria retail gas market, the median rating from the retailer survey suggests that both entry and expansion were not difficult, however views varied (Figure 8.21).¹⁹² Most of the larger retailers rated the ease with which entry can occur as "easy" to "very easy", while smaller players rated it as "difficult". All but one retailer rated expansion as neither "difficult" nor "easy". A retailer's ability to compete effectively due to economies of scale and scope both had a median rating of "important".

Figure 8.21 Median rating survey results - Victorian retail gas markets



Source: K Lowe, Draft AEMC 2015 Retail Competition Review: Retailer Survey – Report for the AEMC, June 2015

Most respondents considered that there had been no change in entry and expansion conditions over the past year, however some noted that tightening conditions in the wholesale gas market were starting to affect entry and expansion conditions in this market. Retailers also noted that entry and expansion in rural and regional areas can be impeded by a range of factors, including the limited coverage of pipeline networks, the small size of the customer base, the availability of capacity on some regional pipelines, the terms and conditions of access and high customer acquisition costs.

Impediments to entry and expansion

The factors that respondents identified as potentially impeding entry and expansion in the Victorian retail gas market were:

- **Wholesale market conditions:** Access to, and the price of, gas given the tightening demand and supply conditions in the wholesale gas market.

¹⁹² Respondents were also asked to rate the ease with which exit can occur in this market. The median rating in this case suggests that exit is neither difficult nor easy.

- **Victorian Gas Safety Case:** Gas safety cases, which all new retailers must develop and have approved by Energy Safety Victoria before they can start retailing, are reportedly relatively expensive to develop.
- **Victorian regulations and policy risk:** The Victorian regulatory and consumer protection framework is perceived to be more onerous than frameworks in other jurisdictions, and an increase in the perceived degree of policy and regulatory risk.
- **Declared Wholesale Gas Market (DWGM):** Issues with the DWGM included:
 - The complexity of the market;
 - The inability to effectively hedge against all risks in the market;
 - AEMO's prudential requirements; and
 - AEMO's registration, accreditation and certification process.

These impediments are largely the same as those identified in the 2014 survey.

The survey responses found that to be able to compete effectively in the market, both economies of scale and economies of scope can be important, while having an interest in gas production is of slight importance. One retailer noted the importance of being able to offer dual fuel arrangements. Therefore barriers to entry and expansion in the gas market may also affect how retailers compete in the electricity market.

Barriers in regional Victoria retail gas markets

At a rural and regional level, a number of respondents informed us that entry and expansion in areas outside the DWGM can be impeded by the following factors:

- **Size of customer base:** The customer base may be too small in some areas to warrant the same level of entry as in the DWGM, particularly given the additional costs associated with negotiating access to pipelines and the fixed cost nature of gas transportation services.
- **Limited pipeline coverage:** There is limited coverage of pipeline networks in rural and regional areas.
- **Capacity of regional pipelines:** The capacity of some regional pipelines has been fully contracted by either a single retailer or a very small number of retailers, and the cost of expanding capacity for what is likely to be a relatively small customer base is unlikely to be justified.
- **Higher customer acquisition costs:** There are higher customer acquisition costs due to the small size of the customer base in these areas.
- **Pipeline access:** The terms and conditions of access to some regional transmission and distribution pipelines.

There are currently only one or two gas retailers in some regional areas of Victoria.

Outlook for retail gas barriers in the next one to two years

One respondent noted that entry and expansion conditions could deteriorate if conditions in the wholesale gas market do not improve. Others noted that greater regulatory and policy risk could also affect entry into this market.

The survey responses indicate that:

- One retailer is considering entry into new regional areas of Victoria in the next one to two years; and
- two second tier retailers are considering expansion in the DWGM.

A number of respondents also noted the potential for a consolidation amongst the second tier retailers in this and other markets.

8.6 Independent rivalry

The AEMC's assessment of this competitive indicator has considered information on market concentration, customer switching between retailers of different tiers and product differentiation. See Chapter 2 for further details of our methodology.

8.6.1 Market concentration

Retail electricity market

As at February 2015, there were 21 retail electricity brands active in Victoria. The 21 brands are owned by 17 separate businesses. Two retail brands serve only business customers, and not residential customers.¹⁹³

The big three retailers have a collective market share of 67 per cent (June 2014; Figure 8.22). However, the second tier retailers have a larger collective market share than any big three retailer on its own (33 per cent). The collective market share of second tier retailers increased approximately 5.5 per cent between June 2013 and June 2014.¹⁹⁴

The market concentration in Victoria as measured by the Herfindahl-Hirschman Index (HHI) is 1,630 (December 2014), down from 1,818 a year prior.¹⁹⁵ This is the lowest level of market concentration in any of the NEM retail electricity markets.¹⁹⁶

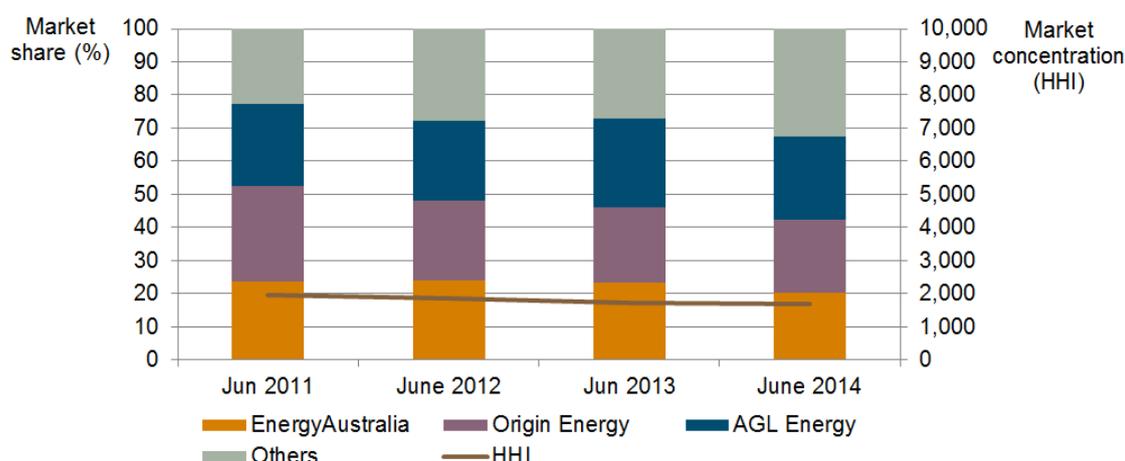
¹⁹³ See Appendix B for a complete list of the retail electricity brands serving small residential and/or business customers in Victoria, as well as which brands are under the same ownership.

¹⁹⁴ AEMC analysis based on AER data.

¹⁹⁵ The HHI is calculated by summing the squares of the market shares of each retailer, thereby giving more weight to larger retailers. The HHI ranges from 0 to 10,000. In an extremely competitive market the HHI approaches zero, and in a pure monopoly the HHI is 10,000. The ACCC in its Merger Guidelines notes that it is less likely to identify horizontal competition concerns when the post-merger HHI is less than 2,000.

¹⁹⁶ AEMC analysis based on AEMO data.

Figure 8.22 Market shares in the Victoria retail electricity market



Source: Market shares calculated from AER data; market concentration calculated from AEMO data; AEMC analysis

Retail gas market

As at February 2015, there were ten retail brands in the Victorian retail gas market owned by nine separate businesses. Click Energy entered the gas retail market in February 2015.¹⁹⁷

The big three retailers had a collective market share of 76 per cent (June 2014). The market concentration in the retail gas market, as measured by the HHI, is 2,212, down from 2,390 a year prior. This is the lowest level of market concentration in any of the NEM retail gas markets.¹⁹⁸

8.6.2 Switching between retailers of different tiers

The majority of electricity retailer switches in Victoria involve moving from a big three retailer to a second tier retailer (31 per cent in December 2014; Figure 8.23).

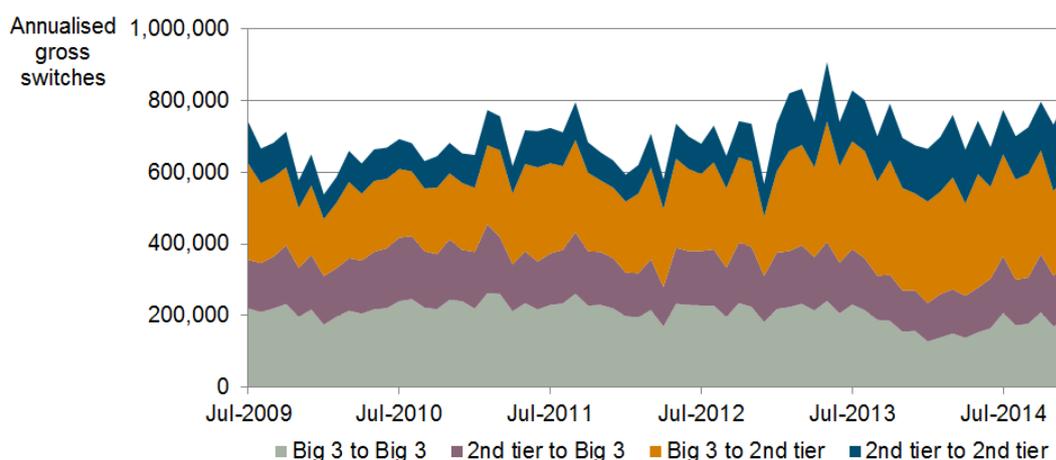
A large proportion of customers are also switching between second tier retailers. For the first four months in 2014, the proportion of customers that switched from one second tier retailer to another was bigger than the proportion of customers that switched from one big three retailer to another. As noted in Chapter 2, switching between smaller, second tier retailers can be a particularly useful indicator of independent rivalry as it shows that customers are not necessarily biased towards larger incumbent retailers and that these retailers are competing between themselves as well as with the incumbents.¹⁹⁹

¹⁹⁷ See Appendix B for a complete list of the retail gas brands serving small residential and/or business customers in Victoria, as well as which brands are under the same ownership.

¹⁹⁸ AEMC analysis based on AER data.

¹⁹⁹ AEMC analysis based on AEMO data.

Figure 8.23 Electricity switching rates in Victoria



Source: AEMO data; AEMC analysis

8.6.3 Product differentiation

Small customers in Victoria have access to a wide range of electricity and gas offers from multiple retailers.

The AEMC assessed the level of product differentiation in the retail electricity and gas markets in Victoria through information collected from the Victorian government price comparator websites, My Power Planner and YourChoice. The analysis considers the level of differentiation in flat rate market offers available to residential and small business customers respectively on a particular day.²⁰⁰ We did not consider time of use or flexible pricing offers as part of this analysis, but note that retailers will differentiate offers through different tariff types. See Chapter 2 for a more detailed description of our methodology.

In addition to the differentiation features specific to an offer, retailers also differentiate their brand through service quality. Points of brand differentiation can include call centre operation hours, information provision, policies on hardship and complaints, policies on door knocking and cold calling, online account access and shop fronts for customers to visit and discuss their options.

Retail electricity market

For residential customers, the My Power Planner price comparator website had 193 flat rate electricity offers from 15 different retailers on 27 February 2015.²⁰¹ The offers were

²⁰⁰ See Appendix G for a description of different types of offers.

²⁰¹ Refer to Appendix B for a complete list of retailers operating in the residential and small business segments in Victoria. Note that there are three retail brands in Victoria which have only standing offers available to residential customers and not market offers. One retail brand did not have any offers on the comparator website at the time of the analysis (Neighbourhood Energy, part of the Alinta Group). One retail brand only supplies business customers and not residential customers.

unique to a distribution network, but may not have been available in all postcode areas of that network.²⁰²

Multiple retailers offered conditional and unconditional discounts and GreenPower options. Examples of other incentives include one month or one day per week of “free” electricity, vouchers and reward points. Residential customers also had access to offers with or without a fixed term and offers with or without a termination fee (Table 8.1).²⁰³ Two major retailers have market offers that do not allow the price per kWh or the level of the discount to change for the duration of the contract or benefit period.

In the third quarter of 2014, 130,222 customers (around 4 per cent) in Victoria had accredited GreenPower.²⁰⁴

Table 8.1 Product differentiation in residential flat rate market offers for electricity

| | CitiPower distribution area | | Other distribution areas | |
|---------------------------------------|-----------------------------|------------------|--------------------------|------------------|
| | <i>Range</i> | <i>Retailers</i> | <i>Range</i> | <i>Retailers</i> |
| All offers | - | 15 | - | 15 |
| Unconditional discounts | 2-23% | 4 | 2-23% | 4 |
| Conditional discounts | 2-30% | 15 | 1-30% | 15 |
| Other incentives | Yes | 7 | Yes | 7 |
| GreenPower options | 10-100% | 8 | 10-100% | 8 |
| No fixed term / benefit period | Yes | 10 | Yes | 10 |
| Fixed term / benefit period | 1-3 years | 8 | 1-3 years | 8 |
| No termination fee | Yes | 11 | Yes | 11 |
| Termination fee | \$20-157.5 | 8 | \$20-157.5 | 8 |

Source: My Power Planner accessed on 27 February 2015; AEMC analysis

Note 1: "Other distribution areas" includes the Jemena, United Energy, AusNet Services and Powercor networks. Product differentiation was consistent across these networks at the time of the analysis.

For small business customers, the My Power Planner price comparator tool had 187 flat rate offers from 16 different retailers on the 27 February 2015.²⁰⁵ The level of product

²⁰² Whilst retailers may have similar offers across the different distribution networks, they will likely contain different charges.

²⁰³ Termination fee refers to that single fee only and excludes other fees that may be incurred if a customer ends the contract during their fixed term (e.g. disconnection fees).

²⁰⁴ Industry & Investment NSW, *National GreenPower Accreditation Program Status Report, Quarter 3: 1 July to 30 September 2014*, p4.

²⁰⁵ Refer to Appendix B for a complete list of retailers operating in the residential and small business segments in Victoria. Note that there are three retail brands in Victoria which have only standing offers available to residential customers and not market offers. One retail brand did not have any

differentiation was consistent across the different distribution networks, and residential and small business electricity customers in urban and rural Victoria had a similar variety of options to choose from (Table 8.2).

Table 8.2 Product differentiation in small business flat rate market offers for electricity

| | CitiPower distribution area | | Other distribution areas | |
|------------------------------------|-----------------------------|------------------|--------------------------|------------------|
| | <i>Range</i> | <i>Retailers</i> | <i>Range</i> | <i>Retailers</i> |
| All offers | - | 16 | - | 16 |
| Unconditional discounts | 1-30% | 4 | 2-30% | 4 |
| Conditional discounts | 1-30% | 12 | 1-30% | 12 |
| Other incentives | Yes | 7 | Yes | 8 |
| GreenPower options | 5-100% | 7 | 5-100% | 7 |
| No fixed term | Yes | 10 | Yes | 10 |
| Fixed term / benefit period | 1-3 years | 7 | 1-3 years | 7 |
| No termination fee | Yes | 8 | Yes | 8 |
| Termination fee | \$20-220 | 13 | \$20-220* | 12* |

Source: My Power Planner accessed on 27 February 2015; AEMC analysis

Note 1: "Other distribution areas" includes the Jemena, United Energy, AusNet Services and Powercor networks. Product differentiation was consistent across these networks at the time of the analysis.

* The termination fees above relate to Jemena, the corresponding range for United Energy and Powercor is \$20 - 150 and \$20 - 110 for Ausnet Services.

Retail gas market

For residential gas customers, the YourChoice price comparator website had 12 gas market offers from eight retailers available in both urban and rural areas on 11 March 2015. For small business gas customers, the website had eight (seven) offers for urban (rural) customers. We have defined an urban area is defined as postcode 3000 (Melbourne) and a rural area is defined as postcode 3350 (Ballarat) on the AusNet Services Gas Distribution Network.²⁰⁶

The main differences between gas offers for residential and small business customers relate to termination fees and incentives. Offers with no termination fees were available for both residential and small business customers, however there was a larger range in termination fees for residential customers than for small business customers. Retailers were also offering a larger number of incentives to residential customers, including

offers on the comparator website at the time of the analysis (Neighbourhood Energy, part of the Alinta Group).

²⁰⁶ See Chapter 2 for a more detailed description of our methodology.

frequent flyer points, promotional offers, vouchers and free disconnections and re-connections (Table 8.3 and Table 8.4).

Table 8.3 Product differentiation in residential market offers for gas

| | Urban area | | Rural area | |
|--------------------------------|--------------|------------------|--------------|------------------|
| | <i>Range</i> | <i>Retailers</i> | <i>Range</i> | <i>Retailers</i> |
| All offers | - | 8 | - | 8 |
| Unconditional discounts | 15% | 1 | 15% | 1 |
| Conditional discounts | 3-20% | 7 | 3-16% | 7 |
| Other incentives | Yes | 5 | Yes | 4 |
| No fixed term | Yes | 5 | Yes | 5 |
| Fixed term | 1-2 years | 4 | 1-2 years | 4 |
| No termination fee | Yes | 5 | Yes | 5 |
| Termination fee | \$22-157.5 | 3 | \$22-157.5 | 3 |

Source: YourChoice accessed on 11 March 2015; AEMC analysis.

Table 8.4 Product differentiation in small business market offers for gas

| | Urban area | | Rural area | |
|--------------------------------|--------------|------------------|--------------|------------------|
| | <i>Range</i> | <i>Retailers</i> | <i>Range</i> | <i>Retailers</i> |
| All offers | - | 5 | - | 6 |
| Unconditional discounts | 14-25% | 3 | 13-25% | 4 |
| Conditional discounts | 13-15% | 1 | 3-15% | 2 |
| Other incentives | No | 0 | Yes | 1 |
| No fixed term | Yes | 1 | Yes | 2 |
| Fixed term | 1-3 years | 4 | 1-3 years | 4 |
| No termination fee | Yes | 1 | Yes | 1 |
| Termination fee | \$22-50 | 4 | \$22-50 | 5 |

Source: YourChoice accessed on 11 March 2015; AEMC analysis.

8.7 Competitive retail prices

Our analysis of this indicator considers the total annual expenditure of a representative residential customer on flat rate electricity offers available in Victoria.²⁰⁷

We grouped flat tariff residential market offers available in Victoria on the 27 February 2015 by offer characteristics, on the expectation that the total annual expenditure for offers with similar characteristics will converge to reflect a narrower range than would be observed across all products. In Victoria, we grouped offers by distribution network, offer type, GreenPower and contract term. The analysis provides a 'snapshot' of prices for a representative customer on a selection of offers available on a certain day, and should therefore be interpreted with caution. See Chapter 2 for a full description of our methodology.

Figures 8.24 to 8.29 show the range of total annual expenditure for each standing and market offer available on the five different distribution networks in Victoria on 27 February 2015. The total annual expenditure reflects all unconditional and conditional discounts and price incentives. We have distinguished between big three retailers (which includes second tier retail brands owned by a big three retailer, such as Powerdirect) and second tier retailers.

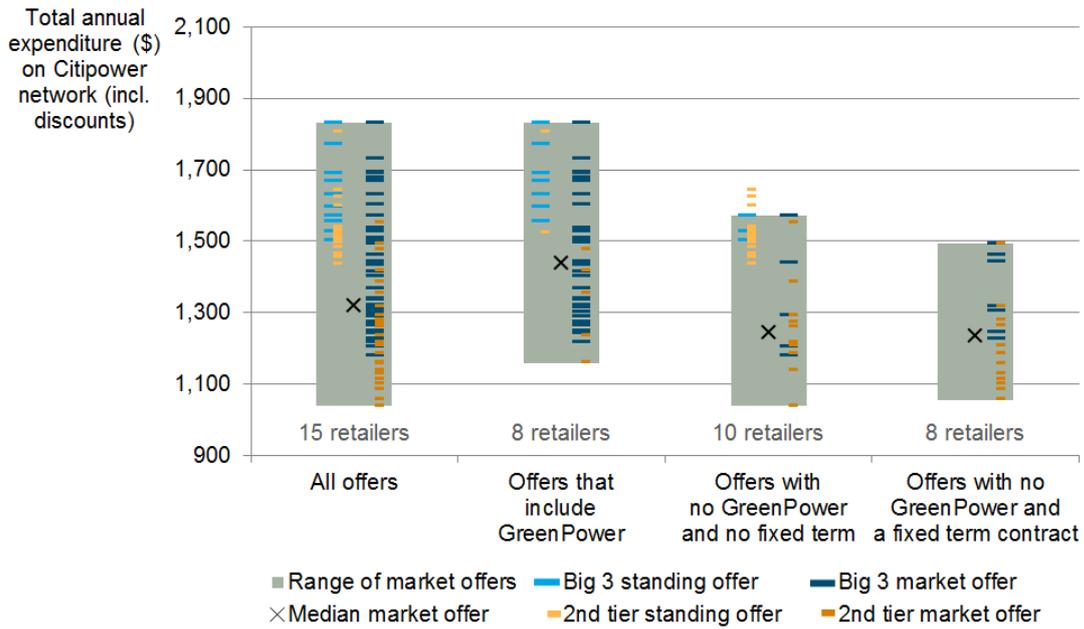
The total annual expenditure across all offers on the CitiPower network including all GreenPower options had a total range of \$800. The range decreased to \$670 when we considered only offers which had GreenPower. The range for offers with no GreenPower and no fixed term contract was \$530. The range for offers with no GreenPower and a fixed term contract decreased further to \$440. That is, the range decreased as the offer definition became narrower. We observed a similar pattern for the other four networks.

This analysis shows that a representative customer on the Jemena distribution network comparing electricity flat rate market offers without GreenPower through the My Power Planner website could find an offer that is as much as \$570 a year cheaper than the most expensive. The level of potential savings differs with distribution network, energy consumption, discount eligibility and type of contract. The potential savings for a representative customer on the Powercor, United Energy, CitiPower and Ausnet Services distribution networks were \$520, \$490, \$530, and \$560 respectively.

Retail customers have diverse energy demands. An energy offer that is good value for one customer may be expensive for another customer with a different consumption level or different needs and circumstances. It is important that customers have access to clear information about what they are signing up to and that customers consider their personal circumstances when choosing a plan.

²⁰⁷ See Appendix H for definition of the representative consumer in each jurisdiction.

Figure 8.24 Total annual expenditure on flat rate market and standing offers available on the CitiPower network



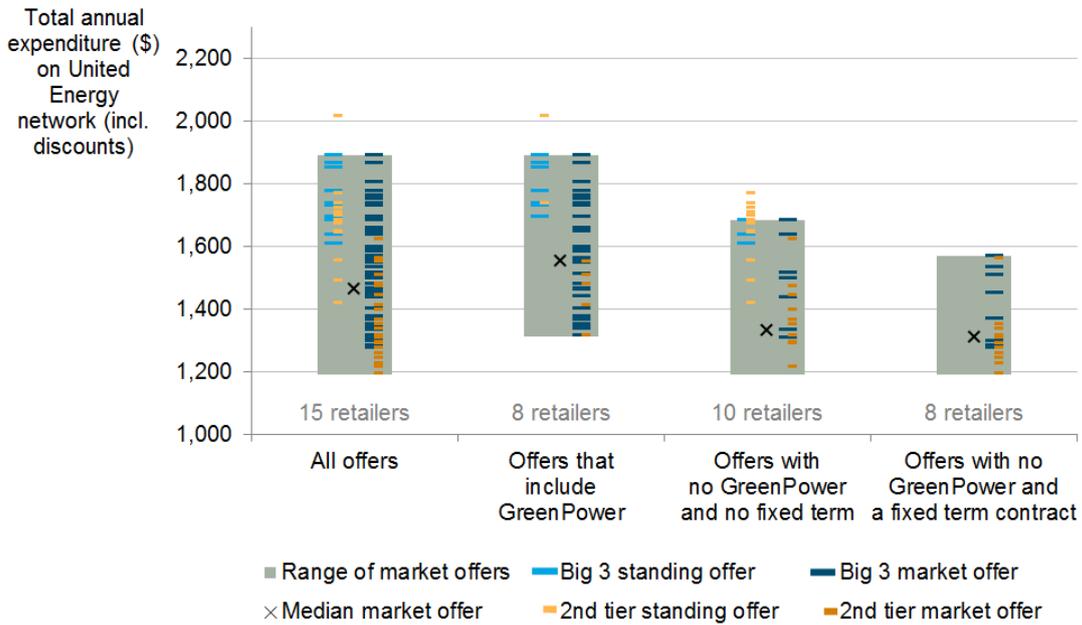
Source: My Power Planner, accessed on 27 February 2015; AEMC analysis

Figure 8.25 Total annual expenditure on flat rate market and standing offers available on the Powercor network



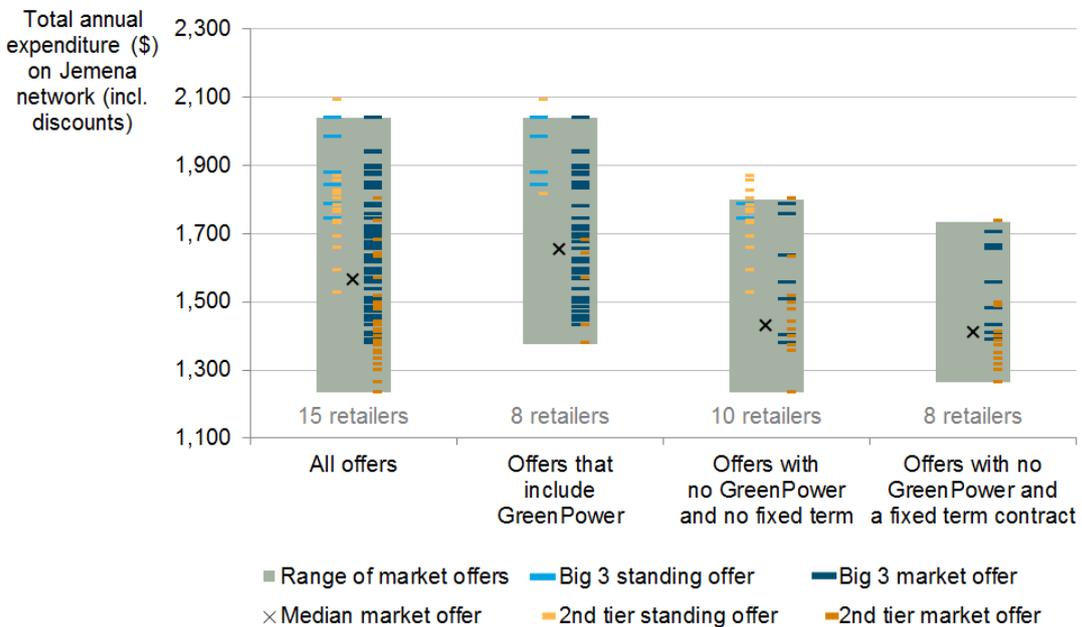
Source: My Power Planner, accessed on 27 February 2015; AEMC analysis

Figure 8.26 Total annual expenditure on flat rate market and standing offers available on the United Energy network



Source: My Power Planner, accessed on 27 February 2015; AEMC analysis

Figure 8.27 Total annual expenditure on flat rate market and standing offers available on the Jemena network



Source: My Power Planner, accessed on 27 February 2015; AEMC analysis

Figure 8.28 Total annual expenditure on flat rate market and standing offers available on the Ausnet Services network



Source: My Power Planner, accessed on 27 February 2015; AEMC analysis

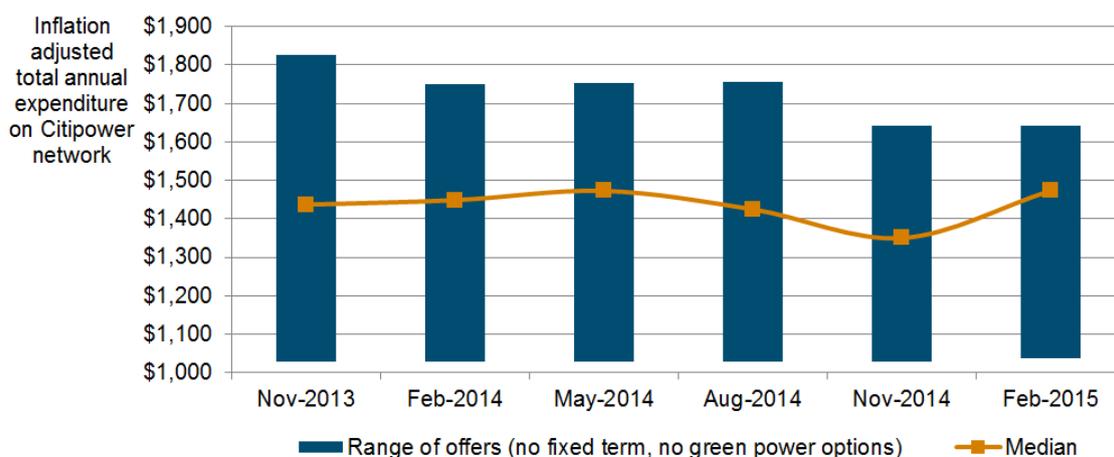
The most expensive offers in this particular analysis were offers that included some GreenPower, and the cheapest offers had zero GreenPower. GreenPower is an underlying cost driver and these differences would be expected where prices are reflective of underlying costs. We also observe that standing offers were grouped towards the top of the range of market offers. The cheapest offers available were from second tier retailers as opposed to big three retailers.

The total estimated expenditure cannot be compared across jurisdictions as different consumption levels were used to reflect a 'representative' customer in each state. Also, different distribution networks will result in different underlying costs. Further, the way the discounts and price incentives have been taken into account in the total annual expenditure differs between the different jurisdictions as a result of data availability.

The range of the total annual expenditure has decreased over time for offers with no fixed term and without any GreenPower available on the CitiPower network, making this particular offer group narrower (Figure 8.29).²⁰⁸ The median price has remained largely constant since November 2013, with the exception of November 2014, which might be related to the removal of the carbon price.

²⁰⁸ Similar analysis was not possible for other jurisdictions or further back in time due to the differences in data availability.

Figure 8.29 Total annual expenditure on flat rate market and standing offers available on the CitiPower network over time



Source: My Power Planner; AEMC analysis

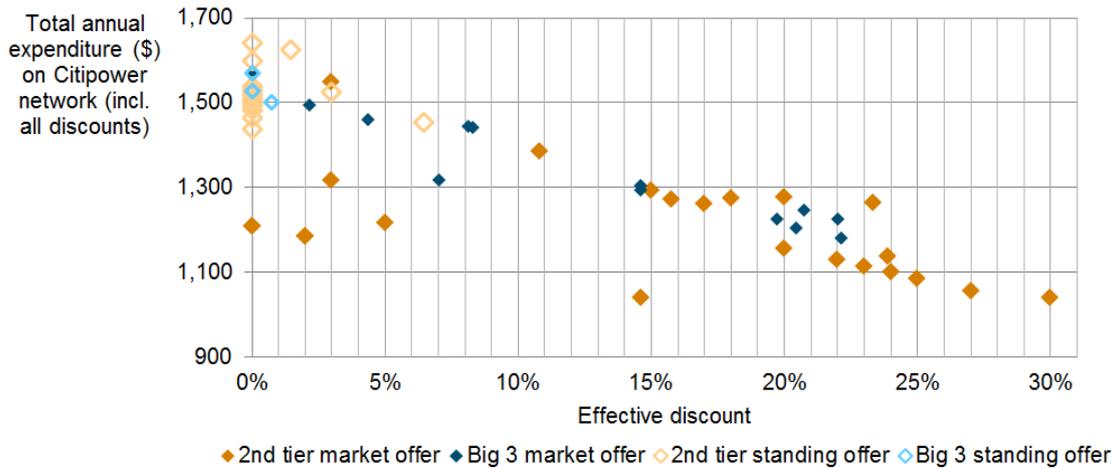
As part of our analysis of this indicator we also considered the relationship between the total annual expenditure (reflecting all discounts and price incentives) and the effective discount. The 'effective discount' is the percentage off the total estimated bill after the conditions associated with the discount have been taken into consideration.²⁰⁹

Figure 8.30 shows the relationship between the total annual expenditure and the effective discount for the flat rate market and standing offers available on the 27 February 2015 on the CitiPower network, without any GreenPower options taken up. Figure 8.31 to Figure 8.34 shows the corresponding analysis for the other four distribution networks in Victoria. Flat rate standing offers do not tend to involve discounts. There is some variation in the prices of standing offers, but they generally result in higher total annual expenditure for the representative customer.

There appears to be competition around the discount level offered by retailers, with clusters of offers from the big three and second tier retailers above 15 per cent that are reflected in lower total electricity expenditures for a representative customer. The total annual expenditure of the representative customer tends to decrease as the effective discount increases for many offers, however some offers with discounts of less than five per cent are better than those with discounts of more than 20 per cent. This suggests that customers should pay close attention to the total annual expenditure and not just the discounts.

