AEMC 2015 Retail Competition Review: Retailer Surveys

Report for the AEMC

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Farrier Swier Consulting

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Glossary

ACT	Australian Capital Territory
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
B2B	business-to-business
DWGM	Declared Wholesale Gas Market
ESC	Essential Services Commission (Victoria)
ESCOSA	Essential Services Commission of South Australia
ESV	Energy Safety Victoria
FRC	Full Retail Contestability
Gas	Natural gas
ICRC	Independent Competition and Regulatory Commission
IPART	NSW Independent Pricing and Regulatory Tribunal
NECF	National Energy Customer Framework
NEM	National Electricity Market
NERL	National Electricity Retail Law
NSW	New South Wales
OTTER	Office of the Tasmanian Economic Regulator
QCA	Queensland Competition Authority
REES	Residential Energy Efficiency Scheme (SA)
RPR	Retail Price Regulation
SA	South Australia
STTM	Short Term Trading Market
VEET	Victorian Energy Efficiency Target

Executive Summary

In early 2014, the Council of Australian Governments Energy Council provided the Australian Energy Market Commission (AEMC) with the terms of reference for a new annual review of the state of competition in the small customer segment of electricity and natural gas (gas) retail markets across and within the National Electricity Market (NEM) jurisdictions, being the Australian Capital Territory (ACT), New South Wales (NSW), Queensland, South Australia, Tasmania and Victoria.

The AEMC is required under the terms of reference to have regard to the following criteria, where practicable, and subject to data availability and resourcing constraints: [1]

- the ability of suppliers to enter the market;
- differentiated products and services;
- independent rivalry within the market;
- the exercise of choice by customers;
- customer switching behaviour; and
- price and profit margins.

To help inform its assessment of these criteria, the AEMC asked K Lowe Consulting (KLC) and Farrier Swier Consulting (FSC) to conduct a survey with small gas and electricity retailers and the Energy Retailer's Association of Australia (ERAA). In total 23 organisations were contacted and asked to participate in the survey.[2] Of the 23 organisations, 16 agreed to complete the electricity survey and 11 agreed to complete the gas survey. The survey was circulated on 5 February 2015 and participants were given 2-2.5 weeks to complete the survey. A copy of the survey questions can be found in Appendix A.

An overview of the views expressed by retailers and the ERAA about the current state of competition in each jurisdiction as at February 2015, the changes that have occurred in the last year and the outlook for competition in the next one to two years is provided in the table below.

1 Minister for Industry, Terms of Reference – Australian Energy Market Commission (AEMC) Reporting on the State of Retail Energy Market Competition Across the National Electricity Market, January 2014.

2 The list of entities contacted was discussed and agreed with the AEMC.

Table E.1: Jurisdictional Snapshot – Retailers' Perceptions

	Electricity Retail Market	Gas Retail Market
	ACT	
Current State of Competition	In a similar manner to the 2014 survey, the ACT electricity retail market was viewed by most retailers as having only a **minimal degree of competition**. Respondents attributed the state of competition in this market to the following: ▪ There are only 3-4 retailers competing to supply small electricity customers in the ACT and the degree of rivalry between these retailers is perceived to be minimal to moderate. ▪ Entry and expansion in this market are considered difficult because Retail Price Regulation (RPR) is still in place and there are a number of other perceived impediments, including: ActewAGL's dominance in the market; the small market size; and other general NEM-wide impediments (e.g. prudential/credit support arrangements, access to competitively priced hedging, concession schemes/consumer protection and political/regulatory risk). ▪ The level of customer engagement is low, but customer satisfaction is reportedly high.	The ACT gas retail market was perceived by most retailers to have only a **very limited degree of competition**, which is broadly in line with the results of the 2014 survey. Some of the indicators respondents pointed to in support of this view are as follows: ▪ There are just 3 retailers competing to supply small customers and the degree of rivalry in this market is perceived to be minimal. ▪ Entry and expansion in this market are considered somewhat difficult by most respondents because of: ActewAGL's dominance in the market; the small market size; and other general retail gas market impediments, such as tightening wholesale gas market conditions and potential constraints on the availability of transportation services. ▪ The level of customer engagement is low, but customer satisfaction is reportedly high.
Changes in the last year	The only notable change that has occurred in these two markets in the last year is that Origin Energy decided to enter both markets. This entry has reportedly triggered a greater degree of rivalry amongst retailers (i.e. higher discounts and other inducements), but the response from customers has reportedly been relatively muted.	
Outlook for the Next 2 Years	Retailers do not expect to observe any real improvement in entry conditions or the level of competition in this market in the next 1-2 years. Three second tier retailers have, however, indicated they may consider entry, although they have no firm plans to do so at this stage.	Most retailers do not expect to observe any improvement in competition in this market in the next two years, particularly given the expectation that conditions in the wholesale gas market will continue to tighten.
	NSW	
Current State of Competition	Competition in the NSW retail electricity market was considered by most retailers to be **high,** which is an improvement from the 2014 survey where the market was described as having only a moderate degree of competition. Respondents attributed the current state of competition in this market to the following: ▪ There are now 17 retailers operating in NSW (with three having entered the market in the last year) and the degree of rivalry is perceived to be high. ▪ Entry and expansion conditions have reportedly improved following the removal of RPR, but there are still some general NEM-wide impediments that may affect entry. ▪ The level of customer switching in this market is perceived to be high. Retailers also identified a number of barriers to retailing electricity in rural/regional areas of NSW.	Like electricity, the NSW gas retail market was considered to have a relatively **high degree of competition**, which is an improvement from the 2014 survey**.** Some of the indicators respondents pointed to in support of this view are as follows: ▪ There are five retailers supplying the Sydney market (with one having recently entered) and the overall degree of rivalry between these retailers is perceived to be high. ▪ Entry and expansion in this market are viewed by new entrants and potential entrants as difficult, while larger established retailers think they are relatively easy. Some of the perceived impediments to entry and/or expansion include: the continued application of RPR; constraints on access to a competitively priced firm supply of gas given the tightening wholesale gas market conditions; potential constraints on gas transportation services; aspects of the Short Term Trading Market (STTM) design; and the B2B procedures currently in place on gas distribution networks. ▪ The level of customer switching in this market is perceived to be relatively high. Retailers also identified a number of barriers to retailing in rural/regional areas in NSW.
Changes in the last year	Respondents identified the following changes in the market over the last year: ▪ RPR was removed on 1 July 2014 – this reportedly prompted three second tier retailers to enter the market and a greater degree of price rivalry. ▪ AGL acquired Macquarie Generation - mixed views were expressed about the effect this change has had on entry conditions.	Respondents identified the following changes in the market in the last year: ▪ The NSW Government decided to continue to apply RPR to gas prices but competition in this market has reportedly improved as a result of the removal of RPR in electricity because gas is predominantly sold on a dual fuel basis. ▪ New entry has also occurred and another retailer is in the process of entering.
Outlook for the Next 2 Years	Looking forward, a number of retailers informed us that they expect this market to become even more competitive in the next two years as more retailers enter the market.	Mixed views were expressed about the outlook for competition in this market, with a number of retailers stating it could become more competitive if RPR is removed and further entry occurs, while others raised concerns about the effect that tightening wholesale gas market conditions and rising gas prices may have on competition and gas use in this market.

	Electricity Retail Market	Gas Retail Market
Queensland		
Current State of Competition	In a similar manner to the 2014 survey, the SE Queensland electricity retail market was viewed by most retailers as having a **moderate degree of competition**. Respondents attributed the state of competition in this market to the following: ▪ There are ten retailers competing to supply small customers in SE Queensland, but rivalry between these retailers is considered moderate. ▪ Entry and expansion in this market are considered neither difficult nor easy. Some of the perceived impediments to entry and expansion in this market include: the continued application of RPR; wholesale market volatility and constraints on the availability of competitively priced hedging instruments; political and regulatory risk; and other general NEM-wide impediments. ▪ The level of customer switching in this market is perceived to be moderate. In regional Queensland, there is still **no competition** to supply small electricity customers and the Queensland Government's Uniform Tariff Policy (UTP) continues to be viewed as the most significant impediment to entry and competition in this market.	The Queensland retail gas market was viewed by most respondents as having a **moderate degree of competition**. Some of the indicators respondents pointed to in support of this view are as follows: ▪ There are just two retailers competing to supply small customers in Brisbane, Toowoomba and Oakey and one retailer operating in other regional areas. ▪ Entry and expansion in this market are considered neither difficult nor easy. Some of the perceived impediments to entry and expansion in this market are: constraints on access to a firm supply of competitively priced gas; the small size of the market; potential constraints on the availability of gas transportation services; and certain aspects of the STTM design. ▪ The level of customer switching in this market is perceived to be moderate. Retailers also identified a number of barriers to retailing in rural/regional areas of Queensland
Changes in the last year	The SE Queensland retail electricity market has been in somewhat of a holding pattern over the last year, with no notable improvements in competition reported by respondents. Entry and general operating conditions in this market have reportedly become more difficult in the last few months because of the conditions prevailing in the Queensland wholesale electricity market (i.e. higher pool prices and a greater degree of volatility in wholesale electricity prices in Queensland). No changes have been reported in regional Queensland.	Like electricity, there has been no reported improvement in competition in this market over the last year and entry conditions have reportedly become more difficult as a result of tightening demand and supply conditions in the wholesale gas market.
Outlook for the Next 2 Years	Most respondents expect competition in SE Queensland to improve if RPR is removed and NECF is implemented, but one respondent noted the potential for competition to deteriorate if wholesale market conditions don't improve and/or the Queensland Government decides to merge the State-owned generators. Unlike SE Queensland, respondents do not expect competition to improve in regional Queensland until the UTP is removed, or changes are made to the way the subsidy is paid.	Little was said by respondents about the outlook for competition in the Queensland retail gas market, but they expressed a general expectation that the state of competition will depend on how things unfold in the wholesale gas market and whether any potential entrants are able to secure a firm supply of gas.

	Electricity Retail Market	Gas Retail Market
South Australia		
Current State of Competition	Like the 2014 survey, the SA electricity retail market was considered by most retailers to exhibit a relatively **high degree of competition**, albeit dominated by retailers with SA generation interests. Respondents attributed the current state of competition to the following: ▪ There are 13 retailers competing to supply customers in this market (five of which have generation interests) and the degree of retailer rivalry is perceived to be high. ▪ Entry and expansion conditions are viewed by most respondents as neither difficult nor easy, but there are a number of perceived impediments, including: access to competitively priced hedging instruments for non-vertically integrated retailers; the Residential Energy Efficiency Scheme (REES); and other NEM-wide impediments. ▪ Customer switching is perceived to be high. Retailers also identified a number of barriers to retailing in rural/regional areas of SA	The SA retail gas market was viewed by most respondents as having a **high degree of competition**, which is consistent with the findings of the 2014 survey. Some of the indicators respondents pointed to in support of this view are as follows: ▪ There are five retailers supplying customers in Adelaide and the degree of rivalry between these retailers is reportedly high. ▪ Entry and expansion in this market are viewed by new entrants and potential entrants as difficult, while larger established retailers think they are relatively easy. Some of the perceived impediments to entry and expansion in this market include: contractual constraints on the SEA Gas Pipeline; constraints on access to a competitively priced firm supply of gas given the tightening conditions in the wholesale gas market; and certain aspects of the STTM design. ▪ Customer switching is perceived to be high. Retailers also identified a number of barriers to retailing in rural/regional areas of SA.
Changes in the last year	There have been no reported changes in rivalry, customer switching or entry conditions in the last year.	There have been no reported changes in rivalry or customer switching, but some respondents claimed tightening conditions in the wholesale gas market are affecting entry conditions.
Outlook for the Next 2 Years	Conflicting views were expressed about the outlook for competition in this market, with some retailers expecting it to become more competitive, while others expect no change.	Some retailers expect competition in this market to increase if new entry occurs, while others noted the adverse effect that tightening conditions in the wholesale gas market and rising wholesale gas prices may have on competition and gas use.
Tasmania		
Current State of Competition	The Tasmanian electricity retail market was viewed by most retailers as having only a **minimal degree of competition**, which is consistent with the findings of the 2014 survey. Respondents attributed the current state of competition in this market to the following: ▪ There is only one retailer supplying residential customers and two retailers competing to supply small business customers. ▪ Entry and expansion conditions have improved since FRC was extended to all small customers in mid-2014, but are still considered difficult. Some of the perceived impediments to entry and expansion in this market include: the continued application of RPR; the wholesale market arrangements; the small size and geographic dispersion of the market; the nature of the customer base; and other general NEM-wide impediments. ▪ The level of customer engagement and awareness is reportedly low in this market.	The Tasmanian gas retail market was also viewed by most retailers as having only a **minimal degree of competition,** which is in keeping with the view expressed in the 2014 survey. Some of the indicators respondents pointed to in support of this view are as follows: ▪ There are only two retailers supplying the market and the degree of rivalry between the two is considered minimal. ▪ Entry into and expansion within this market are considered difficult, because there are a number of significant impediments, including: the relatively low penetration of gas in Tasmania and the limited scope for growth; competition from other fuel sources; and constraints on access to competitively priced transmission services and the wholesale supply of gas (given tightening conditions in the wholesale market and limited supply options available to retailers in Tasmania). ▪ The level of customer engagement and awareness is reportedly low. Retailers also identified a number of barriers to retailing in rural and regional areas.
Changes in the last year	Respondents identified the following changes in the market over the last year: ▪ FRC was extended to all customers on 1 July 2014, but no new entry has yet occurred. ▪ Rivalry in the small business segment has reportedly increased but no change has occurred in the residential segment, so competition is still considered minimal.	Conditions have reportedly become more difficult in the market due to the deterioration in both: the conditions prevailing in the transmission segment of the gas supply chain; and the competitiveness of gas *vis-à-vis* other fuels.
Outlook for the Next 2 Years	Most respondents do not expect to see any improvement in competition in this market in the next two years.	The outlook for competition in this market in the next two years is poor and some have noted the potential for there to be no retail gas market in Tasmania in the next five years.

	Electricity Retail Market	Gas Retail Market
Victoria		
Current State of Competition	The Victorian electricity retail market was viewed by most retailers as the **most competitive retail electricity market** in the NEM. Respondents attributed the state of competition in this market to the following: ▪ There are 17 retailers competing in this market and the degree of rivalry between these retailers is perceived to be very high. ▪ Entry and expansion has been considered relatively easy to date, although concerns have been raised about the regulatory and consumer protection framework and the perceived increase in political and regulatory risk. Other general NEM-wide impediments can also reportedly affect entry and expansion in this market. ▪ The level of customer engagement and awareness in this market is perceived to be high. Retailers also identified a number of barriers to retailing in rural/regional areas.	The Victorian gas retail market was viewed by most retailers as the **most competitive retail gas market** in the NEM. Some of the indicators respondents pointed to in support of this view are as follows: ▪ There are 9 retailers currently competing to supply customers in the regions serviced by the Declared Wholesale Gas Market (DWGM) and rivalry between these retailers is perceived to be very high. ▪ Entry and expansion conditions have been considered relatively easy to date, although concerns have been raised about: the ability to access a competitively priced supply of gas given the tightening conditions in the wholesale gas market; the Victorian Gas Safety Case; the regulatory and consumer protection framework; and certain features of the DWGM. ▪ The level of customer engagement and awareness in this market is perceived to be high. Retailers also identified a number of barriers to retailing in rural/regional areas.
Changes in the last year	Respondents identified the following changes in the market over the last year: ▪ Rivalry has reportedly increased, following a decision by the big three retailers to try and stem the flow of their customers by offering discounts that are much closer to the rest of the market than they may have been in the past. ▪ New entry has occurred in the last year.	In contrast to electricity, rivalry in the retail gas market has reportedly been relatively static over the last year. Respondents did note, however, the following changes in the last year: ▪ New entry has recently occurred in this market. ▪ A small number of respondents claimed that conditions are becoming more difficult in this market given the tightening demand and supply conditions in the wholesale gas market.
Outlook for the Next 2 Years	Looking forward, respondents expect the Victorian electricity retail market to remain highly competitive and for customers to benefit from an even greater level of price rivalry and product innovation.	Little was said by respondents about the outlook for the Victorian retail gas market but some noted that further new entry would prompt more rigorous competition in this market. Concerns were also raised by a few respondents about the effect that any further tightening in the wholesale gas market and rising wholesale gas prices may have on the retail market.

As this table highlights, the Victorian gas and electricity retail markets are still viewed by retailers as the most competitive in the NEM, followed in declining order by: the NSW and South Australian gas and electricity retail markets; the South East Queensland electricity retail market and the Queensland gas retail market; the ACT and Tasmanian gas and electricity retail markets; and the regional Queensland electricity retail market.

When compared with the rankings arising from the 2014 survey, the only real change that has occurred in the last year is that competition in the NSW electricity and gas retail markets has reportedly increased following the NSW Government's decision to remove retail price regulation (RPR) from electricity prices. There is no sign though that competition in this market has surpassed that of the Victorian market, as was hypothesised by some retailers in the 2014 survey. In contrast to NSW, competition in the Queensland and South Australian gas and electricity retail markets appears to have been relatively static over the last year, while in the ACT and Tasmanian electricity markets rivalry has reportedly increased but there has been no change in the perception that competition is limited in these markets.

Some other general observations that we would make about this year's survey are that:

- Many of the impediments to entry and competition cited by respondents in the 2015 survey are unchanged from the 2014 survey, but some have become more prominent in the last year (e.g. conditions in the Queensland wholesale electricity market and tightening demand and supply conditions in the wholesale gas market and increased political and regulatory risk in some jurisdictions).
- Perceptions of political and regulatory risk and uncertainty remain high in some jurisdictions, particularly after the recent round of state elections.
- Some jurisdictional policies, laws, regulations and derogations (e.g. regulation targeted at protecting small customers or environmental outcomes), may have unintended consequences such as dissuading retailer participation in certain customer segments, discouraging entry or expansion, or increasing retailers' costs and customer prices.
- A growing number of retailers are starting to express concerns about the effect that differences in concession schemes across the NEM can have on both the costs faced by retailers and entry and expansion conditions, and are calling for greater harmonisation across jurisdictions.
- In retail electricity markets, competition from off-grid sources is reportedly becoming more significant and many retailers have suggested that changes be made to the regulatory framework to ensure a level playing field between retailers and alternative energy sellers.
- In some retail gas markets, competition from alternative energy sources (e.g. electricity and LPG) is starting to act as more of a constraint on the behaviour of retailers as the relative competitiveness of gas deteriorates (i.e. due to rising wholesale gas costs and, in some jurisdictions, rising transportation costs).

1. Introduction

In late 2012, the Council of Australian Governments (COAG) and COAG Energy Council decided that future reviews of the state of competition in the small customer segment of natural gas (gas) and electricity retail markets, should be conducted annually and encompass all jurisdictions in the NEM[3] (i.e. the ACT, NSW, Queensland, SA, Tasmania and Victoria).