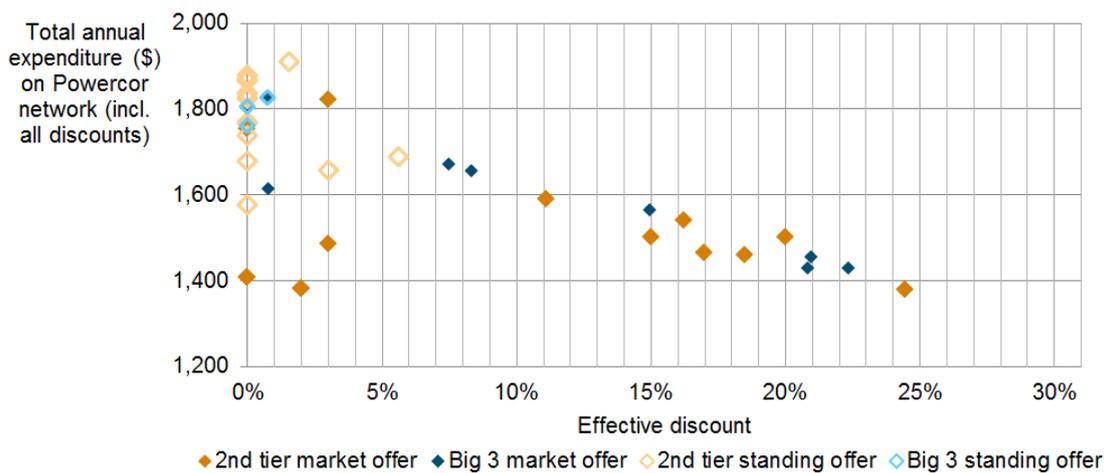
²⁰⁹ For example, an offer that has a 20 per cent discount off usage could equate to an effective discount of 17 per cent off the total expenditure, depending on the usage profile of the customer.

Figure 8.30 Total annual expenditure vs. effective discount on flat rate market and standing offers on the CitiPower network



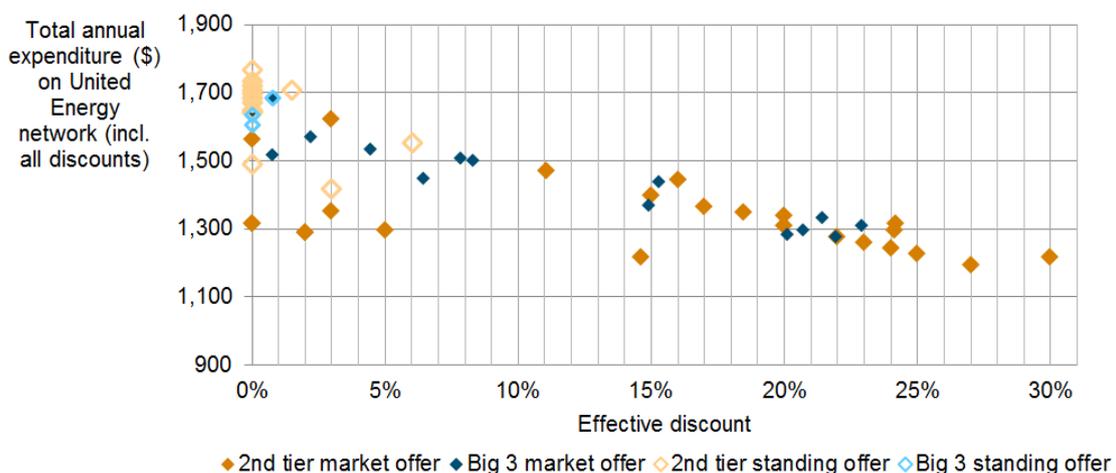
Source: My Power Planner accessed on 27 February 2015; AEMC analysis

Figure 8.31 Total annual expenditure vs. effective discount on flat rate market and standing offers on the Powercor network



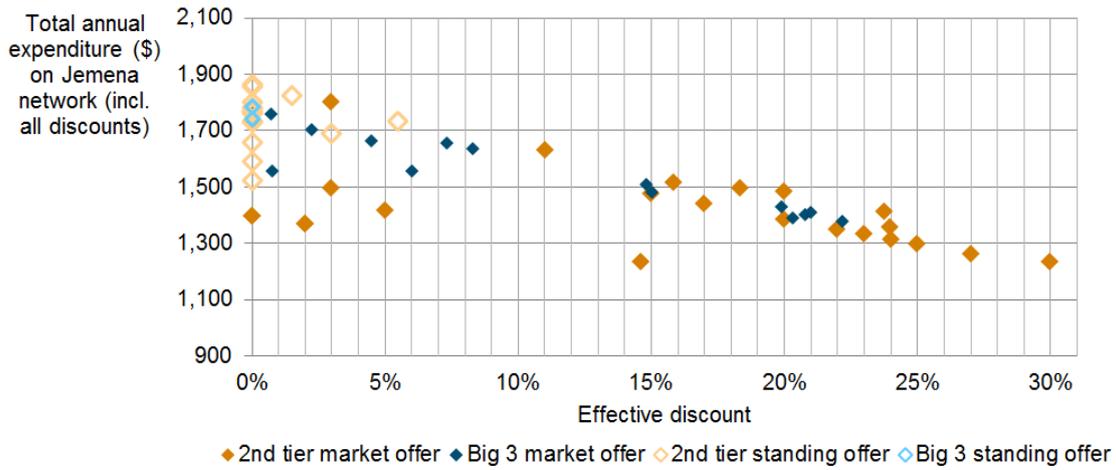
Source: My Power Planner accessed on 27 February 2015; AEMC analysis

Figure 8.32 Total annual expenditure vs. effective discount on flat rate market and standing offers on the United Energy network



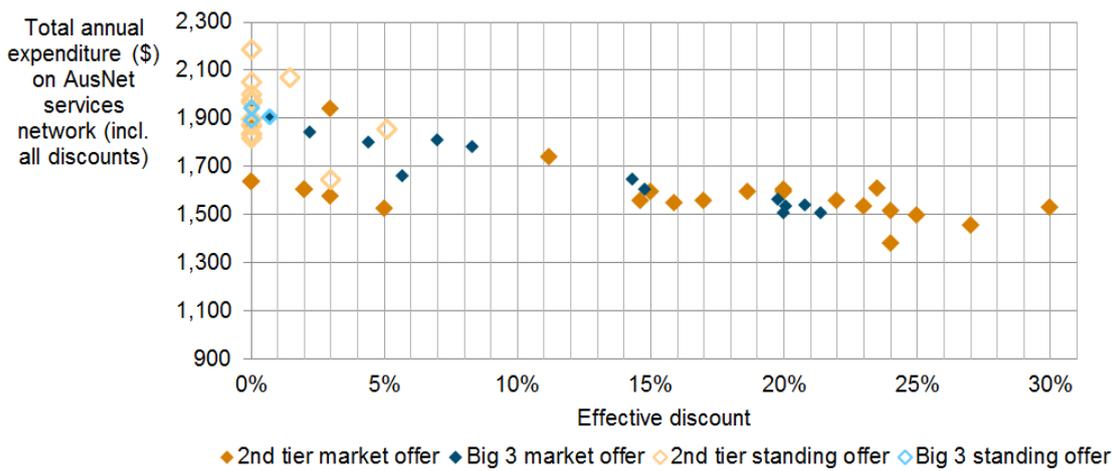
Source: My Power Planner accessed on 27 February 2015; AEMC analysis

Figure 8.33 Total annual expenditure vs. effective discount on flat rate market and standing offers on the Jemena network



Source: My Power Planner accessed on 27 February 2015; AEMC analysis

Figure 8.34 Total annual expenditure vs. effective discount on flat rate market and standing offers on the AusNet Services network



Source: My Power Planner accessed on 27 February 2015; AEMC analysis

9 South Australia

Box 9.1 Key findings

- Competition continues to be effective in the South Australian retail electricity market, delivering customers a range of energy plans from 16 different retail brands. One new retail brand has entered the retail electricity market since the 2014 retail competition review, Commander Power & Gas.
- Competition is relatively less effective in the South Australian retail gas market, with five retail brands competing with one another. No new retail brands entered the retail gas market since the 2014 retail competition review. The South Australian retail gas market has the lowest level of market concentration in the NEM after Victoria.
- There is evidence of rivalry between electricity retailers, with a small decline in market concentration as second tier retailers gained market share from the big three retailers. Retailer survey results suggest that entry and expansion in the electricity and gas retail markets is not difficult, though views varied.
- Customers continue to actively shop around for an energy deal, with 25 per cent of residential and 39 per cent of small business customers actively investigating energy options in the last 12 months. The majority of South Australian customers are aware of their ability to choose retailers and are confident of choosing the right energy option.
- Most customers were satisfied with the level of market choice, the value for money and the customer service provided. Sixty nine per cent of residential customers were satisfied with their retailer. However, some customers have negative experiences; six per cent of residential customers were dissatisfied with their retailer and one per cent of small customers made a complaint to the Ombudsman. Common issues behind complaints include high bills, errors in billing, disconnection and debt collection.
- Many customers who shop around may be able to make significant savings and they should be supported and encouraged to do so. AEMC analysis shows that a representative customer comparing electricity flat rate market offers through the Energy Made Easy website could find an offer that is as much as \$400 a year cheaper than the most expensive. The level of possible savings differs with energy consumption, discount eligibility and type of contract.
- Retail customers have diverse energy demands. An energy offer that is good value for one customer may be expensive for another customer with a different consumption level or different needs and circumstances. It is important that customers have access to clear information about what they are signing up to and that customers consider their personal circumstances when choosing a plan.

9.1 Overview

The Commission's assessment is that competition in the retail electricity market continues to be effective in South Australia, based on evidence gathered on the five competitive market indicators. Similarly our assessment is that competition in the retail gas market is effective, however to a lesser degree than the electricity market. We observed several changes in the retail markets in the last year, however our overall assessment is consistent with the 2014 retail competition review.

Competition in South Australia continues to deliver a wide range of choices of retailers and plans and results in relatively high levels of customer satisfaction. The market share of second tier retailers expanded and retailer survey respondents rated the overall level of competition in the electricity and gas markets as high.

Competition in South Australia continues to evolve and mature and is expected to deliver further benefits for customers over time. There were several changes in the markets since the 2014 retail review:

- Market concentration remained relatively high but continued to fall as second tier retailers gained market share.
- One new brand entered the retail electricity market for small business customers and two firms were brought together under the same ownership.
- The proportion of customers satisfied with their electricity retailer rose to 69 per cent, from 65 per cent in 2014. There was also a nine percentage point increase in high ratings of the value for money provided by electricity retailers.
- The number of electricity issues raised with the Ombudsman in South Australia was 16 per cent lower in 2013-14 than in 2012-13 while gas issues were steady. Complaints to retailers increased by 52 per cent, following a 94 per cent increase in the previous period.

While the Commission's overall assessment is that competition is effective, some findings highlighted groups of customers with negative experiences. Six per cent of residential customers were dissatisfied with their retailer and 10 per cent were not confident to shop for a better energy deal. One per cent of small electricity customers made a complaint to the Ombudsman. We note that data on complaints to retailers is not reported consistently year to year and needs to be interpreted with caution. There are opportunities for retailers who can offer better deals and better services to dissatisfied and neutral customers. Governments have a role to play in building the confidence of customers to shop around.

Confidence to choose the right energy option was significantly higher for customers that were either between 18 and 34 years of age, had switched retailer or had actively investigated energy options in the last 12 months. This suggests that encouraging customers to shop around for an energy deal may improve overall confidence and generate savings for customers. Across the NEM, customers who used price comparator websites to investigate their options were significantly more aware of the choices available to them and also more confident they could find the right information to help choose an energy plan.

Many customers who shop around may be able to make significant savings. Residential customers on average considered they would need to save \$210 annually to seriously consider switching. AEMC analysis shows that a representative customer comparing electricity flat rate market offers through the Energy Made Easy website could find an offer that is as much as \$400 a year cheaper than the most expensive. The level of possible savings differs with energy consumption, discount eligibility and type of contract.

The findings for South Australia against our competitive market indicators are summarised below:

- **Customer activity:** The majority of South Australian customers are aware of their ability to choose retailers and are confident of choosing the right energy option. Many customers have actively investigated energy options in the past 12 months. Electricity retailer switching levels have fallen over the last four years, but remain comparable to levels in NSW and South East Queensland.
- **Customer outcomes:** The majority of residential and small business customers in South Australia were satisfied with the level of market choice and the value for money and the customer service provided by their retailer. Electricity complaints fell and gas complaints were steady against 2012-13 levels, however complaints to retailers increased significantly.
- **Barriers to entry, exit and expansion:** One retailer entered the retail electricity market. The median responses to the retailer survey suggest that entry and expansion in the electricity and gas retail markets are not difficult, though views varied. Impediments raised include access to wholesale hedging products for electricity and access to gas pipelines.
- **Independent rivalry:** There is evidence of rivalry between the 16 retail electricity brands operating in South Australia despite the high market concentration. The big three retailers have 81 per cent of the total market share, however second tier retailers are growing and market concentration has fallen. Rivalry in the retail gas market is weaker than in the retail electricity market, with only five retail brands. The big three have 90 per cent of the market share in the retail gas market.
- **Competitive retail prices:** Based on analysis for a representative electricity customer, different offers would result in a range of total expenditure and customers should shop around to get the best deal for their needs. Effective discount levels can be a useful indicator of total expenditure, however there are some offers with low discount levels that would be cheaper for a representative customer than offers with higher discount levels.

9.2 Market characteristics

In the first quarter of 2015, there were 16 retail electricity brands (13 retail electricity businesses) supplying approximately 850,000 small electricity customers and five gas

retail brands supplying approximately 410,000 small gas customers in South Australia.²¹⁰

Full retail contestability was introduced in South Australia for small electricity customers in January 2003.²¹¹ The gas market was opened up to competition on 1 July 2001 but systems were not in place to handle mass transfers until 28 July 2004.

In February 2013, South Australia adopted the National Energy Customer Framework (NECF), subject to a number of variations. At the same time, it removed retail price regulation for electricity and gas markets. Origin Energy and AGL Energy agreed to transitional pricing arrangements for customers on standing offers as part of the price deregulation process.²¹² The Essential Services Commission of South Australia is now responsible for annual reporting on energy retail prices that are generally available to small customers in South Australia.

9.3 Customer activity in the market

Our analysis of this indicator considers the findings of a customer survey performed by Newgate Research and data provided to the AEMC on customer switching. See Chapter 2 for further details of our methodology.

9.3.1 Customer awareness

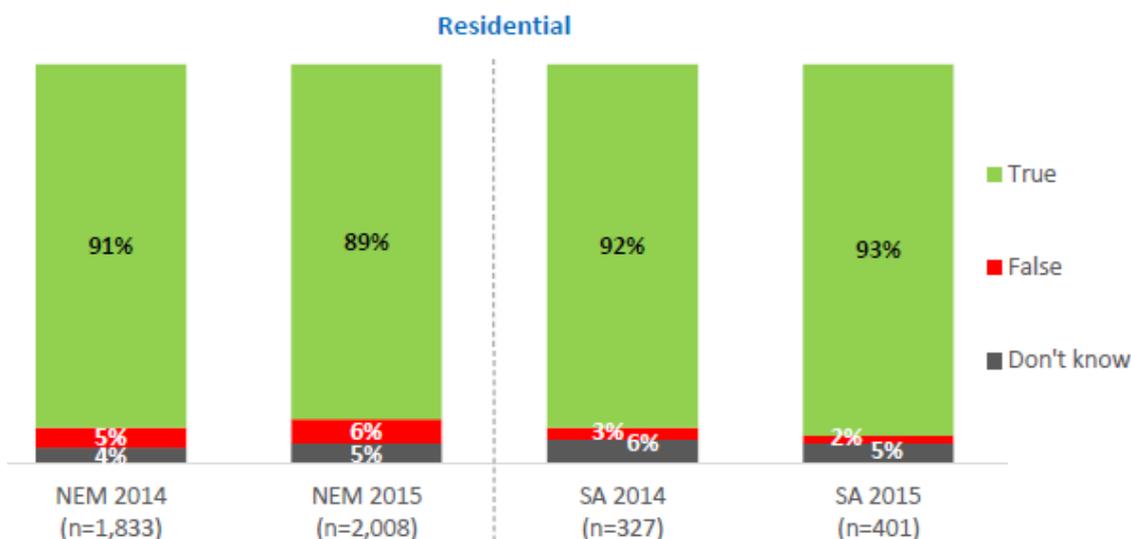
There was a high level of awareness among retail survey respondents that they have a choice between different retailers and plans in the market (Figure 9.1).

²¹⁰ Australian Energy Regulator website, Australia Gas Networks (South Australia) – gas distribution network, March 2015: <https://www.aer.gov.au/node/4877>

²¹¹ Small electricity customers in South Australia are defined as customers with annual consumption below 160 MWh. This threshold is higher than in any other jurisdiction, where most other jurisdictions use a threshold of 100 MWh/annum.

²¹² Origin reduced its standing offer for small gas customers by one per cent. AGL Energy agreed to a 9.1 per cent decrease to its electricity standard contract price for residential customers and a 4.5 per cent decrease for its small business customers, with the retail component fixed for two years until 31 December 2014. Refer to: Government of South Australia, News Release - Lower power prices for South Australia, 18 December 2012, p1.

Figure 9.1 Consumers in your state can choose their electricity retailer?



Source: Newgate Research, Consumer Research for Nationwide Review of Competition in Retail Energy Markets, June 2015, p83. Survey question: Do you think it is true or false that consumers in your state can choose their electricity company. Customers surveyed: All.

Ninety three per cent of residential electricity customers and 90 per cent of gas customers surveyed were aware they could choose their energy retailer. This is consistent with the results from the 2014 survey. Almost all small business customers were aware they could choose their electricity retailer, up from 92 per cent in 2014.

Eighty one per cent of residents and 92 per cent of small businesses were aware of their ability to choose from a range of different electricity plans. Seventy eight per cent of residential customers were aware of their ability to choose from a range of different gas plans.

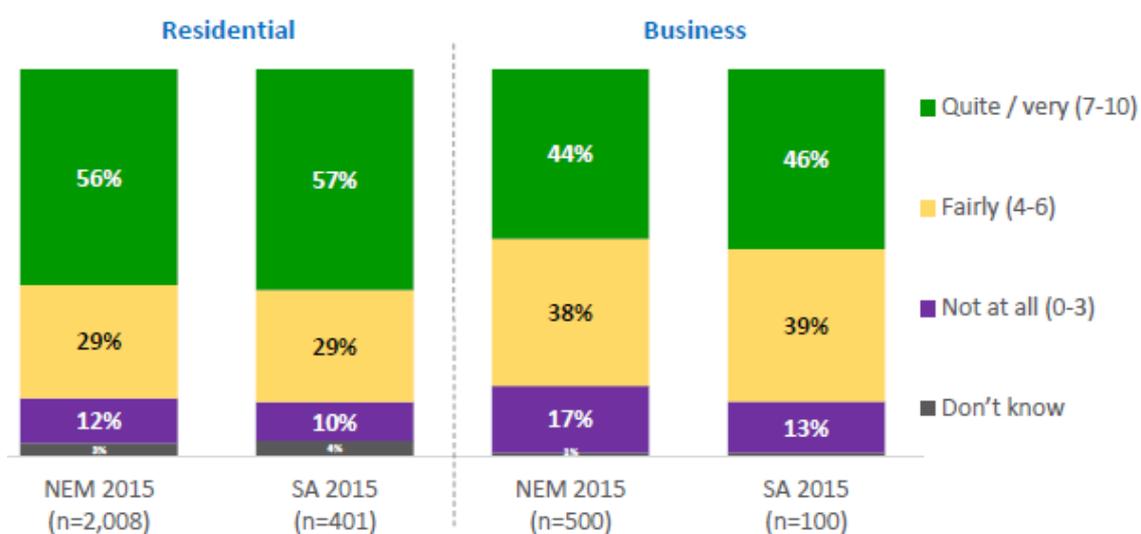
Most customers in South Australia were not aware of the full extent of the choice of electricity retailers available for them but were more aware of the extent of their choice of gas retailers. When asked, residential customers in South Australia on average considered that they can choose between six different electricity retailers and five gas retailers. South Australian small businesses consider they can choose between almost seven electricity retailers.

9.3.2 Customer confidence

Confidence levels in South Australia were comparable with the NEM average, with survey responses suggesting that 57 per cent of residential customers and 46 per cent of small business customers were very confident that they can choose an energy option that is right for their household or business (Figure 9.2).

Confidence levels were significantly higher for customers who were either between 18 and 34 years of age, had switched retailer or actively investigated energy offers in the past 12 months. Confidence levels were also higher for customers with solar panels and those on special payment or hardship arrangements with their retailer. Regional customers were less confident than metropolitan customers.

Figure 9.2 Confidence in choosing the right energy option



Source: Newgate Research, Consumer Research for Nationwide Review of Competition in Retail Energy Markets, June 2015, p87. Survey question: How confident are you that you can choose an energy offer that is right for your household or business? Customers surveyed: All.

Customers who had actively investigated energy offers in the past 12 months were more likely to be confident that they could find the right information to choose a suitable energy offer. These survey results suggest that customers may feel more confident about switching plan or retailer if they are encouraged to take the first step of investigating the options available to them.

9.3.3 Customers investigating options and switching

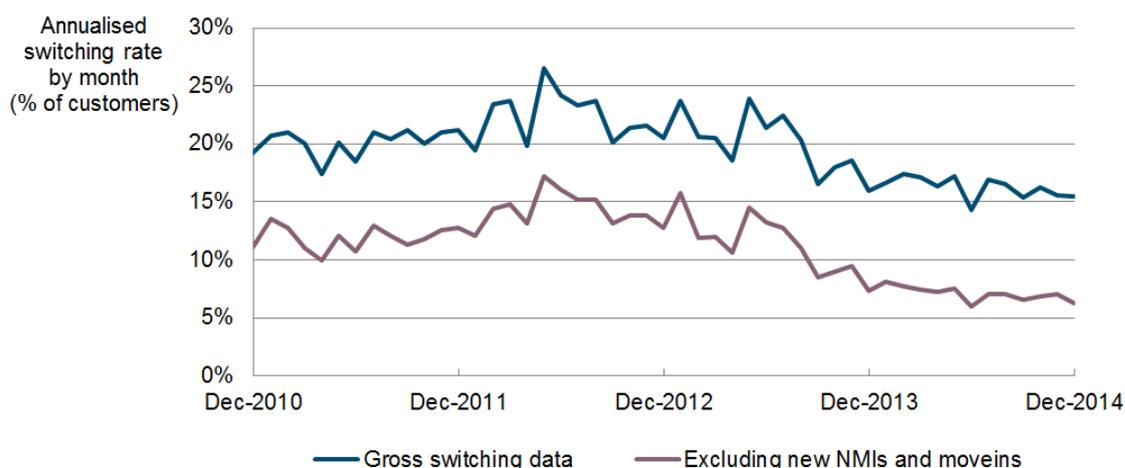
Around a quarter of residential and 39 per cent of small business customers reported they had actively investigated energy options to switch to in the past 12 months. For residential customers this is a decrease of five percentage points from the 2014 survey and for small business customers this is similar to 2014.

AEMO data on customer transfers between electricity retailers illustrates that customer switching rates fell throughout 2013 and 2014 after reaching a peak in 2012 (Figure 9.3). This data should be interpreted with caution, as discussed in Chapter 2, but can provide an indication of the level of customer activity in a market.

For electricity, the average gross switching rate during 2014 was just over 16 per cent. This is a reduction from 2013 when the average gross switching rate was 20 per cent. The switching rate in South Australia is comparable to rates in New South Wales and South East Queensland.

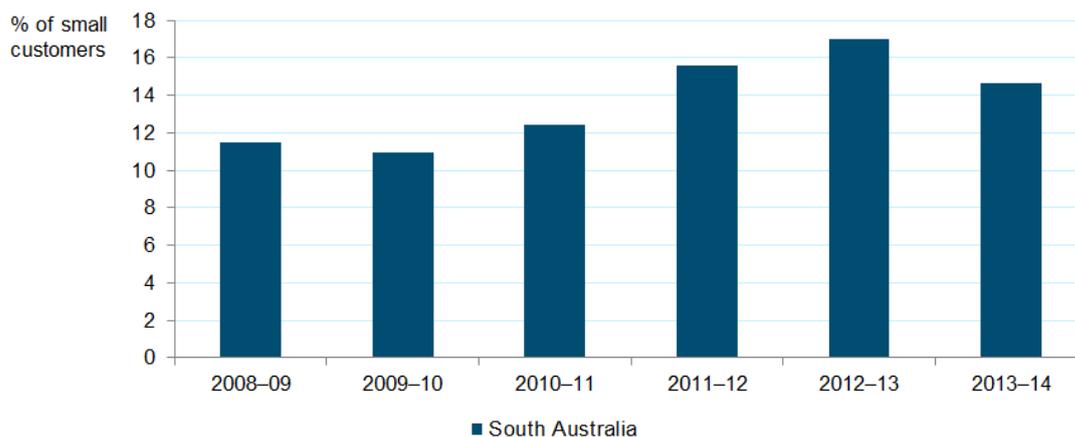
The average gas switching rate in South Australia for 2013-14 was just over 14 per cent (Figure 9.4). This figure does not include switching to AGL as a result of AGL's purchase of Australian Power and Gas.

Figure 9.3 Electricity customer switching rates – South Australia



Source: AEMO data, AEMC analysis.

Figure 9.4 Gas customer switching rate – South Australia



Source: AER data, AEMC analysis.

Switching data for electricity and gas does not capture customers who have chosen to switch plans with their existing retailer. Data provided by retailers for the 2014 retail competition review suggested that up to 28 per cent of a retailer's customers changed their electricity plan with that retailer in 2013. For gas, up to 17 per cent of a retailer's customers changed plans with their retailer.²¹³ Retail respondents to the 2015 survey rated switching between different offers as between minimal and moderate in South Australia, whereas switching between retailers was rated as high.

Similar to the AEMO switching data, the Newgate survey found there was a decline in reported switching rates between the 2014 and 2015 surveys. Around half of all customers surveyed in South Australia reported they had switched electricity retailer or plan in the last five years and 35 per cent reported they had switched gas retailer or plan. For both electricity and gas this is a decrease of approximately five percentage points, however that decrease was less than the decrease in the NEM average.

Electricity and gas switching has remained higher than for other service providers. More South Australian customers reported switching electricity and gas retailers than

²¹³ Some retailers cautioned that these estimates are indicative only.

those who reported switching between service providers of car insurance, phone, internet, banking, home insurance or health insurance.

Declines in retailer direct marketing may be leading to less switching

The decline in electricity switching appears to coincide with a reduction in door to door marketing by major retailers in NEM jurisdictions, from 2013. Fewer customers reported they had been directly approached by retailers in the previous 12 months compared to the 2014 survey results. Forty one per cent of residential customers have been approached by at least one retailer in the past 12 months, down from 58 per cent in 2014. The proportion of business customers approached in 2015 decreased from 66 per cent to 56 per cent.

Customers who were approached reported being approached an average of 2.6 retailers, a similar number to the average of 2.4 retailers reported in 2014.

Price remains the key driver for switching behaviour

Customer surveys suggest the key reason for switching energy retailer or plan in all NEM jurisdictions was to obtain a better price. In South Australia, 69 per cent of residential and 81 per cent of small business customers stated that they switched electricity retailer or plan for price related reasons. Similarly, almost 60 per cent of the residents surveyed who had switched gas retailer or plan did so for price reasons.²¹⁴

Residential customers on average considered that they would need to save around \$210 annually to seriously consider changing electricity retailer or plan. They would on average consider switching gas retailer or plan for annual savings of \$170. Small business electricity customers considered they would on average need to save around \$710 in order to seriously consider switching.

A distant second to obtaining a better electricity or gas price was moving house, with nine per cent of retail respondents citing this as their key reason for switching electricity or gas retailer or plan. This was consistent with responses in 2014. For gas, the next most common reason for switching retailer or plan, closely behind moving house, was to have gas and electricity with the same retailer.

Surveyed customers who had switched energy retailer or plan considered the most important factors in making the decision to switch to be the discounts offered, the estimated total bill amount and the price per kWh (or MJ for gas). They also considered whether the price per kWh (or MJ) can change and the exit fee to be relatively important factors.

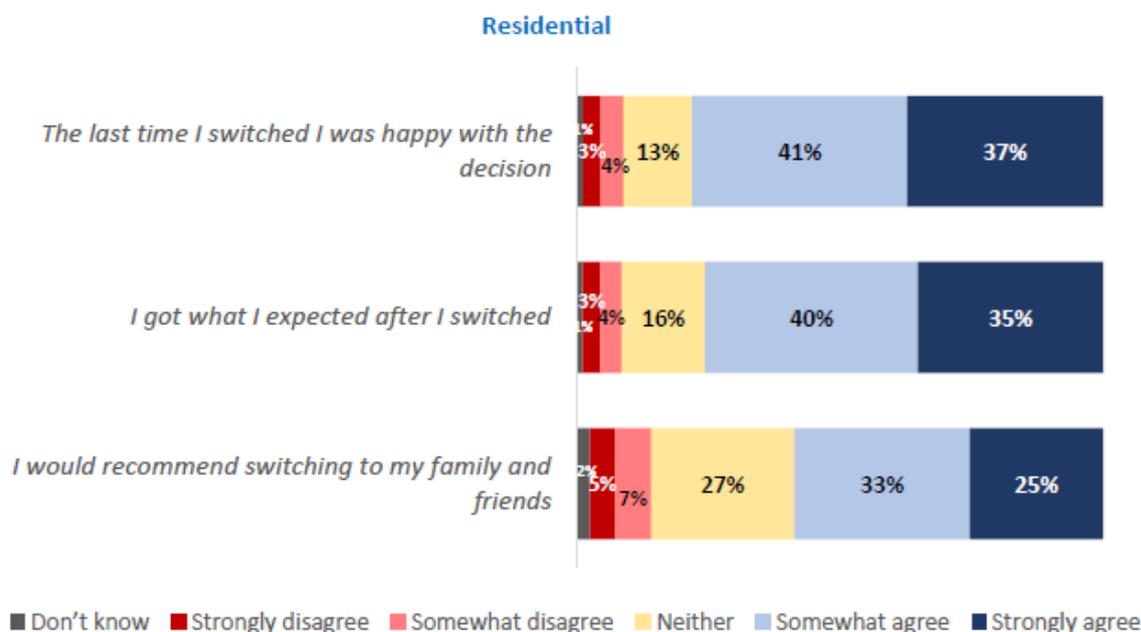
Most customers are satisfied with their decision to switch retailer or plan

Seventy eight per cent of residential and 79 per cent of small business customers that switched electricity retailer or plan were subsequently happy with the decision (Figure 9.5). Seventy three per cent of residential customers who switched their gas retailer or plan were happy with the decision. Around three quarters of residential and small

²¹⁴ Unlike the results for electricity, results for gas only include responses from residents as the sample size was too small for business customers.

business electricity customers considered that they got what they expected after they switched. Eighty two per cent of residential gas customers considered they got what they expected.

Figure 9.5 Satisfaction with decision to switch electricity retailer or plan



Source: Newgate Research, Consumer Research for Nationwide Review of Competition in Retail Energy Markets, report for the AEMC, June 2015, p103. Survey question: To what extent do you agree or disagree with the following? Customers surveyed: Respondents who had switched electricity company or plan.

Around half of residential customers considered they would recommend to family and friends switching electricity or gas retailer or plan. Just under half of small business customers would recommend switching. These results are not considered unusual for low customer involvement products such as energy.

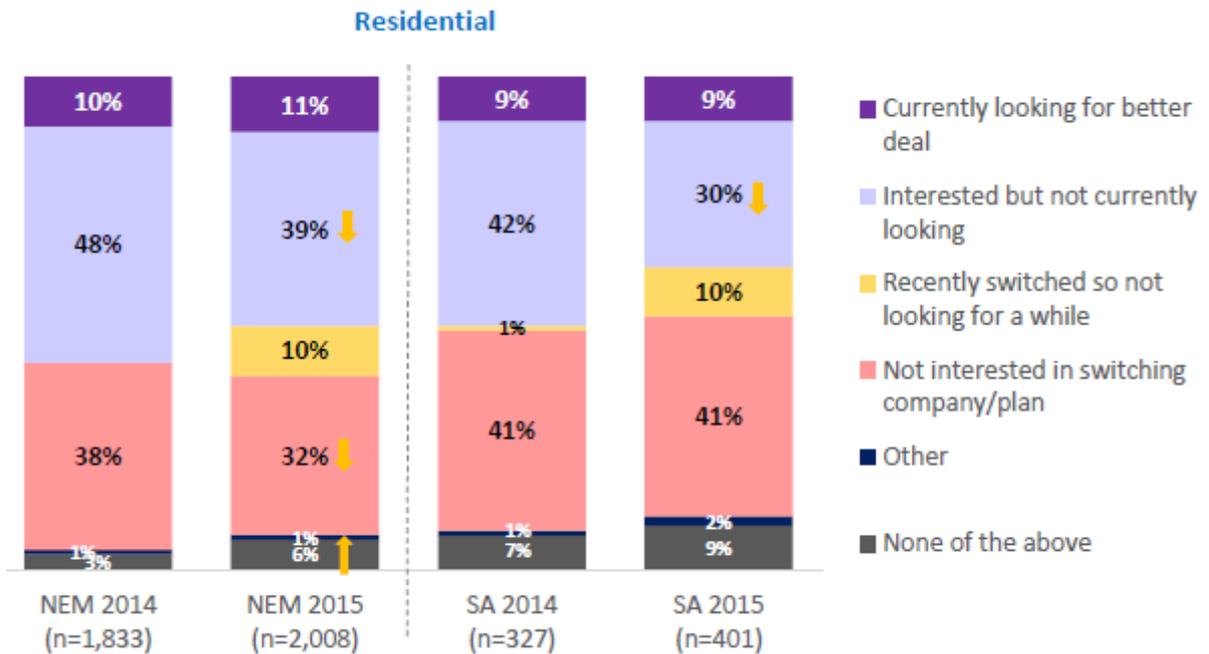
The main reasons for satisfaction with switching decisions related to savings and cheaper prices, followed by improved customer service. Just over 70 per cent of residential electricity and gas customers listed their main reasons for being satisfied with switching as being related to savings or price. Small business electricity customers were also satisfied with their switching decisions for price related reasons.

Interest in looking for a better deal

Thirty nine per cent of residential customers are currently looking for a better energy deal or are interested in doing so, down from 51 per cent in 2014 (Figure 9.6).

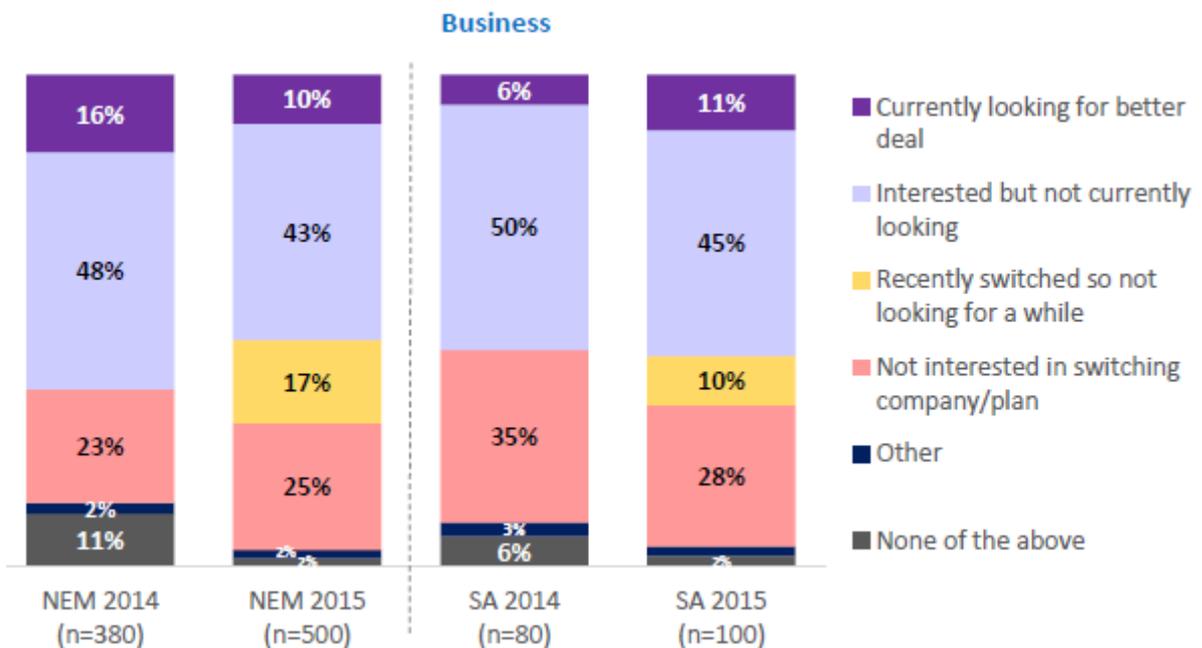
The proportion of those actively looking for a better energy deal stayed constant for residential customers and increased by five percentage points for small business customers (Figure 9.7). Some of the changes from 2014 can be explained by a change in the response options for this question to include those not looking for a better deal because they recently switched. Ten per cent of residential and business customers fall into this category.

Figure 9.6 Interest in looking for a better energy deal – residential



Source: Newgate Research, Consumer Research for Nationwide Review of Competition in Retail Energy Markets, June 2015, p110. Survey question: Which of the above statements is most applicable to your household? Customers surveyed: All.

Figure 9.7 Interest in looking for a better energy deal – small business

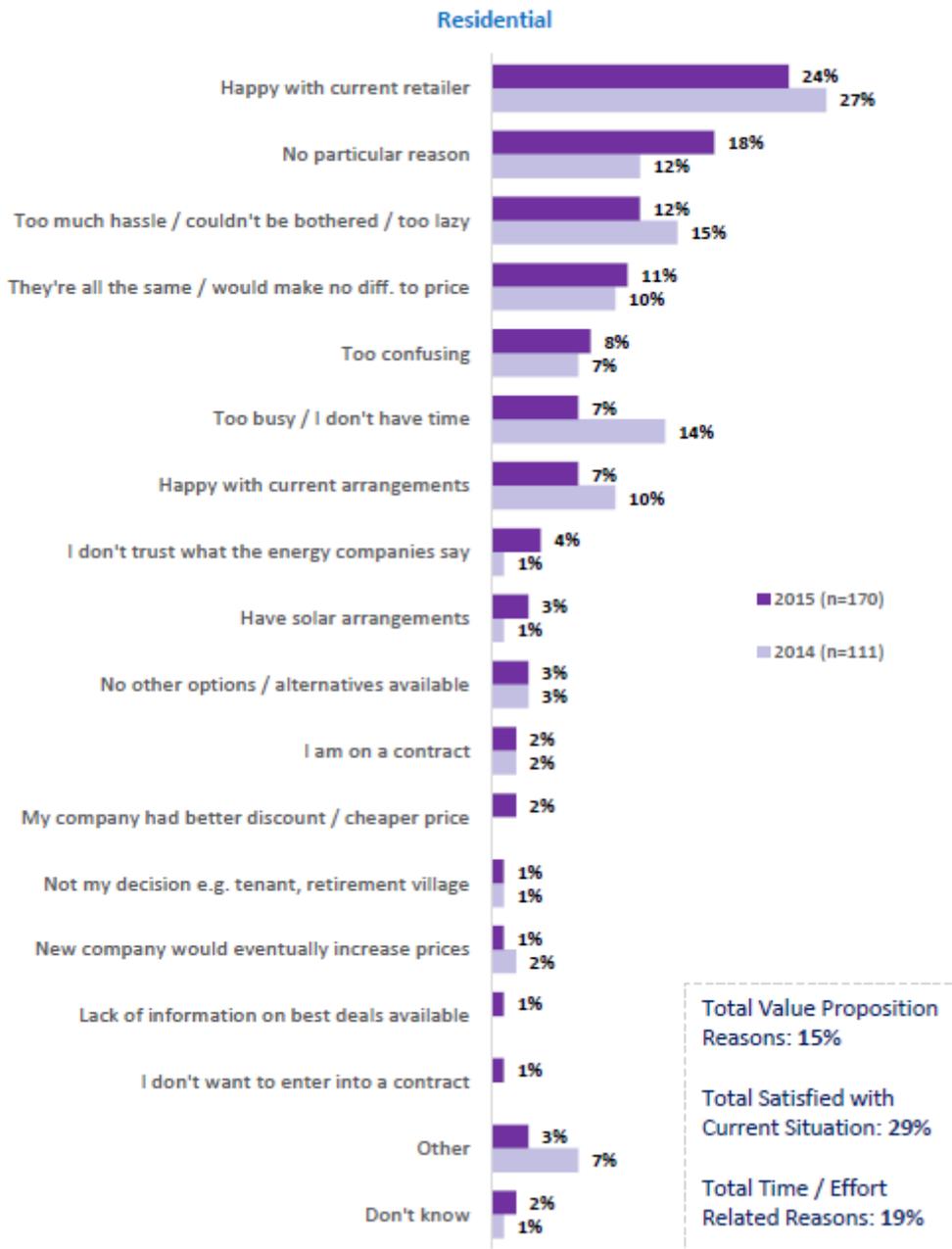


Source: Newgate Research, Consumer Research for Nationwide Review of Competition in Retail Energy Markets, June 2015, p110. Survey question: Which of the above statements is most applicable to your business? Customers surveyed: All.

Barriers to switching

The reasons most commonly cited by residential customers for not investigating offers or switching were satisfaction with their current retailer, "no particular reason", that it would be too much hassle or that there is little difference between options (Figure 9.8).

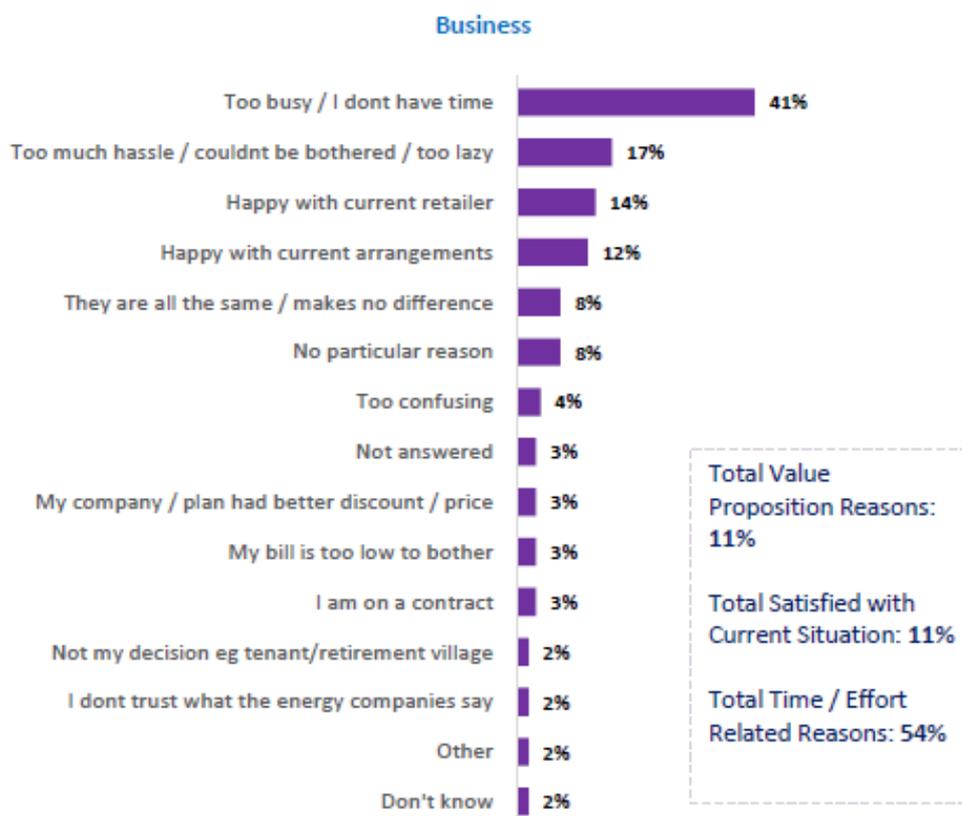
Figure 9.8 Reasons for not investigating or switching - residential



Source: Newgate Research, Consumer Research for Nationwide Review of Competition in Retail Energy Markets, June 2015, p108. Survey question: Are there any reasons you haven't investigated different options or why you haven't changed your energy company or plan in the last 12 months? Customers surveyed: Respondents who had not investigated offers and options or switched in the past 12 months.

Small business customers were more likely to have not investigated switching due to being too busy or not having enough time (Figure 9.9).

Figure 9.9 Reasons for not investigating or switching - small business



Source: Newgate Research, Consumer Research for Nationwide Review of Competition in Retail Energy Markets, June 2015, p109. Survey question: Are there any reasons you haven't investigated different options or why you haven't changed your energy company or plan in the last 12 months? Customers surveyed: Respondents who had not investigated offers and options or switched in the past 12 months.

Around a third of respondents had investigated their options but had not switched retailer or plan. Of these, most did not switch because they did not consider there was value in doing so, such as a cheaper price or better discount.

Customers may be more inclined to shop around for a better deal if they were aware of the savings that could be available for them. The AEMC's 2014 Residential Electricity Price Trends report found that residential customers in South Australia may have saved around \$189 or 10 per cent off their total annual bills by switching from a standing offer to the representative market offer in 2013-14.²¹⁵ This is close to the average amount of \$210 per annum respondents considered they would need to save in order to seriously consider switching, but does not capture the full savings that could be available. In particular, the amount does not capture the discount that may be available for switching to the lowest advertised market offer or by negotiating with retailers to obtain a lower price.

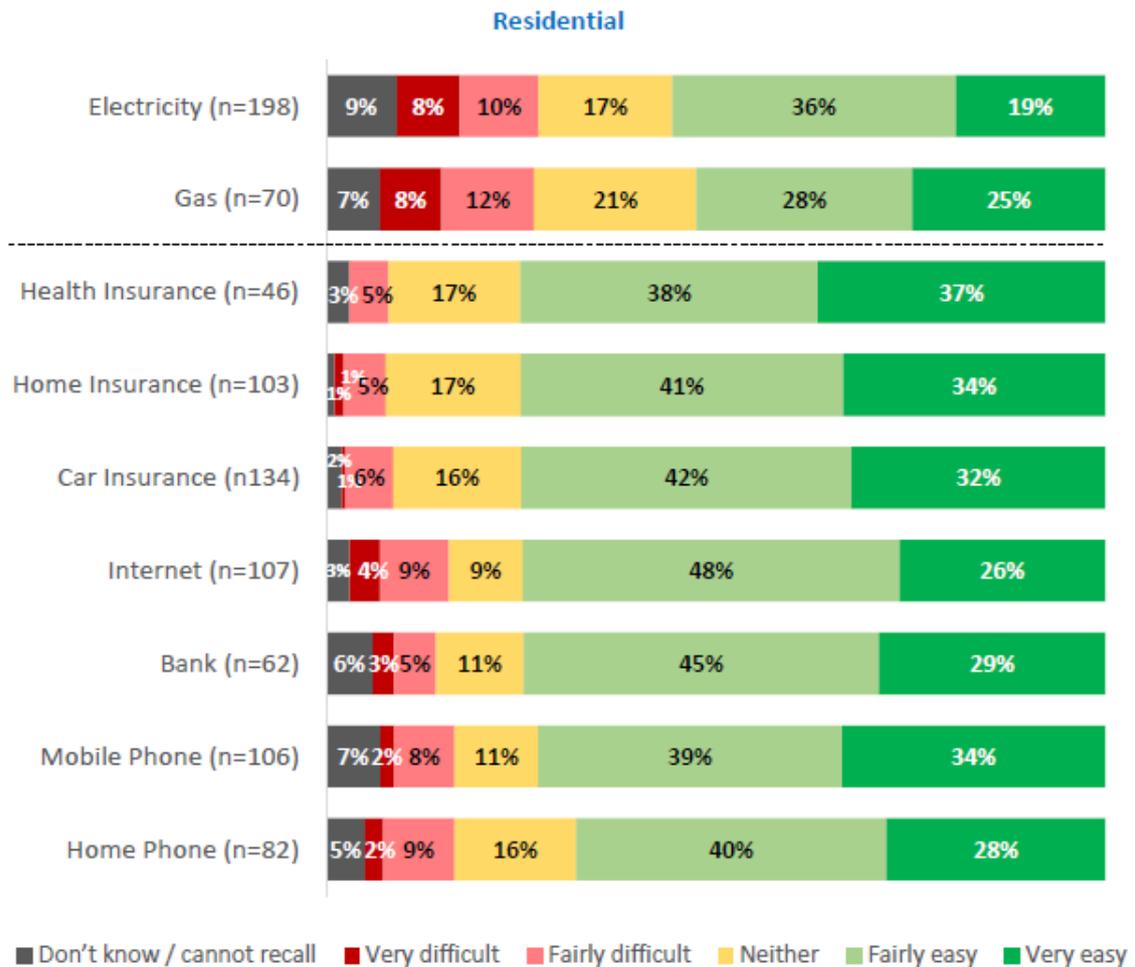
AEMC analysis shows that a representative customer comparing electricity flat rate market offers through the Energy Made Easy website could find an offer that is as much as \$400 a year cheaper than the most expensive. The level of possible savings differs

²¹⁵ Actual savings will depend on individual circumstances and more savings can be achieved if consumers shop around and choose the best market offer to meet their needs. AEMC, 2014 Residential Electricity Price Trends Report, AEMC, 5 December 2014, Sydney.

with energy consumption, discount eligibility and type of contract. This analysis is discussed in more detail in section 9.7.

Most residential customers considered that it was at least “fairly easy” to compare different offers when deciding whether or not to switch, however some other industries performed better in this regard (Figure 9.10).

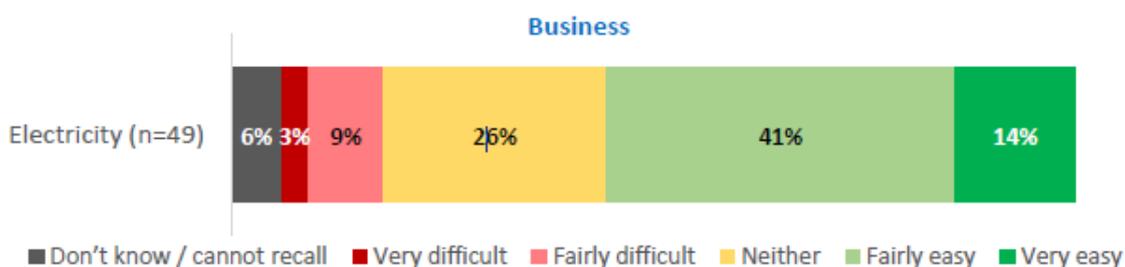
Figure 9.10 Ease of comparing offers when making switching decisions – residential



Source: Newgate Research, Consumer Research for Nationwide Review of Competition in Retail Energy Markets, report for the AEMC, June 2015, p106. Survey question: The last time you switched, how easy or difficult was it for you to compare the different offers when deciding whether or not to switch? Customers surveyed: Respondents who had switched electricity or gas company or plan.

A slightly greater proportion of small business customers than residential customers considered that it was at least “fairly easy” to compare different electricity offers when deciding whether or not to switch (Figure 9.11).

Figure 9.11 Ease of comparing offers when making switching decisions – small business



Source: Newgate Research, Consumer Research for Nationwide Review of Competition in Retail Energy Markets, report for the AEMC, June 2015, p106. Survey question: The last time you switched, how easy or difficult was it for you to compare the different offers when deciding whether or not to switch? Customers surveyed: Respondents who had switched electricity company or plan.

Eighteen per cent of residential and 12 per cent of small business respondents considered that it was at least “fairly difficult” to compare offers.

Despite the difficulty for some customers in comparing electricity options, the reported switching rates in the last five years for electricity and gas retailers or plans were higher than those reported for these other products and services (Figure 9.12).

Figure 9.12 Switching energy and other services

| Provider (% switched at least once) | Residential | | | |
|-------------------------------------|-------------------|-------------------|-----------------|-----------------|
| | NEM | | South Australia | |
| | 2014 (n=1,833) | 2015 (n=2,008) | 2014 (n=327) | 2015 (n=401) |
| Electricity Company | 48% | 39% ↓ | 35% | 36% |
| Electricity Plan | 39% | 31% ↓ | 39% | 31% ↓ |
| TOTAL Electricity | 60% | 50% ↓ | 56% | 49% |
| Gas Company | 40% | 35% ↓ | 26% | 29% |
| Gas Plan | 30% | 24% ↓ | 28% | 24% |
| TOTAL Gas | 49% | 40% ↓ | 39% | 35% |
| TOTAL Electricity or Gas | 61% | 51% ↓ | 56% | 49% |
| Car Insurance | 37% | 35% | 37% | 33% |
| Mobile | 32% | 31% | 32% | 27% |
| Internet | 30% | 29% | 32% | 27% |
| Home Insurance | 22% | 26% ↑ | 22% | 25% |
| Home Phone | 22% | 20% | 20% | 20% |
| Banking | 18% | 19% | 15% | 17% |
| Health Insurance | 13% | 16% | 11% | 12% |

Source: Newgate Research, Consumer Research for Nationwide Review of Competition in Retail Energy Markets, report for the AEMC, June 2015, p92. Survey question: In the last five years, how many times have you changed any of the following providers or companies with which you have products and services? Customers surveyed: All.

Clearer information and the use of price comparator websites could help customers make decisions more easily

Customers should be encouraged to shop around regularly to take advantage of new offers and move to more suitable plans as their energy needs change.

Some of the customer issues highlighted above could be addressed through promoting greater awareness of the Energy Made Easy price comparator website. This website is operated by the AER and can help reduce the time and complexity of finding and comparing energy plans.²¹⁶

In South Australia 22 per cent of residential customers who had investigated different energy offers used a price comparator website as their main source of information and six per cent considered a price comparator website to be the most useful source of information.

Across the NEM those customers who used price comparator websites to investigate their options were significantly more aware of the choices available to them and also more confident they could find the right information to help choose an energy plan. Of customers who had used comparator websites, 88 per cent were aware they could choose from a range of different electricity plans and 64 per cent rated their confidence to find the right information as seven out of 10 or higher. For customers who had not used a comparator website, these figures were 77 per cent and 53 per cent respectively.

Price comparator websites can also assist customers in considering whether there is value in switching retailer or plan. For example, Energy Made Easy can estimate a customer's bill for different energy plans and highlight that there may be some appealing alternative product and service offers available.

Unprompted awareness of the Energy Made Easy website among residential and small business retail survey respondents remains low at less than one per cent for residential and two per cent for small business customers. When prompted, 13 per cent of residential and small business customers said they had heard of the site. This is similar to levels reported in 2014 and five percentage points below the NEM average for residential customers.

9.4 Customer outcomes

Our analysis of this indicator considered the findings of customer surveys and data on customer complaints. See Chapter 2 for further details of our methodology.

9.4.1 Satisfaction with the level of choice

Fifty nine per cent of residential customers surveyed were satisfied with the level of market choice in South Australia, up from 56 per cent in 2014. Fifty seven per cent of small business customers were satisfied with their level of choice, up from 51 per cent.

Satisfaction with the level of choice in South Australia is broadly consistent with the NEM average. Metropolitan customers were slightly more satisfied with their level of choice than regional customers. Last year regional customers were more satisfied than metropolitan customers.

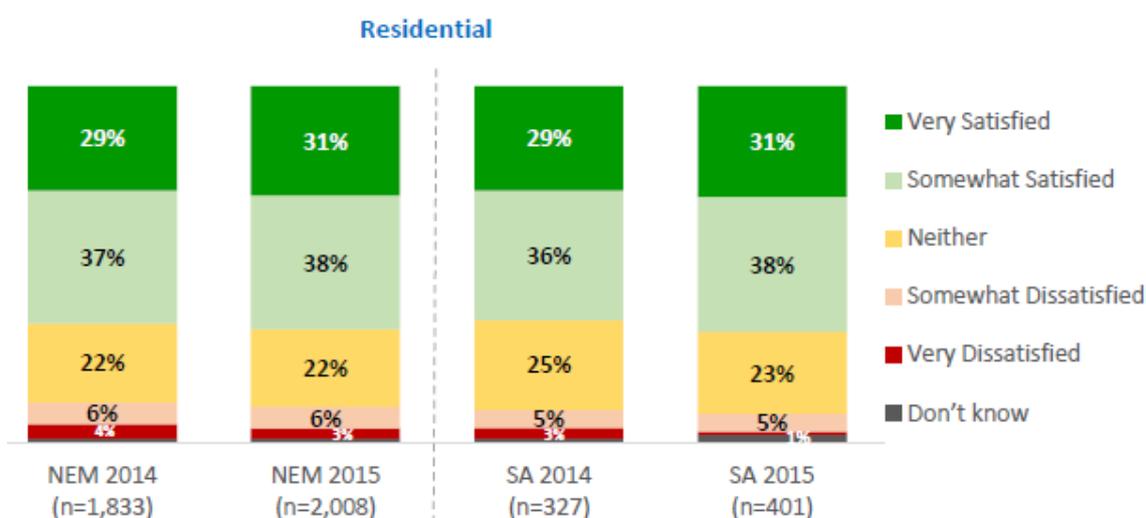
²¹⁶ See <http://www.energymadeeasy.gov.au>

9.4.2 Satisfaction with retailers

Sixty nine per cent of residential customers were somewhat or very satisfied with their electricity retailer (Figure 9.13). This is consistent with the 2014 survey and the NEM average.

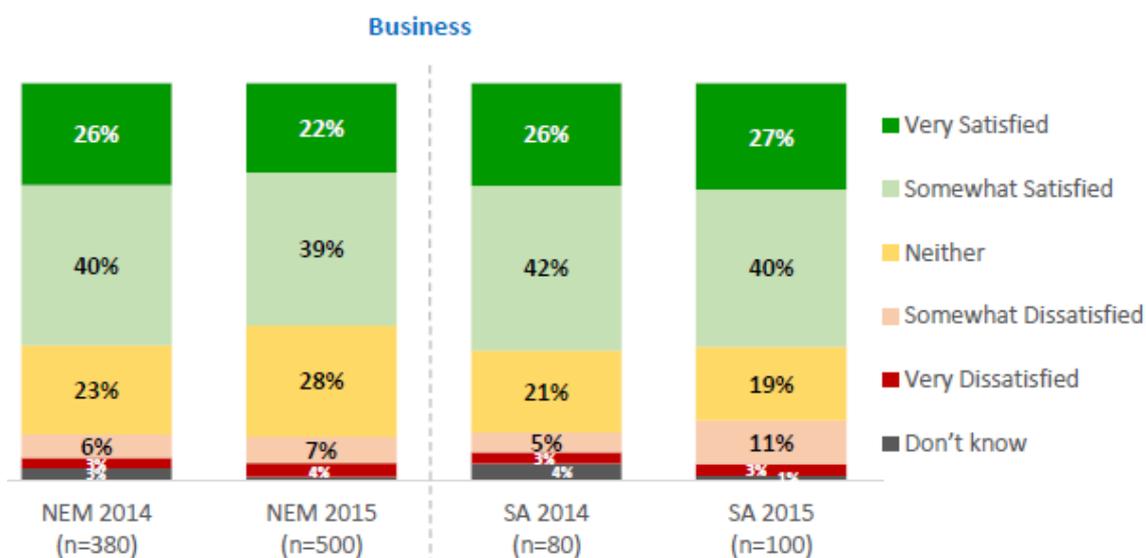
Satisfaction levels should be interpreted carefully. Focus groups conducted in 2014 suggest high satisfaction ratings often related to an absence of negative issues with their retailer rather than a particularly positive experience. Similarly, low levels of dissatisfaction do not necessarily imply high levels of satisfaction.

Figure 9.13 Satisfaction with current electricity retailer - residential



Source: Newgate Research, Consumer Research for Nationwide Review of Competition in Retail Energy Markets, report for the AEMC, June 2015, p116. Survey question: How satisfied are you with your current electricity company? Customers surveyed: All.

Figure 9.14 Satisfaction with current electricity retailer – small business



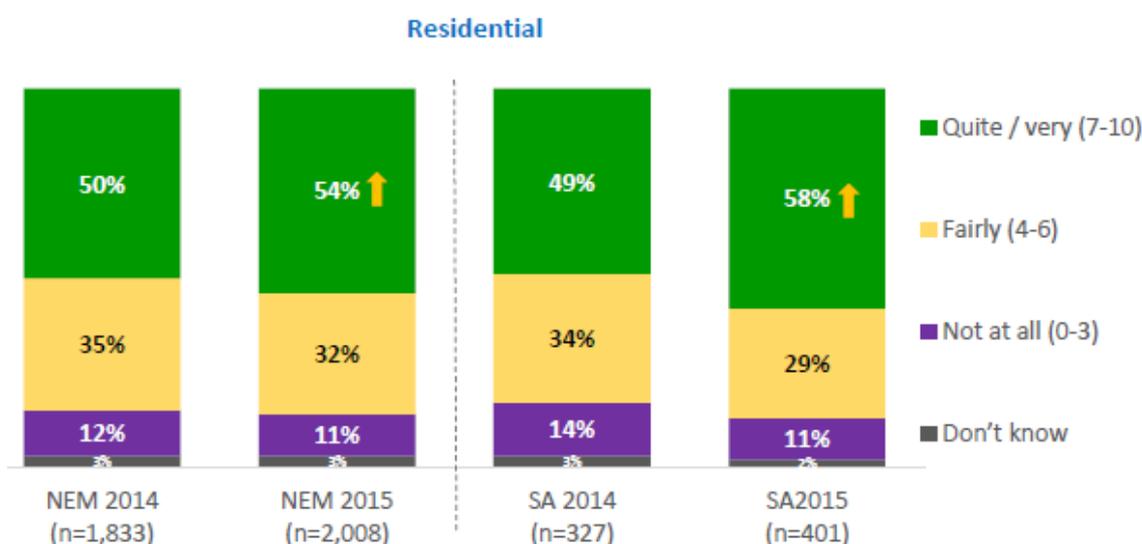
Source: Newgate Research, Consumer Research for Nationwide Review of Competition in Retail Energy Markets, report for the AEMC, June 2015, p116. Survey question: How satisfied are you with your current electricity company? Customers surveyed: All.

Sixty seven per cent of small business customers were somewhat or very satisfied with their electricity retailer (Figure 9.14). This is consistent with the 2014 survey and above the NEM average.

Survey respondents were also asked about their satisfaction with the level of their retailer’s customer service. The overall quality of customer service for electricity and gas retailers was largely perceived as good or excellent by residential survey respondents. For example, 65 per cent residential customers rated customer service as seven out of 10 or higher.

Fifty eight per cent of residential customers rated the value for money provided by their electricity retailer as seven out of 10 or higher (Figure 9.15). This is an increase of nine percentage points from the 2014 survey. The results for South Australia have improved in line with improvements in the NEM average. Improved value for money ratings potentially relate to a reduction in the rate of increase in average electricity bills in South Australia in 2014 as compared with previous years.²¹⁷

Figure 9.15 Satisfaction with value for money – electricity



Source: Newgate Research, Consumer Research for Nationwide Review of Competition in Retail Energy Markets, report for the AEMC, June 2015, p117. Survey question: How would you rate the overall value for money of the products and services provided by your electricity company? Customers surveyed: All.

Surveyed residential customers who rated the value for money provided by their gas retailer as seven out of 10 or higher was up from 47 to 63 per cent (Figure 9.16).

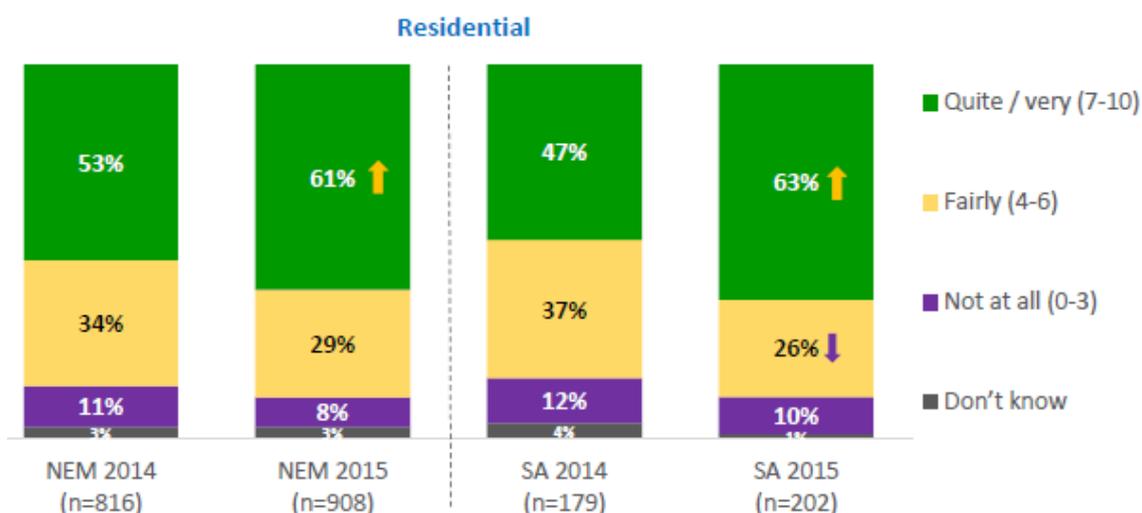
Customers currently experiencing difficulty paying their energy bills were less likely to consider that their retailer provided value for money.

South Australian customers may be eligible for concessions or emergency relief. Eligible customers on low or fixed incomes²¹⁸ could access concessions to cover both electricity and gas payments of up to \$215 per year in 2014-15. An energy concession is also available for low income customers that have a medical condition requiring the frequent use of heating or cooling. Concessions are further discussed in Appendix F.

²¹⁷ This can be seen in successive iterations of the AEMC’s *Residential Electricity Price Trends* reports, available on the AEMC’s website.

²¹⁸ Includes pensioners, veterans and people on certain Centrelink payments.