Amendments to the Australian Energy Market Agreement in December 2013 gave effect to this revised approach, and in January 2014 the terms of reference for this new annual NEM-wide review were provided to the AEMC.[4] In accordance with these terms of reference, the AEMC is required to have regard to the following criteria, where practicable, and subject to data availability and resourcing constraints: [5]

- the ability of suppliers to enter the market;
- differentiated products and services;
- independent rivalry within the market;
- the exercise of market choice by customers;
- customer switching behaviour; and
- price and profit margins.

In examining these criteria, the AEMC has stated that it will consider the following competitive market indicators:[6]

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

The first NEM-wide review of retail competition was carried out by the AEMC in 2014.

To help inform its assessment of indicators for its second review, the AEMC has asked KLC and FSC to:

1. Develop and carry out a survey of retailers supplying gas and/or electricity to small customers in the NEM and of the ERAA, to obtain a better understanding of retailers' perspectives on the following issues (the 'focus areas'), and to identify any changes in these matters over the last year:

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3 SCER, Meeting Communiqué, 14 December 2012, pp. 1-2.

4 Minister for Industry, Terms of Reference – Australian Energy Market Commission (AEMC) Reporting on the State of Retail Energy Market Competition Across the National Electricity Market, January 2014.

5 ibid.

6 AEMC, 2015 Retail Competition Review - Approach Paper, 18 December 2014, p. 7.

(a) The ease with which a retailer can enter, expand and exit gas and electricity retail markets, within and across each jurisdiction, including:

- the factors affecting entry, expansion and exit (e.g. market structure, regulatory frameworks, economies of scale, access to gas and/or pipeline capacity and access to hedging instruments);
- geographic barriers (or perceived barriers) to retailing electricity or gas in rural or regional areas and whether this differs across jurisdictions; and
- the importance of economies of scale,[7] economies of scope[8] and vertical integration in gas and electricity retail markets.

(b) The manner in which gas and electricity retailers compete (e.g. price rivalry[9] vs non-price rivalry)[10] and the overall degree of rivalry within each jurisdiction.

(c) The propensity of small customers to switch retailers or switch between a retailer's market offers.

(d) Prices paid for gas and electricity in each jurisdiction.

2. Prepare a report setting out how the surveys were conducted and the views expressed by retailers on each of the focus areas.

To encourage candid responses to the survey, it was agreed that all responses would be treated confidentially. It was also agreed that any report published at the completion of the surveys would aggregate responses in such a manner to avoid attributing a particular response to an individual retailer.

1.1 Structure of the report

The remainder of this report is structured as follows:

- Chapter 2 provides an overview of the survey process, the questions posed, and the participating retailers.
- Chapters 3-8 set out the findings of the survey for each jurisdiction, with particular emphasis placed on the views expressed by retailers and the ERAA about:
  - the ease with which entry, expansion and exit can occur in gas and electricity retail markets (both within and across jurisdictions) and the importance of economies of scale, economies of scope and vertical integration in these markets;

7 The term 'economies of scale' is used in this context to refer to a situation where retailer's long run average cost declines as the size of its customer base increases. This may occur if a retailer has significant fixed or sunk costs.

8 The term 'economies of scope' refers to a situation where the unit cost of supplying two or more products or services (e.g. gas and electricity) is lower for a given level of output than if those products or services were supplied by two separate retailers.

9 Price rivalry can take a number of forms including discounts, rebates and alternative tariff structures.

10 Non-price rivalry can take a number of forms including service, incentives, bundling products and non-price contract terms.

  - retailers' perceptions on the degree of retailer rivalry that currently exists in gas and electricity retail markets;
  - the level of customer switching in gas and electricity retail markets;
  - the key determinants of gas and electricity retail prices; and
  - the changes that have occurred in gas and electricity retail markets over the last year and the changes that are expected to occur in the next one to two years.
- Chapter 9 sets out some of the more general NEM-wide observations that retailers and the ERAA made about barriers to entering gas and electricity retail markets across multiple jurisdictions, the factors influencing prices in these markets and future developments that could affect competition in these markets.

1.2 Limitations

The 2015 process has involved only written retailer surveys, and limited follow-up telephone discussions to clarify specific points. This approach differs from 2014, when detailed interviews were conducted, as well as written surveys. The responses received from participants in 2015 were therefore more limited than they were in 2014.

The breadth of issues canvassed in the survey was wide, with questions spanning both gas and electricity retail markets, and issues affecting competition in six jurisdictions. This breadth constrained the ability of survey participants to respond in detail on all issues; and the issues selected by different respondents for more detailed commentary varied considerably. This limitation should be borne in mind when reading this report.

Readers should also be mindful that this report captures views expressed by a sample of retailers and the ERAA. Where necessary to aid understanding, KLC and FSC have tried to clarify and validate interview and survey responses. However, such efforts do not constitute comprehensive validation and testing, nor is this report an independent critique by KLC and FSC of retailers' views.

1.3 Acknowledgments

Compiling a report such as this is dependent on the time, effort and cooperation of respondents. We wish to thank the participating retailers and the ERAA for setting aside time to contribute to this process, and for providing their valuable insights into the range of issues currently affecting retail competition in gas and electricity markets within and across the NEM.

2. Survey Process and Participants

To provide some context to the discussion that follows in the remainder of this report, this chapter provides an overview of:

- the survey process;
- the questions that were posed in the survey;
- the sample of participating retailers; and
- the terminology that we have used to distinguish between the different types of retailers.

2.1 Interview and survey process

In early February 2015, the ERAA and all but one of the retailers[11] identified in Table 2.1,[12] were contacted and asked if they would be interested in participating in the survey. Of the 23 organisations contacted, 16 agreed to complete the electricity survey and 11 agreed to complete the gas survey. In total 17 organisations agreed to participate in the survey. The survey was circulated on 5 February 2015 and participants were given 2-2.5 weeks to complete it. Follow-up phone calls were also made to some retailers to clarify comments, or seek further detail on their responses.

2.2 Questions posed in the surveys

The survey questions, which were developed in consultation with the AEMC, were designed to get a better understanding of retailers' experiences in gas and electricity retail markets across the NEM and to elicit their views on the focus areas set out in the introduction. Table 2.2 sets out the types of questions that survey participants were asked about each issue.

To ensure appropriate coverage of both gas and electricity retail markets, separate sets of interview and survey questions were developed for retailers operating in these markets. Modified questions were also developed for the ERAA. The survey questions can be found in Appendix A.

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11 The only retailer that wasn't contacted was CovaU, who at the time of the surveys did not have any offers on the AER's Energy Made Easy website or the Victorian Government's My Power Planner.

12 The list was agreed with the AEMC.

Table 2.1: Retailers Asked to Participate in Interview/Survey Process

Organisation	Small Customers Supplied		Jurisdictions in which the Retailer is Actively Supplying Residential or Small Business Customers (* used to identify those jurisdictions where a retailer is not supplying some rural or regional areas)														Vertical Interests	
			Electricity							Gas								
					Qld													
	Residential	Small Business	ACT	NSW	SE Qld	Rest Qld^	SA	Tas	Vic	ACT	NSW	Qld	SA	Tas	Vic	Electricity Generation in the NEM	Upstream gas interests in Eastern Aus.
ActewAGL	✓	✓	Host	*SE Region*						Host	*SE Region*						
AGL and Powerdirect	✓	✓		*			Host		Host		* Host	* Host	*		* Host		
Alinta, Neighbourhood, Harvey Norman Energy	✓	×											*		*		
Aurora	✓	✓						Host									
Blue NRG	×	✓															
Click Energy	✓	✓															
CovaU	✓	✓															
Diamond Energy	Primarily Residential																
M2 (Dodo and Commander)	✓	✓													*		
EnergyAustralia	✓	✓		Host					Host		*		*		* Host		
Ergon Energy	✓	✓				Host											
ERM	×	✓															
Go Energy	✓	✓															
Snowy Hydro (Lumo and Red Energy)	✓	✓									*				*		
Momentum	✓	✓													*		
Origin Energy	✓	✓		Host	Host				Host		* Host	Host	Host		* Host		
Pacific Hydro	✓	✓															
People Energy	✓	✓															
Powershop	✓	✓							*								
QEnergy	Primarily Small Business			*					*								
Sanctuary Energy	✓	×															
Simply Energy	✓	✓											*		*		
Tas Gas Retail	✓	✓															

Sources: Reponses to survey and interview questions, retailer websites and AER, State of the Energy Market, 2014, p123.

Notes: The term 'host retailers' is defined by the AER as follows:

- Host retailers in NSW, ACT and Tasmania are 'those responsible for offering 'regulated offer' contracts to customers in defined regions of each state'.
- Host retailers in Victoria, SA and Queensland are 'those responsible for offering 'standing offer' contracts to customers that establish a new connection in defined regions of each state'.

^ The bounds of this market have been determined having regard to the bounds of Energex' distribution network. In short, this market includes AGNL's Hervey Bay, Maryborough, Bundaberg, Gladstone and Rockhampton distribution networks and that part of Allgas Energy's distribution network that extends into Toowoomba and Oakey.

Table 2.2: Types of Survey Questions

Focus Area	Types of questions
Nature of the retailer's operations	Retailers were asked to identify: ▪ the jurisdictions in which they are actively[13] retailing; ▪ any geographic areas within a jurisdiction that they don't operate; ▪ the customer segments they market to (i.e. residential and/or small business); ▪ any other brands their parent company is using to retail gas and/or electricity; ▪ any upstream interests they have in electricity generation, electricity networks, upstream gas exploration/production and/or gas pipelines; ▪ whether they had wound back operations in any jurisdiction in the last year and if so, why; and ▪ whether they intended to enter, expand or exit from any jurisdiction in the next 1-2 years.
Ease with which entry, expansion and exit can occur	Survey participants were asked to: ▪ rate the ease with which entry, expansion and exit can occur in each jurisdiction for both gas and electricity on a scale from 1 to 5, where 1 means very difficult and 5 means very easy; ▪ identify any barriers to entry or expansion in each jurisdiction and barriers to entering or expanding across multiple jurisdictions; ▪ indicate whether the ease with which entry or expansion can occur has changed in the last year; ▪ identify any additional barriers to retailing in rural or regional areas; and ▪ provide their opinion on whether over the next 1-2 years they expected to see: – any change in the ease with which entry or expansion can occur; – new entry, exit or consolidation occurring; and – any change in the market share held by incumbents or first tier retailers in any jurisdiction. Survey participants were also asked to: ▪ rate the importance of economies of scale, economies of scope (e.g. offering dual fuel or multi-utility products) and vertical integration in each jurisdiction for both gas and electricity on a scale from 1 to 5, where 1 means irrelevant and 5 means critical; and ▪ explain whether the importance of any of these factors had changed in the last year.
Retailer rivalry	Survey participants were asked to: ▪ rate the degree of price, non-price and overall rivalry in each jurisdiction on a scale of 1 to 5, where 1 means non-existent and 5 means very high; ▪ identify whether there had been any change in the degree or form of rivalry in the last year; ▪ indicate whether rivalry in regional or rural areas had changed in the last year; and ▪ provide their opinion on whether they expected to see any change in the degree of rivalry in any jurisdiction in the next 1-2 years. Survey participants were also asked if the level of their marketing efforts had changed in the past year in any jurisdiction and, if so, why.

[13] The term 'actively retailing' is used in this report to refer to retailers that hold a retail licence or retailer authorisation to supply customers in a particular jurisdiction and that are currently supplying customers in that jurisdiction.

Focus Area	Types of questions
Prices	Survey participants were asked to: ▪ rate the importance of a set of factors in terms of their influence on pricing decisions (e.g. wholesale costs, transportation costs, competitors' prices, standing offers); and ▪ provide their opinion on why there is a significant difference between the upper and lower bounds of market offers and standing offers and to explain if this is what they would expect to observe in a competitive market.
Customer switching	Survey participants were asked to rate on a scale of 1 to 5, where 1 means non-existent and 5 means very high: ▪ the level of switching between retailers in each jurisdiction; and ▪ the level of switching between their market offers in each jurisdiction.
Overall level of competition	Survey participants were asked to: ▪ rate the overall level of competition in each jurisdiction on a scale of 1 to 5, where 1 means non-existent and 5 means very high; ▪ explain what distinguishes jurisdictions that are ascribed a high rating from those assigned a low rating; ▪ indicate whether there had been a substantive change in the degree of competition in any jurisdiction in the last year; and ▪ provide their opinion on whether they expected to see any change in the degree of competition in any jurisdiction in the next 1-2 years and, if so, what would prompt this change.
Future developments	Survey participants were asked what factors they think will have the greatest influence on retail competition in the next five years.

2.3 Sample of participating retailers

Table 2.1 identifies the retailers that were asked to participate in the survey. Of the 22 retailers contacted, 16 participated.

As noted in the introduction, individual survey responses are confidential, though it was agreed that aggregated information and non-attributed quotes would be published. We cannot therefore identify the participating retailers. However, we can state that the sample of participating retailers consisted of:

- 15 retailers that are currently supplying electricity to small customers in the ACT, NSW, SE Queensland, SA, Tasmania and/or Victoria (71% of retailers listed in Table 2.1); and
- 10 retailers that are currently supplying gas to small customers in the ACT, NSW, Queensland, SA, Tasmania and/or Victoria (91% of gas retailers listed in Table 2.1).

With one or two exceptions, the retailers that agreed to participate in this year's survey are the same as those that agreed to participate in the 2014 survey. Some other general characteristics of the sample of participating electricity and gas retailers are set out in Table 2.3. When compared with the information in Table 2.1, it is apparent that the characteristics of the sample are broadly consistent with those exhibited by the wider population of retailers. When coupled with the relatively high participation rates (91% for gas and 71% for electricity), the composition of the sample may be viewed as being broadly representative of the population of gas and electricity retailers supplying small customers in the NEM jurisdictions.

Table 2.3: Characteristics of the Sample of Electricity and Gas Retailers

Characteristics	Electricity retailers (15 retailers or 71% of active retailers)	Gas retailers (10 retailers or 91% of active retailers)
NEM coverage	The sample of retailers accounted for 69-100% of the electricity retailers in each jurisdiction.	The sample of retailers accounted for 88-100% of the gas retailers in each jurisdiction.
Rural/regional coverage	The majority of electricity retailers in the sample are offering to supply rural/regional areas.	Only a small sub-set of the sample of gas retailers is offering to supply rural and regional areas. This is consistent with the broader population of gas retailers (see Table 2.1) and appears to reflect, amongst other things, the size of these markets and contractual constraints on some regional pipelines.
No. of jurisdictions retailers operate in	With one or two exceptions, all the retailers in the sample are operating across two or more jurisdictions.	
Host vs 2nd tier retailers	The sample of electricity retailers consists of a representative mix of host and 2nd tier retailers	The sample of gas retailers consists of a representative mix of host and 2nd tier retailers.
New entrants	Three of the electricity retailers commenced operations in the last three years and another three have entered new jurisdictions in this period.	One of the gas retailers has commenced retailing gas in the last three years and another two have entered new jurisdictions in this period.
Types of small customers supplied	13 of the electricity retailers are supplying residential customers and 13 are supplying small business customers.	All of the gas retailers in this sample are supplying residential and small business customers.
Vertical interests	44% of the sample of electricity retailers has an interest in generation in the NEM and a small proportion of the sample has an interest in electricity distribution networks.	30% of the sample of gas retailers has interests in upstream gas production and/or exploration and a small proportion has an interest in gas distribution networks.
Retailing electricity and/or gas	60% of the electricity retailers are retailing gas.	90% of the gas retailers are also retailing electricity.

Finally, it is worth noting that while a reasonable proportion of the retailers operating in the market have participated in the survey, there are some jurisdictions that only have between one and four retailers operating in the market. To ensure that the survey results in these jurisdictions are not unduly biased by a single retailer's view, we have tested the validity of the survey results through follow-up discussions, extrinsic research and comparison with the 2014 survey results.

2.4 Terminology

To distinguish between the different types of retailers operating across the NEM, we have used the following terminology for the purposes of this report:

- The term 'host retailer' is used to refer to retailers that are obligated to:
  - offer a regulated offer contract in those jurisdictions where RPR is still applied; and
  - offer to supply gas or electricity to all customers in the local area in those jurisdictions where RPR is no longer applied.

The list of electricity host retailers includes ActewAGL, AGL, Aurora, EnergyAustralia, Ergon and Origin Energy, while the list of gas host retailers includes ActewAGL, AGL and Origin Energy and EnergyAustralia (see Table 2.1).

- The term ‘the big three’ is refers to AGL, Origin Energy and EnergyAustralia.
- The term ‘second tier’ is used to refer to all other retailers (e.g. Simply Energy, Lumo, Red Energy, Alinta, Blue NRG, Click Energy, Diamond Energy, M2 (Dodo Power and Gas and Commander Power and Gas), Go Energy, Momentum, Tas Gas Retail, Pacific Hydro, Powershop, People Energy and Sanctuary Energy).

3. Australian Capital Territory

In the 2014 survey, the ACT retail gas and electricity markets were described by most respondents as having only a limited degree of competition, with one retailer going so far as to say that the markets were "dead from a competition perspective".[14] The main impediments to competition and entry that were cited in the 2014 survey were:[15]

- RPR in the retail electricity market and the manner in which it is applied in the ACT;
- ActewAGL's dominance in the market;
- the relatively small size of the two markets; and
- the limited level of engagement by customers in these two markets.

Over a year has elapsed since the 2014 survey was carried out and in that period the most notable change in the two markets has been Origin Energy's decision to start retailing gas and electricity in the ACT. This entry has reportedly triggered a greater degree of rivalry amongst retailers, with higher discounts and other incentives being offered to small electricity and gas customers than were previously available. While rivalry has increased, the response from customers has reportedly been limited, which may explain why most respondents continue to describe the two markets as having only a minimal degree of competition.

The remainder of this chapter provides further detail on the views expressed by survey participants about the current state of competition in the ACT electricity and gas retail markets, the changes that have occurred in the last year and the outlook for the next two years.

3.1 Retail electricity market

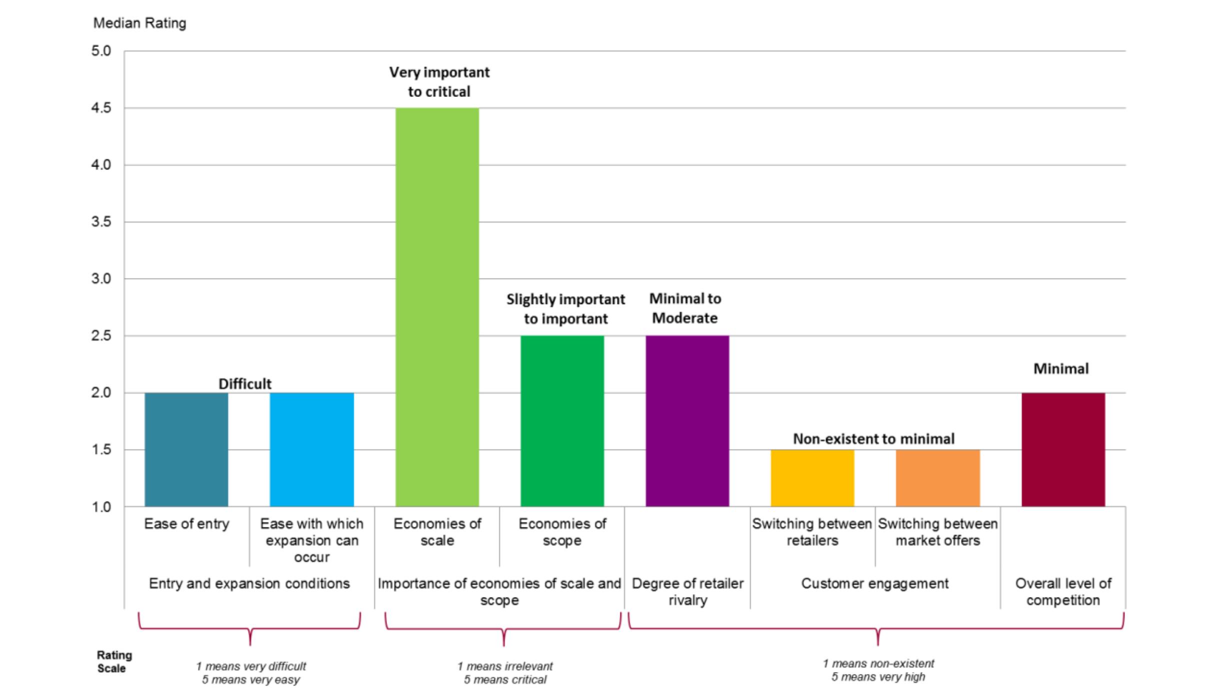
Table 3.1 provides a snapshot of the structural and regulatory features of the ACT retail electricity market and the median ratings that respondents ascribed to the ease with which entry and expansion can occur, the importance of economies of scale and scope, the degree of retailer rivalry, customer switching and the overall level of competition in this market. Further detail on the views survey participants expressed about each of these matters is provided below.

14 KLC and FSC, AEMC 2014 Retail Competition Review: Retailer Interviews, June 2014, pp. 13-15.

15 ibid.

Table 3.1: Snapshot of the ACT retail electricity market

Structural and Regulatory Features	
Number of active retailers	3 retailers supplying residential customers and 4 supplying small businesses. The host retailer, ActewAGL, is jointly owned by the ACT Government and AGL.
Changes in active retailers	Origin Energy has entered the market in the last year.
NECF in place?	Yes, since 1 July 2012.
RPR in place?	Yes – applied by Independent Competition and Regulatory Commission.[16]
Survey Results - Median Ratings	



3.1.1 Ease with which entry and expansion can occur

To elicit retailers' views on entry and expansion conditions in the ACT retail electricity market, survey participants were asked to rate the ease with which both entry and expansion can occur in the market and to identify any specific barriers to entry and/or expansion. Participants were also asked if they had observed any change in entry or expansion conditions over the last year, or if they expect to observe any change in the next one to two years.

Ratings and changes in entry and/or expansion conditions over the last year

Table 3.2 sets out the median ratings that respondents assigned to the ease with which entry and expansion can occur in the ACT retail electricity market. The median ratings in this table suggest that entry and expansion in this market are both perceived to be difficult.[17]

[16] The *Independent Competition and Regulatory Commission Act 1997 (ACT)* enables a referring authority to instruct the ICRC to investigate and determine the price of retail electricity. A price investigation is governed by Part 3 of that Act, and the relevant terms of reference, and it results in a 'price direction'. The ICRC currently only regulates the price for the supply of electricity to small customers in the ACT purchased from ActewAGL Retail, with the current price direction applying from 1 July 2014 to 30 June 2017.

Table 3.2: ACT Electricity Market – Ease of Entry and Expansion Rating

	Median Rating
Ease of entry	Difficult
Ease of expansion	

Note: Based on 12-13 responses.

When asked about changes in the last year, the unequivocal response from respondents was that there had been *no* change in either entry or expansion conditions.

Impediments to entry and/or expansion

In a similar manner to the 2014 survey,[18] respondents claimed that the following factors are impeding entry and expansion in the ACT retail electricity market:

- RPR and the way it is applied by the Independent Competition and Regulatory Commission (i.e. 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), which has reportedly resulted in retailers having little financial incentive to enter this market.[19]
- The dominance of the incumbent, ActewAGL, which most respondents claimed is reinforced by the degree of loyalty exhibited by ACT customers and ActewAGL's use of bundling (e.g. bundling gas and electricity with phone and/or internet services). It is worth noting that following the completion of the survey, ActewAGL has reportedly ceased offering a bundled energy and phone/internet service to new customers.
- The relatively small size of the market.

Other general NEM-wide impediments that respondents claimed may affect entry and/or expansion in this market were:[20]

- The ability to access competitively priced hedging instruments.
- The prudential arrangements and credit support required by AEMO, generators, financial intermediaries, the ASX and electricity networks, which smaller retailers noted can "tie up working capital" and limit their ability to expand.
- Environmental policies and/or energy efficiency schemes (including 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

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17 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.

18 KLC and FSC, AEMC 2014 Retail Competition Review: Retailer Interviews, June 2014, p. 13.

19 In the 2014 survey, 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.

ibid, p. 34.

20 Another impediment that was cited by one respondent was the complexities associated with AEMO's market system certification and registration.

small number of respondents, with one respondent informing us 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.

- Political and/or regulatory risk although no specific examples of this risk were identified in the survey responses.

Outlook for the next one to two years

Looking forward over the next one to two years, respondents stated that they do not expect to see any change in the ease with which entry or expansion can occur in this market. Three second tier retailers indicated that they may consider entry into this market, although they had no firm plans to do so at this stage. When asked why they were contemplating entry given the impediments outlined above, one respondent noted that it made sense given the proximity of the ACT market to the larger NSW market. Another retailer noted that while the market has its own set of challenges, the application of NECF in the ACT made it an easier market to enter.

As to whether any retailers are likely to expand over the next one to two years, one respondent stated that it wouldn't contemplate expansion until RPR 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.[21]

3.1.2 Importance of economies of scale, scope and vertical integration

In some markets, a retailer's ability to compete effectively with its rivals will depend on whether it is able to access economies of scale, economies of scope or to minimise its exposure to input cost or supply risks by being vertically integrated. To better understand the significance of these factors in the ACT retail electricity market, respondents were asked to rate the importance of each factor in terms of being able to effectively compete in this market on a scale of one to five, where one is irrelevant, three is important and five is critical.

The median ratings that respondents attributed to each of these factors suggest that:

- economies of scale are of considerable importance in this market;
- economies of scope are somewhat important in this market; and
- having an interest in generation is not required to effectively compete in this market.

The reason why economies of scale are considered so important in this market was not articulated in the survey responses. However, in the 2014 survey respondents noted that jurisdictional specific arrangements (e.g. billing requirements and different network tariff

[21] This comment has been validated to some extent by the larger retailers.

structures), coupled with the very small size of this market, can mean that economies of scale are far more important in the ACT than in some of the larger jurisdictions. [22]

Going forward, one retailer noted the potential for economies of scale to become more important in the ACT and in other jurisdictions because of the pressure on retailers to offer the same type of services as alternative energy sellers (e.g. solar panels and storage) and the proposed development of competition in metering provision, which may result in retailers rolling out smart meters.

3.1.3 Retailer rivalry

To help inform the AEMC's assessment of the degree of rivalry currently prevailing in the ACT retail electricity market, survey participants were asked to rate the degree of price and non-price rivalry and the overall degree of rivalry. Participants were also asked whether they had observed any change in the degree of rivalry in the last year and if they expect to see any further changes in the next one to two years.

Table 3.3 sets out the ratings that respondents assigned to each form of rivalry in the ACT.

Table 3.3: ACT Electricity Market Ratings – Degree of Rivalry

	Median Rating
Price rivalry	Between Minimal and Moderate
Non-price rivalry	
Overall degree of rivalry	

Note: Based on 4 responses.

The median ratings set out in this table suggest that the degree of rivalry in the ACT retail electricity market is perceived to be minimal to moderate, which is slightly higher than the 2014 rating. The slightly higher rating in this year's survey is consistent with the observations that respondents made about the increase in both:

- the level of discounts and other inducements offered to customers in the last year; and
- the marketing that some retailers have engaged in over this period.

Elaborating on the changes that have occurred in the last year, one respondent noted that while price rivalry has increased, it has been "evident" from the limited degree of switching that has occurred that "non-price factors are still important to ACT customers". Some of the non-price factors that respondents identified as being important to ACT customers include customer service, the retailer's involvement in the community and having a local presence.

Looking forward over the next one to years, respondents did not expect to see any real change in the degree of rivalry, although one respondent noted the potential for a slight reduction in ActewAGL's market share to occur in this period. Another respondent, on the

[22] KLC and FSC, AEMC 2014 Retail Competition Review: Retailer Interviews, June 2014, p. 40.

other hand, noted the potential for retailers, other than ActewAGL, to "only ever really compete at the fringe of the market".

3.1.4 Customer switching

While specific metrics exist to measure switching between electricity retailers, there is no publicly available information on switching between a retailer's own offers. Survey participants were therefore asked to rate the level of switching between retailers and their own offers in the ACT.

Table 3.4 sets out the ratings that respondents assigned to the two forms of switching.

Table 3.4: ACT Electricity Market Ratings – Level of Switching

	Median Rating
Between retailers	Between Non-existent and Minimal
Between a retailer's own offers	

Note: Based on 4 responses.

The median ratings set out in this table suggest that switching of both forms is perceived to be limited in the ACT retail electricity market.

In follow-up discussions, respondents claimed that ACT customers are much 'stickier'[23] than their counterparts in other jurisdictions and as a consequence the demand side of the market is relatively "inactive". The 'stickiness' of customers was attributed by respondents to:

- The high degree of brand loyalty exhibited by small customers in the ACT, which some respondents credited to:
  - ActewAGL's involvement in the community and the reportedly high levels of customer satisfaction with the services provided by ActewAGL;
  - the inability of some customers to distinguish between ActewAGL as the distribution network owner and ActewAGL the retailer, with some customers reportedly believing they must purchase gas and electricity from ActewAGL because they reside in its distribution network; and
  - the ACT Government's ownership interest in ActewAGL.
- The way in which ActewAGL bundles its gas and electricity products with phone and/or internet services. Some respondents noted that ActewAGL's bundling practices may mean that customers have:
  - less visibility over the pricing of individual products, which can make comparisons between products more difficult because customers can't see where the discounts sit or determine if they will be better off purchasing gas and/or electricity from another retailer; and

23 The term 'stickiness' is used in this context to refer to customers that either don't respond, or are very slow to respond, to higher prices by switching to lower priced contracts or other retailers.

  - a disincentive to switch to another gas or electricity retailer, because if they do so they may not be able to obtain the same discount for phone and internet services.

Early termination fees on the bundled products were also cited as a potential deterrent to switching. As noted earlier, the survey was completed before ActewAGL decided to cease offering a bundled energy and phone/internet service to new customers, so these issues may be less relevant going forward.

One respondent also claimed that the process for switching customers takes longer in the ACT than in it does in other jurisdictions and noted that this can frustrate customers.

3.1.5 Overall level of competition and outlook for the next two years

The final set of survey questions were designed to elicit retailers' views on the current level of competition in the ACT retail electricity market and the outlook for competition in this market over the next one to two years.

The responses revealed that while rivalry has increased in the last year, the market is still viewed by most retailers as having only minimal competition because:

- There are only 3 retailers competing to supply residential customers and 4 to supply small businesses and the degree of rivalry is perceived to be minimal to moderate.
- Entry and expansion in this market are considered difficult because RPR is still in place and there are a number of other perceived impediments, including ActewAGL's dominance in the market, the small size of the market and other general NEM-wide impediments.
- The level of consumer engagement is low.

Elaborating further on this, one respondent claimed that competition in the market is "not effective" and that the key "challenges stem from ActewAGL's incumbency and an inactive customer base". Notwithstanding the limited engagement of customers in this market, customer satisfaction in this market is reportedly high.

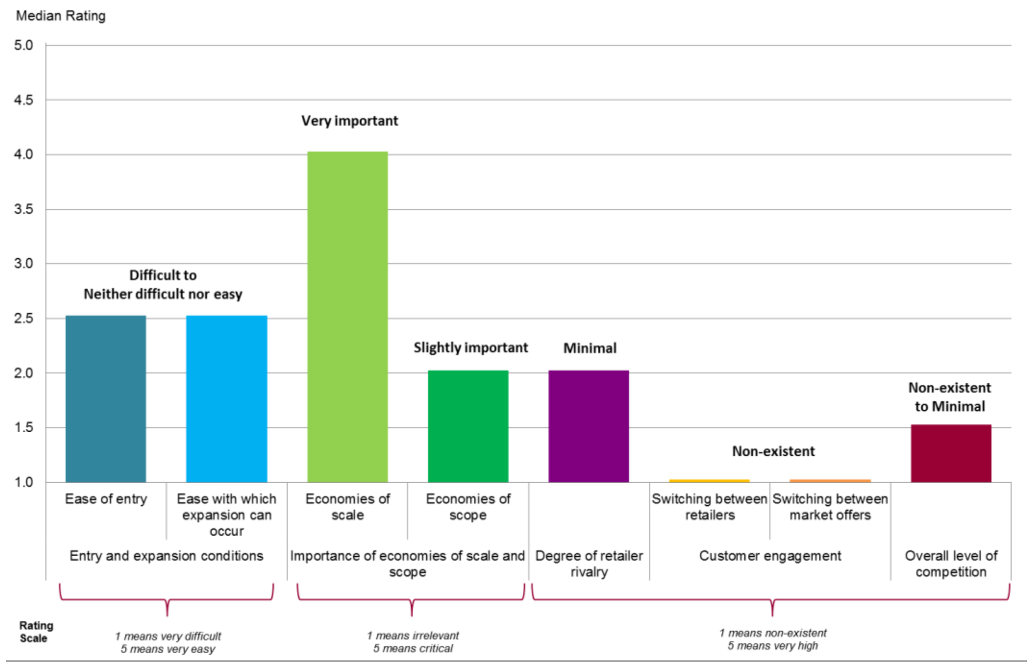
Looking forward, respondents stated that they do not expect to observe any change in the level of competition in this market over the next one to two years.

3.2 Retail gas market

Table 3.5 provides a snapshot of the structural and regulatory features of the ACT retail gas market and the median ratings that respondents ascribed to the ease with which entry and expansion can occur, the importance of economies of scale and scope, the degree of retailer rivalry, customer switching and the overall level of competition in this market.

Table 3.5: Snapshot of the ACT retail gas market

Structural and Regulatory Features	
Gas consumption	Gas penetration rate: 74.6%[24] Average household usage: 46.3 GJ[25]
Number of active retailers	3 retailers
Changes in active retailers	Origin Energy has entered the market in the last year.
NECF in place?	Yes, since 1 July 2012
RPR in place?	No
Transport & Balancing Models	Contract carriage transportation model. No formal balancing market.
Survey Results - Median Ratings	



Further detail on the views expressed by respondents about conditions in the ACT retail gas market is provided below.

3.2.1 Ease with which entry and expansion can occur

Like their electricity counterparts, gas survey participants were asked to rate the ease with which entry and expansion can occur in the ACT retail gas market and to identify any specific barriers to entry and/or expansion in this market. They were also asked if they had

24 Bureau of Resources and Energy Economics (BREE), 2013 Energy Consumption by Industry and Fuel Type, Table F (2011-12) and ABS, 4602.0.55.001 Environmental Issues: Energy Use and Conservation, March 2011, Table 6.

25 NIEIR, Natural gas projections for ActewAGL Distribution, p. 30.

observed any change in entry or expansion conditions over the last year, or if they expect to observe any change in the next one to two years.

Ratings and changes in entry and/or expansion conditions over the last year

Table 3.6 sets out the median ratings that respondents assigned to the ease with which entry and expansion can occur in the ACT retail gas market. In short, these ratings suggest that entry and expansion in this market are both perceived to fall somewhere between difficult and neither difficult nor easy. [26]

Table 3.6: ACT Gas Market Ratings – Ease of Entry and Expansion

	Median Rating
Ease of entry	Between Difficult and Neither difficult nor easy
Ease of expansion	

Note: Based on 4 responses.

Respondents claimed not to have observed any change in the ease with which entry or expansion can occur in this market over the last year.

Impediments to entry and/or expansion

In a similar manner to the electricity survey responses, the two factors that respondents claimed can impede entry and/or expansion in this market are ActewAGL's dominance in the market and the relatively small size of the market. Two other more general impediments that respondents claimed can impede entry or expansion in any jurisdiction are:

- access to, and/or the price of, gas, particularly given the tightening conditions in the wholesale gas market; and
- access to, and/or the price of, transmission capacity, which retailers must obtain to be able to supply gas to the ACT.

Outlook for the next one to two years

Looking forward over the next one to two years, most respondents do not expect to observe any changes in entry or expansion conditions, but a small number have noted the potential for tightening conditions in the wholesale gas market to affect this market.

As to whether any new entry is likely to occur in this period, one second tier retailer indicated it may consider entry if it enters the ACT electricity retail market. This retailer made it clear though that it has no firm plans to enter at this stage.

[26] 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.

3.2.2 Importance of economies of scale, scope and vertical integration

Participants were also asked in the survey how important economies of scale, economies of scope and interests in upstream gas production are in terms of their ability to compete effectively in this market.[27] The responses to these questions suggest that economies of scale are very important, while economies of scope and having an interest in upstream gas production are considered to be of slightly importance only.

3.2.3 Retailer rivalry

To get some insight into the degree of rivalry currently prevailing in the ACT retail gas market, survey participants were asked to rate the degree of price and non-price rivalry and the overall degree of rivalry in the market. They were also asked if they had observed any changes in the degree of rivalry in the last year and if they expected to see any further changes in the next one to two years.

Table 3.7 sets out the ratings that respondents assigned to each form of rivalry. The median ratings set out in this table suggest that there is only a minimal degree of rivalry (price and non-price rivalry) in the ACT retail gas market. This rating is slightly lower than the rating emerging from the electricity survey.

Table 3.7: ACT Gas Market Ratings – Degree of Rivalry

	Median Rating
Price rivalry	Minimal
Non-price rivalry	
Overall degree of rivalry	

Note: Based on 4 responses.

As to whether there has been any change in the degree of rivalry over the last year, two respondents asserted that there has been no change, while another identified increased rivalry since Origin's entry and pointed to the higher discounts and other inducements now available to gas customers in the ACT as evidence of this. One respondent also noted that the limited level of switching that had occurred in response to the rivalry, suggested that "non-price factors are still important to ACT customers".

As with electricity, respondents did not expect to observe any change in the degree of rivalry in the ACT gas retail market over the next one to two years.

3.2.4 Customer switching

Like the electricity survey participants, participants in the gas survey were asked to rate the level of switching between gas retailers and their own offers. Table 3.8 sets out the ratings that respondents assigned to the two forms of switching.

27 Respondents were asked to rate the importance of each factor in terms of being able to effectively compete in the market on a scale of one to five, where one is irrelevant, three is important and five is critical.

Table 3.8: ACT Gas Market Ratings – Level of Switching

	Median Rating
Between retailers	Non-existent
Between a retailer's own offers	

Note: Based on 4 responses.