Figure 9.16 Satisfaction with value for money – gas



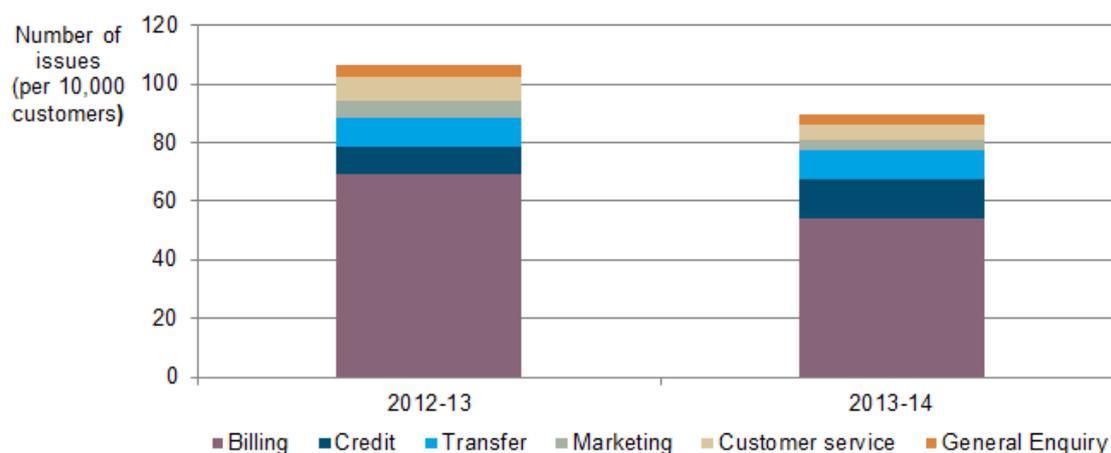
Source: Newgate Research, Consumer Research for Nationwide Review of Competition in Retail Energy Markets, report for the AEMC, June 2015, p119. Survey question: How would you rate the overall value for money of the products and services provided by your gas company? Customers surveyed: All.

Complaints to the Ombudsman

In 2013-14 the number of retail electricity issues raised with the Energy & Water Ombudsman South Australia was 16 per cent lower than in 2012-13 (Figure 9.17). This represents a significant decline in the number of issues raised with the Ombudsman.

The data supplied by the Ombudsman relates to issues raised by customers. More than one issue may be raised in a single complaint.

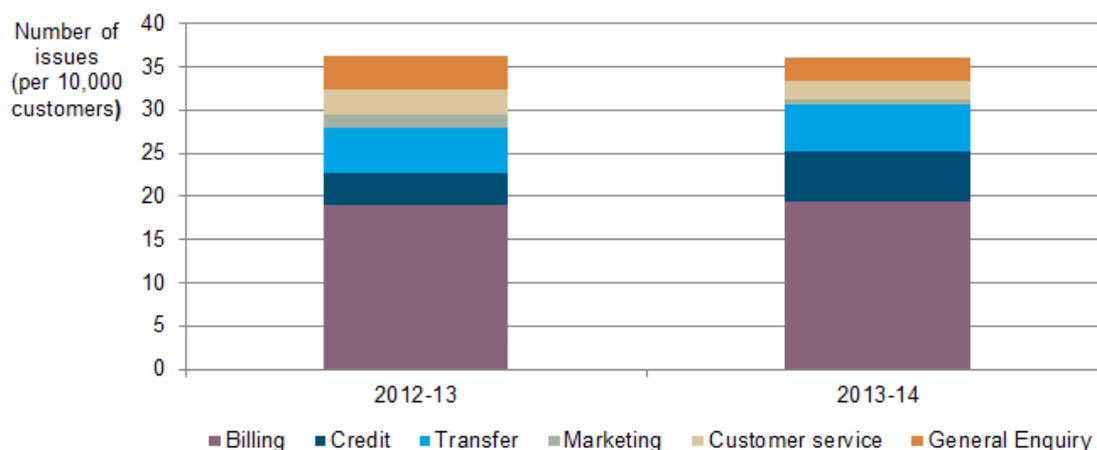
Figure 9.17 Electricity complaints to the Ombudsman - number of issues raised



Source: Complaints data from the Ombudsman, customer numbers from AEMO, AEMC analysis.

The number of gas issues raised with the Ombudsman in 2013-14 remained consistent with the number of issues raised in 2012-13 (Figure 9.18). In 2012-13 and 2013-14 the number of retail gas issues raised with the Ombudsman was lower than for electricity, even when adjusted for market size.

Figure 9.18 Gas complaints to the Ombudsman - number of issues raised



Source: Complaints data from the Ombudsman, customer numbers from AEMO and ESAA Electricity Gas Australia reports, AEMC analysis.

The Ombudsman notes a range of matters that may be contributing to a decline in issues raised by customers in South Australia. These include that a number of retailers have resolved their IT and billing system issues from previous years, some retailers have implemented new complaints management systems and the Ombudsman is seeing an increasing willingness from retailers to resolve complaints directly with their customers.²¹⁹

Billing issues remain the most common issues raised with the Ombudsman for both retail electricity and retail gas. Issues in this category include high bills, delays and other errors in billing. Between 2012-13 and 2013-14 electricity billing, marketing and customer service issues decreased. These decreases may be due to the reduction in door to door marketing and switching activity over the corresponding period, as well as more stable electricity prices. Electricity transfer and general enquiry issues remained relatively consistent with last year.

The only category of electricity issues to record a significant increase in 2013-14 was credit issues, growing by 50 per cent. Credit issues include debt collection, disconnection, financial hardship and liability issues. The increase in credit issues in 2013-14 does not appear to correspond to a significant increase in electricity prices in South Australia. The average standing offer increased by 6 per cent and the average market offer increased by 4 per cent from 2012-13 to 2013-14.²²⁰ The Ombudsman considers the increase in credit issues relates to the resolution of billing system errors and subsequently a number of retailers taking more action on credit matters.²²¹

It is important to be aware that many issues raised with the Ombudsman represent serious negative experiences for customers. For example, one customer that contacted the Ombudsman reported that she was struggling to pay her electricity bills, making sporadic payments that were significantly lower than the new charges accruing each

²¹⁹ See Energy and Water Ombudsman South Australia, *2013-2014 Annual Report*, 2014, p8.

²²⁰ These figures compare the base year average standing offer and market offer prices for South Australia set out in the AEMC's annual *Residential Electricity Price Trends* reports for 2013 and 2014.

²²¹ For more information on this see Energy and Water Ombudsman South Australia, *2013-2014 Annual Report*, 2014, pp22-23.

quarter.²²² Eventually she received a disconnection notice from her retailer. She had felt pressured for the past 12 months to agree to payment arrangements that she did not consider were sustainable for her.

At this stage she contacted the Ombudsman, who arranged an immediate consultation with the retailer due to the risk of disconnection. The retailer agreed to hold the disconnection until the customer had consulted a financial counsellor. The financial counsellor and retailer then worked with the customer, determining she was eligible for government concessions. The retailer also arranged a home energy audit for the customer to help her manage her consumption as well as placing her on its hardship program. The issue would clearly have taken a significant amount of the customer's time and caused her significant stress.

Gas billing and transfer issues raised with the Ombudsman increased slightly in 2013-14 and marketing, customer service and general enquiry issues reduced significantly. The only category to record a significant increase was credit issues, which increased by 55 per cent.

Issues raised with the Ombudsman include referrals back to retailers, which are also captured in complaints to retailers noted below. They do not include issues raised regarding dual fuel arrangements.

Complaints to retailers

While issues raised with the Ombudsman remained relatively steady in 2013-14, the number of issues raised directly with electricity and gas retailers over the same period increased by 52 per cent.²²³ The number of issues raised directly with electricity and gas retailers also increased by 94 per cent in 2012-13. When a customer makes a complaint, multiple issues may be raised. It is not clear how much of the increase in the number of issues raised is due to more complaints being raised or more issues being raised in each complaint.

The largest increase was a doubling of "other" issues, which includes, among others, customer service issues.

Billing issues includes complaints about prices, billing errors, payment arrangements, debt recovery practices and disconnections. Billing issues increased by 24 per cent and is now the second largest category of issues raised, behind other issues.

Marketing issues increased by 19 per cent. This coincides with a reduction in door to door selling activity.

9.5 Retailer barriers to entry, exit and expansion

Our analysis of this indicator considers evidence of entry, exit and expansion and the findings of a retailer survey performed by K Lowe Consulting and Farrier Swier Consulting.

²²² Ibid, p44.

²²³ This is evident from data provided to the AEMC by the AER, for further details of the methodology see Chapter 2.

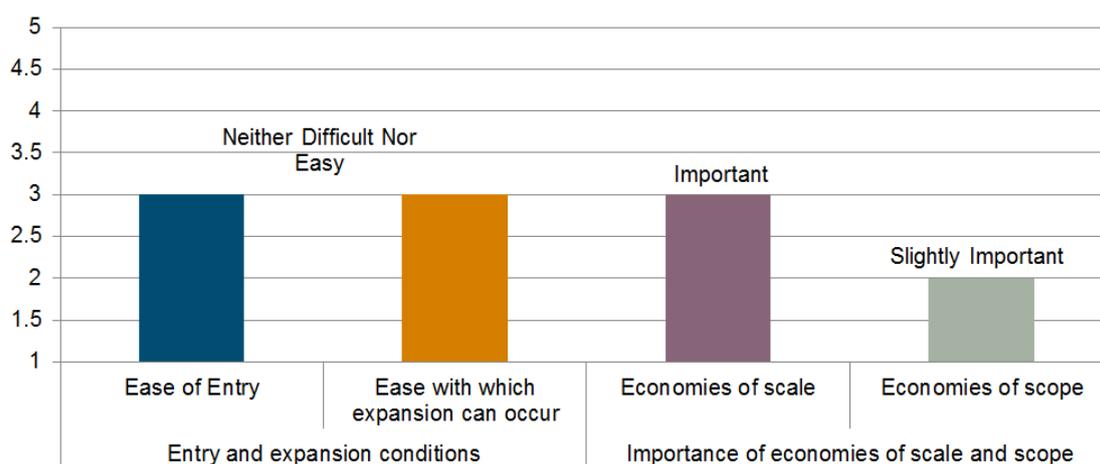
Since the 2014 competition review, M2 introduced a new retail brand, Commander Power & Gas into the retail electricity market in South Australia. Red Energy and Lumo Energy came under the common ownership of Snowy Hydro since the last review. One retailer reported they ceased supplying residential electricity customers in South Australia in the last year but continued to supply small business.

There were no new entrants into the retail gas market in South Australia.

9.5.1 Retail electricity market - Ease of entry and expansion

In the South Australia retail electricity market, the median rating from the retailer survey suggested that entry and expansion into the market was not difficult, however views varied (Figure 9.19). Larger vertically integrated retailers rated entry as either easy or very easy, while other retail respondents rated it as more difficult. The median rating for a retailer’s ability to compete effectively due to economies of scale were considered important and economies of scope were considered slightly important.

Figure 9.19 Median rating survey results - South Australian retail electricity markets



Source: K Lowe, Draft AEMC 2015 Retail Competition Review: Retailer Survey – Report for the AEMC, June 2015.

Retail respondents said that there had been no real change in entry and expansion conditions over the last year, however some smaller retailers reported that price and volatility conditions in the South Australian wholesale electricity market had not been as variable in the last year as they had been in prior years.

Impediments to entry and expansion

Vertically integrated retailers claimed that there are no impediments to entry or expansion in this electricity market and therefore that entry and expansion is relatively easy. Other retail respondents however claimed that the following factors are impediments to entry and expansion in this market:

- **Access to hedging instruments:** The ability to access competitively priced hedging instruments in South Australia was considered to be the most significant impediment by retailers. This issue is detailed in the section below.

- **State based energy efficiency schemes:** The resources involved in managing different state-based energy efficiency schemes and costs associated with compliance. The South Australian Retailer Energy Efficiency Scheme imposes an obligation on retailers supplying 5,000 or more customers, 27,000 MWh or more of electricity or 100,000 GJ or more of gas. Respondents suggested the customer threshold was too low and can impose significant costs on small retailers because it is not a tradable scheme.²²⁴ Concerns were also raised about the priority group²²⁵ targeted under this scheme, which is designed to ensure that a certain level of energy efficiency activities is delivered to low-income households.
- **Jurisdictional specific concessions schemes and NECF variations:** Retail respondents considered that the concession scheme and consumer protection arrangements in South Australia are “onerous”.

Similar to some other NEM jurisdictions, prudential arrangements and AEMO certification and registration costs were also raised as impediments (see Chapter 3).

The concerns raised by retailers about the concession schemes and consumer protection arrangements were not raised in the 2014 survey.²²⁶ The other impediments outlined above are similar to those that were cited by respondents in 2014.

Access to wholesale hedging products

Price and volatility conditions in the wholesale electricity market conditions and access to competitively priced hedging products were perceived as an impediment to entry by some retailers. The retail respondents that cited this as an issue considered access to hedging products has been a significant issue in South Australia to date because:

- wholesale prices in this market can exhibit a significant degree of volatility when the interconnector goes down;
- interregional hedges cannot be relied upon to provide effective coverage if the interconnector goes down and
- the level of vertical integration in non-renewable generation in South Australia is high and the trading terms (including prices) offered by these generators under hedging contracts have tended to be poor.

These retail respondents also considered that while price and volatility conditions in the South Australian wholesale market hadn't been as bad in the last year, the ability to access competitively priced hedging products still remains a risk for non-vertically integrated retailers entering or expanding in the market. A retail respondent noted that while the market power of non-renewable generators has diminished somewhat in the

²²⁴ One respondent also considered that this scheme can be particularly problematic in rural and regional areas because customers in these areas prefer to deal with employees from the retailer than contractors that the retailer has engaged to carry out the work.

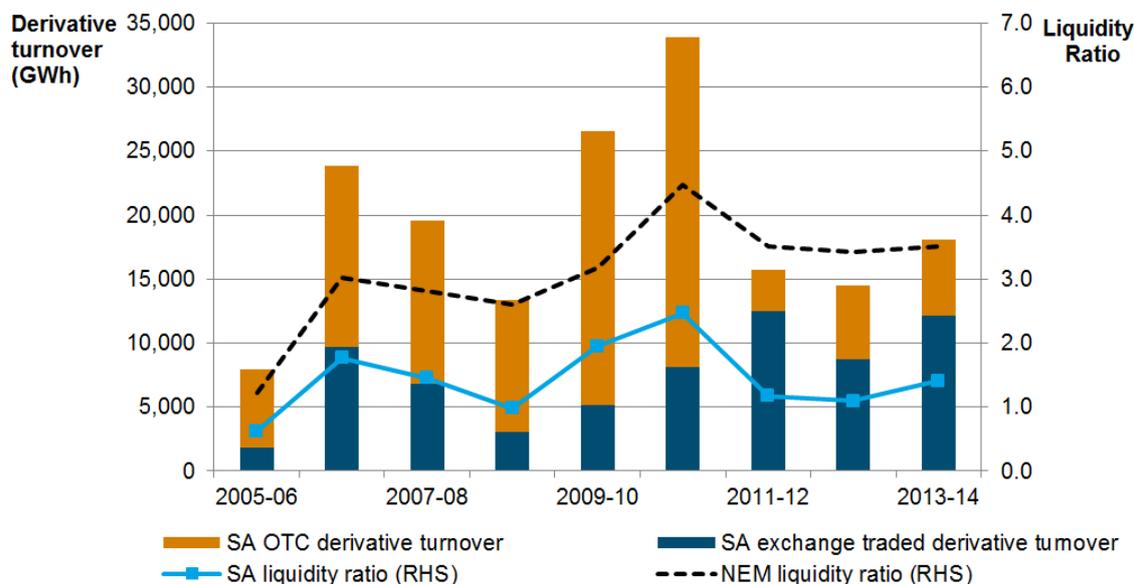
²²⁵ Priority group households are defined under the scheme as those in which a resident holds an eligible government-issued concession card, or those that have been classified as experiencing energy hardship.

²²⁶ K Lowe Consulting and Farrier Swier Consulting, *AEMC 2014 Retail Competition Review: Retailer Interviews*, report for the AEMC, June 2014, pp23-24 and 39.

wholesale market, it is still “pretty tough in the hedging market because if the vertically integrated retailers don’t want competition they won’t offer hedges”.²²⁷

This is consistent with the AEMC’s analysis of the degree of liquidity in the OTC and exchange traded (futures) market, which has increased slightly from 2012-13 however remains below the average liquidity ratio in the NEM (Figure 9.20).²²⁸

Figure 9.20 Annual electricity derivatives turnover and liquidity ratios



Source: AEMO National Electricity Forecasting Report, the Australian Financial Markets Association, Australian Financial Markets Report and ASX Energy. See chapter 3.

Barriers in regional South Australia retail electricity markets

At a rural and regional level, some retail respondents considered entry and expansion in the electricity market can be impeded by:

- **Small size and geographic dispersion of customers:** This can result in higher customer acquisition costs.
- **Loss factors:** These can be high in rural and regional areas and there may be constraints on a retailer’s ability to pass the costs associated with these loss factors onto customers in these areas. The AEMC notes that in principle this should not be an issue as all retailers would face these costs, however it is possible that smaller retailers are less able to absorb these costs.
- **Higher network charges:** This can reduce the margins available to retailers and the discounts that can be offered to customers.

²²⁷ In the 2014 survey, a number of respondents informed us that wind ‘doesn’t cut it as a hedging instrument in South Australia’.

²²⁸ K Lowe Consulting and Farrier Swier Consulting, *AEMC 2014 Retail Competition Review: Retailer Interviews*, report for the AEMC, June 2014, p36. Section 2.3 sets out why this data should be interpreted with caution.

The AEMC notes that the issues raised by retailers above relating to loss factors and higher network charges are faced by all retailers, however these may be a greater issue for small retailers.

These perceived rural and regional impediments are not unique to South Australia, but reflect retail respondents' comments in relation to most of the larger jurisdictions.

Outlook for barriers in the next one to two years

Most retail respondents did not expect to observe any change in entry or expansion conditions in the electricity market over the next one to two years. The survey responses indicate that:

- two retailers are considering entry, although they have no firm plans to enter at this stage;
- three retailers in this market are considering expansion; and
- one retailer is considering exiting the market.

A number of other retail respondents also noted the potential for new entry to occur in this market and for further consolidation to occur amongst second tier retailers in this market and other markets.

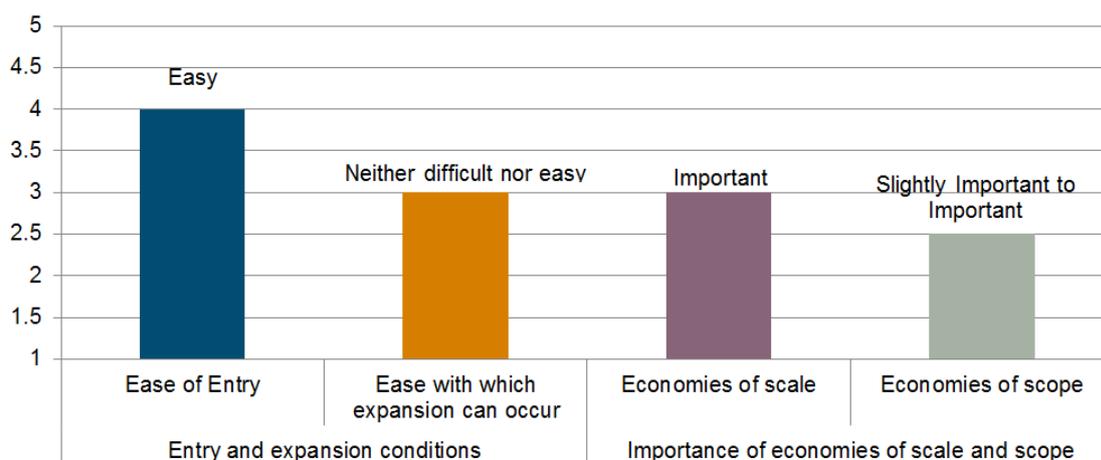
9.5.2 Retail gas market - Ease of entry and expansion

In the South Australia retail gas market, the median rating from the retailer survey suggested that entry was easy and expansion was not difficult, however views varied (Figure 9.21).²²⁹ Responses from established retailers rated the ease of entry as either easy or very easy, while recent entrants and potential entrants rated it as difficult. Retailers noted that entry and expansion in rural and regional areas can be impeded by a range of factors, including the small size and geographic dispersion of the customer base. The median rating from the survey suggests that both economies of scale and economies of scope were important for a retailer's ability to compete effectively.

Most respondents observed no changes in entry and expansion conditions from last year, however some retailers noted that tightening conditions in the wholesale gas market were starting to affect entry and expansion conditions in this market.

²²⁹ Respondents were also asked to rate the ease with which exit can occur in this market. The median rating in this case suggests that exit is easy.

Figure 9.21 Median rating survey results - South Australian retail gas markets



Source: AEMO National Electricity Forecasting Report, the Australian Financial Markets Association, Australian Financial Markets Report and ASX Energy. See chapter 3.

Impediments to entry and expansion

The factors that retail respondents identified as potentially impeding entry and expansion in the South Australia retail gas market were:

- **Wholesale market conditions:** Access to, and the price of, gas, given the tightening demand and supply conditions in the wholesale gas market.
- **Access to the South East Australia Gas pipeline:** Difficulties obtaining access to the South East Australia Gas Pipeline, which has been contracted by Origin, GDF Suez, AGL and EnergyAustralia to 2018. While some retail respondents noted that capacity may be available on the Moomba to Adelaide Pipeline System, they informed us that the prospect of obtaining a firm supply of gas from the Cooper or Bowen/Surat basins was low given the LNG developments in Queensland.
- **Adelaide Short Term Trading Market:** The following features of the Adelaide Short Term Trading Market:²³⁰
 - the complexity of the market;
 - the inability to effectively hedge against all risks in the market;
 - AEMO’s prudential requirements; and
 - AEMO’s registration, accreditation and certification process.
- **Relatively small market size:** The relatively small size of the market compared to the Victorian retail gas market, which one retail respondent noted may discourage entry.

The first two of these factors were viewed by smaller retailers as the most significant impediments to entry and expansion in this gas market and are unchanged from the 2014 survey.²³¹

²³⁰ The same concerns have been raised about the Sydney and Brisbane short term trading markets.

²³¹ K Lowe Consulting and Farrier Swier Consulting, *AEMC 2014 Retail Competition Review: Retailer Interviews*, report for the AEMC, June 2014, pp25 46-47.

Barriers in regional South Australia retail gas markets

At a rural and regional level, a number of retail respondents informed us that entry and expansion in gas markets in areas outside Adelaide can be impeded by the following factors:

- **Limited geographic pipeline coverage:** There is limited geographical coverage of pipeline networks in rural and regional areas.
- **Size of customer base:** The size of the customer base may be too small in some areas to warrant entry, particularly given the additional costs associated with negotiating access to pipelines and the fixed cost nature of gas transportation services.
- **Capacity of regional pipelines:** The capacity of some regional pipelines has been fully contracted by a single retailer under a long-term contract (e.g. in the Mt Gambier and Murray Bridge regions) and the cost of expanding capacity for what is likely to be a relatively small customer base is unlikely to be justified.
- **Higher customer acquisition costs:** Due to the small size of the customer base in these areas.

There are currently only one or two gas retailers in some regional areas of South Australia.

Outlook for retail gas barriers in the next one to two years

Retail respondents did not expect any improvement in entry or expansion conditions in this gas market in the next one to two years. The survey responses also suggest that no retailers are currently considering entry into this gas market, but an existing retailer is considering expansion over the next one to two years. One retail respondent also speculated that there may be further consolidation amongst the second tier retailers in this and other markets.

9.6 Independent rivalry

The AEMC's assessment of this competitive indicator has considered information on market concentration, customer switching between retailers of different tiers and product differentiation. See Chapter 2 for further details of our methodology.

9.6.1 Market concentration

Retail electricity market

As at February 2015, there are 16 retail electricity brands active in South Australia owned by 13 separate businesses. One retail brand serves only residential customers.²³²

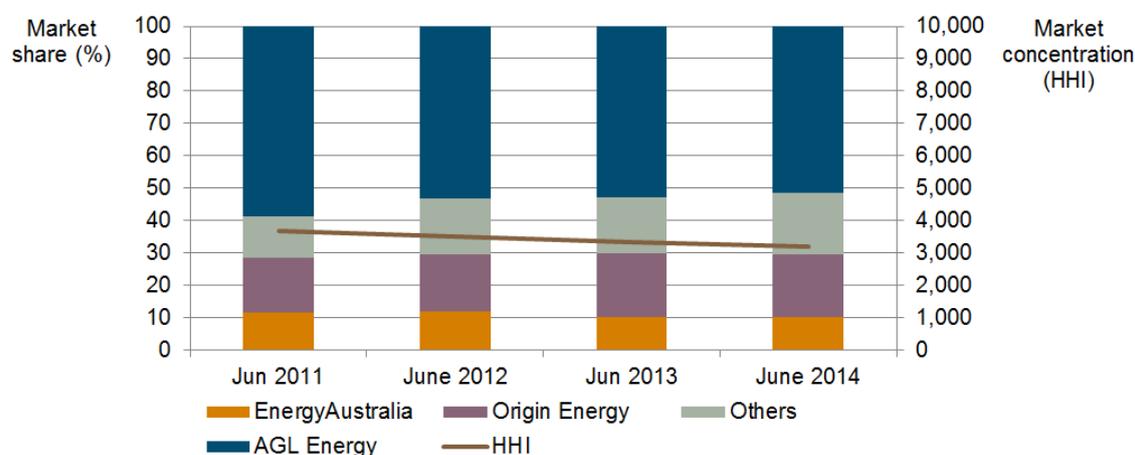
The big three retailers, AGL, Origin and EnergyAustralia, have a collective market share of 81 per cent (June 2014; Figure 9.22).²³³

²³² See Appendix B for a complete list of the retail electricity brands serving small residential and/or business customers in South Australia, as well as which brands are under the same ownership.

²³³ AEMC analysis based on AER data.

The market concentration in South Australia as measured by the Herfindahl-Hirschman Index (HHI) is 3,116 (December 2014), down from 3,259 a year prior.²³⁴ This is the third lowest level of market concentration out of the NEM jurisdictions, after Victoria and New South Wales.²³⁵

Figure 9.22 Market shares in the South Australia retail electricity market



Source: Market shares calculated from AER data; market concentration calculated from AEMO data; AEMC analysis

Retail gas market

As at February 2015, there are five retail brands in the South Australian retail gas market, all under separate ownership.²³⁶ We have defined an urban area as postcode 5000 (Adelaide) and a rural area as postcode 5253 (Murray Bridge) on the Envestra Gas Distribution Network.

The collective market share of the big three retailers is 90 per cent (June 2014). The market concentration, as measured by the HHI, is relatively high at 3,269, down from 3,478 a year prior. Notwithstanding this, South Australia has the second lowest level of market concentration in the retail gas markets across the NEM jurisdictions, after Victoria.²³⁷

9.6.2 Switching between retailers of different tiers

Despite the relatively high market concentration in the retail electricity market in South Australia, there is evidence that customers are switching between retailers, especially from big three retailers to second tier retailers (Figure 9.23). Thirty three per cent of electricity retailer switches in South Australia in December 2014 were from a big three

²³⁴ The HHI is calculated by summing the squares of the market shares of each retailer, thereby giving more weight to larger retailers. The HHI ranges from 0 to 10,000. In an extremely competitive market the HHI approaches zero, and in a pure monopoly the HHI is 10,000. The ACCC in its Merger Guidelines notes that it is less likely to identify horizontal competition concerns when the post-merger HHI is less than 2,000.

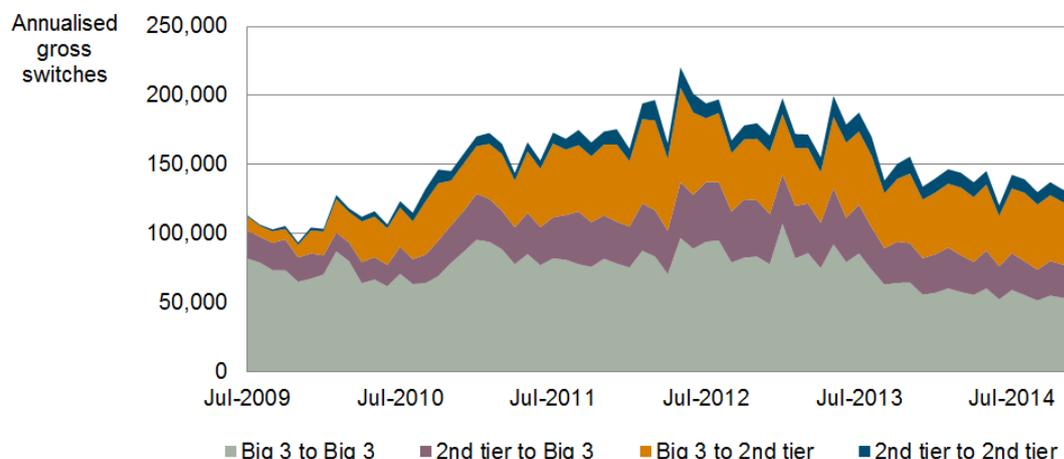
²³⁵ AEMC analysis based on AEMO data.

²³⁶ See Appendix B for a complete list of the retail gas brands serving small residential and/or business customers in South Australia, as well as which brands are under the same ownership.

²³⁷ AEMC analysis based on AER data.

retailer to a second tier retailer. Forty one per cent were from one big three provider to another big three retailer. Less than eight per cent were from one second tier retailer to another.²³⁸

Figure 9.23 Electricity switching rates in South Australia



Source: AEMO data; AEMC analysis

9.6.3 Product differentiation

Small customers in South Australia have access to a wide range of electricity and gas offers from multiple retailers.

The AEMC assessed the level of product differentiation in the retail electricity and gas markets in South Australia through information collected from the price comparator website Energy Made Easy. The analysis considers the level of differentiation between features of flat rate market offers available to residential customers on a particular day.²³⁹ We did not consider time of use / flexible pricing offers as part of this analysis for reasons set out in Chapter 2, but note that retailers will differentiate offers through different tariff types. See Chapter 2 for a more detailed description of our methodology.

In addition to the differentiation features specific to offers, retailers also differentiate their brand through service quality. Points of brand differentiation can include call centre operation hours, information provision, policies on hardship and complaints, policies on door knocking and cold calling, online account access and shop fronts for customers to visit and discuss their options.

Retail electricity market

For residential customers, the Energy Made Easy price comparator website had 48 flat rate electricity offers from 14 different retailers on 27 February 2015.²⁴⁰ The offers may not have been available in all postcode areas.

²³⁸ AEMC analysis based on AEMO data.

²³⁹ See Appendix G for a description of different types of offers.

²⁴⁰ Refer to Appendix B for a complete list of retailers operating in the residential and small business segments in South Australia.

Multiple retailers offered discounts (conditional and/or unconditional) and GreenPower options to residential customers in South Australia. Other incentives included rewards points and vouchers. Residential customers also had access to offers with or without a fixed term, and offers with or without a termination fee (Table 9.1).²⁴¹ Two major retailers have market offers that do not allow the price per kWh or the level of the discount to change for the duration of the contract or benefit period.

In the third quarter of 2014, 47,442 customers (around 6 per cent) in South Australia had accredited GreenPower.²⁴²

Table 9.1 Product differentiation in residential flat rate market offers for electricity

| | Range | Retailers |
|---------------------------------------|--------------|------------------|
| All offers | - | 14 |
| Unconditional discounts | 3-9% | 3 |
| Conditional discounts | 1-20% | 12 |
| Other incentives | Yes | 5 |
| GreenPower options | 10-100% | 8 |
| No fixed term / benefit period | Yes | 10 |
| Fixed term / benefit period | 1-3 years | 8 |
| No termination fee | Yes | 12 |
| Termination fee | \$22-157.5 | 8 |

Source: Energy Made Easy accessed on 27 February 2015, AEMC analysis

For small business customers, the Energy Made Easy price comparator website had 42 single rate offers from 13 different retailers on 27 February 2015.²⁴³ The level of product differentiation available to small business customers was similar to that available to residential customers (Table 9.2).

²⁴¹ Termination fee refers to that single fee only and excludes other fees that may be incurred if a customer ends the contract during their fixed term (e.g. disconnection fees).

²⁴² Industry & Investment NSW, *National GreenPower Accreditation Program Status Report, Quarter 3: 1 July to 30 September 2014*, p4.

²⁴³ Refer to Appendix B for a complete list of retailers operating in the residential and small business segments in South Australia. Note that Alinta only has residential standing offers and not market offers, that there were no offers from Sanctuary Energy on the date of the analysis and that Dodo only serves residential customers in South Australia. These retailers are therefore not included here.