The median ratings set out in this table suggest that switching of both forms is perceived by retailers to be non-existent, which is in line with the ratings from the 2014 survey[28] and marginally lower than the electricity ratings.

In follow-up discussions, respondents noted that because most gas switching occurs as a result of the customer switching electricity retailers, small gas customers in the ACT tend to exhibit the same, if not a greater, degree[29] of 'stickiness' as small electricity customers (see section 3.1.4).

3.2.5 Overall level of competition and outlook for the next two years

Finally, gas survey participants were asked to provide their opinions on:

- the current level of competition in the ACT retail gas market; and
- the outlook for competition in this market over the next one to two years.

The responses revealed that most retailers still view the ACT retail gas market as having only a very limited degree of competition because:

- There are just 3 retailers competing to supply small customers and the degree of rivalry in this market is perceived to be minimal.
- Entry and expansion in this market are considered difficult by most respondents because of ActewAGL's dominance in the market, the small size of the market and other general factors such as tightening wholesale gas market conditions and potential constraints on the availability of transmission services.
- Customer engagement is low, but customer satisfaction is reportedly high.

This view is largely unchanged from the 2014 survey[30] and according to respondents is not expected to improve in the next one to two years, particularly given the expectation that conditions in the wholesale gas market will continue to tighten.

When compared with the findings from the electricity survey, it would appear that respondents view the level of competition in this market slightly more pessimistically than they do in the ACT retail electricity market. The reason for this was not articulated in the survey responses, but it could just reflect the fact there are less competitors in the retail gas market than the retail electricity market.

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28 KLC and FSC, AEMC 2014 Retail Competition Review: Retailer Interviews, June 2014, p. 15.

29 In the 2014 survey a number of respondents noted that the level of customer interest and engagement by small gas customers has historically been much lower than it has in electricity, which may explain why some respondents think that small gas customers are more 'sticky' than electricity customers.

30 KLC and FSC, AEMC 2014 Retail Competition Review: Retailer Interviews, June 2014, p. 15.

4. New South Wales

Competition in the NSW retail gas and electricity markets was described by most respondents in the 2014 survey as moderate, with the main impediment to entry and competition cited in this survey being RPR.[31] At the time of the 2014 survey, respondents were broadly optimistic that RPR would be removed in electricity and that once this occurred, competition would improve. Some even went so far as to suggest that the NSW retail electricity market could become more competitive than the Victorian retail electricity market if customers became more engaged and new entry occurred. The only significant matter that the 2014 survey participants informed us may affect this outlook was AGL's acquisition of Macquarie Generation, but respondents were divided on this issue.[32]

In contrast to electricity, respondents in the 2014 survey did not expect any real improvements in competition to occur in the small customer segment of the NSW retail gas market, given the tightening demand and supply conditions in the wholesale gas market. Some respondents even speculated that competition in this market could stagnate if conditions in the wholesale gas market continued to tighten.[33]

One year on from the 2014 survey, the NSW gas and electricity markets are now viewed by most respondents as having a high degree of competition. Respondents in this year's survey attribute improved competition in the retail electricity market to the removal of RPR on 1 July 2014, which prompted a number of second tier retailers to enter the market and a greater degree of price rivalry. There are now as many active retailers in this market as the Victorian retail electricity market, although there is no sign yet that it has overtaken Victoria as the most competitive market, as was speculated by retailers in the 2014 survey.

The reason for the improvement in competition in the retail gas market is less clear given that RPR is still in place, but a number of respondents claimed that the removal of RPR in electricity has had a positive impact on the retail gas market because gas is predominantly sold on a dual fuel basis. With one new retailer having recently entered this market and another in the process of entering, there is no sign competition in the NSW retail gas market has stagnated. Concerns continue to be expressed though by some respondents about the effect that tightening conditions in the wholesale gas market and rising wholesale gas prices may have on competition and gas use going forward.

The remainder of this chapter provides further detail on the views expressed by survey participants about the state of competition in the NSW electricity and gas retail markets, the changes that have occurred in the last year and the outlook for the next two years.

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31 A number of other potential impediments were also cited in this survey. For example, in electricity respondents noted access to hedging products from the NSW Government owned generators and brand loyalty to the host retailers may impede entry and/or expansion. In gas, respondents noted access to competitively priced gas and transportation capacity, the design of the STTM and contract carriage model and small market size may impede entry and/or expansion. KLC and FSC, AEMC 2014 Retail Competition Review: Retailer Interviews, June 2014, pp. 16-18.

32 KLC and FSC, AEMC 2014 Retail Competition Review: Retailer Interviews, June 2014, pp. 16-17.

33 ibid, p. 18.

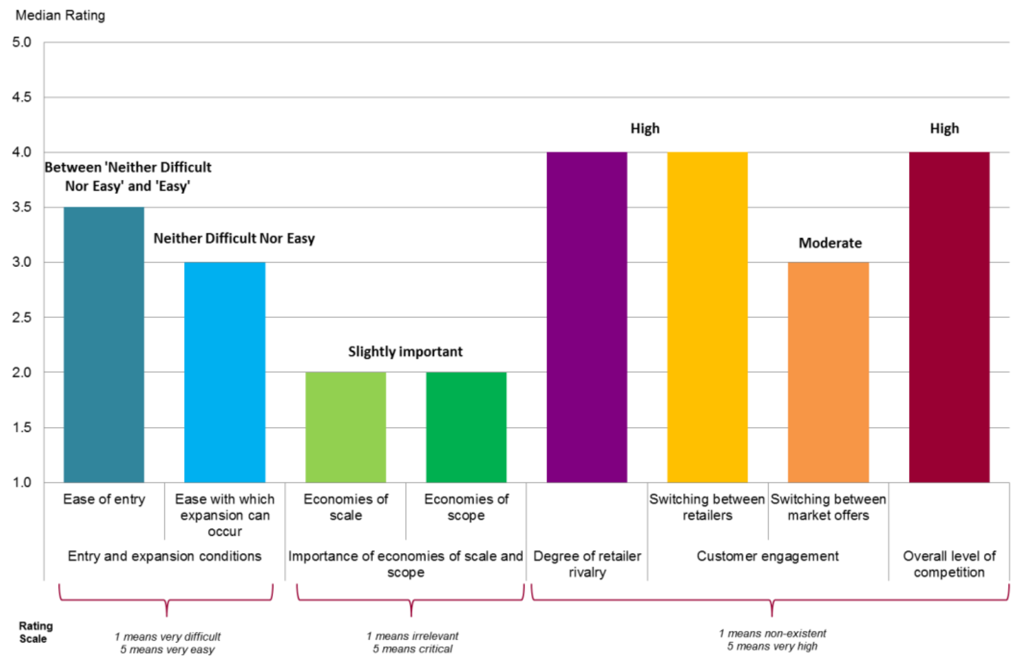
4.1 Retail electricity market

Table 4.1 provides a snapshot of the structural and regulatory features of the NSW retail electricity market and the median ratings that respondents ascribed to the ease with which entry and expansion can occur, the importance of economies of scale and scope, the degree of retailer rivalry, customer switching and the overall level of competition in this market.

Table 4.1: Snapshot of NSW Retail Electricity Market

Structural and Regulatory Features	
Number of active retailers	17 active retailers. [34]
Changes in active retailers	In the last year the following has occurred: ▪ CovaU, Powershop and Blue NRG have entered the market. ▪ Lumo and Red Energy are now both owned by Snowy Hydro.
NECF in place?	Yes, since 1 July 2013
RPR in place?	RPR removed on 1 July 2014, but there is a Transitional Tariff (TT) arrangement, which provides for the following: ▪ Residential customers on a regulated contract on 30 June 2014 received a 1.5% reduction on charges for 2014-15. In 2015-16 the average price increase for these customers will be capped by CPI. On 1 July 2016, customers that are still on the TT will be moved to the retailer's default standing offer. ▪ Small business customers on a regulated contract on 30 June 2014 received a 1.8% discount on charges for 2014-15. On 1 July 2015, customers that have not taken up a market contract will move onto the retailer's default standing offer. IPART is required to report annually to the NSW Minister for Resources and Energy on the performance and competitiveness of the retail electricity market in NSW.

Survey Results - Median Ratings



[34] This count combines M2's two brands (Dodo Power and Gas and Commander Power and Gas), AGL's two brands (AGL and Powerdirect) and Snowy Hydro's two brands (Lumo and Red Energy).

Further detail on the views expressed by survey participants about conditions in the NSW electricity retail market is provided below.

4.1.1 Ease with which entry and expansion can occur

To elicit retailers' views on entry and expansion conditions in the NSW retail electricity market, survey participants were asked to rate the ease with which entry and expansion can occur in the market and to identify any specific barriers to entry and/or expansion. Participants were also asked if they had observed any change in entry or expansion conditions over the last year, or if they expect to observe any change in the next one to two years.

Ratings and changes in entry and/or expansion conditions over the last year

Table 4.2 sets out the median ratings that respondents assigned to the ease with which entry and expansion can occur in the NSW retail electricity market. The median ratings in this table suggest that entry into this market is relatively easy, while expansion is neither difficult nor easy.[35] A closer examination of these ratings revealed that, unlike some other jurisdictions where there is a clear delineation between the views held by larger established retailers and smaller second tier retailers, 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.

Table 4.2: NSW Electricity Market Ratings – Ease of Entry and Expansion

	Median Rating
Ease of entry	Between 'Neither difficult nor easy' and 'Easy'
Ease of expansion	Neither difficult nor easy

Note: Based on 13-14 responses.

When asked about changes in entry and/or expansion conditions over the last year, the following observations were made:

- The majority of respondents considered that the most significant change has been the NSW Government's decision to remove RPR. According to respondents, this has reduced the barriers to entry and expansion in this market. Elaborating on this further, one respondent stated that RPR had made it very difficult to enter the NSW market, so it limited its operations in NSW to certain distribution networks and certain customer classes. Following the removal of RPR, 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 referred to by a number of smaller retailers, but mixed views were expressed about its effect on entry and expansion conditions. For example:
  - One respondent stated that, following AGL's acquisition, better generator trading arrangements had been available in NSW than were available when the generation

35 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.

assets were owned by the NSW Government, although it acknowledged that this may be a function of the behavioural undertaking that AGL is currently subject to.[36]

- Another respondent claimed the acquisition has increased the barriers to expansion because it has limited the hedging options available to non-vertically integrated retailers.

Impediments to entry and/or expansion

Conflicting views were expressed by respondents 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 potential impediments.

One perceived impediment that attracted the attention of some smaller retailers was the ability to access competitively priced hedging products. While acknowledging that electricity wholesale market risk in NSW is relatively low[37] (i.e. because there are no interconnector constraints) and that retailers can readily hedge their risk in NSW by using interregional hedges, financial intermediaries and/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. In follow-up discussions it became clear that these concerns do not relate only to NSW. Rather, they relate to the whole of the NEM.

Other NEM-wide impediments that smaller retailers claimed may affect entry and/or expansion in this market include:[38]

- The prudential arrangements and credit support required by AEMO, generators, financial intermediaries, the ASX and electricity networks, which smaller retailers noted can “tie up working capital” and limit their ability to expand.
- Environmental policies and energy efficiency schemes.
- Political and regulatory risk. A number of respondents suggested that the results of the NSW election could affect entry and expansion conditions, particularly if there was a change in government and RPR was reinstated.

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[36] 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.

See AGL, Macquarie Generation Acquisition Presentation, 20 August 2014.

[37] As one respondent noted, “good interconnector supply from Queensland and Victoria reduces wholesale risk in NSW”. Another respondent also 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.

[38] Another impediment that was cited by one respondent was the complexities associated with AEMO’s market system certification and registration.

Concerns were also raised about the concession scheme in NSW, with one respondent describing the scheme as “archaic and unworkable”, because it doesn’t reflect the way in which some retailers are now operating (i.e. 100% paperless billing and communications, and electronic payment methods). A number of other respondents noted that jurisdictional specific concession schemes are adding to the costs of operating across multiple jurisdictions and steps should be taken to try and harmonise concession schemes across the NEM.

While respondents in this year’s survey have identified more impediments than they did in the 2014 survey,[39] the only notable change in the last year has been AGL’s acquisition of Macquarie Generation. However, as highlighted in preceding section, respondents are divided on whether this has made entry and expansion more difficult or easier in the last year.

At a rural and regional level, some respondents informed us that entry and expansion in these areas can be impeded by:

- the small size and geographic dispersion of customers in these areas, which can result in higher customer acquisition costs;
- loss factors in rural and regional areas, particularly in the far west of NSW (e.g. Broken Hill) 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; and
- higher network charges, which 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 the next one to two years

Looking forward over the next one to two years, respondents expect the removal of RPR to continue to encourage entry and expansion in this market, although concerns were raised by some respondents about the potential for a change in government in NSW to result in its reintroduction.[40]

As to whether new entry or expansion is likely to occur, 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.

[39] KLC and FSC, AEMC 2014 Retail Competition Review: Retailer Interviews, June 2014, pp. 16-17.

[40] This was seen as a real risk because the removal of RPR was given effect through a regulation.

4.1.2 Importance of economies of scale, scope and vertical integration

In some markets, a retailer's ability to compete effectively with its rivals will depend on whether it is able to access economies of scale, economies of scope or minimise its exposure to input cost or supply risks by being vertically integrated. Respondents were therefore asked to rate the importance of each factor in terms of being able to effectively compete in the market on a scale of one to five, where one is irrelevant, three is important and five is critical.

The median ratings that respondents attributed to each of these factors suggest that:

- economies of scale and economies of scope are of slight importance in this market; and
- having an interest in generation is not required to effectively compete in this market.

4.1.3 Retailer rivalry

To help inform the AEMC's assessment of the degree of rivalry currently prevailing in the NSW retail electricity market, survey participants were asked to rate the degree of price and non-price rivalry and the overall degree of rivalry. Participants were also asked whether they had observed any change in the degree of rivalry in the last year and if they expect to see any further changes in the next one to two years.

Table 4.3 sets out the ratings that respondents assigned to each form of rivalry.

Table 4.3: NSW Electricity Market Ratings – Degree of Rivalry

	Median Rating
Price rivalry	High
Non-price rivalry	
Overall degree of rivalry	

Note: Based on 11-12 responses.

The median ratings in this case suggest that the degree of rivalry in this market is perceived to be high. This rating is higher than the median ratings emerging from the 2014 survey.[41] Respondents attributed this increase to the NSW Government's decision to remove RPR on 1 July 2014, which prompted more second tier retailers to enter the market. Some of the indicators of increased rivalry that respondents cited were:

- an increase in the level of discounts and other inducements offered to small electricity customers (e.g. Origin Energy's "first gas bill free" offer to dual fuel customers);[42] and
- a number of small and large retailers increased their marketing efforts in NSW.

In rural and regional areas, the degree of rivalry reportedly has not changed in the last year.

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41 KLC and FSC, AEMC 2014 Retail Competition Review: Retailer Interviews, June 2014, p. 16.

42 As one retailer pointed out, these higher discounts may not necessarily translate into a better deal for customers because:

- at the same time as increasing the discount, a retailer may increase the underlying usage and/or supply charges, which means that customers may be no better off; and
- the discounts offered by most retailers are now conditional on customers paying their bills on time, so the higher discounts may not be available to all customers.

Looking forward over the next one to two years, two respondents expected rivalry in this market to remain “high”. Another four respondents noted the potential for the host retailers’ market shares to decline over this period. Other respondents were silent on the outlook for rivalry in this market.

4.1.4 Customer switching

While specific metrics exist to measure switching between electricity retailers, there is no publicly available information on switching between a retailer’s own offers. Survey participants were therefore asked to rate the level of switching between retailers and their own offers in NSW. These ratings are set out in Table 4.4.

Table 4.4: NSW Electricity Market Ratings – Level of Switching

	Median Rating
Between retailers	High
Between a retailer’s own offers	Moderate

Note: Based on 9-12 responses.

The median ratings in this case suggest that switching between retailers is perceived to be high, while switching between a retailer’s offers is perceived as less prevalent. As in other jurisdictions, a number of second tier retailers rated switching between their own offers as non-existent to minimal because they only have a single offer, while larger retailers that have a number of different offers rated such switching as moderate to high.

4.1.5 Overall level of competition and outlook for the next two years

The final set of survey questions were designed to elicit retailers’ views on the current level of competition in the NSW retail electricity market and the outlook for competition in this market over the next one to two years.

The responses revealed that retailers believe there is a high degree of competition in this market at present, which is an improvement on the results of the 2014 survey.[43] Some of the indicators that respondents pointed to in support of this view are set out below:

- There are now 17 active retailers operating in the market (equivalent to the number of retailers operating in the Victorian market) and the degree of rivalry is perceived to be high.
- Entry and expansion conditions have improved following the removal of RPR as highlighted by the entry and expansion of a number of second tier retailers, although other general NEM-wide impediments (e.g. access to competitively priced hedging instruments, prudential and credit support arrangement, energy efficiency schemes, concession schemes and consumer protection framework) continue to affect entry and expansion in this market.
- Customer switching is perceived to be relatively high.

[43] KLC and FSC, AEMC 2014 Retail Competition Review: Retailer Interviews, June 2014, p. 16.

Looking forward over the next one to two years, a number of respondents expected the market to become even more competitive. One respondent also expected to see more innovative services start to be offered if smart meters are rolled out.

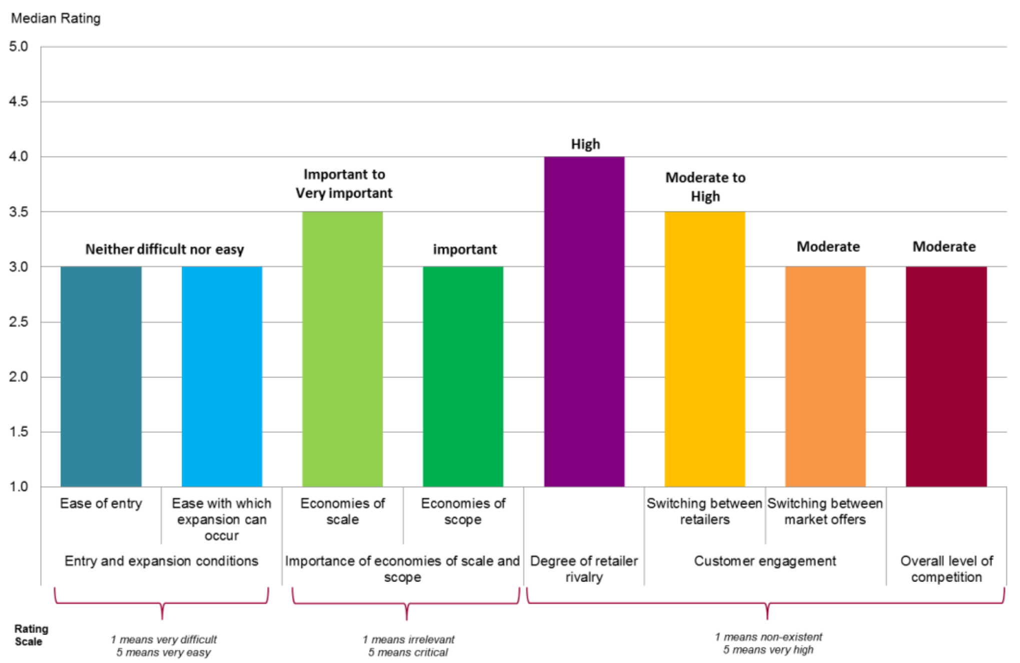
4.2 Retail gas market

Table 4.5 provides a snapshot of the structural and regulatory features of the NSW retail gas market and the median ratings that respondents ascribed to the ease with which entry and expansion can occur, the importance of economies of scale and scope, the degree of retailer rivalry, customer switching and the overall level of competition in this market.

Table 4.5: Snapshot of NSW Retail Gas Market

Structural and Regulatory Features	
Gas consumption[44]	Penetration rate: 48% in Sydney, 25% in regional areas. Total residential demand 2012-13: 26 PJ Average household usage: 24 GJ p.a.
Number of active retailers	5 active retailers in Sydney. ActewAGL operates in the SE region only.
Changes in active retailers	CovaU has entered this market in the last year.
NECF in place?	Yes, since 1 July 2013
RPR in place?	Yes (the decision to remove RPR in electricity did **not** apply to gas), although gas is subject to a lighter handed form of RPR than what has been applied in other jurisdictions.
Transport & Balancing Models	Contract carriage transportation model. Short Term Trading Market (STTM) in Sydney.

Survey Results - Median Ratings



Further detail on the views expressed by survey participants about conditions in the NSW retail gas market is provided below.

44 Bureau of Resources and Energy Economics (BREE), 2013 Energy Consumption by Industry and Fuel Type, Table F (2011-12) and ABS, 4602.0.55.001 Environmental Issues: Energy Use and Conservation, March 2011, Table 6.

4.2.1 Ease with which entry and expansion can occur

Like their electricity counterparts, gas survey participants were asked to rate the ease with which entry and expansion can occur in the NSW retail gas market and to identify any specific barriers to entry and/or expansion in this market. Participants were also asked if they had observed any change in entry or expansion conditions over the last year, or if they expect to observe any change in the next one to two years.

Ratings and changes in entry and/or expansion conditions over the last year

Table 4.6 sets out the median ratings that respondents assigned to the ease with which entry and expansion can occur in the NSW retail gas market. In short, these ratings suggest that both entry into and expansion within this market are neither difficult nor easy.[45] A closer review of the ratings revealed that two of the larger established retailers rated entry into this market as very easy, while other respondents rated it as either difficult, or neither difficult nor easy.

Table 4.6: NSW Gas Market Ratings – Ease of Entry and Expansion

	Median Rating
Ease of entry	Neither difficult nor easy
Ease of expansion	

Note: Based on 6-7 responses.

When asked about changes in entry and/or expansion conditions over the last year, most respondents observed no changes, but a small number noted 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/or expansion

Respondents identified a range of factors that may impede entry and/or expansion in the NSW gas retail market, including:

- The continued application of RPR.
- Constraints on access to, and/or the price of, gas given the tightening demand and supply conditions in the wholesale gas market.
- Constraints on access to, and/or the price of, capacity on transmission pipelines.[46]
- The following features of the Sydney STTM:[47]
  - the complexity of the market;

[45] 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.

[46] The survey responses did not identify any specific concerns about access to particular pipelines.

[47] The same concerns were also raised about the Adelaide and Brisbane STTMs.

  - the inability to effectively hedge against all risks in the market;
  - AEMO's prudential requirements; and
  - AEMO's registration, accreditation and certification process;
- The Business to Business (B2B) procedures currently in place on distribution networks in NSW, which differ from the procedures in other jurisdictions and have reportedly added to the cost of entry because retailers have required bespoke systems for NSW. These procedures are currently in the process of being harmonised, but the harmonisation is not expected to be completed until April 2016.
- The relatively small size of the market compared to the Victorian retail gas market, which one respondent noted may discourage entry.

Of the factors listed above, respondents viewed the continued application of RPR and constraints in the wholesale gas market as the most significant impediments to entry and expansion in this market. Political 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 factors listed above are largely the same as those identified in the 2014 survey.[48] 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.

At a rural and regional level, a number of respondents informed us that entry and/or expansion in areas outside Sydney can be impeded by the following factors:

- There is limited geographic coverage of pipeline networks in rural and regional areas.
- 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.
- 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 is unlikely to be justified.
- There are higher customer acquisition costs due to the small size of the customer base in these areas.
- The lack of harmonisation of B2B arrangements on regional distribution networks.

One retailer also noted that FRC has not been introduced in all areas of NSW (i.e. Shoalhaven).

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48 KLC and FSC, AEMC 2014 Retail Competition Review: Retailer Interviews, June 2014, p. 18.

Outlook for the next one to two years

Looking forward over the next one to two years, a number of respondents informed us that entry and expansion conditions will improve once the B2B harmonisation project is complete and if the NSW Government decides to remove RPR. Other respondents, on the other hand, 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.

In relation to new entry and expansion, the survey responses indicate that:

- one retailer is in the process of entering the NSW retail gas market; and
- one retailer will consider entry if it enters the NSW electricity retail market;
- one existing retailer is in the process of entering regional areas, while another retailer is considering entry into new regional markets in the next one to two years 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 RPR is removed, while others referred to the possibility of further consolidation occurring amongst second tier retailers in this market and across the NEM. In follow-up discussions, respondents were asked if entry was likely to occur even if RPR is retained and a small number said it was possible that dual fuel retailers may enter because of the sheer size of the electricity customer base in NSW and the economies associated with dual fuel offerings.

4.2.2 Importance of economies of scale, scope and vertical integration

Participants were also asked in the survey how important economies of scale, economies of scope and interests in upstream gas production are in terms of their ability to compete effectively in this market.[49] The responses to these questions suggest that all three are important in this market.

4.2.3 Retailer rivalry

To gain some insights into the degree of rivalry currently prevailing in the NSW retail gas market, survey participants were asked to rate the degree of price and non-price rivalry and the overall degree of rivalry in the market. They were also asked if they had observed any changes in the degree of rivalry in the last year and if they expected to see any further changes in the next one to two years.

Table 4.7 sets out the ratings that respondents assigned to each form of rivalry.

[49] Respondents were asked to rate the importance of each factor in terms of being able to effectively compete in the market on a scale of one to five, where one is irrelevant, three is important and five is critical.

Table 4.7: NSW Gas Market Ratings – Degree of Rivalry

	Median Rating
Price rivalry	Moderate
Non-price rivalry	
Overall degree of rivalry	High

Note: Based on 5 responses.

The median ratings in this case suggest that the overall degree of rivalry in the NSW gas retail market is perceived to be high, or at least it is in Sydney where five retailers are currently competing to supply small gas customers. In rural and regional areas of NSW (e.g. the Central Ranges, Shellharbour and Wagga Wagga areas), the overall degree of rivalry is reportedly lower because fewer retailers operate in these areas.

Although not shown in this table, conflicting views were expressed by respondents about the overall degree of rivalry in this market, with two larger established retailers rating rivalry as either high or very high, while other retailers rated it as minimal to moderate. The other interesting point to note in this table is that the median rating for the overall degree of rivalry is higher than the degree of price and non-price rivalry. The reason for this difference was not explained by the few respondents that assigned a higher rating to the overall degree of rivalry than the other two forms of rivalry.

When asked about changes over the last year, most respondents stated there had been no change in the degree of rivalry, although some noted that rivalry in this market tends to follow what occurs in the retail electricity market because gas is sold predominantly as part of a dual fuel offering. One respondent also considered that the ability to secure a firm gas supply and transportation services was becoming more important in this market, and as a consequence, non-price rivalry is becoming more important (see Table 4.7).

Looking forward over the next one to two years, two respondents claimed that if the NSW Government decides to remove RPR then rivalry in this market could increase. Another respondent simply stated that rivalry will "remain high". Two other respondents noted the potential for host retailers' market shares to fall over this period.

4.2.4 Customer switching

Like their electricity counterparts, participants in the gas survey were asked to rate the level of switching between gas retailers and between their own gas offers in NSW. Table 4.8 sets out the ratings that respondents assigned to these two forms of switching.

Table 4.8: NSW Gas Market Ratings – Level of Switching

	Median Rating
Between retailers	Between Moderate and High
Between a retailer's own offers	Moderate

Note: Based on 5-6 responses.

The median ratings set out in this table suggest that switching between retailers is perceived to be moderate to high, while switching between a retailer's offers is moderate.

4.2.5 Overall level of competition and outlook for the next two years

Finally, gas survey participants were asked to provide their opinions on:

- the current level of competition in the NSW retail gas market; and
- the outlook for competition in this market over the next one to two years.

Most respondents were of the view that there is a moderate degree of competition in this market and pointed to the following factors in support of this view:

- There are five active retailers supplying the Sydney market and the overall degree of rivalry is perceived to be high.
- While entry into this market has recently occurred and another retailer is in the process of entering, there are a number of perceived impediments to entry and expansion in this market, including the continued application of RPR, constraints on access to a competitively priced firm supply of gas given the tightening wholesale gas market conditions; potential constraints on gas transportation services; aspects of the Short Term Trading Market (STTM) design; and the B2B procedures in place on distribution networks.
- Customer switching is perceived to be relatively high.

A number of respondents noted the potential for this market to become more competitive over the next one to two years if RPR is removed and more second tier retailers decide to enter the market. Concerns were expressed though by a number of respondents about the effect that tightening conditions in the wholesale gas market and rising wholesale gas prices may have on competition and gas use in this market going forward.

5. Queensland

In the 2014 survey, the state of competition in Queensland's retail gas and electricity markets was described by respondents as follows:[50]

- *South East Queensland retail electricity market* – Competition in this market was described as "benign but improving". The factors that retailers claimed had impeded competition and entry in this market were: the former Queensland Government's 2012-13 price freeze; RPR and the way it had been applied by the Queensland Competition Authority (QCA); and wholesale market volatility. At the time the survey was conducted, the former Queensland Government had signalled its intention to remove RPR in mid-2015, which respondents viewed as a positive development. Respondents did caution though that it may take time before there was a demonstrable increase in competition, because customer engagement had been quite low and new entry was unlikely to occur until RPR was actually removed.
- *Regional Queensland retail electricity market* – With just one active retailer operating in regional Queensland, competition in this market was described as non-existent. Retailers attributed the lack of competition to the Queensland Government's Uniform Tariff Policy (UTP), which requires electricity customers in Queensland to have access to the same regulated price (i.e. the South East Queensland regulated price), regardless of their geographic location.
- *Retail gas market (South East Queensland and regional Queensland)* – Conflicting views were expressed by respondents about competition in this market, with some claiming there was limited competition (i.e. because there were just two active retailers). Others, on the other hand, claimed the market was relatively competitive because gas is a 'fuel of choice' and therefore subject to competition from alternative fuels. The factors gas retailers identified as impeding entry and competition in this market were: the ability to access competitively priced gas (particularly given the proximity of this market to the LNG facilities); the small size of the market; and the design of the Brisbane STTM and contract carriage model.

In the year that has elapsed since the 2014 survey was conducted, there appears to have been little change in the state of competition in any of these markets, which is not surprising given:

- retailers were expecting RPR to be removed in the South East Queensland retail electricity market on 1 July 2015;
- the UTP is still in place in regional Queensland and no changes have been made to the way in which the CSO is paid in the last year;
- conditions in the Queensland wholesale electricity market have become more volatile and are reportedly exposing electricity retailers to a greater level of risk and higher costs; and

50 KLC and FSC, AEMC 2014 Retail Competition Review: Retailer Interviews, June 2014, pp. iii and 19-21.

- conditions in the wholesale gas market continue to tighten (particularly for the firm supply of gas) and are reportedly making entry into this market more difficult.

The remainder of this chapter provides further detail on the views expressed by survey participants about the state of competition in Queensland's retail electricity and gas markets, the changes that have occurred in the last year and the outlook for the next two years.

Before moving on, it is worth noting that the survey was conducted in February 2015. It therefore pre-dated the Queensland Government's 28 April 2015 announcement that it would place the former Queensland Government's decision to deregulate retail electricity prices on hold for 12 months to enable the newly established Queensland Productivity Commission to conduct a review of electricity prices in Queensland.[51] To the extent that knowledge of this outcome may have affected ratings and/or the views expressed by participants about competition in the SE Queensland retail electricity market, this should be borne in mind when evaluating these ratings and/or views.

5.1 South East Queensland retail electricity market

Table 5.1 provides a snapshot of the structural and regulatory features of the South East Queensland retail electricity market and the median ratings respondents ascribed to the ease with which entry and expansion can occur, the importance of economies of scale and scope, the degree of retailer rivalry, customer switching and the overall level of competition in this market. Further detail on the views expressed by survey participants is provided below.

Table 5.1: SE Queensland Retail Electricity Market

Structural and Regulatory Features	
Number of active retailers	10 active retailers.[52]
Changes in active retailers	The only change that has occurred in this market over the last year is that Lumo and Red Energy are now both owned by Snowy Hydro.
NECF in place?	No.
RPR in place?	Yes.

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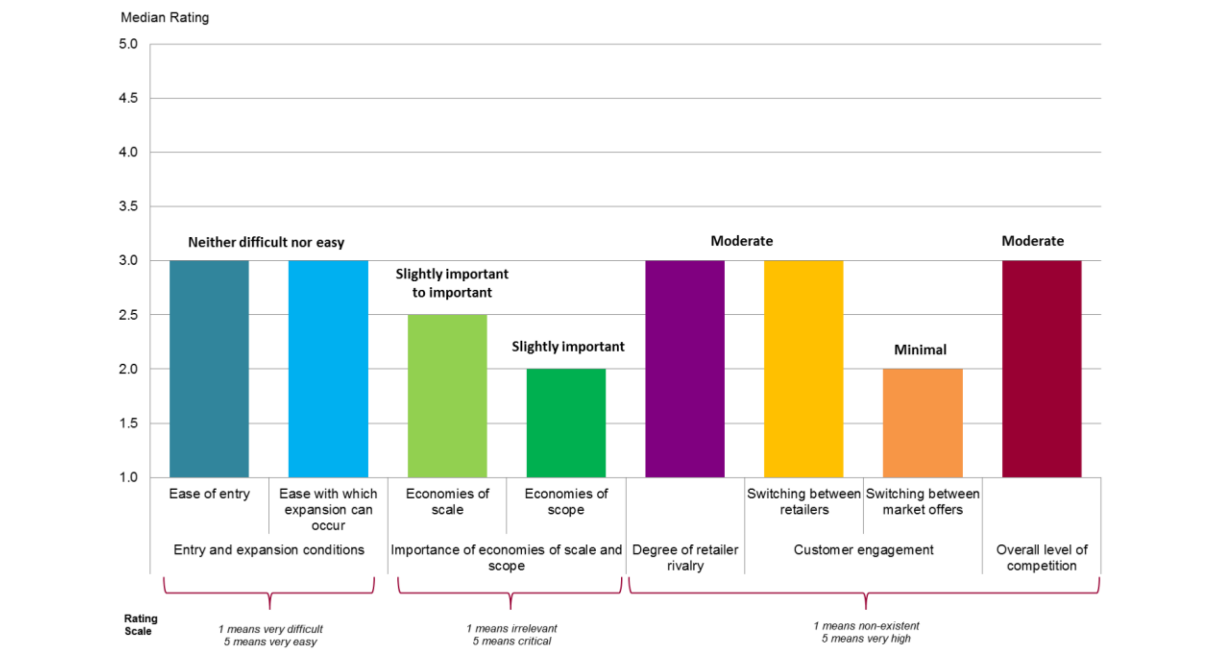
51 Treasurer the Hon. Curtis Pitt Media Statement, Deregulation deferred as Productivity Commission conducts power price probe, 28 April 2015.

52 This count combines AGL's two brands (AGL and Powerdirect) and Snowy Hydro's two brands (Lumo and Red Energy).

Survey Results - Median Ratings



5.1.1 Ease with which entry and expansion can occur

To elicit retailers' views on entry and expansion conditions in the South East Queensland retail electricity market, survey participants were asked to rate the ease with which entry and expansion can occur in the market and to identify any specific barriers to entry and/or expansion. Participants were also asked if they had observed any change in entry or expansion conditions over the last year, or if they expect to observe any change in the next one to two years.

Ratings and changes in entry and/or expansion conditions over the last year

Table 5.2 sets out the ratings that respondents assigned to the ease with which entry and expansion can occur in the South East Queensland retail electricity market.

Table 5.2: SE Queensland Electricity Market Ratings – Ease of Entry and Expansion

	Median Rating
Ease of entry	Neither difficult nor easy
Ease of expansion	

Note: Based on 12-13 responses.

The median ratings in this case suggest that entry into, and expansion within, this market are both neither difficult nor easy.[53] A closer review of these ratings revealed the following:

[53] 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.

- Two large established retailers rated entry into this market as very easy, while five second tier retailers rated it as either difficult or very difficult. The remainder rated entry neither difficult nor easy.
- One large established retailer and a smaller second tier retailer rated expansion within this market as either easy or very easy, while four second tier retailers rated it as either very difficult or difficult. The remainder rated expansions as neither difficult nor easy.

The median ratings are slightly higher than those emerging from the 2014 survey,[54] but there is no indication from the 2015 survey responses that entry or expansion conditions have improved in the last year (or that new entry has occurred). To the contrary, it would appear from a number of the survey responses that entry and expansion conditions have become more difficult in the last few months because of the conditions prevailing in the Queensland wholesale market (i.e. higher pool prices and a greater degree of volatility), as 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 / territories."

Differing views were expressed by respondents about what had caused the recent change in conditions in the Queensland wholesale market. For example, one respondent claimed that the State-owned generators (Stanwell and CS Energy) "have been aggressively rebidding their generation and causing artificially high pool prices". Some other respondents attributed the volatility to the ramp up in the QCLNG development, which resulted in relatively cheap gas being made available for gas fired generation until the LNG plant came online. While respondents were unable to agree on why conditions have deteriorated in the wholesale market, there was broad agreement across most respondents that the increased volatility and higher pool prices is having the following adverse effects on retailers:

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

According to some respondents, the higher hedging costs and increase in prudential and credit support requirements has been particularly problematic for smaller retailers because they don't have access to the same level of capital as larger retailers.

Impediments to entry and/or expansion

Mixed views were expressed by respondents about the impediments to entry and expansion in this market, with larger established retailers stating that there are no impediments, while smaller retailers identified the following impediments:

54 KLC and FSC, AEMC 2014 Retail Competition Review: Retailer Interviews, June 2014, p. 19.

- Wholesale market volatility[55] and constraints on the ability to access competitively priced hedging instruments in Queensland. As noted in the preceding section, many respondents raised concerns about the conditions currently prevailing in the Queensland wholesale electricity market and their effect on entry and expansion conditions. Concerns were also raised by some smaller retailers about the trading terms offered by the State-owned generators, with one respondent describing the terms as "onerous and prohibitive for small retailers".
- The continued application of RPR and the manner in which it has been applied by the 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.
- Political and regulatory risk. Two examples of this risk that respondents cited were:[56]
  - The failure of prior governments to implement NECF and the lack of clarity surrounding the new Queensland Government's position on the removal of RPR and introduction of NECF.
  - The suggestion that the two State-owned generators be merged, which was viewed negatively by respondents because of the additional market power this could confer on the merged entity.