Table 9.2 Product differentiation in small business flat rate market offers for electricity

| | Range | Retailers |
|---------------------------------------|--------------|------------------|
| All offers | - | 13 |
| Unconditional discounts | 3-19% | 5 |
| Conditional discounts | 1-20% | 9 |
| Other incentives | Yes | 4 |
| GreenPower options | 10-100% | 5 |
| No fixed term / benefit period | Yes | 6 |
| Fixed term / benefit period | 1-3 years | 12 |
| No termination fee | Yes | 9 |
| Termination fee | \$22-150 | 10 |

Source: Energy Made Easy accessed on 27 February 2015, AEMC analysis

Retail gas market

For residential customers, the Energy Made Easy comparator website had 35 residential gas market offers on 21 March 2015 (Table 9.3). For small business customers, the website had 32 gas market offers (Table 9.4).

There was no difference between the types of features offered to residential and small business gas customers in South Australia. Conditional and unconditional discounts and contracts with fixed terms and no fixed terms were offered to both residential and small business customers. There was a small range of termination fees, and two retailers offered contracts without termination fees. Retailers were offering more non-price incentives to residential customers, including a once off credit on the first bill and a voucher to purchase products and services from the retailer.

Table 9.3 Product differentiation in residential market offers for gas

| | Urban area | | Rural area | |
|--------------------------------|--------------|------------------|--------------|------------------|
| | <i>Range</i> | <i>Retailers</i> | <i>Range</i> | <i>Retailers</i> |
| All offers | - | 4 | - | 2 |
| Unconditional discounts | 2-6% | 2 | No | 0 |
| Conditional discounts | 1-13% | 3 | 1% | 1 |
| Other incentives | Yes | 2 | Yes | 1 |
| No fixed term | Yes | 4 | Yes | 2 |
| Fixed term | 1-3 years | 3 | 1 year | 2 |
| No termination fee | Yes | 1 | Yes | 2 |
| Termination fee | \$50-90 | 3 | No | 0 |

Source: Energy Made Easy accessed on 21 March 2015; AEMC analysis

Table 9.4 Product differentiation in small business market offers for gas

| | Urban area | | Rural area | |
|--------------------------------|--------------|------------------|--------------|------------------|
| | <i>Range</i> | <i>Retailers</i> | <i>Range</i> | <i>Retailers</i> |
| All offers | - | 4 | - | 3 |
| Unconditional discounts | 3-13% | 3 | 4-6% | 1 |
| Conditional discounts | 1-13% | 3 | 1% | 1 |
| Other incentives | Yes | 1 | Yes | 0 |
| No fixed term | Yes | 4 | Yes | 3 |
| Fixed term | 1-3 years | 3 | 1-2 year | 1 |
| No termination fee | Yes | 1 | Yes | 2 |
| Termination fee | \$50-100 | 3 | \$110 | 1 |

Source: Energy Made Easy accessed on 21 March 2015; AEMC analysis

9.7 Competitive retail prices

Our analysis of this indicator considers the total annual expenditure of a representative residential customer on electricity market offers available in South Australia.²⁴⁴

We grouped flat tariff residential market offers available in South Australia on the 27 February 2015 by offer characteristics, on the expectation that the total annual expenditure for offers with similar characteristics will converge to reflect a narrower range than would be observed across all products. In South Australia, we grouped offers by offer type, GreenPower and contract term. The analysis provides a ‘snapshot’ of prices for a representative customer on a selection of offers available on a certain day, and should therefore be interpreted with caution. See Chapter 2 for a full description of our methodology.

Figure 9.24 shows the range of total annual expenditure for each flat rate market and standing offer available in South Australia on 27 February 2015. The total annual expenditure reflects all unconditional discounts and price incentives. It also reflects pay on time and direct debt conditional discounts. We have distinguished between big three retailers (which includes second tier retailers owned by a big three retailer, such as Powerdirect) and second tier retailers.

The total annual expenditure across all offers including all GreenPower options had a total range of \$800. The range decreased to \$780 when we considered only offers which had GreenPower. The range for offers with no GreenPower and no fixed term contract was \$400. The range for offers with no GreenPower and a fixed term contract decreased further to \$310. That is, the range decreased as the offer definition became narrower.

This analysis shows that a representative customer comparing electricity flat rate market offers through the Energy Made Easy website could find an offer that is as much as \$400 a year cheaper than the most expensive. The level of possible savings differs with energy consumption, discount eligibility and type of contract.

Retail customers have diverse energy demands. An energy offer that is good value for one customer may be expensive for another customer with a different consumption level or different needs and circumstances. It is important that customers have access to clear information about what they are signing up to and that customers consider their personal circumstances when choosing a plan.

The cheapest offers available were from second tier retailers as opposed to big three retailers. We also observe that standing offers were grouped towards the top of the range of market offers. This appears consistent with the finding of the South Australian Energy Retail Prices Ministerial Pricing Report 2014 by the Essential Services Commission that there is potential for small customers to reduce their annual energy bills by moving between offers.²⁴⁵

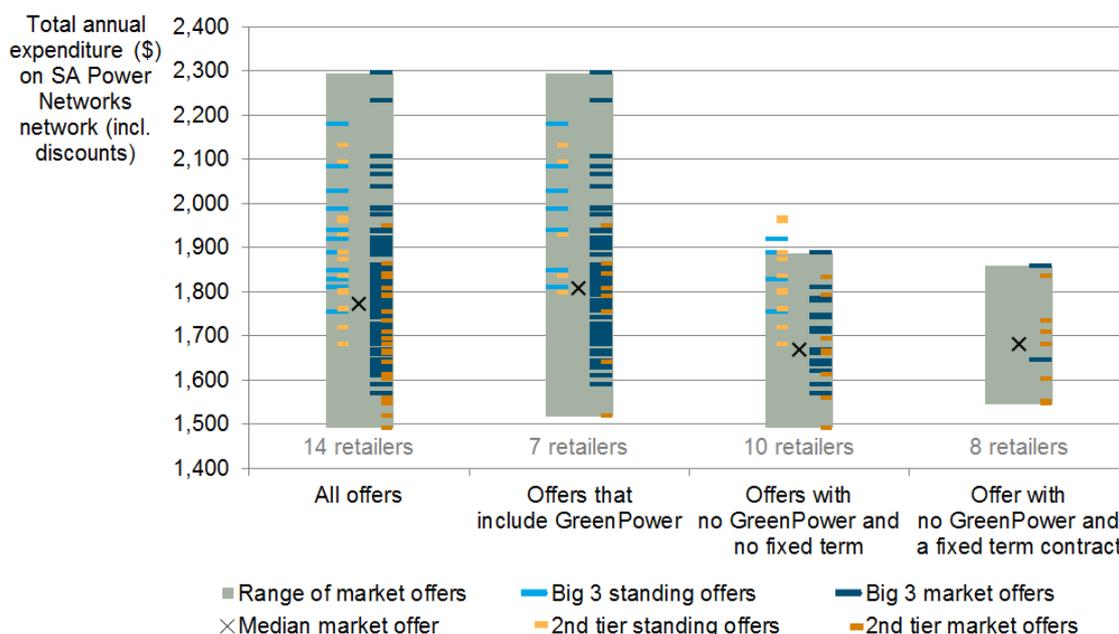
The total estimated expenditure cannot be compared across jurisdictions as different consumption levels were used to reflect a ‘representative’ customer in each state. Also, different distribution networks will result in different underlying costs. Further, the

²⁴⁴ See Appendix H for a definition of the representative consumer in each jurisdiction.

²⁴⁵ ESCOSA, *South Australian Energy Retail Prices Ministerial Pricing Report 2014*, August 2014.

way the discounts and price incentives have been taken into account in the total annual expenditure differs between the different jurisdictions as a result of data availability.

Figure 9.24 Total annual expenditure on flat rate offers market and standing offers



Source: Energy Made Easy accessed on 27 February 2015, AEMC analysis

As part of our analysis of this indicator we also considered the relationship between the total annual expenditure (reflecting all discounts and price incentives) and the effective discount. The 'effective discount' is the percentage off the total estimated bill after the conditions associated with the discount have been taken into consideration.²⁴⁶

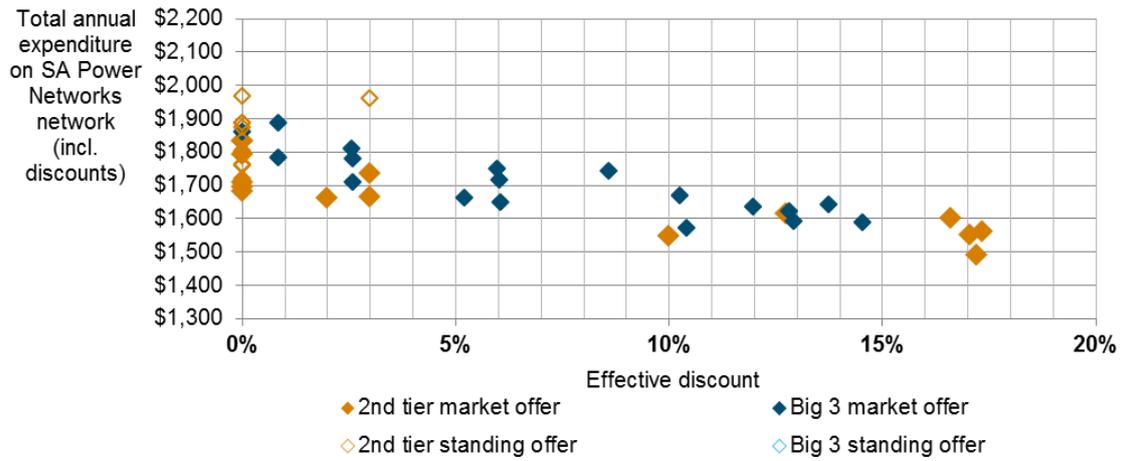
Figure 9.25 shows the relationship between the total annual expenditure and the effective discount for the offers available on the 27 February 2015, without any GreenPower options taken up. Flat standing offers do not generally involve discounts. There is some variation in the prices of standing offers, but they generally result in higher total annual expenditure for the representative customer.

There appears to be competition around the discount level offered by retailers, with clusters of offers from the big three and second tier retailers above ten per cent that are reflected in lower total electricity expenditures for a representative customer.

The total annual expenditure of the representative customer tends to decrease as the effective discount increases for most offers, however some offers with discounts of 10 per cent are better than those with discounts of more than 10 per cent. This suggests that customers should pay close attention to the total annual expenditure and not just the discounts.

²⁴⁶ For example, an offer that has a 20 per cent discount off usage could equate to an effective discount of 17 per cent off the total expenditure, depending on the level of consumption.

Figure 9.25 Total annual expenditure vs. effective discount on flat rate market and standing offers



Source: Energy Made Easy accessed on 27 February 2015, AEMC analysis

10 Tasmania

Box 10.1 Key findings

- Competition is not effective in the Tasmanian retail electricity market, with no rivalry for residential customers and very limited rivalry for small business customers. Aurora Energy continued to have 100 per cent share of the residential electricity market, whilst ERM Power gained a very small share of the small business electricity market. Most retailers considered that entry and expansion in the retail electricity market was difficult.
- Competition is also not effective in the retail gas market, with only two retail brands operating and providing similar products to the small customer base.
- Since the 2014 review, full retail contestability has been extended to small electricity customers and the Tasmanian Government enacted changes to the wholesale market arrangements to try to encourage entry into the retail electricity market. Despite these actions, no new entry has occurred in the last year and Aurora Energy continues to be the sole supplier of electricity to residential customers. ERM Power entered the market for small business customers in March 2014 and has gained a small market share.
- Customer satisfaction with the level of choice in Tasmania was the lowest of all NEM jurisdictions. Residential customers are not able to choose their electricity retailers, and only some small businesses are able to do so. Customers in Tasmania are interested in better energy deals but do not have alternative retailers available. Over forty per cent of surveyed Tasmanian residents and over half of small business customers were looking for a better energy deal or interested in doing so.

10.1 Overview

The Commission's assessment is that competition in retail electricity and gas markets is not effective in Tasmania, based on evidence gathered on the five competitive market indicators. There is some competition in the retail gas market in Tasmania, however the small size of the market, barriers to entry and limited rivalry prevent this from being effective. Our overall assessment is consistent with the 2014 retail competition review.

Since the 2014 review, full retail contestability has been extended to small electricity customers and the Tasmanian Government enacted changes to the wholesale market arrangements to try to encourage entry into the retail electricity market. Despite these actions, no new entry has occurred in the last year and Aurora Energy continues to be the sole supplier of electricity to residential customers. ERM Power entered the market for small business customers in March 2014 and has gained a small market share.

Retailer survey respondents rated the overall level of competition in the Tasmanian electricity and gas retail markets as minimal.

For the first time in 2015, the AEMC commissioned Newgate Research to conduct a customer survey in Tasmania. This informed our assessment of customer activity and customer outcomes and forms a baseline to examine changes over time.

The findings for Tasmania against our competitive market indicators are summarised below:

Customer activity: Customers in Tasmania were interested in better energy deals but most did not have any alternative options available. Some small businesses were able to choose their retailer but residential customers cannot.

Customer outcomes: Customer satisfaction with the level of choice in Tasmania was the lowest of all National Electricity Market (NEM) jurisdictions. The level of electricity complaints to the Energy Ombudsman Tasmania in 2013-14 was similar to the previous financial year. There have been very few gas complaints to the Energy Ombudsman Tasmania.

Barriers to entry, exit and expansion: No new entry has occurred in the electricity or gas retail markets in the last year. ERM Power entered the small business segment in March 2014. The median responses to the retailer survey suggest entry and expansion in electricity and gas markets is difficult.

Independent rivalry: There was no rivalry for residential electricity customers, and very limited rivalry for small business customers between Aurora Energy and ERM Power. Rivalry also appeared limited in gas, with the two retailers operating in this market providing similar products to the small customer base.

Competitive retail prices: There was only one flat rate electricity offer available to residential customers in Tasmania on the Energy Made Easy price comparator website on 27 February 2015. Residential customers also have the choice of flat rate tariffs, under Aurora Energy's standard retail contract and a time of use tariff under the market retail contract available under the "Pay As You Go" product.

10.2 Market characteristics

In the first quarter of 2015, there were two electricity retailers supplying approximately 269,000 small electricity customers²⁴⁷ and two gas retailers supplying approximately 9,800 small customer connections in Tasmania.²⁴⁸

The market for electricity is the second smallest in the NEM and the gas market is the smallest in the NEM. The Commission understands that the roll-out of the gas network targeted large users and this, together with geographic barriers, has resulted in a low gas penetration in Tasmania.

Full retail contestability was introduced at different times for the gas and electricity markets and in different stages for different types of electricity customers.

²⁴⁷ Australian Energy Regulator, Tasmania – small customers, Accessed at 30 May 2015: <https://www.aer.gov.au/node/23459>

²⁴⁸ Australian Energy Regulator, Tas Gas Networks – gas distribution network, viewed 3 June 2015, <https://www.aer.gov.au/node/4886>

The retail gas market has had full retail contestability and no price regulation since the market's inception in 2007.

In the electricity market, full retail contestability was introduced in July 2011 for small business customers with consumption of between 50 and 150 MWh per annum. Full retail contestability was introduced on 1 July 2014 for all remaining residential and business customers, regardless of their consumption level.²⁴⁹ One retailer entered the small business segment in 2014, however no new retailer has entered the residential segment.

Retail electricity prices are regulated by the Office of the Tasmanian Economic Regulator. The Tasmanian Government has not announced any plans to remove electricity retail price regulation.

Tasmania adopted the National Energy Customer Framework (NECF) on 1 July 2012. Under the NECF, all retailers are required to offer small customers a standing contract with regulated terms and conditions. Aurora Energy, the incumbent retailer, is also required to offer a standing contract with a regulated price.²⁵⁰

In May 2015, the Tasmanian Government released the final Tasmanian Energy Strategy.²⁵¹ One of the actions outlined in the strategy is improving competitive outcomes for electricity customers. The strategy notes that whilst the commencement of full retail contestability on 1 July 2014 has the potential to enhance small customer competition in the Tasmanian market, at this stage there is only competition in the commercial and industrial sector.

The Tasmanian government states that it will give further consideration to this issue as part of the implementation of the strategy, and that it remains open to the sale of Aurora Energy's customer book. It will monitor the level of competition in the small customer segment of the Tasmanian electricity retail market and where necessary facilitate further development of a competitive market.

10.3 Customer activity in the market

Our analysis of this indicator considers the findings of a customer survey performed by Newgate Research. Residential customers are currently unable to switch electricity retailers, with Aurora Energy the only retailer currently available to residential customers. Small gas customers and small business electricity customers have a choice of two retailers.

The purpose of conducting the survey in Tasmania was to establish a baseline of customer understanding, activity and outcomes to measure any developments over time as the market develops and if the level of choice increases. Key findings relevant to the Tasmanian market are presented below. See Chapter 2 for further details of our methodology.

249 "Small customers" are defined under the National Energy Retail Law (Tasmania) Regulations 2012 as consuming less than 150 megawatt hours per annum.

250 Office of the Tasmanian Economic Regulator, *Guideline – Approval of standing offer prices in accordance with the 2013 Standing Offer Determination*, April 2014.

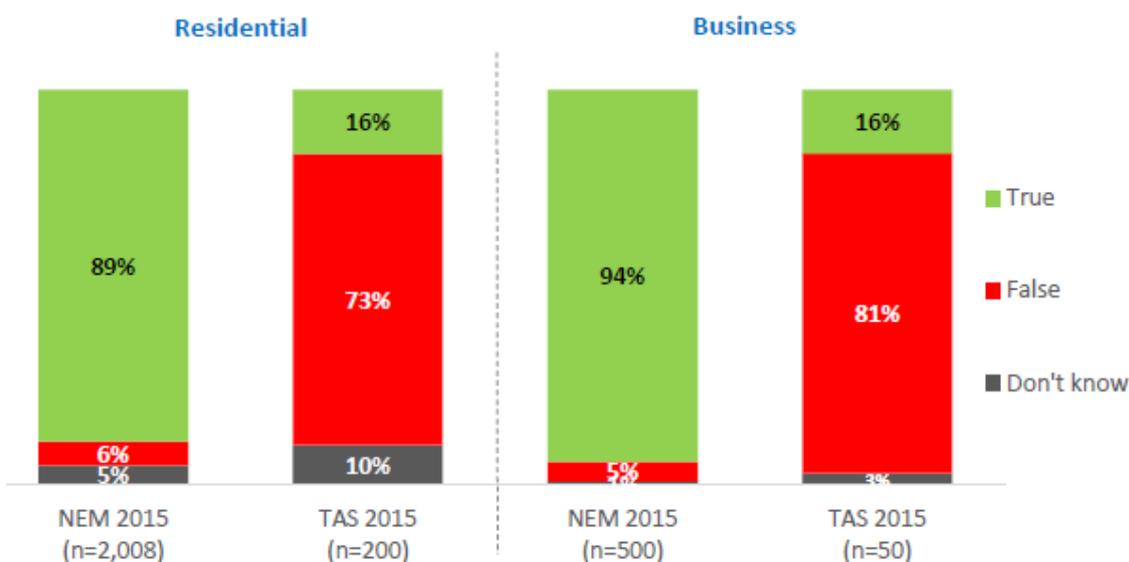
251 Tasmanian Government, *Tasmanian Energy Strategy – Resorting Tasmania's energy advantage*, May 2015.

10.3.1 Customer awareness and understanding

Most customers in Tasmania were aware that they do not have a choice between different electricity retailers (Figure 10.1). Residential customers are not able to choose their electricity retailer while some small businesses are able to do so.

Seventy three per cent of surveyed residential customers were aware they could not choose their electricity retailer. Eighty one per cent of small businesses considered they could not choose their electricity retailer.

Figure 10.1 Consumers in your state can choose their electricity retailer?



Source: Newgate Research, Consumer Research for Nationwide Review of Competition in Retail Energy Markets, June 2015, p302. Survey question: Do you think it is true or false that consumers in your state can choose their electricity company? Customers surveyed: All.

Sixty six per cent of residents and 81 per cent of small businesses also considered that they could not choose between a range of different electricity plans and options.²⁵²

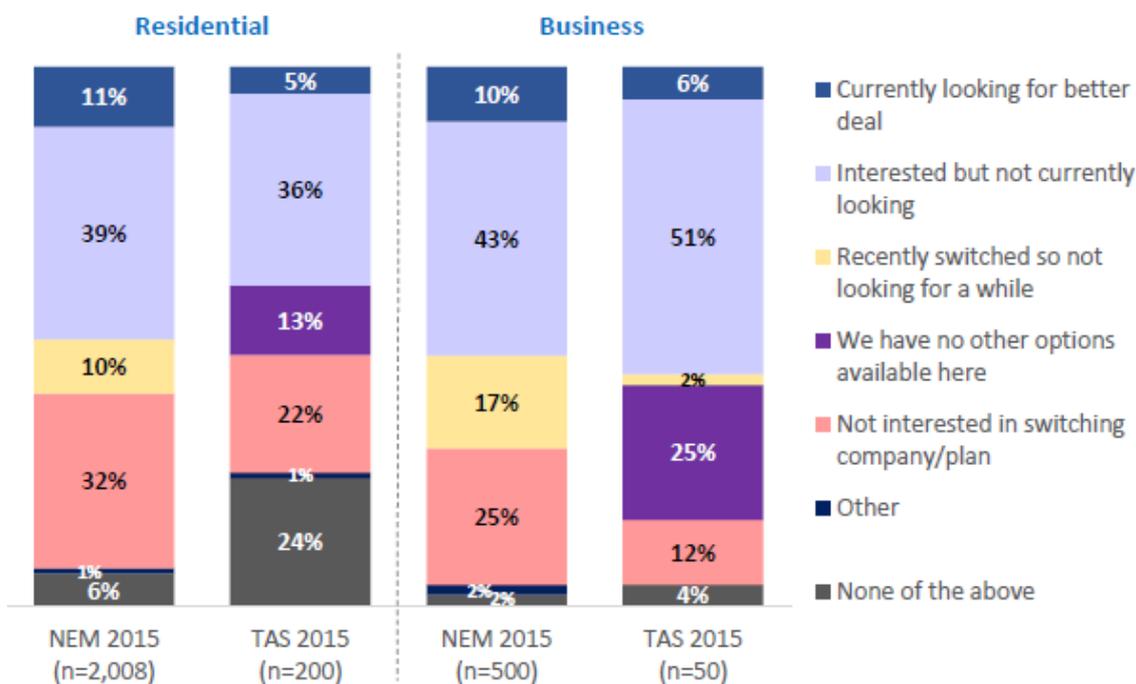
10.3.2 Interest in looking for a better deal

Over forty per cent of surveyed Tasmanian residents and over half of small business customers were looking for a better energy deal or interested in doing so (Figure 10.2). This is slightly below the NEM average for residents and slightly above the NEM average for small businesses. Thirteen per cent of residents and a quarter of small businesses noted they had no other options available to them.

Twenty two per cent of residents and 12 per cent of small businesses were not interested in switching retailer or plan, compared with the NEM average of 32 per cent of residents and 25 per cent of small businesses.

²⁵² See section 10.6.2 for a discussion of the range of offers and options available to small residential and business customers in Tasmania.

Figure 10.2 Interest in looking for a better energy deal



Source: Newgate Research, Consumer Research for Nationwide Review of Competition in Retail Energy Markets, June 2015, p310. Survey question: Which of the above statements is most applicable to your household? Customers surveyed: All.

10.4 Customer outcomes

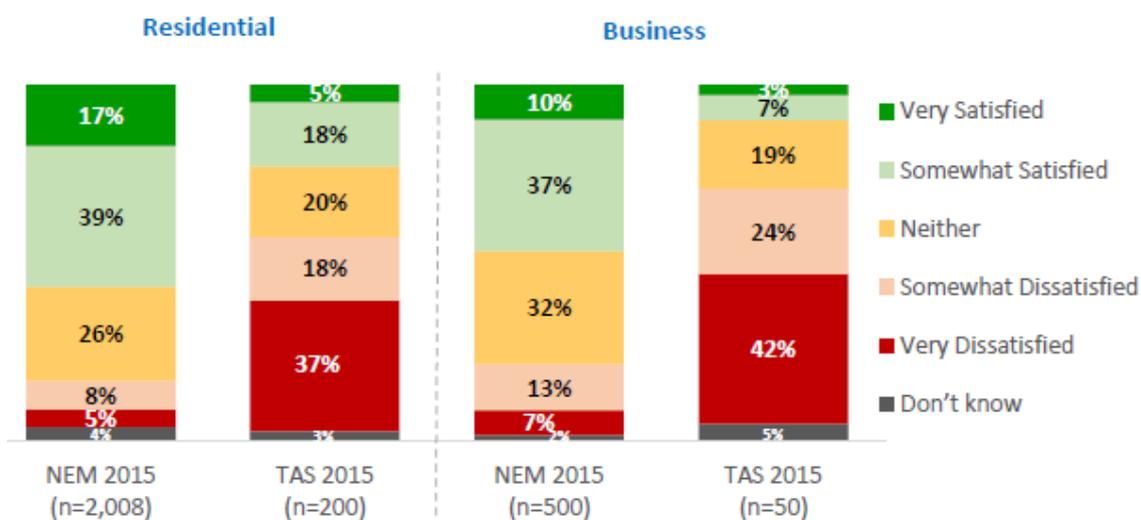
Our analysis of this indicator considered the findings of customer surveys and data on customer complaints. See Chapter 2 for further details of our methodology.

10.4.1 Satisfaction with the level of choice

Customer satisfaction with the level of choice in Tasmania was the lowest of all NEM jurisdictions. This is also reflected in the survey results showing that customers in Tasmania were interested in better energy deals but many stated they did not have any alternative options available.

Thirty seven per cent of residential customers and 42 per cent of small business customers were very dissatisfied with the level of market choice in Tasmania, well above the NEM average of five per cent and seven per cent respectively (Figure 10.3).

Figure 10.3 Satisfaction with the level of market choice

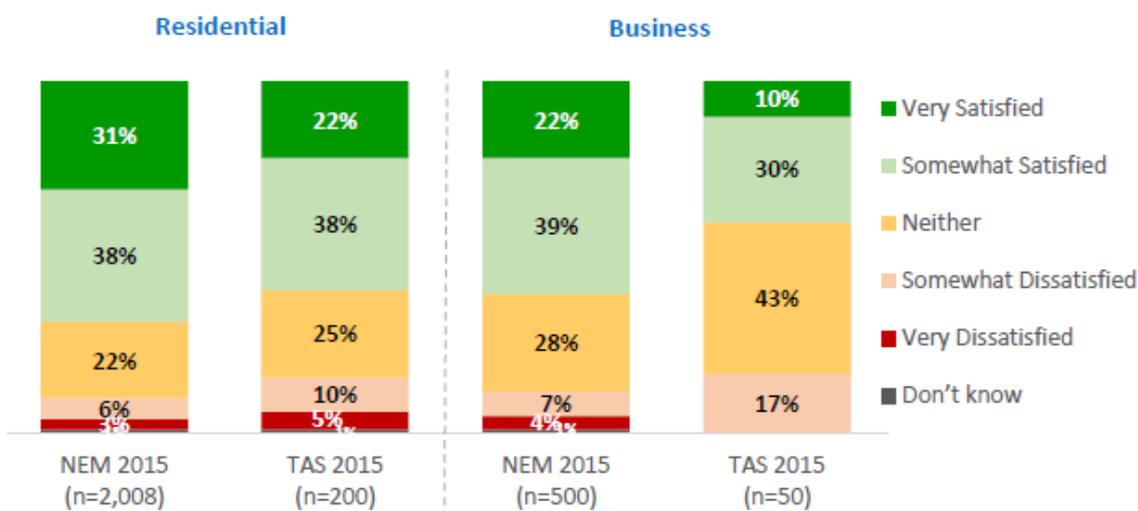


Source: Newgate Research, Consumer Research for Nationwide Review of Competition in Retail Energy Markets, report for the AEMC, June 2015, p314. Survey question: How satisfied are you with the level of choice available to consumers in your state? Customers surveyed: All.

10.4.2 Satisfaction with retailers

Sixty per cent of residential customers and forty per cent of small business customers were somewhat or very satisfied with their electricity retailer (Figure 10.4). This compares with a NEM average of 69 per cent of residential customers and 61 per cent of small business customers.

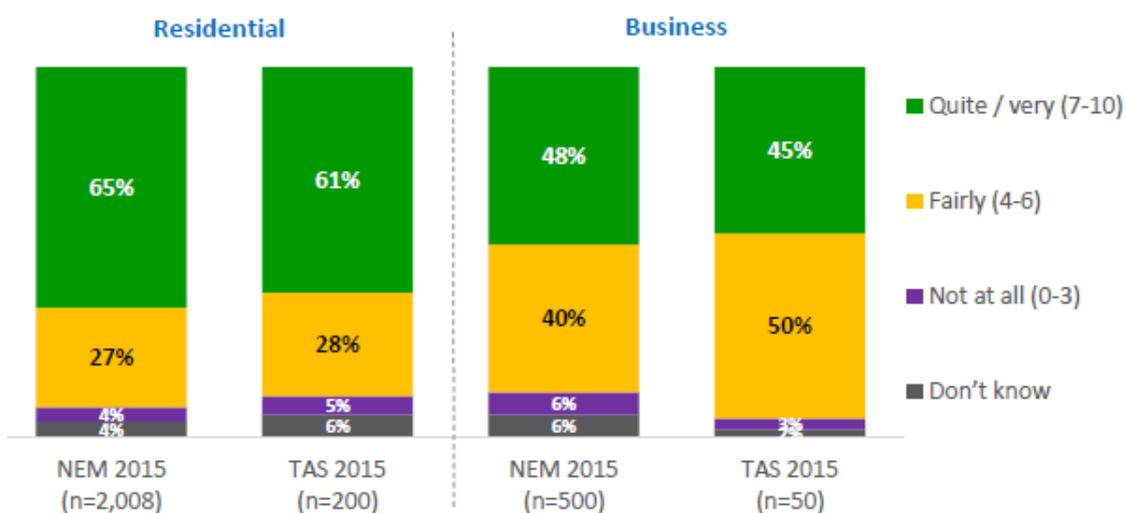
Figure 10.4 Satisfaction with current electricity retailer



Source: Newgate Research, Consumer Research for Nationwide Review of Competition in Retail Energy Markets, report for the AEMC, June 2015, p314. Survey question: How satisfied are you with your current electricity company? Customers surveyed: All.

Respondents were also asked about their satisfaction with the level of their retailer's customer service. The overall quality of customer service for electricity retailers was rated as seven out of 10 or higher by 61 per cent of residents and 45 per cent of small businesses, each slightly below the NEM average (Figure 10.5).

Figure 10.5 Satisfaction with electricity retailer customer service

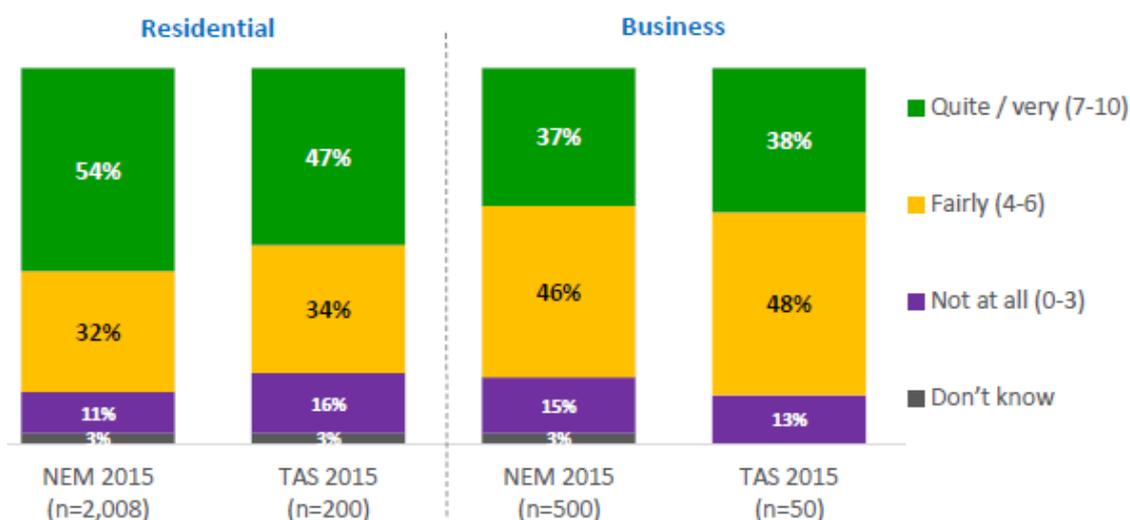


Source: Newgate Research, Consumer Research for Nationwide Review of Competition in Retail Energy Markets, report for the AEMC, June 2015, p315. Survey question: How satisfied are you with your current electricity company? Customers surveyed: All.

Respondents receiving a rebate or concession and those who were retired were more likely to consider that their retailer provided good quality customer service.

Forty seven per cent of residential customers and 38 per cent of small business customers rated the value for money provided by their electricity retailer as 7 out of 10 or higher (Figure 10.6). For residents this is below the NEM average and for small businesses this is similar to the NEM average.