  Further insight into the concerns that respondents expressed about these two risks in February 2015 can be found in the following survey responses:

> "Price regulation has made it very difficult to enter the residential and SME market in any substantial way. … the change in government and the potential that they may overturn price deregulation has increased the political and regulatory risk in SEQ"
>
> "The 2015 election result may place the process of regulatory reform at risk. The threat of re-regulation is of great concern. Further, the anticompetitive generator behaviours are getting worse, with more aggressive manipulation of the pool price and with expansion into retailing to smaller customers."
>
> "We expect reduced retailer participation in Queensland relative to other jurisdictions due to the anti-competitive behaviour of the Queensland Government owned generators. Any merger of these businesses will only increase the frequency and severity of artificial supply side market price events."

Other NEM-wide impediments that smaller retailers claimed may affect entry and/or expansion in the South East Queensland retail electricity market are:[57]

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55 In the 2014 survey one retailer informed us that the Queensland wholesale market is becoming more akin to the South Australian market in terms of volatility and interconnector constraints and that this was starting to affect the extent to which retailers could rely on interregional hedges.

56 Another example that was cited by one respondent was the the decision by the previous Queensland Government to place a $20 cap on early termination fees and not to make any provision for the value of other inducements paid by the retailer to customers.

- The prudential arrangements and credit support required by AEMO, generators, financial intermediaries, the ASX and electricity networks, which has become more of an issue in Queensland recently and which smaller retailers noted can "tie up working capital" and limit their ability to expand.
- Environmental policies and energy efficiency schemes. One respondent informed us that the Queensland Government is currently considering implementing a new feed-in tariff scheme that would be funded by retailers. According to this respondent, such a scheme "would be a significant barrier to entry/expansion" and could discourage smaller retailers from entering the market.

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.

Outlook for the next one to two years

According to respondents, the ease with which entry and expansion occurs over the next one to two years will depend on whether the new Queensland Government decides to proceed with the removal of RPR and the introduction of NECF, i.e.:[58]

- If these changes occur, conditions are expected to ease, although 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 their standing offers for 2015-16, will expose retailers to some risk or rising input costs.[59]
- If these changes don't occur, respondents expect conditions to become more difficult, particularly if the Queensland Government decides to merge Stanwell and CS Energy and nothing is done to address the current issues in the wholesale market (i.e. because if RPR continues to be applied, retailers may be constrained in their ability to pass changes in wholesale costs through to customers).

Some respondents also noted that even if RPR is removed and NECF is implemented, political and regulatory risk would continue to affect entry and expansion conditions in this market. Elaborating on this further, one respondent observed that even if RPR is removed, if political and regulatory risk are still perceived to be high retailers will continue to adopt a conservative approach to competing in that market.

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[57] Another impediment that was cited by one respondent was the complexities associated with AEMO's market system certification and registration.

[58] At the time the survey was conducted the Queensland Government had not announced its intention to place the removal of RPR on hold for 12 months. Most respondents at this time expected the new Queensland Government to proceed with the implementation of NECF and the removal of RPR, but a small number noted the potential for this not to occur.

[59] One particular risk that respondents informed us about was that the Australian Energy Regulator (AER) 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.

As to whether new entry or expansion is likely to occur in the next one to two years, the survey responses indicate that:

- three retailers may consider entry in the next one to two years if RPR is removed, but they have no firm plans to do so at this stage;
- four existing retailers in this market plan to expand once RPR is removed; and
- one retailer is considering exiting the 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 also predicted that if conditions in the Queensland wholesale electricity market do not improve, then retailers may exit the market or wind back operations.

5.1.2 Importance of economies of scale, scope and vertical integration

In some markets, a retailer's ability to compete effectively with its rivals will depend on whether it is able to access economies of scale, economies of scope or minimise its exposure to input cost or supply risks by being vertically integrated. Respondents were therefore asked to rate the importance of each factor in terms of being able to effectively compete in the market on a scale of one to five, where one is irrelevant, three is important and five is critical.

The median ratings that respondents attributed to each of these factors suggest that in this market:

- economies of scale are somewhat important; and
- economies of scope and having an interest in generation are of slight importance.

5.1.3 Retailer rivalry

To help inform the AEMC's assessment of the degree of rivalry currently prevailing in the South East Queensland retail electricity market, survey participants were asked to rate the degree of price and non-price rivalry and the overall degree of rivalry. Participants were also asked whether they had observed any change in the degree of rivalry in the last year and if they expect to see any further changes in the next one to two years.

Table 5.3 sets out the ratings that respondents assigned to each form of rivalry. The median ratings in this case suggest that retailers consider there is only a moderate degree of rivalry in this market, which is consistent with the median ratings emerging from the 2014 survey.[60]

[60] KLC and FSC, AEMC 2014 Retail Competition Review: Retailer Interviews, June 2014, pp. 19-20.

Table 5.3: SE Queensland Electricity Market Ratings – Degree of Rivalry

	Median Rating
Price rivalry	Moderate
Non-price rivalry	
Overall degree of rivalry	

Note: Based on 8-9 responses.

According to respondents, there has been no real change in the degree of rivalry over the last year, because prices are still subject to RPR and no new entry has occurred in the last year. However, a number of respondents informed us that the big three have stepped up their marketing efforts in the last year in anticipation of the removal of RPR to "enhance their presence and defend their customer bases".

Mixed views were expressed about the outlook for rivalry in this market over the next one to two years. Most respondents expect rivalry to increase and the host retailers' market shares to fall if RPR is removed and NECF is implemented, because these actions will reduce entry costs and eliminate the risk that RPR can expose retailers to. One respondent took an alternative view, asserting that rivalry could diminish if the conditions currently prevailing in the Queensland wholesale market persist (i.e. because it will expose retailers to additional costs, risks and prudential requirements).

5.1.4 Customer switching

While specific metrics exist to measure switching between electricity retailers, there is no publicly available information on switching between a retailer's own offers. Survey participants were therefore asked to rate the level of switching between retailers and their own offers in South East Queensland. These ratings are set out in Table 5.4.

Table 5.4: SE Queensland Electricity Market Ratings – Level of Switching

	Median Rating
Between retailers	Moderate
Between a retailer's own offers	Minimal

Note: Based on 7-9 responses.

The median ratings in this case suggest that switching between retailers is perceived to be moderate, while switching between a retailer's offers is less prevalent. As in other jurisdictions, a number of second tier retailers rated switching between their own offers as non-existent to minimal because they only have one offer, while larger retailers that have a number of different offers rated it as moderate to high.

5.1.5 Overall level of competition and outlook for the next two years

The final set of survey questions were designed to elicit retailers' views on the current level of competition in the South East Queensland retail electricity market and the outlook for competition in this market over the next one to two years.

The responses revealed that while that the majority of respondents think there is only a moderate degree of competition in this market. The factors retailers claim have impeded entry and competition in this market are:

- There are ten retailers competing to supply small customers in South East Queensland, but rivalry between these retailers is perceived to be only moderate.
- There are a number of perceived impediments to entry and expansion in this market including: the continued application of RPR; wholesale market volatility and constraints on the availability of competitively priced hedging instruments; political and regulatory risk; and other general NEM-wide impediments.
- The level of customer engagement has been relatively low to date.

In a similar manner to the observations made about rivalry in the next one to two years, mixed views were expressed about the outlook for competition in this market over the same period. That is, while most respondents expect competition to increase if RPR is removed and NECF is implemented, one respondent noted the potential for competition to deteriorate if conditions in the Queensland wholesale market are not addressed and/or if the Queensland Government decides to merge Stanwell and CS Energy.

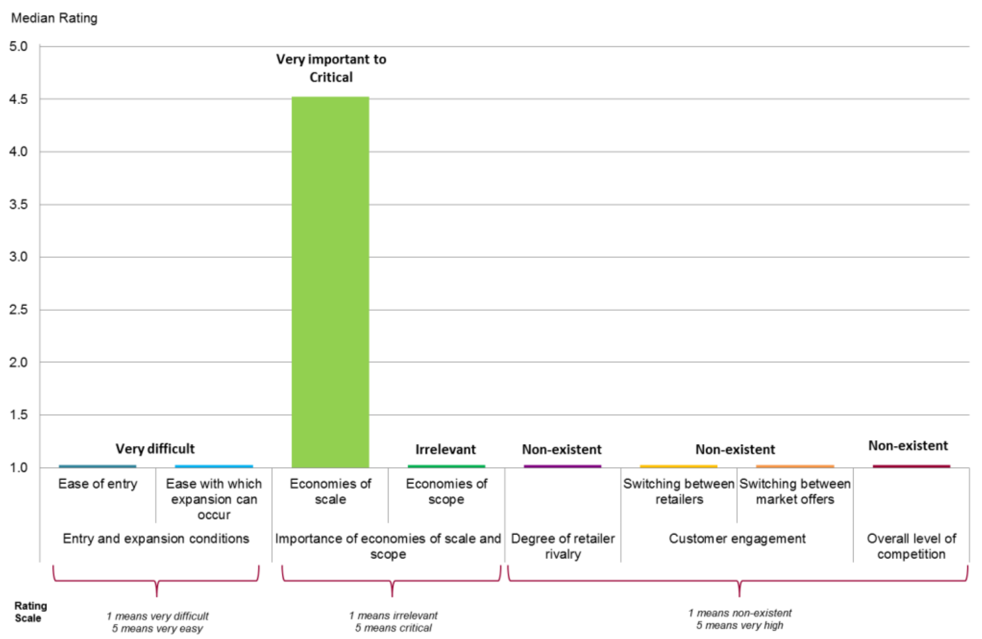
5.2 Regional Queensland retail electricity market

Table 5.5 provides a snapshot of the structural and regulatory features of the Regional Queensland retail electricity market and the median ratings that respondent ascribed to the ease with which entry and expansion can occur, the importance of economies of scale and scope, the degree of retailer rivalry, customer switching and the overall level of competition in this market.

Table 5.5: Regional Queensland Retail Electricity Market

Structural and Regulatory Features of the Regional Queensland Retail Electricity Market	
Number of active retailers	Ergon Energy (owned by Queensland Government and operates distribution networks in regional Queensland) is the only retailer currently actively retailing to small customers in this region. During follow-up discussions we were informed that one small retailer had been operating in regional Queensland, but following a change in the QCA's approach to setting regulated prices in SE Queensland it was no longer profitable to actively retail in these areas.
Changes in active retailers	No new entry has occurred in the last year.
NECF in place?	No.
RPR?	The Uniform Tariff Policy (UTP) applies in regional Queensland. In short, this policy requires electricity customers in Queensland to have access to the same regulated price (i.e. the SE Queensland regulated price), regardless of their geographic location. To give effect to this policy, a subsidy is currently paid by the Queensland Government to Ergon Energy Retail (in its retailer capacity) and to Origin Energy in prescribed areas.

Survey Results - Median Ratings



As the information in this table reveals, there is currently no competition to supply small electricity customers in regional Queensland.[61] According to respondents, the most significant impediment to competition emerging in regional Queensland is the UTP because:

- they are unable to supply electricity to regional areas of Queensland at the same price that they are able to do so in SE Queensland (e.g. because transmission and distribution costs are higher in regional areas); and

61 While there is currently no competition to supply small electricity customers, we were informed that there is competition to supply larger customers, particularly for those large customers operating in multiple jurisdictions. We were also informed that Ergon Energy is prevented from making market offers and is therefore unable to compete on price to retain these customers.

- they are not entitled to any of the subsidy the Queensland Government pays to maintain the UTP (this subsidy is currently payable to Ergon Energy Retail and Origin Energy in some prescribed areas on the NSW and Queensland border).

One respondent also noted 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 in terms of managing its hedging risk.

Another impediment to entry and expansion in this area that respondents identified was the size, geographic dispersion and, in some cases, geographic isolation (e.g. areas in the Torres Strait) of customers in regional Queensland. The importance of this factor is reflected in the relatively high rating that was accorded to the importance of economies of scale in this market.

In addition to these impediments, respondents informed us that the factors outlined in section 5.1.1 (e.g. wholesale market volatility and access to competitively priced hedging products, prudential and credit support arrangements, environmental and energy efficiency schemes) would also impede entry and/or expansion in this market.

When asked about the prospects for this market in the next one to two years, respondents stated that they did not expect to observe any changes in the level of competition until the UTP is removed, or changes are made to the way in which the subsidy is paid (e.g. the subsidy is paid to the distribution network rather than the final retailer). Elaborating on this, one respondent informed us that while a detailed review of the arrangements had been carried out by the QCA, its recommendations were not taken up by the former Queensland Government. The same respondent noted that the new Queensland Government is yet to announce its intentions for retail competition in regional Queensland.

As to whether new entry is likely to occur, three retailers indicated that they may consider entry into this market if the current policy settings change.

5.3 Retail gas market

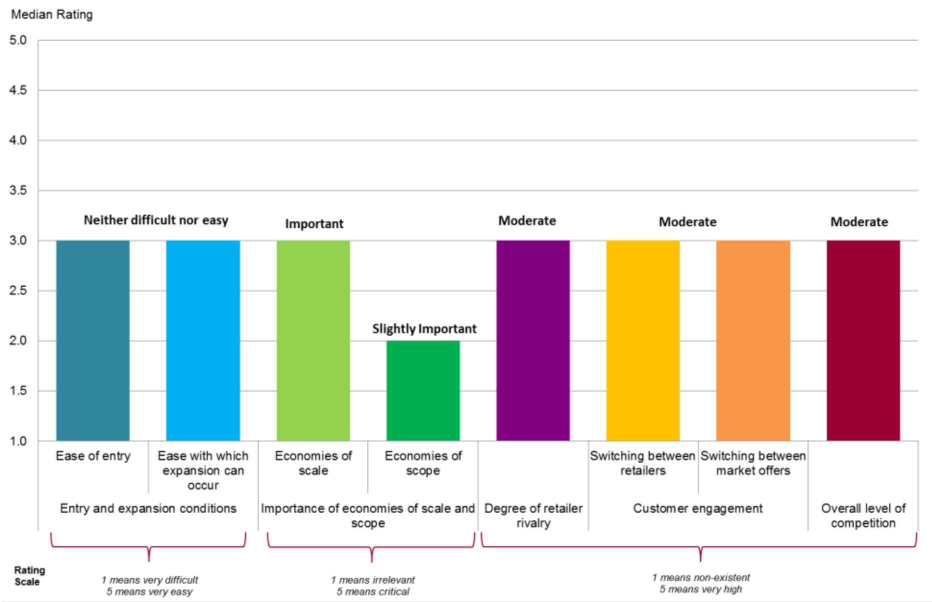
Table 5.6 provides a snapshot of the structural and regulatory features of the Queensland retail gas market and the median ratings that respondents ascribed to the ease with which entry and expansion can occur, the importance of economies of scale and scope, the degree of retailer rivalry, customer switching and the overall level of competition in this market. Further detail on the views expressed by respondents about conditions in the Queensland retail gas market is provided below.

Table 5.6: Queensland Retail Gas Market

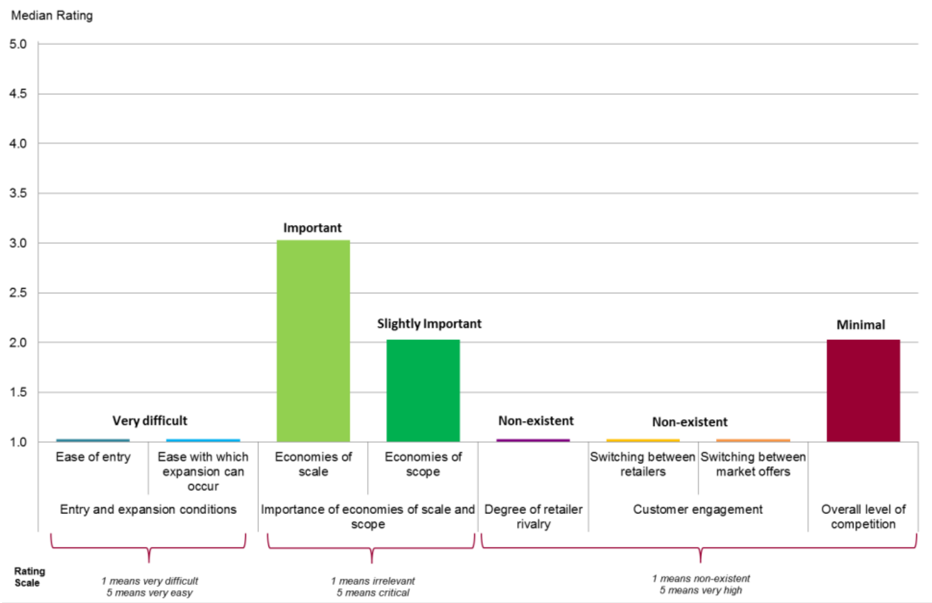
Structural and Regulatory Features	
Gas consumption[62]	Gas penetration rate: 18.6% in Brisbane and 5% in regional areas. Total residential demand in 2012-13: 3 PJ Average household usage: 16 GJ p.a.
Number of active retailers	SE Queensland: 2 retailers Regional Queensland: 2 retailers in Toowoomba and Oakey. 1 retailer in Gladstone, Rockhampton, Wide Bay, Bundaberg, Maryborough and Hervey Bay.
Changes in active retailers	No new entry has occurred in the last year
NECF in place?	No.
RPR in place?	No
Transport & Balancing Models	Contract carriage transportation model. STTM in Brisbane.

Survey Results - Median Ratings

SE Queensland



Regional Queensland



62 Bureau of Resources and Energy Economics (BREE), 2013 Energy Consumption by Industry and Fuel Type, Table F (2011-12) and ABS, 4602.0.55.001 Environmental Issues: Energy Use and Conservation, March 2011, Table 6.

5.3.1 Ease with which entry and expansion can occur

Like their electricity counterparts, gas survey participants were asked to rate the ease with which entry and expansion can occur in the Queensland retail gas market and to identify any specific barriers to entry and/or expansion in this market. Participants were also asked if they had observed any change in entry or expansion conditions over the last year, or if they expect to observe any change in the next one to two years.

Ratings and changes in entry and/or expansion conditions over the last year

Table 5.7 sets out the ratings that respondents assigned to the ease with which entry and expansion can occur in South East Queensland and regional areas of Queensland.

Table 5.7: Queensland Gas Market Ratings – Ease of Entry and Expansion (Median)

	SE Qld	Regional Qld
Ease of entry	Neither difficult nor easy	Very difficult
Ease of expansion		

Note: Based on 4-5 responses.

The median ratings in this case suggest that:[63]

- in South East Queensland entry and expansion are both considered neither difficult nor easy; and
- in regional Queensland entry and expansion are both considered very difficult.

A closer review of the South East Queensland ratings revealed that two larger retailers rated entry into South East Queensland as very easy, while others rated it as either very difficult or neither difficult nor easy. The story was slightly different for expansions, with all but one retailer rating it as neither difficult nor easy.

According to respondents there has been no change in entry or expansion conditions in Queensland over the last year.

Impediments to entry and/or expansion

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

- Access to, and/or 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, which some respondents noted could make it more difficult for a new entrant retailer to secure a firm supply of gas.

[63] 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.

- The very small size of the customer base in Queensland.
- Access to, and/or the price of, capacity on transmission pipelines.[64]
- The following features of the Brisbane STTM:[65]
  - 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.
- The absence of NECF to date.

The first two of these factors were viewed as the most significant impediments to entry and expansion in Queensland, which is consistent with the findings from the 2014 survey. Political 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.

In a similar manner to NSW, a number of respondents noted that entry and/or expansion into rural and regional areas of Queensland can be impeded by the following factors:

- There is limited geographic coverage of pipeline networks in rural and regional areas.
- 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.
- The capacity of some regional pipelines has been fully contracted by a single retailer and the cost of expanding capacity for what is likely to be a relatively small customer base is unlikely to be justified.
- There are higher customer acquisition costs due to the small size of the customer base.

The perceived impediments outlined above are largely the same as those identified in the 2014 survey.[66]

Outlook for the next one to two years

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

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

65 The same concerns were raised about the Sydney and Adelaide STTMs.

66 KLC and FSC, AEMC 2014 Retail Competition Review: Retailer Interviews, June 2014, p. 22.

The survey responses also revealed the following about the prospects for entry in this market over the next one to two years:

- one 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.

5.3.2 Importance of economies of scale, scope and vertical integration

Participants were asked in the survey how important economies of scale, economies of scope and interests in upstream gas production are in terms of their ability to compete effectively in this market.[67] The responses to these questions suggest that:

- economies of scale are important throughout Queensland; and
- economies of scope and interests in gas production are of slight importance.

5.3.3 Retailer rivalry

To gain some insight into the degree of rivalry currently prevailing in the Queensland retail gas market, survey participants were asked to rate the degree of price and non-price rivalry and the overall degree of rivalry in the market. They were also asked if they had observed any changes in the degree of rivalry in the last year and if they expected to see any further changes in the next one to two years.

Table 5.8 sets out the ratings that respondents assigned to each form of rivalry. The median ratings in this case suggest that the degree of rivalry in this market is perceived to be moderate in South East Queensland where two retailers are currently competing, while in regional Queensland rivalry is considered non-existent.

Table 5.8: Queensland Gas Market Ratings – Degree of Rivalry

	SE Qld	Regional Qld
Price rivalry	Moderate	Non-existent
Non-price rivalry		
Overall degree of rivalry		

Note: Based on 3 responses.

According to respondents, there has been no real change in the degree of rivalry in Queensland over the last year and the majority of respondents aren't really expecting any changes to occur in the next one to two years either. One retailer that is currently contemplating entry into this market did, however, note the potential for rivalry to increase and for the host retailers' market shares to fall if new entry occurs, although it acknowledged

[67] Respondents were asked to rate the importance of each factor in terms of being able to effectively compete in the market on a scale of one to five, where one is irrelevant, three is important and five is critical.

that entry was likely to be difficult given the tightening supply and demand conditions prevailing in the wholesale gas market.

5.3.4 Customer switching

Like their electricity counterparts, participants in the gas survey were asked to rate the level of switching between gas retailers and between their own gas offers in Queensland. Table 5.9 sets out the ratings that respondents assigned to these two forms of switching.

Table 5.9: Queensland Gas Market Ratings – Level of Switching

	SE Qld	Regional Qld
Between retailers	Moderate	Non-existent
Between a retailer's own offers		

Note: Based on 3 responses.

The median ratings in this case suggest that there is a moderate degree of switching between retailers and a retailer's own offers in South East Queensland and negligible switching in regional Queensland. The median rating for switching between retailers in South East Queensland is unchanged from the 2014 survey.[68]

5.3.5 Overall level of competition and outlook for the next two years

Finally, gas survey participants were asked to provide their opinions on:

- the current level of competition in the Queensland retail gas market; and
- the outlook for competition in this market over the next one to two years.

In short, the majority of respondents remain of the view that there is only a moderate degree of competition in Queensland and pointed to the following factors in support of this view:

- There are currently only two active retailers competing in South East Queensland (including Toowoomba and Oakey) and one retailer operating in the Gladstone, Rockhampton, Wide Bay, Bundaberg, Maryborough and Hervey Bay areas.
- There are a number of significant impediments to entry in this market, including constraints on the availability of competitively priced gas in Queensland, the small size of the market; potential constraints on the availability of gas transportation services; and certain aspects of the STTM design.
- The level of customer switching in this market is perceived to be moderate.

Little was said by respondents about the outlook for competition in the Queensland retail gas market, but they expressed a general expectation that competition will depend on how things unfold in the wholesale gas market and whether any potential entrants are able to secure a firm supply of gas.

[68] KLC and FSC, AEMC 2014 Retail Competition Review: Retailer Interviews, June 2014, p. 22.

6. South Australia

In the 2014 survey, the South Australian retail electricity market was described by most respondents as having a relatively high degree of competition. Concerns were raised though by non-vertically integrated retailers about the effect on entry and competition in this market of wholesale market conditions in South Australia and constraints on the availability of competitively priced hedging instruments.[69] While conditions in the wholesale and hedging markets in South Australia were expected to continue to weigh on the market, respondents were broadly optimistic that competition would continue to evolve, with some noting the potential for South Australia to overtake Victoria as customers become more engaged and further new entry occurred. [70]

The retail gas market in South Australia was also viewed by most respondents in the 2014 survey as being relatively competitive. However, concerns were raised about the possible effect on entry and competition in this market of tightening conditions in the wholesale gas market, contractual constraints on the SEA Gas Pipeline, the design of the STTM and the contract carriage model.[71] In contrast to electricity, respondents in the 2014 survey did not expect to observe any real improvements in competition in the retail gas market over the next five years, given tightening demand and supply conditions in the wholesale gas market and the fact that all the existing capacity on the SEA Gas Pipeline has been fully contracted to 2018.[72]

In the year that has elapsed since the 2014 survey, little appears to have changed in these two markets, with the responses to this year's survey suggesting that the degree of rivalry, customer switching and entry and expansion conditions in both markets are largely unchanged. There is also no sign that the South Australian retail electricity market has overtaken the Victorian retail electricity market, or that competition in the retail gas market has stagnated, as hypothesised by respondents in the 2014 survey.

The remainder of this chapter provides further detail on the views expressed by survey participants about the current state of competition in the South Australian electricity and gas retail markets, the changes that have occurred in the last year and the outlook for the next one to two years.

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69 Concerns were also raised in this survey about the effect that the Residential Energy Efficiency Scheme (REES) and AGL's dominance have had on this market, but these were viewed as a second order issue relative to the wholesale market and hedging issues.

70 KLC and FSC, AEMC 2014 Retail Competition Review: Retailer Interviews, June 2014, p. iv.

71 ibid.

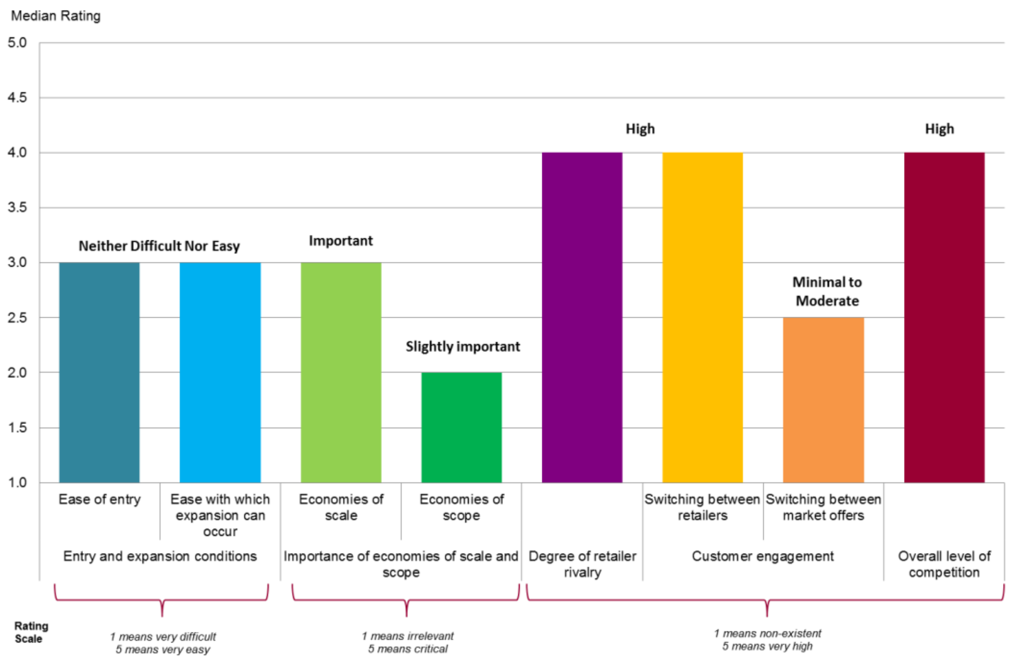
72 ibid.

6.1 Retail electricity market

Table 6.1 provides a snapshot of the structural and regulatory features of the South Australian retail electricity market and the median ratings that respondents ascribed to the ease with which entry and expansion can occur, the importance of economies of scale and scope, the degree of retailer rivalry, customer switching and the overall level of competition in this market.

Table 6.1: Snapshot of the South Australian Retail Electricity Market

Structural and Regulatory Features	
Number of active retailers	13 active retailers, five of which have generation interests in South Australia.[73]
Changes in active retailers	In the last year the following changes have occurred: ▪ M2 introduced a new brand, Commander Power & Gas, which supplies small businesses. ▪ Lumo and Red Energy are now both owned by Snowy Hydro. ▪ One retailer has reportedly ceased retailing to residential customers.
NECF in place?	Yes, since 1 February 2013. The Essential Services Commission of South Australia. (ESCOSA) is currently carrying out a review of NECF in SA.
RPR in place?	RPR removed on 1 February 2013. Annual price monitoring is currently in place and overseen by ESCOSA.
Survey Results - Median Ratings	



Further detail on the views expressed by survey participants about conditions in this market is provided below.

73 This count combines M2's two brands (Dodo Power and Gas and Commander Power and Gas), AGL's two brands (AGL and Powerdirect), and Snowy Hydro's two brands (Lumo and Red Energy).

6.1.1 Ease with which entry and expansion can occur

To elicit retailers' views on entry and expansion conditions in the South Australian retail electricity market, survey participants were asked to rate the ease with which entry and expansion can occur in the market and to identify any specific barriers to entry and/or expansion. Participants were also asked if they had observed any change in entry or expansion conditions over the last year, or if they expect to observe any change in the next one to two years.

Ratings and changes in entry and/or expansion conditions over the last year

Table 6.2 sets out the median ratings that respondents assigned to the ease with which entry and expansion can occur in the South Australian retail electricity market. The median ratings in this table suggest that entry into this market is relatively easy, while expansion is neither difficult nor easy. [74] A closer review of these ratings revealed that larger vertically integrated retailers rated entry as either easy or very easy, while other respondents rated it as more difficult. The division between vertically and non-vertically integrated retailers was not as clear in the ratings ascribed to the ease with which expansion can occur.

Table 6.2: South Australian Electricity Market Ratings – Ease of Entry and Expansion

	Median Rating
Ease of entry	Neither difficult nor easy
Ease of expansion	

Note: Based on 12 responses.

When asked about changes in entry and/or expansion conditions over the last year, most respondents said there had been no real change, but some of the smaller retailers informed us that conditions in the South Australian wholesale electricity market had not been as volatile in the last year as they had been in prior years.

Impediments to entry and/or expansion

Consistent with their view that entry into this market is relatively easy, the larger vertically integrated retailers claimed there are no impediments to entry or expansion. Other respondents, on the other hand, claimed that the following factors can act as an impediment to entry and/or expansion in this market:

- Wholesale market conditions and access to competitively priced hedging instruments in South Australia. The respondents that cited this as an issue asserted that 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;

[74] 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.

- interregional hedges cannot 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.

Some of these respondents also informed us that while conditions in the South Australian wholesale market haven'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. Elaborating on this issue, one respondent commented that while the market power of non-renewable generators has diminished somewhat in the 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".[75]

- The South Australian Residential Energy Efficiency Scheme (REES), which imposes an obligation on retailers supplying 5,000 or more customers. A number of respondents informed us that the threshold is too low and can impose significant costs on small retailers because it is not a tradable scheme.[76] Concerns were also raised about the priority group[77] target under this scheme, which is designed to ensure that a certain level of energy efficiency activities is delivered to low income households.

Other NEM-wide impediments that smaller retailers claimed can affect entry and/or expansion in this market are:[78]

- The prudential arrangements and credit support required by AEMO, generators, financial intermediaries, the ASX and electricity networks, which smaller retailers noted can "tie up working capital" and limit their ability to expand.
- Political and regulatory risk, although no specific examples of this risk were identified by respondents.

Concerns were also expressed by two smaller retailers about the South Australian concession scheme and the derogations from NECF that have been implemented in South Australia. According to these two retailers, the concession scheme and consumer protection arrangements in South Australia are "onerous" and have prompted at least one retailer to

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75 In the 2014 survey, a number of respondents asserted that wind 'doesn't cut it as a hedging instrument in SA'.

KLC and FSC, AEMC 2014 Retail Competition Review: Retailer Interviews, June 2014, p. 36.

76 One respondent also informed us 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.

77 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.

78 Another impediment that was cited by one respondent was the complexities associated with AEMO's market system certification and registration.

decide to cease retailing to residential customers, and just to focus on small business customers.

Of the factors listed above, the ability to access competitively priced hedging instruments in South Australia was considered to be the most significant impediment by retailers.

When compared with the responses to the 2014 survey, it would appear that, with the exception of the concerns raised about the concession schemes and consumer protection arrangements, the impediments outlined above are identical to those that were cited by respondents in the 2014 survey.[79]

At a rural and regional level, some respondents informed us that entry and expansion can be impeded by the following factors:

- The small size and geographic dispersion of customers in these areas, which can result in higher customer acquisition costs.
- Loss factors in rural and regional areas 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.
- Higher network charges, which can reduce the margins available to retailers and the discounts that can be offered to customers.

These impediments are not unique to South Australia. Rather, respondents informed us that they can affect rural and regional areas in most jurisdictions.

Outlook for the next one to two years

Looking forward over the next one to two years, most respondents don't expect to observe any change in entry or expansion conditions. As to whether new entry or expansion is likely to occur, 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 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.

6.1.2 Importance of economies of scale, scope and vertical integration

In some markets, a retailer's ability to compete effectively with its rivals will depend on whether it is able to access economies of scale, economies of scope or minimise its exposure

79 KLC and FSC, AEMC 2014 Retail Competition Review: Retailer Interviews, June 2014, pp. 23-24 and 39.

to input cost or supply risks by being vertically integrated. Respondents were therefore asked to rate the importance of each factor in terms of being able to effectively compete in the market on a scale of one to five, where one is irrelevant, three is important and five is critical.

The median ratings that respondents attributed to each of these factors suggest that:

- economies of scale are important; and
- economies of scope and having an interest in generation are of only slight importance.

6.1.3 Retailer rivalry

To help inform the AEMC's assessment of the degree of rivalry currently prevailing in the South Australian retail electricity market, survey participants were asked to rate the degree of price and non-price rivalry and the overall degree of rivalry. Participants were also asked whether they had observed any change in the degree of rivalry in the last year and if they expect to see any further changes in the next one to two years.

Table 6.3 sets out the ratings that respondents assigned to each form of rivalry. The median ratings in this case suggest that the degree of rivalry in this market is perceived to be high, which is consistent with the view expressed by respondents in the 2014 survey.[80]

Table 6.3: South Australian Electricity Market Ratings – Degree of Rivalry

	Median Rating
Price rivalry	High
Non-price rivalry	
Overall degree of rivalry	

Note: Based on 9-10 responses.

As to whether there has been any change in degree of rivalry in this market over the last year, the majority of respondents claimed there has been no change while one retailer claimed that rivalry had been more intense. Three respondents also informed us that their marketing efforts had increased in South Australia over the last year, although two stated that their efforts were part of a broader national campaign, while the third stated its marketing was to establish a new brand. The greater level of marketing carried out by these three retailers does not appear therefore to be an indicator of increased rivalry in the market.

In rural and regional areas of South Australia, the degree of rivalry has reportedly been unchanged over the last year.

Looking forward over the next one to two years, two respondents informed us that they expect rivalry in this market to remain "high" and one noted the potential for the host retailer's market share to decline over this period. Other respondents were silent on the outlook for rivalry in this market.

80 ibid, p. 23.

6.1.4 Customer switching

While specific metrics exist to measure switching between electricity retailers, there is no publicly available information on switching between a retailer's own offers. Survey participants were therefore asked to rate the level of switching between retailers and their own offers in South Australia. These ratings are set out in Table 6.4.

Table 6.4: South Australian Electricity Market Ratings – Level of Switching

	Median Rating
Between retailers	High
Between a retailer's own offers	Between Minimal and Moderate

Note: Based on 8-10 responses.

The median ratings in this case suggest that switching between retailers is perceived to be high in South Australia, while switching between a retailer's offers is less prevalent. As in other jurisdictions, a number of second tier retailers rated switching between their own offers as non-existent to minimal because they only have one offer, while larger retailers that have a number of different offers rated it as moderate to high.

6.1.5 Overall level of competition and outlook for the next two years

The final survey questions were designed to elicit retailers' views on the current level of competition in the South Australian retail electricity market and the outlook for competition in this market over the next one to two years.

The responses to these questions suggest that the majority of respondents still view this market as having a relatively high degree of competition, albeit dominated by retailers with generation interests in South Australia. Some of the factors that respondents pointed to in support of this view are set out below:

- There are now 13 active retailers operating in this market (five of which have generation interests in South Australia) and the degree of rivalry between these retailers is perceived to be high.
- Entry and expansion conditions have improved since RPR was removed and NECF was implemented in 2013, but access to competitively priced hedging instruments remains the most significant impediment for non-vertically integrated retailers. The REES and other general NEM-wide impediments (e.g. prudential and credit support arrangement, the concession scheme, derogations from NECF, and political and regulatory risk) also continue to affect entry and expansion in this market.
- Customer switching is perceived to be relatively high.