Figure 10.6 Satisfaction with value for money - electricity



Source: Newgate Research, Consumer Research for Nationwide Review of Competition in Retail Energy Markets, report for the AEMC, June 2015, p315. Survey question: How would you rate the overall value for money of the products and services provided by your electricity company? Customers surveyed: All.

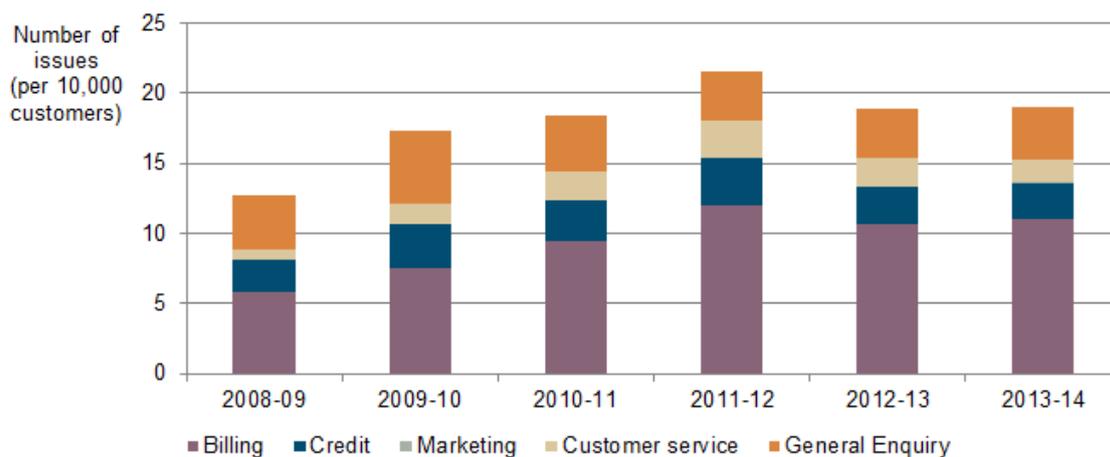
Customers whose last quarterly electricity bill was over \$400 were less likely to be satisfied with the value for money provided by their retailer. In other NEM jurisdictions, customers currently experiencing difficulty paying their energy bills were also less likely to consider that their retailer provided value for money. These figures were not available in Tasmania due to the low sample size.

Customers in Tasmania may be eligible for concessions or emergency relief. Certain pensioners, Health Care Card holders and veterans may be eligible for concessions through the Annual Electricity Concession and Heating Allowance. Concessions are further discussed in Appendix F.

Complaints to the Ombudsman

The level of electricity complaints to the Energy Ombudsman Tasmania in 2013-14 is similar to the previous financial year based on the number of issues raised (Figure 10.7). When a customer makes a complaint, multiple issues may be raised.²⁵³

Figure 10.7 Electricity complaints to the Ombudsman - issues raised



Source: Complaints data from the Energy Ombudsman Tasmania; customer numbers from AER Retail Statistics; AEMC analysis.

Billing issues relate to high bills, delays, estimation and other errors. Billing issues increased slightly in 2013-14 and remain the most commonly raised, making up 58 per cent of electricity issues raised with the Ombudsman.

Credit issues relate to debt collection, disconnection or service restriction and payment difficulties. Credit issues did not increase in Tasmania as they did in other jurisdictions. Customer service issues reduced slightly.

There are very few complaints relating to marketing or transfer issues, consistent with there being a single electricity retailer for most small customers.

There have been very few gas complaints to the Energy Ombudsman Tasmania. The Commission understands that gas complaints are very low due to the small size of the residential market and to retailers working to resolve complaints in house before they are escalated to the Ombudsman.

²⁵³ Unlike complaints to the Ombudsman for other jurisdictions, this data excludes some cases where the customer has not first contacted their retailer and is referred to do so. It may also exclude some credit cases where customers are referred to third parties such as a retailer's hardship program or a welfare agency. Some network issues may also be included. Similar to other jurisdictions, this data excludes cases that are out of jurisdiction or are not complaints.

10.5 Barriers to entry, exit and expansion

Our analysis of this indicator considers evidence of entry, exit and expansion and the findings of a retailer survey performed by K Lowe Consulting and Farrier Swier Consulting.²⁵⁴

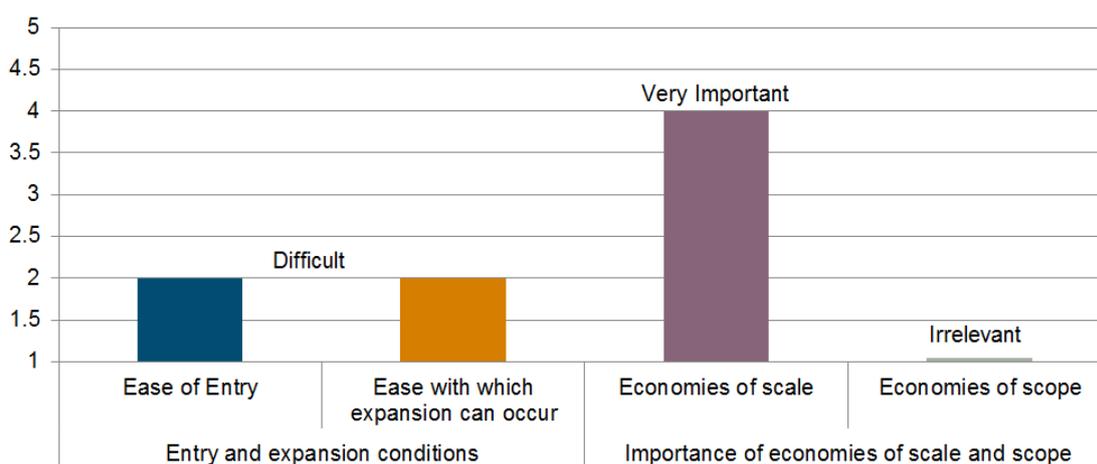
Since the 2014 retail competition review, there has been no new entry into the small customer segments of either the Tasmanian electricity or gas retail markets.

10.5.1 Retail electricity market - Ease of entry and expansion

In the Tasmanian retail electricity market the median rating from the retailer survey suggests that entry and expansion were difficult, but some retailers disagreed and considered that entry was easy (Figure 10.8).

The survey's median ratings suggest a retailer's ability to compete effectively due to economies of scale was considered very important and economies of scope were irrelevant.

Figure 10.8 Median rating survey results - Tasmania retail electricity markets



Source: K Lowe, AEMC Retail Competition Review: Retailer Surveys - Report for the AEMC, 2015

Retail respondents noted that the extension of full retail contestability to all small electricity customers on 1 July 2014 and the Tasmanian Government's enactment of changes to the wholesale market arrangements affected the ease of entry over the last year. Despite these actions, no new entry has occurred in the last year and Aurora Energy continues to be the sole supplier of electricity to residential customers.

Impediments to entry and expansion

Retail respondents identified the following impediments to entry and expansion in the Tasmanian retail electricity market, similar to the 2014 survey:²⁵⁵

- **Price regulation:** The continued application of retail price regulation and wholesale price regulation in Tasmania.²⁵⁶

²⁵⁴ See Chapter 2 for discussion of our methodology.

²⁵⁵ K Lowe Consulting and Farrier Swier Consulting, *AEMC 2014 Retail Competition Review: Retailer Interviews*, report for the AEMC, June 2014, p26.

- **Customer base:** There are a large number of customers on concessions, poor credit history, and limited awareness amongst these customers about their ability to choose their own retailer. Retailers also raised the small size and geographic dispersion of the customer base.
- **Loyalty to the incumbent:** Potential loyalty towards the Aurora Energy brand could make it difficult or costly for new entrants to compete.
- **Wholesale market arrangements:** In particular:
 - the structure of the wholesale market with a single generator, Hydro Tasmania, that also controls the Basslink Interconnector;
 - the wholesale contract market regulatory arrangements that were put in place to facilitate new entry; and
 - the inability of retailers to rely on interregional hedges to cover their wholesale positions.

The majority of retail respondents viewed the wholesale arrangements as unfavourable and claimed that it would not be possible to obtain a competitive advantage in wholesale supply under the single provider model. However, one smaller retailer observed that the requirement for Hydro Tasmania to offer regulated wholesale hedging products ensured there was some hedge liquidity and provided new entrants with some protection.

Consistent with other NEM jurisdictions, smaller retailers also raised prudential arrangements and credit support as impediments (see Chapter 3).

Retail respondents did not identify any additional impediments to retailing electricity in rural and regional areas of Tasmania.

Outlook for barriers in the next one to two years

Retail respondents did not expect to see any change in the ease with which entry and expansion can occur in the Tasmanian retail electricity market in the next one to two years.

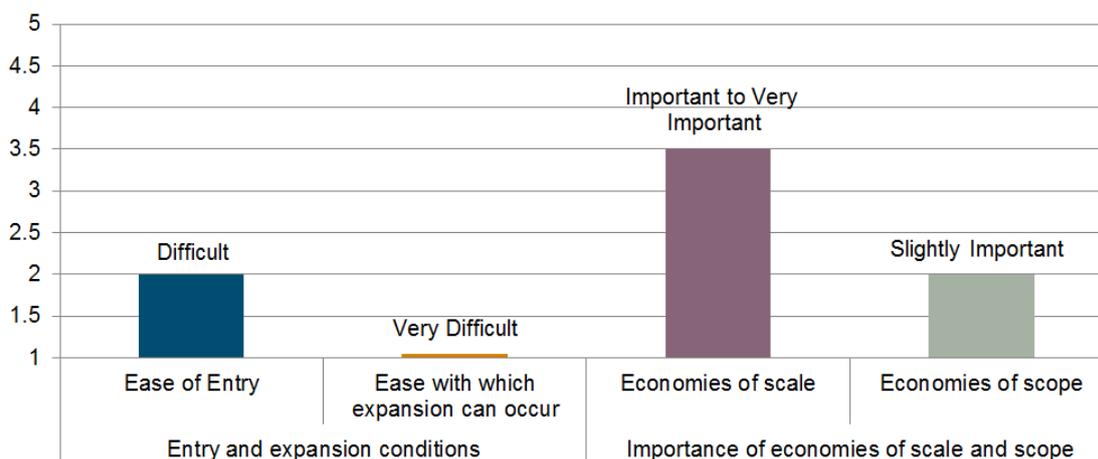
While entry conditions are not expected to improve, one smaller second tier retailer indicated it may consider entry, although it has no firm plans to enter at this stage. Two other retail respondents also noted the potential for new entry to occur in the next one to two years. According to one of these retail respondents, entry is more likely to occur in the small business segment of the market than the residential segment, because a retailer seeking to supply residential customers will incur more costs complying with customer protection obligations. The AEMC notes that the NECF is in place in Tasmania and as such any retailer operating in this state would have the same compliance obligations as apply in NSW, South Australia and the ACT.

256 In the 2014 survey, some retail respondents informed us that the allowance The Office of the Tasmanian Energy Regulator has made for customer acquisition and retention costs and the retail margin in its most recent regulatory decision are conducive to entry. See K Lowe Consulting and Farrier Swier Consulting, *AEMC 2014 Retail Competition Review: Retailer Interviews*, report for the AEMC, June 2014, p34.

10.5.2 Retail gas market - Ease of entry and expansion

In the Tasmanian retail gas market, the median rating from the retailer survey suggested that entry into the market was difficult while expansion was very difficult (Figure 10.9). The median rating considered that economies of scale were important to very important while economies of scope were slightly important.²⁵⁷

Figure 10.9 Median rating survey results - Tasmania retail gas markets



Source: K Lowe, AEMC Retail Competition Review: Retailer Surveys - Report for the AEMC, 2015

Retail respondents considered that entry and expansion conditions became more difficult in the last year as a result of a deterioration in conditions in the transmission segment of the supply chain and the competitiveness of natural gas against alternative fuels (e.g. electricity, wood and LPG).

Entry and expansion conditions in this market have reportedly become more difficult in the last year as a result of the deterioration in:

- conditions in the transmission segment of the supply chain; and
- the competitiveness of natural gas against alternative fuels (e.g. electricity, wood and LPG), in the last year.

On the first of these matters, one retail respondent noted that the owner of the Tasmanian Gas Pipeline has increased the price of transportation services to some areas in Tasmania and is currently unable to provide firm pricing beyond 2018. Another retail respondent noted that the high cost of new transmission capacity limited the ability of new entrants to compete with the existing retailers.

Impediments to entry and expansion

Retail respondents identified the following factors as potentially impeding entry and expansion in the Tasmanian retail gas market:

²⁵⁷ Retail respondents were also asked to rate the ease with which exit can occur in this market. The median rating in this case suggests that exit is relatively difficult.

- **Size of market:** The small size of the market and limited scope for growth given the limited penetration of the gas distribution network.²⁵⁸
- **Wholesale market conditions:** Access to, and the price of, gas given the tightening conditions in the wholesale gas market and the limited supply options available to retailers in Tasmania.
- **Competition from alternative fuel sources:** The price of competing fuel sources such as wood, LPG and electricity, will have a significant impact on the viability of natural gas.
- **Access to transmission services:** Access to transmission services on the Tasmanian Gas Pipeline and the price of those services.

Barriers in regional Tasmania retail gas markets

Retail respondents also noted that the following factors are barriers to retailing gas in rural and regional areas of Tasmania:

- **Customer awareness:** The level of customer awareness about the benefits of natural gas is considered lower in rural and regional areas.
- **Geographic coverage of gas distribution network:** Low geographic penetration in rural and regional areas and the cost of developing the network to supply these customers would be quite high.
- **Lower socio-economic areas:** Regional areas in Tasmania tend to have a larger proportion of low-socio-economic households and are therefore unlikely to be able to afford the cost of connection together with the purchase of new appliances.
- **Gas is not an essential service:** Therefore it does not have the same rollout requirements as electricity in these areas.

Outlook for retail gas barriers in the next one to two years

Retail respondents noted that, in the next one to two years, conditions are likely to deteriorate further if the cost of transporting gas on the Tasmanian Gas Pipeline continues to rise:²⁵⁹

“Transmission prices will continue to rise which will make entry more unattractive as less margin can be made from customers when competing against other fuel sources.”

Retail respondents also raised concerns about the effect of the continued tightening of conditions in the wholesale gas market and the effect that rising wholesale gas prices will have on entry and the relative competitiveness of gas and other fuels.

The retail survey responses suggest the following:

²⁵⁸ The gas network is available to approximately 43,000 commercial and residential customers and there were approximately 9,800 customers in 2014, so there is some potential for growth.

²⁵⁹ The factor identified by respondents as having the greatest influence on transmission costs beyond 2017 is the impending decision by the Tasmanian Government to either renew or not renew the Tamar Valley Power Station gas transportation agreement on the Tasmanian Gas Pipeline.

- None of the surveyed retailers indicated they are considering entry into this market. One respondent did note though the potential for a different competitor to take over Aurora Energy if the Tasmanian Government decides to try to sell Aurora Energy again.
- Respondents claimed that expansion is unlikely to occur because there are no plans to expand the network, so the penetration of gas is unlikely to increase.

10.6 Independent rivalry

The AEMC's assessment of this competitive indicator has considered information on market concentration, customer switching between retailers of different tiers and product differentiation. See Chapter 2 for further details of our methodology.

10.6.1 Market concentration and customer switching

Residential and small business electricity customers only became contestable from 1 July 2014. Aurora Energy is currently the only retailer for residential customers in Tasmania. There are two retailers for small business customers in Tasmania: Aurora Energy and ERM Power. ERM Power entered the small business market in March 2014 and has therefore had limited time to gain market share.

The market concentration, as measured by the HHI, is extremely high at 9,976 (December 2014).²⁶⁰ This is the highest level of market concentration in any of the NEM retail electricity markets.²⁶¹

There are only two gas retailers in Tasmania: Aurora Energy and Tasmania Gas. In light of this the market concentration is very high, as measured by the HHI, at 5,392 (June 2014), up from 5,200 a year prior.²⁶²

10.6.2 Product differentiation

The AEMC assessed the level of product differentiation in the retail electricity and gas markets in Tasmania through information collected from the Energy Made Easy price comparator website.

Retail electricity market

The Energy Made Easy price comparator website only had one flat rate offer available to residential customers in Tasmania on 27 February 2015, a regulated offer from Aurora Energy. On its website, Aurora Energy also offers a "Pay As You Go" market offer. Customers are able to take up GreenPower options of 10, 20, 50, 75 or 100 per cent by paying an additional usage charge. Customers are also offered an incentive for setting up payment of their electricity bills by direct debit.

²⁶⁰ The HHI is calculated by summing the squares of the market shares of each retailer, thereby giving more weight to larger retailers. The HHI ranges from 0 to 10,000. In an extremely competitive market the HHI approaches zero, and in a pure monopoly the HHI is 10,000. The ACCC in its Merger Guidelines notes that it is less likely to identify horizontal competition concerns when the post-merger HHI is less than 2,000.

²⁶¹ AEMC analysis based on AEMO data.

²⁶² AEMC analysis based on AER data.

The Energy Made Easy price comparator website had five flat rate electricity offers available to small business customers in Tasmania on 27 February 2015. ERM Power had two market offers and one standing offer, and Aurora Energy had one regulated offer and one market offer for small business customers. The two offers from Aurora Energy offered a direct debit discount of 5.5 cents per day.

In the third quarter of 2014, 36 customers in Tasmania had accredited GreenPower.²⁶³

Retail gas market

There is lower differentiation in gas offers in Tasmania than in most other NEM jurisdictions, with only two retailers offering gas products. As at 21 March 2015, there were two gas retail offers for residential and small business customers, with each retailer providing one offer for each customer type. There are no gas retail offers for Tasmania on the Energy Made Easy government comparator site. Offers can be viewed on retailers' websites.

There is no difference between the types of features offered to residential and small business gas customers in Tasmania. Both residential and small business customers have the option of contracts with no fixed term or a fixed term of one year. None of the gas offers for residential or small business customers provide unconditional or conditional discounts, non-price incentives or termination fees.

10.7 Competitive prices

There is no price competition for residential customers in Tasmania. We estimated the annual electricity cost for a representative consumer on Aurora Energy's flat rate regulated offer on 27 February 2015 including the direct debit incentive, which ranged from \$1990 with no GreenPower up to \$2,440 with 100 per cent GreenPower.

²⁶³ Industry & Investment NSW, National GreenPower Accreditation Program Status Report, Quarter 3: 1 July to 30 September 2014, p4.

A Abbreviations

| | |
|------------|--|
| ABS | Australian Bureau of Statistics |
| ACCC | Australian Competition and Consumer Commission |
| ACL | Australian Consumer Law |
| ACT | Australian Capital Territory |
| AES | Alternative Energy Sellers |
| AEMA | Australian Energy Market Agreement |
| AEMC | Australian Energy Market Commission |
| AEMO | Australian Energy Market Operator |
| AER | Australian Energy Regulator |
| AFMA | Australian Financial Markets Association |
| ASX | Australian Securities Exchange |
| APG | Australian Power & Gas |
| CALC | Consumer Action Law Centre |
| COAG | Council of Australian Governments |
| Commission | See AEMC |
| CUAC | Consumer Utilities Advocacy Centre |
| DHS | Department of Human Services |
| DVA | Department of Veterans Affairs |
| DWGM | Declared Wholesale Gas Market |
| ERAA | Energy Retailers Association of Australia |
| ESAA | Energy Supply Association of Australia |
| ESC | Essential Services Commission |
| ESCOSA | Essential Services Commission of South Australia |
| ETF | Exchange Traded Future |
| EWON | Electricity and Water Ombudsman of NSW |
| EWOV | Electricity and Water Ombudman of Victoria |
| FIT | Feed-in Tariff |
| HCC | Health Care Card |
| HHI | Herfindahl-Hirschman Index |

| | |
|-------|---|
| IT | Information Technology |
| kWh | kilowatt hour |
| LNG | Liquefied natural gas |
| LPG | Liquefied petroleum gas |
| MSATS | Market Settlement and Transfer Solution |
| MWh | Megawatt hour |
| NECF | National Energy Customer Framework |
| NEM | National Electricity Market |
| NSW | New South Wales |
| OTC | Over-the-counter |
| PCC | Pensioner Concession Card |
| PFIT | Premium Feed-in Tariff |
| PV | Photovoltaic |
| QCA | Queensland Competition Authority |
| SFIT | Standard Feed-in Tariff |
| TFIT | Transitional Feed-in Tariff |
| TJ | Terajoule |
| TPI | Totally and Permanently Incapacitated |

B Active retailers in the NEM jurisdictions

The table below identifies the energy retailers that were active in the small customer electricity and gas markets in each NEM jurisdiction in the first quarter of 2015. The table indicates if the retailer accepts only business customers, including small business customers (with a "B"), or only small residential customers (with a "R"). The table also shows how many companies are active in each NEM jurisdiction, as some retail brands are linked by ownership. The label "new" indicates that this is a new entrant into the market since the 2014 retail competition review.

In assessing which retail brands were active in each NEM jurisdiction, we considered offers that were generally available and on government comparator websites in the first quarter of 2015. This was complemented by information from AEMO and AER on small customer numbers.

Figure B.1 Active retailers in NEM jurisdictions

| Active retail brands / State | SEQ | | RQ | | VIC | | NSW | | ACT | | SA | | TAS | |
|------------------------------|-----|---|----|---|-------|-----|-------|-----|-----|-----|-----|---|-----|---|
| AGL | █ | █ | | | █ | █ | █ | █ | | | █ | █ | | |
| ActewAGL | | | | | | | | | █ | █ | | | | |
| Powerdirect | █ | | | | █ | | █ | | | | █ | | | |
| Alinta | | | | | █ | █ | | | | | █ | █ | | |
| Neighbourhood | | | | | █ | | | | | | | | | |
| Aurora | | | | | | | | | | | | | █ | █ |
| BlueNRG | | | | | B | | B New | | | | | | | |
| Click | █ | | | | B New | | | | | | | | | |
| Commander | | | | | New | | New | | | | New | | | |
| Dodo | █ | | | | | █ | R | | | | R | | | |
| CovaU | | | | | New | | New | New | | | | | | |
| Diamond | █ | | | | █ | | █ | | | | █ | | | |
| EnergyAustralia | █ | | | | █ | █ | █ | █ | █ | █ | █ | █ | | |
| Ergon | | | █ | | | | | | | | | | | |
| ERM Power | | | | | B | | B | | B | | B | | | B |
| GoEnergy | | | | | | | B | | | | | | | |
| Lumo | █ | | | | █ | █ | █ | █ | | | █ | | | |
| Red | | | | | █ | █ | █ | | | | █ | | | |
| Momentum | | | | | | New | | | | | | | | |
| Origin | █ | █ | █ | █ | █ | █ | █ | █ | New | New | █ | █ | | |
| Pacific hydro | | | | | █ | | | | | | █ | | | |
| People Energy | | | | | █ | | | | | | | | | |
| Powershop | | | | | | | New | | | | | | | |
| Qenergy | B | | | | █ | | █ | | | | █ | | | |
| Sanctuary | █ | | | | █ | | █ | | | | █ | | | |
| Simply | █ | | | | █ | █ | █ | | | | █ | █ | | |
| Tasmania Gas | | | | | | | | | | | | | █ | █ |
| Total brands | 11 | 2 | 1 | 2 | 21 | 10 | 20 | 6 | 4 | 3 | 16 | 5 | 2 | 2 |
| Total companies | 10 | 2 | 1 | 2 | 17 | 9 | 16 | 5 | 4 | 3 | 13 | 5 | 2 | 2 |

█ Electricity retailer B = Business only Linked by ownership
 Gas retailer R = Residential only

C Summary of indicators

Table C.1 South East Queensland: Electricity

| Category | Measure | 2014 review | 2015 review |
|---------------------------------------|---|-------------|----------------------------|
| Market characteristics | Number of small customers | 1.34m | 1.36m |
| | Number of retail brands/businesses | 11/10 | 11/10 |
| Customer activity | Small customers on market offers (%) | | 70% |
| | Residential customers aware of retailer choice (%) | 91% | 89% |
| | Business customers aware of retailer choice (%) | 93% | 95% |
| | Residential customers investigating switching in last 12 months (%) | 30% | 25% |
| | Business customers investigating switching in last 12 months (%) | 27% | 38% |
| | Average switching rate in last calendar year (%) | 17% | 16% |
| Customer outcomes | Residential customers satisfied with level of choice (%) | 48% | 48% |
| | Business customers satisfied with level of choice (%) | 53% | 40% |
| | Residential customers satisfied with retailer (%) | 65% | 62% |
| | Business customers satisfied with retailer (%) | 62% | 56% |
| | Customer complaints to Ombudsman per 10,000 customers | 66 | 65 |
| Barriers to entry, exit and expansion | Median rating from retailer survey - Entry | | Neither difficult nor easy |
| | Median rating from retailer survey - Expansion | | Neither difficult nor easy |
| Independent rivalry | Market share of big 2 | 86% | 84% |
| | Market share of non-big 2 | 14% | 16% |
| | Market concentration (HHI) | 4,079 | 3,895 |
| | Conditional discounts | | 3-12% |

| Category | Measure | 2014 review | 2015 review |
|--|---|-------------|-------------|
| Potential savings for customers choosing market offers | Difference in total annual expenditure between highest and lowest flat tariff market offer without GreenPower for a customer consuming 4,533 kWh per annum as at 28 February 2015 | | \$252 |

Note: The data above are provided as a summary and reference, however should be read in the context of other findings, data limitations and our methodology as described in the report.

Sources: AEMC analysis, Newgate Research (2015), K Lowe Consulting and Farrier Swier Consulting (2015), AER, AEMO, the Energy & Water Ombudsman Queensland and QCA Price Comparator. See Chapter 2 for further details.

Table C.2 South East Queensland: Gas

| Category | Measure | 2014 review | 2015 review |
|---------------------------------------|---|-------------|----------------------------|
| Market characteristics | Number of small customers | | 0.18m |
| | Number of retail brands/businesses | 2/2 | 2/2 |
| Customer activity | Small customers on market offers (%) | | 75% |
| | Residential customers aware of retailer choice (%) | 88% | 86% |
| | Average switching rate in last financial year | 12% | 9.7% |
| Customer outcomes | Residential customers satisfied with level of choice | 78% | 65% |
| | Customer complaints to Ombudsman per 10,000 customers | 25 | 24 |
| Barriers to entry, exit and expansion | Median rating from retailer survey - Entry | | Neither difficult nor easy |
| | Median rating from retailer survey - Expansion | | Neither difficult nor easy |
| Independent Rivalry | Market share of Origin in Queensland | 59% | 57% |
| | Market share of AGL in Queensland | 41% | 44% |
| | Market concentration (HHI) | 5,162 | 5,085 |
| | Conditional discounts | | 1-6% |
| | Residential termination fees | | \$50-75 |

Note: The data above are provided as a summary and reference, however should be read in the context of other findings, data limitations and our methodology as described in the report.

Sources: AEMC analysis, Newgate Research (2015), K Lowe Consulting and Farrier Swier Consulting (2015), AER, AEMO and the Energy & Water Ombudsman Queensland. See Chapter 2 for further details.

Table C.3 New South Wales: Electricity

| Category | Measure | 2014 review | 2015 review |
|---------------------------------------|---|-------------|------------------------------------|
| Market characteristics | Number of small customers | 3.35m | 3.39m |
| | Number of retail brands/businesses | 15/13 | 20/16 |
| Customer activity | Small customers on market offers (%) | 61% | 67% |
| | Residential customers aware of retailer choice (%) | 90% | 89% |
| | Business customers aware of retailer choice (%) | 86% | 95% |
| | Residential customers investigating switching in last 12 months (%) | 27% | 33% |
| | Business customers investigating switching in last 12 months (%) | 41% | 32% |
| | Average switching rate in last calendar year (%) | 18% | 15% |
| Customer outcomes | Residential customers satisfied with level of choice (%) | 47% | 60% |
| | Business customers satisfied with level of choice (%) | 54% | 51% |
| | Residential customers satisfied with retailer (%) | 69% | 74% |
| | Business customers satisfied with retailer (%) | 66% | 61% |
| | Customer complaints to Ombudsman per 10,000 customers | 117 | 119 |
| Barriers to entry, exit and expansion | Median rating from retailer survey - Entry | | Neither difficult nor easy to Easy |
| | Median rating from retailer survey - Expansion | | Neither difficult nor easy |
| Independent rivalry | Market share of big 3 | 96% | 94% |
| | Market share of non-big 3 | 4% | 6% |
| | Market concentration (HHI) | 3,171 | 2,991 |
| | Conditional discounts | | 1-20% |
| | Residential termination fees | | \$22-187 |
| | Small business termination fees | | \$22-269.50 |

| Category | Measure | 2014 review | 2015 review |
|--|--|--------------------|--------------------|
| Potential savings for customers choosing market offers | Difference in total annual expenditure between highest and lowest flat tariff market offer without GreenPower for a customer consuming 6,500 kWh per annum as at 28 February 2015 on the Ausgrid network | | \$516 |
| | As above on the Endeavour Energy network | | \$550 |
| | As above on the Essential Energy network | | \$717 |

Note: The data above are provided as a summary and reference, however should be read in the context of other findings, data limitations and our methodology as described in the report.

Sources: AEMC analysis, Newgate Research (2015), K Lowe Consulting and Farrier Swier Consulting (2015), AER, AEMO, the Energy & Water Ombudsman New South Wales and Energy Made Easy. See Chapter 2 for further details.

Table C.4 New South Wales: Gas

| Category | Measure | 2014 review | 2015 review |
|---------------------------------------|--|-------------|----------------------------|
| Market characteristics | Number of small customers | 1.22m | 1.24m |
| | Number of retail brands/businesses | 5/4 | 6/5 |
| Customer activity | Small customers on market offers (%) | 70% | 75% |
| | Residential customers aware of retailer choice (%) | 85% | 88% |
| | Average switching rate in last financial year (includes ACT) | 20% | 12% |
| Customer outcomes | Residential customers satisfied with level of choice | 78% | 80% |
| | Customer complaints to Ombudsman per 10,000 customers | 44 | 59 |
| Barriers to entry, exit and expansion | Median rating from retailer survey - Entry | | Neither difficult nor easy |
| | Median rating from retailer survey - Expansion | | Neither difficult nor easy |
| Independent Rivalry | Market share of big 3 | 100% | 99% |
| | Market share of non-big 3 | 0% | 1% |
| | Market concentration (HHI) | 5,234 | 4,293 |
| | Conditional discounts | | 1-12% |
| | Residential termination fees | | \$50-90 |
| | Small business termination fees | | \$50-150 |

Note: The data above are provided as a summary and reference, however should be read in the context of other findings, data limitations and our methodology as described in the report.

Sources: AEMC analysis, Newgate Research (2015), K Lowe Consulting and Farrier Swier Consulting (2015), AER, AEMO and the Energy & Water Ombudsman New South Wales. See Chapter 2 for further details.

Table C.5 Australian Capital Territory: Electricity

| Category | Measure | 2014 review | 2015 review |
|---------------------------------------|---|-------------|-------------|
| Market characteristics | Number of small customers | 0.17m | 0.18m |
| | Number of retail brands/businesses | 3/3 | 4/4 |
| Customer activity | Small customers on market offers (%) | 19% | 22% |
| | Residential customers aware of retailer choice (%) | 57% | 72% |
| | Business customers aware of retailer choice (%) | 63% | 73% |
| | Residential customers investigating switching in last 12 months (%) | 10% | 19% |
| | Business customers investigating switching in last 12 months (%) | 6% | 9% |
| | Average switching rate in last calendar year (%) | 1.5% | 1.5% |
| Customer outcomes | Residential customers satisfied with level of choice (%) | 33% | 33% |
| | Business customers satisfied with level of choice (%) | 38% | 34% |
| | Residential customers satisfied with retailer (%) | 73% | 67% |
| | Business customers satisfied with retailer (%) | 75% | 73% |
| | Customer complaints to Tribunal per 10,000 customers | 13 | 11 |
| Barriers to entry, exit and expansion | Median rating from retailer survey - Entry | | Difficult |
| | Median rating from retailer survey - Expansion | | Difficult |
| Independent rivalry | Market share of ActewAGL | 96% | 96% |
| | Market share of others | 4% | 4% |
| | Market concentration (HHI) | 9,197 | 9,165 |
| | Conditional discounts | | 1-16% |
| | Residential termination fees | | \$50-90 |
| | Small business termination fees | | \$110-150 |

| Category | Measure | 2014 review | 2015 review |
|--|---|-------------|-------------|
| Potential savings for customers choosing market offers | Difference in total annual expenditure between highest and lowest flat tariff market offer without GreenPower for a customer consuming 7,180 kWh per annum as at 27 February 2015 | | \$327 |

Note: The data above are provided as a summary and reference, however should be read in the context of other findings, data limitations and our methodology as described in the report.

Sources: AEMC analysis, Newgate Research (2015), K Lowe Consulting and Farrier Swier Consulting (2015), AER, AEMO, the ACT Civil and Administrative Tribunal and Energy Made Easy. See Chapter 2 for further details.

Table C.6 Australian Capital Territory: Gas

| Category | Measure | 2014 review | 2015 review |
|---------------------------------------|--|-------------|---|
| Market characteristics | Number of small customers | 0.11m | 0.12m |
| | Number of retail brands/businesses | 2/2 | 3/3 |
| Customer activity | Small customers on market offers (%) | 21% | 21% |
| | Residential customers aware of retailer choice (%) | 36% | 54% |
| Customer outcomes | Residential customers satisfied with level of choice | 69% | 66% |
| | Customer complaints to Tribunal per 10,000 customers | 11 | 9 |
| Barriers to entry, exit and expansion | Median rating from retailer survey - Entry | | Difficult to Neither difficult nor easy |
| | Median rating from retailer survey - Expansion | | Difficult to Neither difficult nor easy |
| Independent Rivalry | Market share of ActewAGL | 96% | 96% |
| | Market share of others | 4% | 4% |
| | Market concentration (HHI) | 9,250 | 9,232 |
| | Conditional discounts | | 1-16% |
| | Residential termination fees | | \$50-90 |
| | Small business termination fees | | \$50-150 |

Note: The data above are provided as a summary and reference, however should be read in the context of other findings, data limitations and our methodology as described in the report.

Sources: AEMC analysis, Newgate Research (2015), K Lowe Consulting and Farrier Swier Consulting (2015), AER, AEMO and the ACT Civil and Administrative Tribunal. See Chapter 2 for further details.

Table C.7 Victoria: Electricity

| Category | Measure | 2014 review | 2015 review |
|---------------------------------------|---|-------------|------------------------------------|
| Market characteristics | Number of small customers | 2.67m | 2.70m |
| | Number of retail brands/businesses | 19/17 | 21/17 |
| Customer activity | Small customers on market offers (%) | | 89% |
| | Residential customers aware of retailer choice (%) | 95% | 96% |
| | Business customers aware of retailer choice (%) | 89% | 99% |
| | Residential customers investigating switching in last 12 months (%) | 39% | 36% |
| | Business customers investigating switching in last 12 months (%) | 57% | 36% |
| | Average switching rate in last calendar year (%) | 29% | 27% |
| Customer outcomes | Residential customers satisfied with level of choice (%) | 57% | 63% |
| | Business customers satisfied with level of choice (%) | 64% | 52% |
| | Residential customers satisfied with retailer (%) | 63% | 67% |
| | Business customers satisfied with retailer (%) | 67% | 65% |
| | Customer complaints to Ombudsman per 10,000 customers | 306 | 291 |
| Barriers to entry, exit and expansion | Median rating from retailer survey - Entry | | Neither difficult nor easy to Easy |
| | Median rating from retailer survey - Expansion | | Neither difficult nor easy to Easy |
| Independent rivalry | Market share of big 3 | 73% | 67% |
| | Market share of non-big 3 | 27% | 33% |
| | Market concentration (HHI) | 1,818 | 1,630 |
| | Conditional discounts | | 1-30% |
| | Residential termination fees | | \$20-157 |

| Category | Measure | 2014 review | 2015 review |
|--|--|-------------|-------------|
| | Small business termination fees | | \$20-220 |
| Potential savings for customers choosing market offers | Difference in total annual expenditure between highest and lowest flat tariff market offer without GreenPower for a customer consuming 4,645 kWh per annum as at 27 February 2015 on the Citipower network | | \$533 |
| | As above on the Powercor network | | \$520 |
| | As above on the United Energy network | | \$491 |
| | As above on the Jemena network | | \$566 |
| | As above on the AusNet Services network | | \$563 |

Note: The data above are provided as a summary and reference, however should be read in the context of other findings, data limitations and our methodology as described in the report.

Sources: AEMC analysis, Newgate Research (2015), K Lowe Consulting and Farrier Swier Consulting (2015), AER, AEMO, the Energy & Water Ombudsman (Victoria) and My Power Planner. See Chapter 2 for further details.

Table C.8 Victoria: Gas

| Category | Measure | 2014 review | 2015 review |
|---------------------------------------|---|-------------|----------------------------|
| Market characteristics | Number of small customers | | 1.9m |
| | Number of retail brands/businesses | 8/8 | 10/9 |
| Customer activity | Small customers on market offers (%) | | 87% |
| | Residential customers aware of retailer choice (%) | 95% | 96% |
| | Average switching rate in last financial year | 27% | 28% |
| Customer outcomes | Residential customers satisfied with level of choice | 67% | 70% |
| | Customer complaints to Ombudsman per 10,000 customers | 137 | 143 |
| Barriers to entry, exit and expansion | Median rating from retailer survey - Entry | | Easy |
| | Median rating from retailer survey - Expansion | | Neither difficult nor easy |
| Independent Rivalry | Market share of big 3 | 82% | 76% |
| | Market share of non-big 3 | 18% | 24% |
| | Market concentration (HHI) | 2,390 | 2,212 |
| | Conditional discounts | | 3-20% |
| | Residential termination fees | | \$22-157.50 |
| | Small business termination fees | | \$22-50 |

Note: The data above are provided as a summary and reference, however should be read in the context of other findings, data limitations and our methodology as described in the report.

Sources: AEMC analysis, Newgate Research (2015), K Lowe Consulting and Farrier Swier Consulting (2015), AER, AEMO and the Energy & Water Ombudsman (Victoria). See Chapter 2 for further details.

Table C.9 South Australia: Electricity

| Category | Measure | 2014 review | 2015 review |
|---------------------------------------|---|--------------------|----------------------------|
| Market characteristics | Number of small customers | 0.84m | 0.85m |
| | Number of retail brands/businesses | 15/14 | 16/13 |
| Customer activity | Small customers on market offers (%) | 83% | 84% |
| | Residential customers aware of retailer choice (%) | 92% | 93% |
| | Business customers aware of retailer choice (%) | 95% | 98% |
| | Residential customers investigating switching in last 12 months (%) | 30% | 25% |
| | Business customers investigating switching in last 12 months (%) | 37% | 39% |
| | Average switching rate in last calendar year (%) | 20% | 16% |
| Customer outcomes | Residential customers satisfied with level of choice (%) | 56% | 59% |
| | Business customers satisfied with level of choice (%) | 51% | 57% |
| | Residential customers satisfied with retailer (%) | 65% | 69% |
| | Business customers satisfied with retailer (%) | 68% | 67% |
| | Customer complaints to Ombudsman per 10,000 customers | 103 | 86 |
| Barriers to entry, exit and expansion | Median rating from retailer survey - Entry | | Neither difficult nor easy |
| | Median rating from retailer survey - Expansion | | Neither difficult nor easy |
| Independent rivalry | Market share of big 3 | 83% | 81% |
| | Market share of non-big 3 | 17% | 19% |
| | Market concentration (HHI) | 3,259 | 3,116 |
| | Conditional discounts | | 1-20% |
| | Residential termination fees | | \$22-157.50 |
| | Small business termination fees | | \$22-150 |

| Category | Measure | 2014 review | 2015 review |
|--|---|-------------|-------------|
| Potential savings for customers choosing market offers | Difference in total annual expenditure between highest and lowest flat tariff market offer without GreenPower for a customer consuming 5,000 kWh per annum as at 27 February 2015 | | \$396 |

Note: The data above are provided as a summary and reference, however should be read in the context of other findings, data limitations and our methodology as described in the report.

Sources: AEMC analysis, Newgate Research (2015), K Lowe Consulting and Farrier Swier Consulting (2015), AER, AEMO, the Energy & Water Ombudsman South Australia and Energy Made Easy. See Chapter 2 for further details.

Table C.10 South Australia: Gas

| Category | Measure | 2014 review | 2015 review |
|---------------------------------------|---|-------------|----------------------------|
| Market characteristics | Number of small customers | 0.41m | 0.41m |
| | Number of retail brands/businesses | 5/5 | 5/5 |
| Customer activity | Small customers on market offers (%) | 83% | 82% |
| | Residential customers aware of retailer choice (%) | 89% | 90% |
| | Average switching rate in last financial year | 17% | 15% |
| Customer outcomes | Residential customers satisfied with level of choice | 64% | 69% |
| | Customer complaints to Ombudsman per 10,000 customers | 36 | 36 |
| Barriers to entry, exit and expansion | Median rating from retailer survey - Entry | | Easy |
| | Median rating from retailer survey - Expansion | | Neither difficult nor easy |
| Independent Rivalry | Market share of big 3 | 92% | 90% |
| | Market share of non-big 3 | 8% | 10% |
| | Market concentration (HHI) | 3,478 | 3,269 |
| | Conditional discounts | | 1-13% |
| | Residential termination fees | | \$50-90 |
| | Small business termination fees | | \$50-110 |

Note: The data above are provided as a summary and reference, however should be read in the context of other findings, data limitations and our methodology as described in the report.

Sources: AEMC analysis, Newgate Research (2015), K Lowe Consulting and Farrier Swier Consulting (2015), AER, AEMO and the Energy & Water Ombudsman South Australia. See Chapter 2 for further details.

Table C.11 Tasmania: Electricity

| Category | Measure | 2014 review | 2015 review |
|---------------------------------------|---|-------------|-------------|
| Market characteristics | Number of small customers | | 0.27m |
| | Number of retail brands/businesses | 2/2 | 2/2 |
| Customer activity | Small customers on market offers (%) | | 12% |
| | Residential customers aware of retailer choice (%) | | 16% |
| | Business customers aware of retailer choice (%) | | 16% |
| | Residential customers investigating switching in last 12 months (%) | | 12% |
| | Business customers investigating switching in last 12 months (%) | | 16% |
| | Average switching rate in last calendar year (%) | | 0% |
| Customer outcomes | Residential customers satisfied with level of choice (%) | | 23% |
| | Business customers satisfied with level of choice (%) | | 10% |
| | Residential customers satisfied with retailer (%) | | 60% |
| | Business customers satisfied with retailer (%) | | 40% |
| | Customer complaints to Ombudsman per 10,000 customers | | 15 |
| Barriers to entry, exit and expansion | Median rating from retailer survey - Entry | | Difficult |
| | Median rating from retailer survey - Expansion | | Difficult |
| Independent rivalry | Market share of Aurora Energy | 100% | 100% |
| | Market share of others | 0% | 0% |
| | Market concentration (HHI) | | 9,991 |

Note: The data above are provided as a summary and reference, however should be read in the context of other findings, data limitations and our methodology as described in the report.

Sources: AEMC analysis, Newgate Research (2015), K Lowe Consulting and Farrier Swier Consulting (2015), AER, AEMO, the Energy Ombudsman Tasmania and Energy Made Easy. See Chapter 2 for further details.

Table C.12 Tasmania: Gas

| Category | Measure | 2014 review | 2015 review |
|---------------------------------------|--|-------------|----------------|
| Market characteristics | Number of small customers | | 9,800 |
| | Number of retail brands/businesses | 2/2 | 2/2 |
| Barriers to entry, exit and expansion | Median rating from retailer survey - Entry | | Difficult |
| | Median rating from retailer survey - Expansion | | Very difficult |
| Independent Rivalry | Market share of Aurora Energy | 40% | 36% |
| | Market share of Tas Gas | 60% | 64% |
| | Market concentration (HHI) | 5,200 | 5,392 |

Note: The data above are provided as a summary and reference, however should be read in the context of other findings, data limitations and our methodology as described in the report.

Sources: AEMC analysis, K Lowe Consulting and Farrier Swier Consulting (2015), AER and AEMO. See Chapter 2 for further details.

D Summary of submission to the AEMC's Approach Paper

Market definition

| Stakeholder(s) | Issue | AEMC Response |
|---|--|---|
| Alinta Energy | Customers with solar panels arguably have a higher level of engagement around their energy which places them in a better position to understand how best to service their supply needs. | Consumer research undertaken for this review found that solar customers are more active and confident in shopping around for an energy deal and switching retailer or plan. Refer to Appendix E of this report. |
| Alinta Energy, Consumer Action Law Centre (CALC), Consumer Utilities Advocacy Centre (CUAC), EnergyAustralia, Energy Retailers Association of Australia (ERAA) | <p>The energy market has been undergoing considerable change and it is necessary for the AEMC to incorporate a broader analysis of competitive markets. This could include the impact of emerging business models that are utilising new technologies, such as alternative energy sellers (AES).</p> <p>EnergyAustralia's view was that while these sources of competition are relatively small in scale, it expected this to change quickly and therefore should be taken into account when considering the state of competition.</p> | Refer to section 3.3 and Appendix E of this report. |
| CUAC | There is a need to investigate how new developments in the energy market are impacting competition. The energy market has been undergoing considerable change including greater number of consumers moving to market contracts and taking up new products and services as a result of smart meters and other technological advancements such as storage. | Refer to section 3.3 and Appendix E of this report. |

Consumer activity in the market

| Stakeholder(s) | Issue | AEMC Response |
|--|---|---|
| ActewAGL | Customers are able to access a range of information to determine their best electricity and gas offers. Research indicates that customers have a high degree of awareness of their ability to choose an energy retailer. ActewAGL Retail's experience is that awareness of market choice in the ACT has always been high and has increased over time. | Refer to section 7.3 regarding customer awareness in the ACT. |
| EnergyAustralia and CALC. | <p>EnergyAustralia's view was that, as with any good or service, the various customer segments across the retail electricity market are engaged and actively participate to varying degrees. Participating involves switching between retailers and active engagement with a current retailer to obtain a better deal, which EnergyAustralia has observed across all segments, including hardship customers.</p> <p>CALC is disappointed that the AEMC has chosen not to adopt its proposed indicator focusing on consumer engagement, education and trust, however supported the AEMC in testing some of the issues raised by CALC in its earlier submission. CALC would also welcome the AEMC expanding its examination of the rate at which customers are moving contracts without leaving their retailer.</p> | <p>The AEMC has taken into account the level of customer activity, awareness and engagement. This included questions on the level of trust within the Newgate Research customer survey. Refer to section 3.2.7 and the Newgate Research report.</p> <p>The AEMC considered the rate of switching between contracts with the same retailer for each NEM jurisdiction in relation to its consideration of the competitive indicators of customer activity and retailer rivalry, however data is limited. Refer to our methodology in Chapter 2, including comments regarding the interpretation of switching rates and the need to consider a range of indicators in assessing competition.</p> |
| AGL, ActewAGL, Energy & Water Ombudsman NSW (EWON), Origin Energy. | <p>Submitter views varied on the adequacy of information provided to customers.</p> <p>ActewAGL's view was that customers are able to access a range of information to determine their best electricity and gas offers.</p> <p>AGL's view was that some information is mandated under relevant jurisdictional regulations and other information is provided by retailers voluntarily as a means of providing better</p> | The AEMC considers that further support is required to help some customers make informed decisions. The Australian Energy Regulator is currently reviewing its Retail Pricing Information Guidelines to help small customers compare energy offers and make an informed decision on the offer that is best for them. The AEMC also recommends governments consider options for raising awareness of the tools available for comparing energy offers to improve customer confidence in the market, for instance, through tailored communications to different audiences as set out in the |

| Stakeholder(s) | Issue | AEMC Response |
|----------------------|---|--|
| | <p>customer service. Surveys indicate that most customers actively choose their electricity and gas suppliers.</p> <p>EWON's view was that customers are not well informed. Based on EWON's dispute resolution experience, many customers lack understanding of their usage, metering, service availability charge and other fees and charges on their bills. Key information needs to be easily accessible on bills.</p> <p>Origin Energy noted it provides an online comparator and that customers are also able to compare their current plans with other available offers through government websites like Energy Made Easy and My Power Planner. Retailer call centres are also available for customers who do have access to the internet.</p> <p>EWON's view was that customer awareness of the Energy Made Easy tool remains low. Many vulnerable customers are not able to access it (or other internet based resources) or do not have the resources to contact their retailer and ask for a better offer. These customers are not engaged in the market, yet need to access its benefits. Vulnerable and remote customers are particularly affected. Providing clear and simple information about energy products, in consistent language, is critical if customers are to engage.</p> | <p>AEMC's consumer engagement blueprint.</p> <p>For more details on this see sections 3.2.10 and 3.2.11.</p> |
| AGL, EnergyAustralia | <p>AGL submitted that while retail competition in the NEM has predominantly been based on price and discounting, retailers offer a range of products with different features, including the level and type of discounts, contract length and payment options.</p> <p>EnergyAustralia stated that, in general, it is observing that consumers are requiring more personalised services and are engaging with their retailers to seek a service offering that better reflects their needs and preferences to the extent possible within current pricing and regulatory frameworks.</p> | Refer to sections 3.2.9 and 3.3.3. |

| Stakeholder(s) | Issue | AEMC Response |
|----------------|--|--|
| Alinta Energy | A continued focus on educating customers on the availability of suppliers and benefits of taking a more active role when seeking a supplier for their energy needs will see competition continue to develop and provide greater benefits for customers. | Refer to sections 3.2.8 and 3.2.10. |
| CUAC, EWON | <p>CUAC submitted that, while informed and savvy consumers are benefitting from the choice provided by retail competition in the form of lower retail prices, some consumers are prevented from effective participation. CUAC and EWON listed a range of factors undermining the benefits of competitive markets including:</p> <ul style="list-style-type: none"> • the complexity of offers and market information (including the terminology used); • confusing bills; • inadequate disclosure of fees and charges; • difficulty for consumers to develop energy market knowledge; and • consumers potentially staying on standing offers due to apathy. | Consumer research undertaken for this review and the 2014 Retail Competition Review explored barriers to customer understanding and participation. For more detail on this see section 3.2.7 and Newgate Research's reports. |
| Origin Energy | Retailers are engaging in price-based competition, particularly in NSW and Victoria, which are currently experiencing record high discount levels. During the first half of the 2014-15 financial year, market churn hovered at around or above 20%. | This year the AEMC examined retail energy prices for each NEM jurisdiction. Refer to chapters 4 to 10 for more detail on this. |
| CALC | The low levels of education and engagement amongst consumers indicate concerns for the effectiveness of competition. While energy is a low engagement product, this must be further understood in the context of increasing consumer complaints, prices and interest in energy. We strongly support the AEMC undertaking more detail qualitative research | The AEMC notes the point made by CALC and will consider this as part of the 2016 Retail Competition Review. |

| Stakeholder(s) | Issue | AEMC Response |
|----------------|--|---------------|
| | to understand how consumers are interacting with energy markets. | |

Customer outcomes

| Stakeholder(s) | Issue | AEMC Response |
|---|---|---|
| AGL, Alinta Energy, CUAC, EWON, Energy, Origin Energy and Water Ombudsman Victoria (EWOV) | <p>A number of submissions discussed trends in customer complaints.</p> <p>AGL's view was that customer complaints alone do not necessarily reflect customer outcomes. Ombudsman complaints have been growing across the industry over the last few years, particularly related to transfers and credit issues. They have been inflated by major changes in the market, including mergers and takeovers where systems and processes have been consolidated.</p> <p>Alinta Energy's view was that customer and Ombudsman complaints are just one source of information. They should not be taken in isolation as the only indicator on the quality of customer outcomes. The statistical information captured by each of the schemes is recorded differently and, in at least one jurisdiction, Alinta questions the accuracy of the statistical representation of the number of Ombudsman complaints.</p> <p>CUAC's view was that increased levels of competition in energy markets have not translated into improved outcomes for consumers. In Victoria, EWOV received over 84,758 cases in the 2013-14 financial year, an increase of 10 per cent.</p> <p>EWON has seen a recent decrease in complaints. Despite this, poor customer outcomes relating to misleading and pressure marketing, poor customer service, a complex MSATS system</p> | <p>The AEMC has considered complaints to retailers and Ombudsmen in each NEM jurisdiction in chapters 4 to 10. Also see the comments on our methodology in Chapter 2 in relation to customer complaints.</p> <p>The ACCC also focused on retail energy customer issues during 2014, including misleading and deceptive conduct of energy retailers. Refer to section 3.2.7.</p> |

| Stakeholder(s) | Issue | AEMC Response |
|----------------|--|--|
| | <p>and the lack of access to clear and easy to understand information, has continued to drive customer complaints about retail competition. Customers continue to complain about marketers making misleading representations about government rebates, rates, discounts and the purpose of the marketing visit or phone call.</p> <p>EWOV noted that the number of complaints by Victorian customers to their energy retailer is increasing while the number of complaints to EWOV is decreasing. This suggests that customers may be giving retailers more opportunities to address complaints, that retailers are achieving some success in managing complaints, or both. EWOV has not identified a clear driver for the decline in complaints, other than a large retailer overcoming the consequences of its billing system upgrade.</p> <p>Origin Energy submitted that it takes seriously its obligation to actively engage with vulnerable customers across the customer lifecycle. Origin has taken steps to improve the experience of and support available to these customers. A dedicated team actively engages with these customers across the customer lifecycle, with early intervention, individual case management and post-hardship assistance.</p> <p>AGL submitted that it monitors and assesses customer complaints in order to perform root cause analysis of issues that affect customer experience. There was an increase in complaints towards the end of FY2014, which was due to the integration of APG customers into AGL's billing system and the higher underlying rate of complaints from APG customers.</p> | |
| CALC | CALC's view was that customer satisfaction is often measured as a proxy for a good outcome, but there may be many reasons why this may not be the case. While consumer satisfaction surveys may provide a record of consumer's experiences and perceptions, such surveys are unlikely to encapsulate whether a | The AEMC considers customer satisfaction an important measure of customer outcomes in an assessment of competition in a market. In addition, to help customers find a good energy deal, customers should be aware of the choices available and have access to clear information to identify an energy option that suits their needs. The |

| Stakeholder(s) | Issue | AEMC Response |
|----------------|---|---|
| | consumer has an optimum outcome. | AEMC has recommended ways to improve information and awareness of tools to help customers compare energy plans (see sections 3.2.10 and 3.2.11). |
| CUAC | CUAC is not convinced that competition in retail markets has given consumers in Victoria access to better deals on price as expected in a well-functioning competitive market. The ESC found large and growing retail margins in Victoria and CUAC agrees with a recent report from the St Vincent de Paul Society titled 'National Electricity Market – Wrong Way, Go Back?' that competitive pressures in Victoria have not resulted in prices trending to the efficient cost of retail services. | Competition is an iterative process with multiple stages driven by a combination of variables. At times competition may involve a greater degree of product innovation and at other times it may involve a greater degree of competition on price and service. For more details on this see section 3.1. The AEMC considers that competition in Victoria remains effective. For more details on this see Chapter 8. |
| CUAC, EWON | <p>CUAC's view was that affordability of essential services has become a major problem for many Australians. Forums and reviews by the ESC, the ERAA and the Minister for Energy and Resources have addressed this issue and the need for best practice hardship programs from retailers.</p> <p>CUAC stated that, in the past five years, wrongful disconnections have also increased and the number of customers in hardship programs has increased. Customers are also entering hardship programs with higher debt levels and remain in the program for a shorter length of time.</p> <p>EWON believes that tailored measures aimed at engaging financially stressed and other vulnerable customers, would be beneficial. Many vulnerable customers do not understand energy contracts and are unaware of government rebates and retail hardship programs so targeted information about this information and market choices is required.</p> | <p>The AEMC has observed an increase in credit complaints to Ombudsman in many NEM jurisdictions, as discussed in chapters 4-10 and section 3.2.7.</p> <p>Some vulnerable customers are actively engaged in retail energy markets (see Box 3.3 in Chapter 3), but others may need more assistance to access the benefits of competition (see sections 3.2.7, 3.2.10 and 3.2.11).</p> |
| EWON | EWON received complaints about evergreen contracts with a fixed benefit period from customers whose contracts had expired and were notified by their retailer that the contract would | The AEMC expects customer awareness of the nature and terms of their energy plans to generally improve over time as competition develops in NEM jurisdictions. This process is part of the evolution |

| Stakeholder(s) | Issue | AEMC Response |
|----------------|---|---|
| | <p>be continuing with a new fixed benefit period. In most cases this involved a reduced discount for customers. Customers were also confused about whether they were off contract or not and would be penalised for switching.</p> <p>There should be transparent upfront disclosure of all fees that can be charged by the retailer at the time the offer is made. The move-out fee, which retailers are required to disclose as a 'disconnection fee', has been a persistent source of complaints due to confusion around whether it was adequately disclosed.</p> <p>EWON notes that retailers are following AER Guidelines in labelling 'disconnection fees', however customers are not contacting their retailer to request disconnection of supply and therefore often query why they are charged this fee, not understanding that it can be charged when they move out. EWON considers that this fee needs to be clearly and consistently presented in all communication points.</p> | <p>of competitive markets, discussed further in section 3.1.</p> <p>The AEMC notes that customers in Victoria, which is further down the journey of retail energy market competition, were more aware of a wide range of important factors in making a decision to switch energy plan or retailer.</p> <p>Additionally, the AER and ACCC have taken action to address some of the issues raised by EWON, which is discussed in sections 3.2.7 and 3.2.11.</p> |
| EWON | <p>EWON noted that solar-related complaints to EWON peaked in 2011 and 2012 and have since declined. However, EWON has ongoing concerns about one retailer whose solar products have continued to generate complaints about the quality of the solar installation and delays in the payment of feed-in tariffs and reconciliation of bills.</p> <p>EWON's view was that complaints have arisen in the context of innovative products. EWON is monitoring this area closely as these new business models will add an additional layer of complexity for customers.</p> | <p>The AEMC examined issues relating to the level of competition for solar customers. See section 3.3.4 and Appendix E.</p> |
| ActewAGL | <p>ActewAGL Retail customers have a high level of customer satisfaction. This is demonstrated by Roy Morgan recently awarding ActewAGL Retail as Electricity Provider of the Year as part of the 2014 Customer Satisfaction Awards and the AER's Performance of the Retail Energy Market report showing that</p> | <p>Refer to section 7.4 in relation to customer outcomes in the ACT.</p> |

| Stakeholder(s) | Issue | AEMC Response |
|----------------|--|--|
| | ActewAGL Retail has the lowest residential complaint rate of all retailers in NECF jurisdictions. | |
| Origin Energy | Some regulatory interventions are designed to ensure service levels, but can in fact act to hinder the quality of Origin's interaction with its customers. For example, the requirement in the NECF to advise customers proactively of the availability of a standing offer in certain circumstances can result in a poor customer experience. | The AEMC has not considered this regulatory requirement specifically as part of this review. The COAG Energy Council is working to undertake an assessment of the differences in how jurisdictions have applied the National Energy Customer Framework and examine whether there is a need to enhance frameworks in light of the ongoing change taking place in competitive energy markets, particularly as it regards the introduction of new technologies, products and services. |

Barriers to entry, exit and expansion

| Stakeholder(s) | Issue | AEMC Response |
|-----------------------------------|--|---|
| AGL, Alinta Energy, Origin Energy | <p>AGL's view is that the current level of mandated feed-in tariffs does not create a barrier to entry however there is a risk that if the minimum feed-in tariff is set too high, it will discourage retailers from competing for solar PV customers as higher wholesale costs can be attributed to these customers. In 2015, minimum feed-in tariffs are mandated in Victoria, South Australia and regional Queensland.</p> <p>Alinta Energy and Origin Energy both viewed mandated minimum feed-in tariffs as a barrier for retailers, as it required retailers to offer a certain price for solar exports when they may wish to compete for customers on the basis of a different product offering. It is a form of price control where business has little or no control around mitigating the commercial risk. Alinta Energy's view was that the amount and provision of the solar feed-in tariff should stand on its own commercial value and not</p> | The AEMC's analysis of solar feed-in tariffs (FiTs) is provided in Appendix E. Concerns over FiTs and other environmental policies were raised in the retailer survey, as noted in jurisdictional chapters. The AEMC has not considered the impact of each policy in detail in this review but notes that the number of businesses offering FiTs in states with a mandated minimum FiT suggests this is not an insurmountable barrier to entry. |

| Stakeholder(s) | Issue | AEMC Response |
|--|--|--|
| | be an artificial value. | |
| AGL, Alinta Energy, EnergyAustralia, ERAA, Origin Energy | <p>Regulatory consistency across jurisdictions is important to allow retailers to participate in multiple jurisdictions economically. The application of additional (and different) regulations across jurisdictions forces retailers to maintain state specific processes which results in higher costs for consumers and varying outcomes for consumers across the NEM. Such regulatory inconsistencies identified by some of these stakeholders, included:</p> <ul style="list-style-type: none"> • the application of retail price regulation in some markets; • jurisdictional derogation associated with adopting the NECF; • jurisdictional derogation on smart meters; and • different energy efficiency schemes in some states. | Refer to section 3.2.2 of this report. |
| ActewAGL | <p>There are low barriers to entry and expansion in the ACT and NSW residential market. The introduction of NECF in the ACT and NSW has further lowered barriers to entry and retailers only require one licence authorisation to sell gas or electricity in all NECF jurisdictions.</p> <p>ActewAGL Retail believes that competition in the retail electricity market in the ACT and the retail gas market is effective. As such, ActewAGL Retail's long held view is that price regulation should be removed. The AEMC has recommended removing price regulation in the ACT and replacing it with a transitional price monitoring scheme. ActewAGL Retail supports this as a second best option to price deregulation.</p> | Refer to chapters for 6 and 7 for AEMC analysis on the barriers to entry and expansion in the ACT and NSW markets. |
| AGL | Barriers to entry for electricity and natural gas retailers are low with new energy retailers continuing to enter the market. | Refer to chapter 3 regarding changing conditions in the market. |

| Stakeholder(s) | Issue | AEMC Response |
|-----------------|---|--|
| | However, technological developments such as solar PV and other renewable generation, energy storage, energy management systems and metering are impacting on the generation, distribution and retailing of electricity. | |
| AGL | A retailer's ability to expand will vary depending on its capability including branding, scale, experience and financial capacity. | The barriers to entry, exit and expansion sections of chapters 4 to 10 discussed the impact of a number of these factors on a retailer's ability to expand. |
| AGL | Product innovation is not a simple process. It can be expensive, involve changes to processes and systems and have a long lead time. The ability to innovate is also dependent on the data. The availability of digital meters in Victoria has allowed new products to be developed due to the availability of half hourly usage data. | The AEMC recognises innovation takes time and expects greater innovation with improvements in metering and data availability. |
| Alinta Energy | Credit support requirements (including AEMO prudential requirements) also impact retailer expansion as when a retailer enters a market the level of required credit support is low, however as the business grows the level of credit support increases significantly. | The AEMC notes that prudential arrangements and credit support are important to address the risk of short payment in the event of a participant default. The AEMC therefore considers that these requirements, which are necessary to safeguard the integrity of the NEM, do not constitute a major barrier to entry or expansion. Refer to section 3.2. |
| EnergyAustralia | Limitations on commercial flexibility and the recovery of costs – through limits on back-billing and the regulation of disconnections – impact market behaviour and decisions about entry and expansion. Price regulation has been the most notable example, particularly its contribution to uncertainty about returns to retail operations. The removal of price regulation removes a key element of market uncertainty for retailers and will promote entry and expansion. | The AEMC recommends that jurisdictions remove retail price regulation where competition is effective. Refer to chapter 3 for more detail. |
| Origin Energy | There are significantly less material barriers to entry to the energy market than ever before. The introduction of full retail | Barriers to entry in each NEM market are discussed in chapters 4 - |

| Stakeholder(s) | Issue | AEMC Response |
|---------------------|--|--|
| | <p>contestability, deregulated prices and tariff structures, and competitive wholesale markets across the four largest retail markets (NSW, Victoria, South East Queensland and SA) has substantially opened these markets to effective competition.</p> <p>Nevertheless there are still some residual barriers in some NEM markets, namely price regulation for gas in NSW and electricity in Queensland; the Uniform Tariff Policy in regional Queensland; and the regulatory structure and lack of diversity in the Tasmanian wholesale market.</p> | 10. |
| Alinta Energy | Alinta Energy submitted that there are multiple drivers for the differentiation between high and low market offers within jurisdictions, and that to get a greater understanding of this issue would require a separate, targeted, review of this defined aspect of the market. | The AEMC has performed analysis on the range of prices available to a 'representative customer' for certain types of energy offers on a certain day with the aim of identifying any trends that signal weaker or stronger competition and may warrant further investigation. The AEMC does not have access to complete information about the underlying costs of different offers, but agree that there are multiple drivers for the differentiation between high and low market offers within and between jurisdictions. The AEMC's approach to analysing competitive retail prices is discussed in section 2.4.9 of this report. |
| ERAA, Origin Energy | <p>Open, competitive energy markets free from distortions such as retail price regulation naturally encourage prices to be efficient through the development of market offers. Should this review find that competition in a particular market is effective, jurisdictions should have the confidence to remove any remaining price controls.</p> <p>The ERAA and Origin Energy support recent decisions of the Queensland and New South Wales governments to deregulate electricity prices and move to price monitoring regimes.</p> | The AEMC recommends that jurisdictions remove retail price regulation where competition is effective. Refer to chapter 3 of this report for more detail. |

Independent rivalry

| Stakeholder(s) | Issue | AEMC Response |
|----------------------------------|--|--|
| BusinessSA, CALC and Origin | <p>There is limited competition in certain geographical areas of the retail gas and electricity market.</p> <p>BusinessSA and CALC submitted that there are low levels of competition between gas retail brands in some areas of South Australia and Victoria.</p> <p>Origin Energy submitted that the AEMC should consider the state of competition in the rural segment of the Queensland market, and recommend what steps are necessary to support the Government in deregulating the market.</p> | <p>The AEMC acknowledges that some rural customers have fewer choices than urban customers (see section 3.2.4).</p> <p>The AEMC considers the state of competition in regional Queensland in detail in chapter 5 of this report. We note the Queensland Government is seeking advice from the Queensland Productivity Commission on options to improve retail competition in regional Queensland.</p> <p>The AEMC sets out its findings for each jurisdiction in chapters 4 to 10 of this report and recommendations in chapter 3.</p> |
| ERAA | <p>The ERAA submitted that jurisdictions consider the AEMC's assessment of the level of competition in retail gas markets and take steps to deregulate those markets found by the AEMC to be sufficiently competitive.</p> | <p>The AEMC sets out its assessment if competition in retail gas markets for each jurisdiction in chapters 4 to 10 of this report.</p> |
| EnergyAustralia | <p>Independent rivalry may be understated in customer switching data. EnergyAustralia submitted that market share and market churn are reasonable indicators of the extent of effective competition but are fluid and will not demonstrate how retailers work to retain existing customers.</p> | <p>The AEMC agrees that the level of independent rivalry may be understated by customer switching data if firms are competing heavily to retain existing customers, as noted in section 2.3.4 of this report.</p> |
| AGL | <p>AGL submitted that international studies by VaasaETT on switching in energy markets has consistently shown that competition in the NEM jurisdictions in have consistently been amongst the highest in the world.</p> | <p>Refer to section 2.4.5 for a discussion of the interpretation of switching rates.</p> |
| ActewAGL, AGL, Alinta and Origin | <p>AGL, Alinta and Origin submitted that retail brands will compete not only on price, but also on product and service features. ActewAGL noted that retailers are competing in a variety of</p> | <p>The AEMC discuss the level of product differentiation in both the retail electricity and gas markets on a state by state basis in chapters 4 to 10 of this report and agree that retail brands also</p> |

| Stakeholder(s) | Issue | AEMC Response |
|----------------|-------|--|
| | ways. | differentiate their offerings through service quality. |

Retail prices

| Stakeholder(s) | Issue | AEMC Response |
|--------------------------------|--|--|
| CALC, EnergyAustralia | <p>CALC submitted that there is an expectation by the public that the AEMC should investigate retail margins in Victoria, as they were found to be higher in this state compared to other jurisdictions.</p> <p>EnergyAustralia's view is that there are challenges in calculating margins due to differences in business models and cost structures across the diverse range of retailers. EnergyAustralia noted the AEMC's difficulties in calculating an 'average' price in its 2014 Retail Competition review, that market data is fluid and retailers are competing by offering a range of different products to suit the needs and preferences of different customer segments.</p> | <p>As detailed in the AEMC's Approach Paper for the 2015 Retail Competition Review (December 2014), the AEMC's 2014 review did not conclude that retailer margins were higher in Victoria than other jurisdictions. The 2014 review notes that margin estimates must be interpreted with caution as margins are expected to fluctuate over time and estimates are prone to error. Additionally, any assessment of competition should involve a range of indicators. The AEMC will continue to consider a range of evidence in assessing the state of competition in all NEM jurisdictions. This will include any evidence on whether retail prices appear competitive in Victoria.</p> |
| Origin | <p>Some submissions expressed differing views on whether price-based competition was occurring in NEM jurisdictions.</p> <p>Origin submitted that retailers are engaging in price-based competition, particularly in NSW and Victoria, which are currently experiencing record high discount levels.</p> | <p>Refer to the comment above regarding retailer margins.</p> <p>This year the AEMC examined retail energy prices for each NEM jurisdiction as one of multiple indicators of competition. Refer to chapters 4 to 10 for more detail.</p> <p>Section 3.2.9 also sets out the limited merit of relying solely on price-based analysis to draw overall conclusions on the state of competition.</p> |
| Alinta Energy, EnergyAustralia | <p>Alinta Energy and EnergyAustralia's view was that customer satisfaction is particularly influenced by price and a significant component of prices is outside of retailers' control, most notably</p> | <p>Refer to section 3.2.9 of this report.</p> |

| Stakeholder(s) | Issue | AEMC Response |
|-----------------------|---|---|
| | the network component. The AEMC is encouraged to consider this as it surveys the views of energy consumers. | |
| EnergyAustralia | Discounting and pricing generally remain the most significant issues for consumers and the primary mechanism by which retailers compete. The focus on discounts reflects the market's evolution, such as the initial regulation of standardised products (e.g. Standard offers with regulated prices) that were the benchmark against which alternative products could be assessed. However, EnergyAustralia encourages the AEMC to also take account of other aspects of retailers' service offerings, including customised price plans, help to reduce usage, loyalty programs and the extent of switching. | The AEMC has considered the pricing plans and loyalty programs offered in retailer's market offers. Refer to the Product Differentiation sections of chapters 4 to 9 of this report. |
| Origin Energy | In the long-term, deregulating prices will intensify competition in the market and provide strong incentives for product innovation as a point of differentiation between retailers. The nature of the product offered by each retailer and within individual retailers will also contribute to a spread between high and low offers. For example, many retailers apply conditions to their best discount offer. | The AEMC agrees that deregulating prices can intensify competition and product differentiation. Refer to the AEMC's analysis of prices and discounts offered by retailer's in chapters 4 and 6 to 9 of this report. |

Other issues

| Stakeholder(s) | Issue | AEMC Response |
|-----------------------|---|--|
| Alinta Energy | Alinta Energy believes that once it has been established that a market is competitive, further reviews should only occur where there has been a material market failure or market operational variance identified that has the potential to impact the level of competition. Other than this, reviews need not occur more | The AEMC notes Alinta Energy's suggestion. The current terms of reference require the AEMC to complete an annual review of retail competition. |

| Stakeholder(s) | Issue | AEMC Response |
|----------------|---|---|
| | frequently than every 3 years. | |
| Alinta Energy | <p>Alinta Energy stated that, as demonstrated through the AER's exemptions regime, alternative energy sellers face a lower assessment threshold than that of "traditional" retail suppliers as they are not required to meet and maintain the same level of consumer protection obligations or meet the same standard of financial viability and technical capacity faced by entrants seeking a "full" authorisation.</p> <p>Origin Energy stated that it is in consumers' best interest for policy makers to find the right balance between enabling innovative products to come to market without adversely impacting overall consumer protections.</p> <p>EnergyAustralia will recommend the implementation of a regulatory framework for exempt entities with respect to the mechanism through which energy is sold; this may not be feasible under the current National Energy Retail Law.</p> | The AER and COAG Energy Council are considering the regulatory framework for emerging providers. Refer to chapter 3 for further detail on alternative energy sellers. |
| BusinessSA | BusinessSA would like to acknowledge the plight of major gas users in the South East of South Australia with respect to competition for gas supply, but recognises that this AEMC review is only focused on small customers, including small business. | The AEMC notes the point made by BusinessSA and that the terms of reference for the AEMC's retail competition review only covers small customers. |
| CALC | CALC would welcome the AEMC further exploring the role of limited product standardisation with the goal of providing simple and fair choices for consumers. | The review examined the level of product differentiation in the market under the independent rivalry indicator. Product standardisation that acts to reduce choice may have negative impacts on competition and consumers. |
| CUAC | CUAC believes that a wide ranging review of NECF is due to ascertain how it is working, its relevance in protecting consumers and in enhancing effective consumer participation. | The AEMC notes the point made by CUAC. The COAG Energy Council are currently assessing these issues. It is working to undertake an assessment of the differences in how jurisdictions have applied the National Energy Customer Framework and |

| Stakeholder(s) | Issue | AEMC Response |
|----------------|-------|--|
| | | examine whether there is a need to enhance frameworks in light of the ongoing change taking place in competitive energy markets, particularly as it regards the introduction of new technologies, products and services. |

E Solar Arrangements

This Appendix considers whether there are significant differences in customer activity and outcomes for customers with solar panels and whether there are any significant barriers to solar customers participating in retail energy markets. It also outlines the regulatory arrangements for solar businesses for retailing electricity and jurisdictional feed-in tariff arrangements.

Estimates suggest 14 per cent of all Australian households were using energy from solar panels in 2014, which is close to a three-fold increase in three years.²⁶⁴ Fifteen per cent of respondents to the Newgate customer survey stated they had solar panels and nine per cent had solar hot water installed.

E.1 Activity and outcomes for customers with solar panels

This section outlines the results of customer research conducted by Newgate Research, focussing on key differences in the responses of customers with solar panels compared to customers without. For more information on the methodology of this research see Chapter 2.

Solar customers appear to be considerably more active in energy markets. Sixty one per cent of solar customers said they had switched energy retailer or plan in the past five years and 31 per cent had switched in the past 12 months. This compares with 48 per cent of non-solar customers switching in the past five years and 21 per cent in the past 12 months.

A number of factors could be contributing to the greater switching rates for solar customers, including that they are approached more often by retailers, they have greater levels of confidence to engage in the market and different motivations for switching.

Forty six per cent of solar customers said they had been approached by at least one energy retailer in the last 12 months, compared with 37 per cent of non-solar customers. They were also more active in investigating their options, with 43 per cent investigating offers or options in the past 12 months, compared with 27 per cent for non-solar customers.

Sixty three per cent of customers with solar panels rated their level of confidence to choose the right energy option or offer as seven out of 10 or higher, compared with 54 per cent for non-solar customers. Solar customers were similarly more confident than other customers in finding the right information to choose a suitable energy plan or offer.

Just over half of solar customers cited price related reasons for switching electricity retailer or plan, compared with 75 per cent of non-solar customers. Thirteen per cent of solar customers switched because they purchased solar panels. Only three per cent of solar customers switched because they were offered a good solar rebate and two per cent because they were offered a better feed-in tariff.

²⁶⁴ Note that this increases to 19 per cent if solar hot water is included. ABS, *One in five households now use solar energy*, media release, December 2014.

Solar customers also appear to be more satisfied with their experience in the market. Sixty two per cent of solar customers were satisfied with the level of market choice, compared with 55 per cent of non-solar customers. Seventy five per cent of solar customers are satisfied with their electricity retailer and 69 per cent are satisfied with the customer service they provide, compared with 67 per cent and 64 per cent respectively for non-solar customers. Sixty three per cent of solar customers rated the value for money provided by their electricity retailer as seven or higher out of 10; 11 percentage points higher than non-solar customers.

Some of these satisfaction results may relate to the general demographics of customers that have solar panels rather than relating to better performance of retailers offering solar products. Solar customers were generally more satisfied with the performance of their gas retailers, and by similar margins.

E.2 Barriers to solar customers participating in the market

This section focuses on the results of our investigation of actual and perceived barriers to solar customers participating in retail energy markets. The findings presented are from the results of customer research conducted by Newgate Research, AEMC analysis of retail electricity offers and AEMC analysis of jurisdictional solar regulations.

Few solar customers see solar panels as a barrier to their participation in retail energy markets. Of customers who had investigated different energy options and plans but did not switch, solar customers were less likely to cite price related reasons or time and effort related reasons. Five per cent did not switch because they did not want to lose their government solar scheme benefits.

Of those customers that did not investigate switching or switch energy retailer or plan, solar customers were more likely to give the reason that they were satisfied with their current situation and less likely to give the reasons relating to the time or effort involved in switching or that they did not see value in switching. Twelve per cent of solar customers did not investigate or switch because they have solar arrangements, four per cent because they considered they could lose their government solar scheme benefits and three per cent because they consider they cannot get another offer because they have solar.

The low proportion of solar customers who perceive solar panels and the potential to lose feed-in tariffs or government support as a barrier to switching is fairly consistent with our review of jurisdictional regulatory arrangements. Customers can switch retailers without losing their government guaranteed feed-in tariff under all government feed-in tariff schemes, except the Standard Feed-in Tariff Scheme in Victoria.

The electricity offers available to solar customers in NSW do not appear to be significantly less competitive than offers available to non-solar customers. NSW offers were examined by way of example, however we consider similar results are likely in other jurisdictions based on our analysis of product differentiation.

Customers in NSW can choose from a range of solar offers from 13 different retailers, however four retailers had offers that were not available to solar customers. In each distribution area in NSW there was less than two per cent difference between the total

annual expenditure for a representative NSW customer on an average solar offer compared with an average non-solar offer.²⁶⁵ There is also very little difference between the exit fees that apply to solar offers compared with non-solar offers.

E.3 Exempt selling arrangements

Some energy suppliers that sell energy to small customers in retail electricity and gas markets are exempted from the full range of obligations on retailers under the National Energy Customer Framework (NECF). The Australian Energy Regulator (AER) generally grants exemptions where it considers such sellers have a 'lesser' involvement in the market, in accordance with its Exempt Selling Guidelines.²⁶⁶

Exempt energy suppliers include some solar energy suppliers and embedded non-network energy suppliers. Some other solar businesses are not captured by NECF because they do not supply energy to their customers, rather they supply solar equipment. As a result of exemption from NECF or because it does not apply, solar businesses are generally not required to comply with the suite of obligations that apply to energy retailers under the NECF.

As noted in the Chapter 2, we have not broadened the market definition for the 2015 review to include energy suppliers who receive an individual exemption from the requirement to obtain an electricity retailer authorisation under the National Energy Retail Law. The AEMC may consider expanding the market definition for future competition reviews, subject to developments in the market and the findings of the relevant AER and COAG processes underway.

For more details on exempt selling arrangements see section 3.3.4.

E.4 Solar feed-in-tariff arrangements

This section outlines government guaranteed, regulated retailer and competitive retailer feed-in tariffs (FiTs) for each jurisdiction. Tariffs are net unless otherwise stated.

As set out below, jurisdictional governments have taken different approaches to FiTs and there have been policy changes to these schemes over time. Consequently there may be some confusion for solar customers about what they are entitled to.

E.4.1 Queensland

The Queensland Solar Bonus scheme commenced in July 2008 and applications closed on 30 June 2014. Customers on this scheme that receive a government guaranteed rate fall into two categories depending on when they applied:

- Customers that applied for the scheme before July 2012 were eligible for a net 44 cents per kWh government FiT and will continue to receive this rate until July 2028, provided that eligibility requirements are met.

²⁶⁵ Note this does not take into account the amount of any feed-in tariff or the lower amount of energy that is required to be purchased from the customer's retailer due to the energy produced by the solar panels and consumed on site.

²⁶⁶ Australian Energy Regulator, Retail exempt selling guideline, July 2013, available at: <https://www.aer.gov.au/node/18677>

- Customers that applied for the scheme between July 2012 and June 2014 receive 8 cents per kWh government FiT until 30 June 2014.

Queensland customers on the Solar Bonus scheme can switch retailers without losing their government FiTs (where these still apply).

From 1 July 2014, customers in South East Queensland who were previously on the 8 cents per kWh rates, as well as new solar customers, will receive a FiT that is set by their retailer. As of 17 February 2015 these Market FiTs ranged from 6 to 12 cents per kWh.

From 1 July 2014 regional Queensland customers will receive a regulated FiT from their retailer. The Queensland Competition Authority set this rate at 9.07 cents per kWh from 1 July 2014, however following repeal of carbon tax legislation on 17 July 2014 this rate was subsequently adjusted to 6.534 cents per kWh for 11 September 2014 to 30 June 2015.²⁶⁷ For 2015–16, the FiT for regional customers will be 6.348 cents per kWh.

E.4.2 New South Wales

The NSW Solar Bonus Scheme commenced in January 2010. Customers who applied for the scheme between January 2010 and April 2011 will receive a gross 20 cents per kWh or 60 cents per kWh, depending on the dates of purchase or lease, until December 2016.

Customers can choose between receiving a net or gross FiT. Customers on the Solar Bonus Scheme can switch retailers without losing their government FiT however the ‘top-up’ could change.

There are no government FiTs currently open for new applications in NSW. New solar customers receive competitive retailer FiTs which ranged from 5 to 10 cents per kWh as at 18 February 2015. The Independent Pricing and Regulatory Tribunal publish a recommended range, which was 4.9-9.3 cents per kWh for 2014-15.

E.4.3 Australian Capital Territory

The ACT’s Micro Generator scheme was open for applications between March 2009 and July 2011. The Medium Generator Scheme was open between February 2011 and July 2011. Government mandated rates range from 30.1 to 50.05 cents per kWh gross, depending on the date of connection and capacity. These rates will be paid for 20 years from connection.

Customers on this scheme can switch retailers without losing their government FiT. Following the closure of these schemes to new applications, customers receive a FiT set by their retailer. These currently range from 5.1 to 7.5 cents per kWh.

There are no government FiT’s currently open for new applications in the ACT.

E.4.4 Victoria

Victoria has three government FiT schemes which are now closed to new applications however existing customers still receive a guaranteed rate. New solar customers and

²⁶⁷ Queensland Competition Authority, *Final Report – Feed-in tariff for regional Queensland for 2014-15*, May 2014, p10.

those who lose eligibility for their FiT scheme receive competitive retailer FiT subject to a minimum tariff.

The Standard Feed-in Tariff (SFIT) Scheme was open to applications from January 2008 to December 2012 and offers a 'fair and reasonable tariff' which is the same 'one-for-one' rate as that paid by the customer for their electricity. Customers on the SFIT cannot switch retailers without losing their 'fair and reasonable tariff' since the rate is contracted with and funded by each customer's electricity retailer. The SFIT will be paid until December 2016.

The Premium (PFIT) Scheme was open to applications from November 2009 to December 2011. The PFIT of 60 cents per kWh will be paid until November 2024. As of 19 February 2015, some retailers offer a 'top-up' of 8 to 10 cents per kWh.

The Transitional (TFIT) Scheme was open to application from January to December 2012. The TFIT of 25 cents per kWh will be paid until December 2016. As of 2014, some retailers offer a 'top-up' of 8 to 10 cents per kWh.

Customers on the PFIT and TFIT schemes can switch retailers without losing their FiT, however the retailer 'top-up' could change and exit fees may apply.

From January 2013, there has been a minimum retailer FiT for new solar customers. For 2015, the Essential Services Commission set this at 6.2 cents per kWh. This rate must be offered by retailers with more than 5,000 customers. Typically, retailers offer the minimum 6.2 cents per kWh, however some retailers offer a 'top-up' of 8 to 10 cents per kWh.

E.4.5 South Australia

The South Australian Solar Feed-in Tariff scheme commenced in July 2008 and closed to new applications in September 2013. Customers on this scheme that receive a government guaranteed rate fall into two categories depending on when they applied:

- Eligible customers who applied for the scheme between July 2008 and September 2011 will receive a 44 cents per kWh FiT until June 2028.
- Eligible customers that applied for the scheme between October 2011 and September 2013 will receive a 16 cents per kWh FiT until September 2016.

Retailers in South Australia also offer a 'top-up' of 8 cents per kWh in addition to the government-guaranteed rate. Customers on this scheme can switch retailers without losing their FiT, while it still applies, however the retailer 'top-up' could change.

Since January 2012, there has been a regulated minimum retailer FiT in South Australia. The Essential Services Commission of South Australia set the regulated minimum retailer FiT at 6 cents per kWh from 1 July 2014 and 5.3 cents per kWh from 1 January 2015.²⁶⁸

²⁶⁸ Essential Services Commission of South Australia (ESCOSA), *Retailer Feed-In Tariff – Price Determination*, December 2014, p3.

E.4.6 Tasmania

Customers in Tasmania could apply for the Transitional Legacy Tariff until August 2013. This scheme pays 28.283 cents per kWh until December 2018.

Customers on the Transitional Legacy Tariff can switch retailers without losing their FiT.

For new solar customers, the Office of the Tasmanian Economic Regulator sets a regulated FiT. This rate was 8.282 cents per kWh from January 2014 to June 2014 and 5.551 cents per kWh from 1 July 2014 to 30 June 2015.²⁶⁹

²⁶⁹ Office of the Tasmanian Economic Regulator website - Feed-in Tariffs, accessed 19 June 2015 at: <http://www.energyregulator.tas.gov.au/domino/otter.nsf/elect-v/30>

F Energy Concessions

| Jurisdiction | Concession | Eligibility | Calculation | Concession Value |
|--------------|---|---|--|------------------------------------|
| Commonwealth | Utilities Allowance | Eligible customers must be Australian residents living in Australia or may be temporarily absent from Australia for no longer than six weeks, and must receive qualifying Centrelink allowance. | Couples who are both eligible for payment receive the same payment as singles. | \$598.40 per year |
| | Essential Medical Equipment Payment | Eligible customer or the person in their regular care at home must hold a qualifying concession card and provide proof that the specified equipment, or heating or cooling is medically required. | | \$147 per year |
| Queensland | Electricity Rebate | Eligible customers hold a Pensioner Concession Card (PCC), a Department of Veterans Affairs (DVA) Gold Card (and receive the War Widow/Widower Pension or special rate Totally and Permanently Incapacitated (TPI) pension) or a Queensland Seniors Card. There are additional requirements on living arrangements. | | \$320.97 (per year, gst inclusive) |
| | Reticulated Natural Gas Rebate | Eligible customers hold a PCC, a DVA Gold Card (and receive the War Widow/Widower Pension or special rate TPI pension) or a Queensland Seniors Card. There are additional requirements on living arrangements. | | \$67.61 (GST inclusive) per year |
| | Medical Cooling and Heating Electricity Concession Scheme | Eligible customers have a qualifying medical condition requiring cooling or heating and hold a PCC or a Health Care Card (HCC). | \$80.24 paid into bank account each quarter. | \$320.97 per year |

| Jurisdiction | Concession | Eligibility | Calculation | Concession Value |
|--------------------------------|--|---|--|--|
| | Home Energy Emergency Assistance Scheme | Eligible customers must have a concession card, be part of their energy retailer's hardship program or payment plan or have an income less than the Commonwealth Government's maximum income rate for part-age pensioners. | Up to \$720 in any 12 month period for a maximum of 2 consecutive years. | \$720 per year |
| | Electricity Life Support Concession Scheme | Eligible customers must own an oxygen concentrator or kidney dialysis machine free of charge from Queensland Health and hold a PCC, an HCC, a Health Care Interim Voucher, a Child Disability Allowance or a Queensland Seniors Card. | Up to \$36.48-\$54.48 per month (\$109.44 - \$163.43 per quarter) per machine. | \$437.76 - \$653.72 per year |
| New South Wales ²⁷⁰ | Low Income Household Rebate (LIHR) | Eligible customers hold a Department of Human Services (DHS) PCC, a DVA PCC, an HCC or a DVA Gold Card marked with TPI, Disability Pension or War Widow/Widower Pension. | Customers of authorised electricity retailers receive the rebate on their electricity bills, however the rebate is provided to assist with the costs of electricity and natural gas. | \$235 (excluding GST) per year; \$258.50 (adjusted for GST) per year if the eligible customer is on-supplied by a retirement village or residential park operator. |
| | Family Energy Rebate | Eligible customers receive the Federal Government's Family Tax Benefit A or B. | Customers of authorised electricity retailers receive the rebate on their electricity bills, however the rebate is provided to assist with the costs of electricity and natural gas. | \$150 (excluding GST) per year; \$165.50 (adjusted for GST) if the eligible customer is on-supplied by a residential park operator. For customers eligible for the LIHR as well, the total combined payment is |

²⁷⁰ On March 22 March 2015, the Premier, Mike Baird MP, announced that a re-elected Coalition Government would: (1) introduce a \$90 rebate, (2) increase the value of the Life Support Rebate by an average 85 percent; (3) expand the Life Support Rebate eligibility to quadriplegic customers using electric mobility devices; and (4) ensure all retirement villages, residential communities and embedded network strata schemes have access to every NSW energy rebate.

| Jurisdiction | Concession | Eligibility | Calculation | Concession Value |
|--------------|--|--|--|--|
| | | | | capped at \$250 per year. |
| | Medical Energy Rebate | Eligible customers cannot self-regulate body temperature and hold a DHS PCC, a DVA PCC, a DVA Gold Card or an HCC. | Customers of authorised electricity retailers receive the rebate on their electricity bills, however the rebate is provided to assist with the costs of electricity and natural gas. | \$235 (excluding GST) per year; \$258.50 (adjusted for GST) per year if the eligible customer is on-supplied by a residential park operator. |
| | Life Support Rebate | Eligible customers use certain approved medical equipment at home that is necessary to sustain life. | Amount payable depends on equipment type. Customers of authorised electricity retailers receive the rebate on their electricity bills, however the rebate is provided to assist with the costs of electricity and natural gas. | Ranges from \$0.05 per day to \$1.66 per day up to \$1.83 (adjusted for GST) per day if the eligible customer is on-supplied by a residential park operator. |
| | Energy Accounts Payment Assistance (EAPA) Scheme | Households struggling to pay their energy bills due to a crisis or emergency situation. | Scheme delivered through vouchers that provide part-payment of electricity and natural gas bills. Community Welfare Organisation assesses situation for eligibility for vouchers. | \$50 per voucher, no annual limit (up to CWO) for customers supplied by an authorised retailer, up to 5 vouchers per bill limited to twice per year. |
| Victoria | Annual Electricity Concession | Eligible customers hold a PCC, an HCC or a DVA Gold Card. | Discount of 17.5 per cent off household electricity costs over \$171.60, all year round. If annual electricity cost is larger than \$2,763 per year, an Excess Electricity Concession application must | 17.5 per cent discount off electricity costs over \$171.60 |

| Jurisdiction | Concession | Eligibility | Calculation | Concession Value |
|--------------|--|--|--|--|
| | | | be made. | |
| | Winter Gas Concession | Eligible customers hold a PCC, an HCC or a DVA Gold Card. | Discount of 17.5 per cent off winter gas bills over \$62.40, after any retailer discounts have been applied. If winter gas bills are more than \$1,462, an Excess Gas Concession application must be made. | 17.5 per cent discount on winter gas bills over \$62.40 |
| | Service to Property Charge Concession | Eligible customers hold a PCC, an HCC or a DVA Gold Card. They have very low electricity usage - their electricity usage charge is less than the service charge. | If the electricity usage cost is less than the supply charge, the service charge is reduced to the same price as the electricity usage cost. | The service charge is reduced to the same price as the electricity usage cost. |
| | Non-mains energy concession | Eligible customers hold a PCC, an HCC or a DVA Gold Card. They rely on LPG, firewood or heating oil for domestic heating, cooking or hot water, access non-mains electricity via an embedded network or rely on a generator. | The amount of the rebate depends on the annual amount of non-mains energy purchased. | Range: \$45 - \$496 |
| | Medical Cooling Concession | Eligible customers have a medical condition that affects the body's ability to regulate temperature and hold a PCC, an HCC or a DVA Gold Card. | | 17.5 per cent of summer electricity costs |
| | Controlled Load Electricity Concession | Eligible customers are charged a controlled load tariff for separately metered electric hot water or slab heating and hold a PCC, an HCC or a DVA Gold Card. Customers must have a dual element electricity meter or dual element smart meter. | Provides a 13 per cent reduction on the controlled load usage charges throughout the year | 13 per cent off controlled load usage charges |
| | Life Support | Eligible customers use an eligible life support | Discount equals cost of 1,880 | Full cost of 1,880 kWh per |

| Jurisdiction | Concession | Eligibility | Calculation | Concession Value |
|---------------------|--|---|---|-------------------------|
| | Concession | machine and hold a PCC, an HCC or a DVA Gold Card. Qualifying machines use at least 1,880 kWh per annum. | kWh of electricity used each year, based on the general domestic tariff of the customer's retailer. | year. |
| | Electricity Transfer Fee Waiver | Eligible customers hold a PCC, an HCC or a DVA Gold Card. | Full waiver of the fee that is normally payable to the electricity retailers when there is a change of occupancy at a property. | Removal of transfer fee |
| | Utility Relief Grant Scheme | Eligible customers hold a PCC, an HCC or a DVA Gold Card and be unable to pay their water or mains or non-mains electricity and gas bills due to a temporary financial crisis. Account holders who do not hold a concession card but are registered with their utility company's hardship program and are part of a low-income household with an outstanding mains electricity, gas or water debt can apply for the grant. | Based on the balance owing at the time of application and is capped at six months' worth of usage up to a maximum of \$500. | Capped at \$500 |
| South Australia | Energy Bill Concession | Eligible customers receive an eligible Centrelink payment or hold a PCC, a DVA Gold Card marked with TPI, Extreme Disablement Adjustment or War Widow, a Low Income HCC, a Commonwealth Seniors HCC or a State Concession Card. | Concession deducted from electricity account or in some cases reimbursed by cheque. | Up to \$215 per year. |
| | Medical heating and cooling concession | In addition to the Energy Bill Concession requirements, eligible customers have a clinically verified medical condition which requires the frequent use of heating or cooling in the home. | | \$215 per year |
| | Emergency | For low-income households in a financial crisis who | Eligible customers are entitled | Up to \$400 |

| Jurisdiction | Concession | Eligibility | Calculation | Concession Value |
|--------------|-----------------------------------|--|---|--|
| | Electricity Payment Scheme (EEPS) | are unable to pay their electricity debt. | to apply for an emergency electricity payment once every three years after the date of their last EEPS payment. | |
| Tasmania | Annual electricity concession | Eligible customers hold a PCC, an HCC, an ImmiCard (Bridging Visa E) or a Tasmanian Concession Card. | \$1.2571 per day | \$458.84 per year |
| | Heating allowance | Eligible customers hold a PCC and must not have more than \$1,750 in cash assets or \$2,750 for married/de facto partners. | Payments of \$28 made in May and September | \$56 per year |
| | Life support concession | Eligible customers use an approved life support system. | Amount payable depends on equipment type. | Ranges from \$0.05 per day to \$1.75584 per day. |
| | Life support concession | Eligible customers have a medical condition that requires the cooling of their residence. | \$0.37653 per day | \$137.43 per year |
| ACT | Energy Concession | Eligible customers hold a DHS PCC, a DVA PCC or a Low Income HCC. | Calculated on a daily basis, with rates depending on the season. | \$338.21 per year |
| | Utility Concession | Eligible customers hold a DHS PCC, a DVA PCC or a Low Income HCC. | Rebate added to existing energy concession. | \$88.25 per year |

G Retail offers available to small customers

G.1 Standing and market offers

Throughout this report we refer to two types of offers for small customers, standing and market offers. How offers are regulated and the terminology used varies to some degree between jurisdictions.

In jurisdictions that operate under the National Energy Customer Framework (NECF), standing and market offers are regulated under the National Energy Retail Rules (the retail rules). Standing offers have regulated terms and conditions under the retail rules and the prices cannot be varied more than once every six months. In some jurisdictions the price of some standard retail contracts is regulated. Market offers have to meet certain minimum requirements.

In Queensland, offers are regulated under the Electricity Industry Code. The standard offers have terms and conditions that have been approved by the Queensland Government, and all customers are charged the regulated electricity price, also known as the notified price. Negotiated (or market) offers have terms and conditions that have been agreed by the small customer and the retailer, but that are consistent with the terms and conditions set out in the Electricity Industry Code. Electricity prices for negotiated retail offers are not regulated. The NECF is scheduled to be introduced in Queensland on 1 July 2015.

In Victoria, the price for a standing contract is set by the retailer, whilst the other terms and conditions are set by the Energy Services Commission in the Energy Retail Code. Market contracts have varying prices and features and are made between customers and retailers.

G.2 Fixed term and on-going offers

Market offers can have a fixed term, a fixed benefit period, or neither. A fixed term offer specifies a date on which the offer will end (or a method for calculating that date). A market offer with a fixed benefit period specifies a period for which a particular benefit, such as a discount, is available.

G.3 Types of tariffs

The tariff or charge on an offer is made up of two components, a fixed charge and a variable charge. The fixed charge is a charge for supplying electricity or gas to the premises of the customer each day in the billing period. This charge is unrelated to how much energy is used. The variable component is based on the usage of the consumer.

There are a range of different tariff types that can form the variable charge, including flat (single) rate tariffs, block tariffs, off-peak tariffs and time of use tariffs. The AEMC has limited its analysis of electricity prices to offers with a flat rate tariff, that is, offers that charge the customer the same amount for electricity no matter what time of day it is used. Flat rate tariffs are the most common type of tariff.

H Annual electricity consumption of the representative consumer

| Jurisdiction | Annual consumption value (kWh) | Methodology for determining annual consumption |
|------------------------------|--------------------------------|--|
| Queensland | 4,533 | Total residential consumption within the Energex network divided by residential customer numbers |
| New South Wales | 6,500 | Total residential consumption divided by the number of residential customers |
| Australian Capital Territory | 7,180 | Total residential consumption divided by the number of residential customers |
| South Australia | 5,000 | Based on the consumption of a 'typical' consumer, as determined by ESCOSA |
| Victoria | 4,645 | Average customer usage in each distribution zone weighted by the number of residential customers in each distribution zone |
| Tasmania | 7,627 | Sourced from the Office of the Tasmania Economic Regulator, calculated using a weighted average median consumption level for the two most common tariff combinations |

Source: AEMC, *2014 Residential Electricity Price Trends*, final report, AEMC, 5 December 2014.