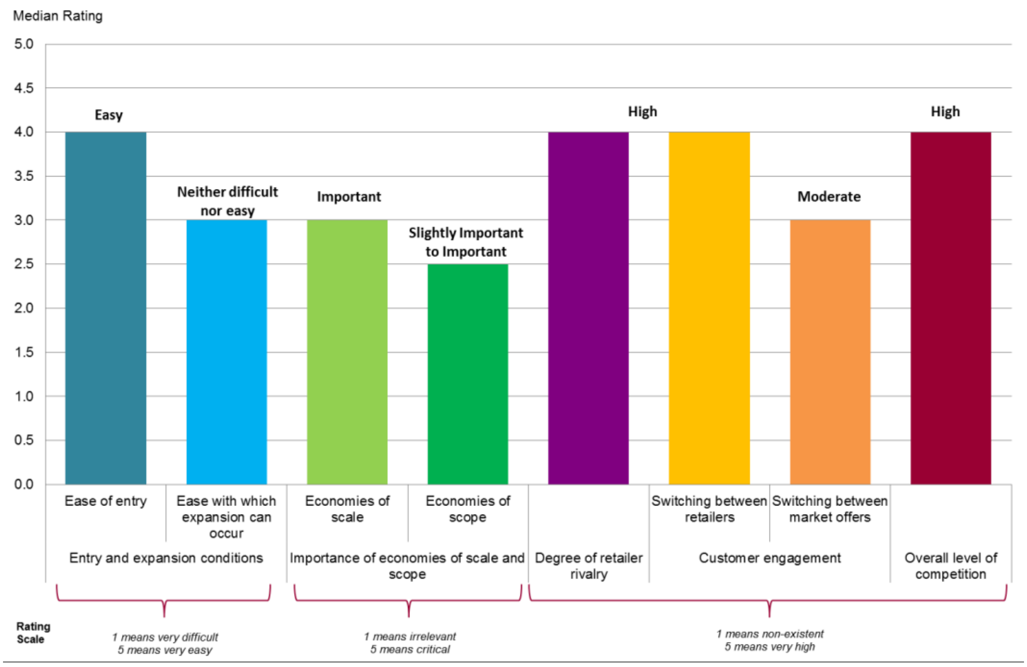
Respondents expressed conflicting views about the outlook for competition in this market over the next one to two years, with a number of respondents stating that they expect the market to become even more competitive and customers to benefit from greater product innovation if retailers roll out smart meters. A number of others, however, did not expect any changes to occur.

6.2 Retail gas market

Table 6.5 provides a snapshot of the structural and regulatory features of the South Australian retail gas market and the median ratings that respondents ascribed to the ease with which entry and expansion can occur, the importance of economies of scale and scope, the degree of retailer rivalry, customer switching and the overall level of competition in this market.

Table 6.5: Snapshot of the South Australian Retail Gas Market

Structural and Regulatory Features of the SA Retail Gas Market	
Gas consumption[81]	Gas penetration rate: 75% in Adelaide and 14% in regional areas Total residential demand in 2012-13: 11.8 PJ Average household use: 30 GJ p.a.
Number of active retailers	5 active retailers in Adelaide.
Changes in the last year	No new entry has occurred in this market in the last year.
NECF in place?	Yes, since 1 February 2013.
RPR in place?	No - removed on 1 February 2013. Annual price monitoring is currently in place and overseen by ESCOSA.
Transport & Balancing Models	Contract carriage transportation model. STTM in Adelaide.
SA Retail Gas Market Survey Results - Median Ratings	



Further detail on the views expressed by respondents about conditions in the South Australian retail gas market is provided below.

6.2.1 Ease with which entry and expansion can occur

Like their electricity counterparts, gas survey participants were asked to rate the ease with which entry and expansion can occur in the South Australian retail gas market and to identify any specific barriers to entry and/or expansion in this market. Participants were also asked if

81 Bureau of Resources and Energy Economics (BREE), 2013 Energy Consumption by Industry and Fuel Type, Table F (2011-12) and ABS, 4602.0.55.001 Environmental Issues: Energy Use and Conservation, March 2011, Table 6.

they had observed any change in entry or expansion conditions over the last year, or if they expect to observe any change in the next one to two years.

Ratings and changes in entry and/or expansion conditions over the last year

Table 6.6 sets out the ratings that respondents assigned to the ease with which entry and expansion can occur in the South Australian retail gas market.

Table 6.6: South Australian Gas Market Ratings – Ease of Entry and Expansion

	Median Rating
Ease of entry	Easy
Ease of expansion	Neither difficult nor easy

Note: Based on 5-6 responses.

The median ratings in this case suggest that entry into this market is easy while expansion is neither difficult nor easy.[82] In a similar manner to the electricity survey, the ratings that respondents assigned to the ease with which entry can occur were quite diverse, with established retailers rating it as either easy or very easy, while more recent entrants and potential entrants rated it as difficult. The story was slightly different for expansion with all but one retailer rating it as neither difficult nor easy.

When asked about changes in entry and/or expansion conditions over the last year, most respondents observed no changes, but a small number noted that tightening conditions in the wholesale gas market were starting to affect entry and expansion conditions in this market.

Impediments to entry and/or expansion

Conflicting views were expressed by respondents about the impediments to entry and expansion in this market, with established retailers claiming there are no impediments, while others identified the following impediments:

- Access to, and/or the price of, gas, given the tightening demand and supply conditions in the wholesale gas market.
- Difficulties obtaining access to the SEA Gas Pipeline, which has been contracted by Origin, GDF Suez, AGL and EnergyAustralia to 2018. While some respondents noted that capacity may be available on the Moomba to Adelaide Pipeline System (MAPS), 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.
- The following features of the Adelaide STTM:[83]

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82 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.

83 The same concerns have been raised about the Sydney and Brisbane STTMs.

- 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.

- The relatively small size of the market compared to the Victorian retail gas market, which one 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 market and are unchanged from the 2014 survey.[84]

At a rural and regional level, a number of respondents informed us that entry and/or expansion in areas outside Adelaide can be impeded by the following factors:

- There is limited geographic coverage of pipeline networks in rural and regional areas.
- 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.
- 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.
- There are higher customer acquisition costs due to the small size of the customer base in these areas.

Outlook for the next one to two years

Looking forward over the next one to two years, respondents did not expect any improvement in entry or expansion conditions in this market. The survey responses also suggest that no retailers are currently considering entry into this market, but an existing retailer is considering expansion over the next one to two years. One respondent also speculated that there may be further consolidation amongst the second tier retailers in this and other markets.

6.2.2 Importance of economies of scale, scope and vertical integration

Participants were also asked in the survey how important economies of scale, economies of scope and interests in upstream gas production are in terms of their ability to compete effectively in this market.[85] The responses to these questions suggest that economies of scale

[84] KLC and FSC, AEMC 2014 Retail Competition Review: Retailer Interviews, June 2014, pp. 25 46-47.

[85] Respondents were asked to rate the importance of each factor in terms of being able to effectively compete in the market on a scale of one to five, where one is irrelevant, three is important and five is critical.

can be important, while economies of scope and interests in upstream gas production are of slight importance only.

6.2.3 Retailer rivalry

To gain some insight into the degree of rivalry currently prevailing in the South Australian retail gas market, survey participants were asked to rate the degree of price and non-price rivalry and the overall degree of rivalry in the market. They were also asked if they had observed any changes in the degree of rivalry in the last year and if they expected to see any further changes in the next one to two years.

Table 6.7 sets out the ratings that respondents assigned to each form of rivalry.

Table 6.7: South Australian Gas Market Ratings – Degree of Rivalry

	Median Rating
Price rivalry	High
Non-price rivalry	
Overall degree of rivalry	

Note: Based on 5 responses.

The median ratings in this case suggest that the degree of rivalry in this market is perceived to be high, or at least it is in Adelaide where all five retailers are competing. In rural and regional areas, the degree of rivalry is reportedly lower with fewer retailers operating in these areas. In some cases, there may just be one retailer (e.g. the Mount Gambier and Murray Bridge regions).

According to respondents, there has been no real change in the degree of rivalry in this market over the last year. Respondents also expect little change in the next one to two years, with one respondent noting that rivalry will "remain high" while another stated that it will continue to evolve as the market evolves.

6.2.4 Customer switching

Like their electricity counterparts, participants in the gas survey were asked to rate the level of switching between gas retailers and between their own gas offers in South Australia. Table 6.8 sets out the ratings that respondents assigned to these two forms of switching.

Table 6.8: South Australian Gas Market Ratings – Level of Switching

	Median Rating
Between retailers	High
Between a retailer's own offers	Moderate

Note: Based on 5 responses.

The median ratings set out in this table suggest that switching between retailers is perceived to be high, while switching between a retailer's offers is less prevalent. The median rating for switching between retailers is unchanged from the 2014 survey[86] and the same as the median rating arising from the electricity survey (see Table 6.4).

6.2.5 Overall level of competition and outlook for the next two years

Finally, gas survey participants were asked to provide their opinions on:

- the current level of competition in the South Australian retail gas market; and
- the outlook for competition in this market over the next one to two years.

In a similar manner to electricity, most respondents were of the view that competition in this market remains relatively high and pointed to the following factors in support of this view:

- There are five retailers supplying the market and the degree of rivalry between these retailers is perceived to be high.
- Entry and expansion conditions have improved since RPR was removed and NECF was implemented in 2013, but contractual constraints on the SEA Gas Pipeline, constraints on access to a competitively priced firm supply of gas and certain aspects of the STTM design continue to act as impediments to entry and/or expansion.
- Customer switching is perceived to be relatively high.

Looking forward over the next one to two years, some respondents noted the potential for conditions in this market to deteriorate as a result of the tightening demand and supply conditions in the wholesale gas market and rising wholesale gas prices. On the other hand, a small number of other respondents noted the potential for competition in this market to increase if new entry occurs, but acknowledged this was unlikely to happen in the next one to two years given:

- the existing capacity on the SEA Gas Pipeline is fully contracted until 2018; and
- the LNG developments in Queensland, which have placed some constraints on the availability of a firm supply of un-contracted gas that can be supplied into South Australia via the MAPS.

[86] KLC and FSC, AEMC 2014 Retail Competition Review: Retailer Interviews, June 2014, p. 25.

7. Tasmania

At the time the 2014 survey was carried out, full retail contestability (FRC) had not been extended to all small electricity customers in Tasmania.[87] The responses to this survey therefore focused on how competition in the retail electricity market might evolve under FRC and whether new entry was likely to occur. Some of the more significant factors that the 2014 respondents claimed may impede entry and competition in this market were:[88]

- RPR;
- the wholesale market arrangements;
- the size and geographic dispersion of the market and nature of the customer base; and
- the limited awareness amongst customers about their ability to choose their own retailer and their potential loyalty toward Aurora.

In contrast to electricity, all small gas customers have been able to choose their own retailer since the market's inception in 2007. Competition in this market was described by participants in the 2014 survey as limited, with the main impediments to competition and entry being the small size of the market and limited scope for growth, the nature of the residential customer base and the dependency of the retail market on the viability of industrial gas customers.[89] The outlook for competition in this market was viewed by respondents in the 2014 survey as "poor", with one respondent noting the potential for there to be no retail gas market in Tasmania in the next five years.[90]

One year on from the 2014 survey, the most significant change that has occurred in the Tasmanian retail electricity market has been the extension of FRC to all small electricity customers (which took effect on 1 July 2014) and the Tasmanian Government's enactment of a range of other changes to the wholesale market arrangements to encourage entry into the retail electricity market. Notwithstanding these actions, no new entry has occurred in the last year. Aurora continues therefore to be the sole supplier of electricity to residential customers. In the small business segment, rivalry between Aurora and ERM has reportedly increased, but the overall level of competition in the market is still viewed as minimal.

In gas, conditions have reportedly deteriorated over the last year, due in large part to the decline in the competitiveness of gas *vis-à-vis* other fuel sources. While this deterioration does not appear to have adversely affected competition in the last year, respondents raised some concerns about the ongoing viability of this market if transmission costs and wholesale gas costs continue to rise.

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87 Prior to 1 July 2014 FRC had not been extended to small electricity customers consuming less than 50MW p.a.

88 KLC and FSC, AEMC 2014 Retail Competition Review: Retailer Interviews, June 2014, p. 26.

89 ibid, p. 27.

90 ibid.

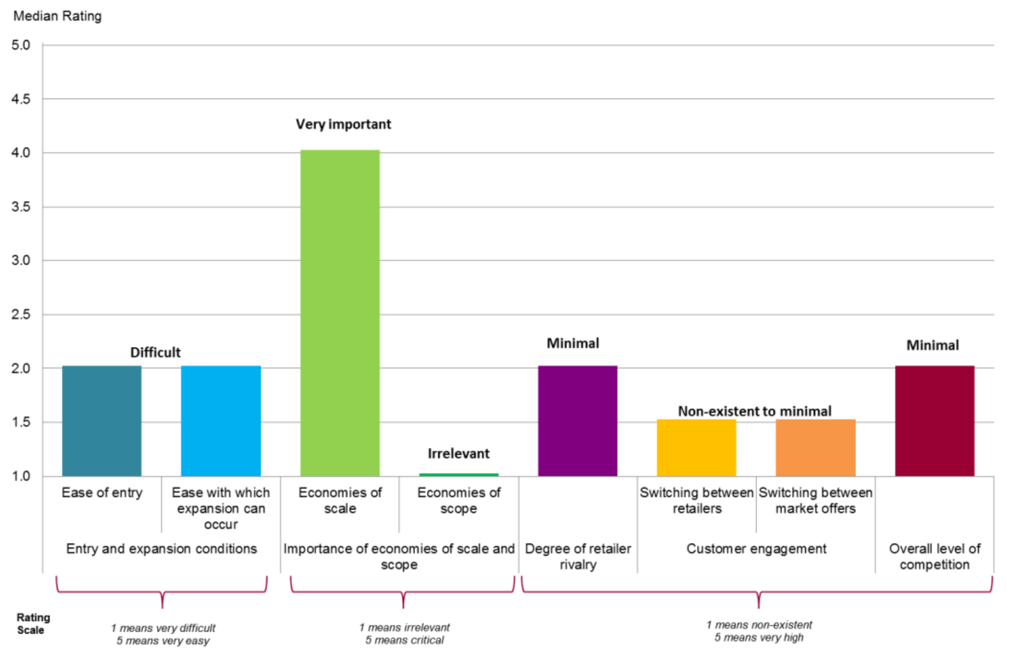
Further detail on respondents' views on the current state of competition in these markets, the changes that have occurred in the last year and the outlook for competition is provided below.

7.1 Retail electricity market

Table 7.1 provides a snapshot of the structural and regulatory features of the Tasmanian retail electricity market and the median ratings that respondents ascribed to the ease with which entry and expansion can occur, the importance of economies of scale and scope, the degree of retailer rivalry, customer switching and the overall level of competition in this market.

Table 7.1: Snapshot of the Tasmanian retail electricity market

Structural and Regulatory Features	
Number of active retailers	1 retailer supplying residential customers and 2 supplying small businesses. The host retailer in Tasmania (excluding islands in the Bass Strait), Aurora Energy, is owned by the Tasmania Government.
Changes in active retailers	No new entry has occurred in the last year, but ERM has started marketing to smaller businesses.
FRC?	FRC for small customers took effect on 1 July 2014
NECF in place?	Yes, since 1 July 2012
RPR in place?	Yes – applied by the Office of the Tasmanian Economic Regulator (OTTER). As part of the package of electricity market reforms that the Tasmanian Government implemented in 2013, the wholesale contract market in Tasmania is also regulated.
Survey Results - Median Ratings	



Further detail on the views expressed by survey participants about conditions in this market is provided below.

7.1.1 Ease with which entry and expansion can occur

Survey participants were asked to rate the ease with which entry and expansion can occur in the Tasmanian retail electricity market and to identify any specific barriers to entry and/or expansion. Participants were also asked if they had observed any change in entry or expansion conditions over the last year, or if they expect to observe any change in the next one to two years.

Ratings and changes in entry and/or expansion conditions over the last year

Table 7.2 sets out the median ratings assigned by respondents to the ease with which entry and expansion can occur in the Tasmanian retail electricity market. The median ratings in this case suggest that entry and expansion in this market are both difficult.[91]

Table 7.2: Tasmanian Electricity Market Ratings – Ease of Entry and Expansion

	Median Rating	Range of Ratings
Ease of entry	Difficult	Very difficult to Easy
Ease of expansion		Very difficult to Neither difficult nor easy

Note: Based on 10 responses.

Respondents noted the only real change that has affected the ease of entry over the last year was the extension of FRC to all small electricity customers, which occurred on 1 July 2014.

Impediments to entry and/or expansion

As they did in the 2014 survey,[92] respondents identified the following impediments to entry and/or expansion in the Tasmanian retail electricity market:

- The wholesale market arrangements and, in particular:
  - the structure of the wholesale market (i.e. a single generator, Hydro Tasmania, that also owns 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 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. In contrast to this view, one smaller retailer observed that the requirement for Hydro Tasmania to offer regulated wholesale hedging

91 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.

92 KLC and FSC, AEMC 2014 Retail Competition Review: Retailer Interviews, June 2014, p. 26.

products ensured there was some hedge liquidity and provided new entrants with some protection.

- The continued application of RPR.[93]
- The small size and geographic dispersion of the customer base.
- The nature of the residential customer base (which reportedly has a large number of customers on concessions and/or that have a poor credit history) and the limited awareness amongst these customers about their ability to choose their own retailer.
- Potential loyalty toward the Aurora brand.

Some other general NEM-wide impediments that respondents claimed may affect entry and/or expansion in this market are:

- The prudential arrangements and credit support required by AEMO, generators, financial intermediaries, the ASX and electricity networks, which smaller retailers noted can "tie up working capital" and limit their ability to expand.
- Political and/or regulatory risk although no specific examples of this risk were identified in the survey responses.

Respondents did not identify any additional impediments to retailing electricity in rural and regional areas of Tasmania.

Outlook for the next one to two years

Looking forward over the next one to two years, respondents did not expect to see any change in the ease with which entry or expansion can occur in the Tasmanian retail electricity market.

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 do so at this stage. Two other respondents also noted the potential for new entry to occur in the next one to two years. According to one of these 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 costs complying with NECF obligations.

7.1.2 Importance of economies of scale, scope and vertical integration

In some markets, a retailer's ability to compete effectively with its rivals will depend on whether it is able to access economies of scale, economies of scope or minimise its exposure to input cost or supply risks by being vertically integrated. Respondents were therefore asked

93 In the 2014 survey, some respondents informed us that the allowance OTTER has made for customer acquisition and retention costs and the retail margin in its most recent regulatory decision are conducive to entry.

See KLC and FSC, AEMC 2014 Retail Competition Review: Retailer Interviews, June 2014, p. 34.

to rate the importance of each factor in terms of being able to effectively compete in the market on a scale of one to five, where one is irrelevant, three is important and five is critical.

The median ratings that respondents attributed to each of these factors suggest that:

- economies of scale are very important;[94]
- economies of scope are irrelevant; and
- having an interest in electricity generation in Tasmania is important.

7.1.3 Retailer rivalry

To help inform the AEMC's assessment of the degree of rivalry in the Tasmanian retail electricity market, survey participants were asked to rate the level of price and non-price rivalry and the overall degree of rivalry. Participants were also asked to identify any changes in rivalry that have occurred in the last year and any changes that are expected to occur in the next one to two years.

The responses to the ratings questions suggest that there is minimal rivalry in this market. As to whether there has been any change in rivalry in the last year, respondents informed us that:

- there had been no change in the residential segment of the market (i.e. because Aurora is still the only retailer supplying this segment of the market), but in the small business segment rivalry between Aurora and ERM has increased; and
- non-price rivalry had become more important in the small business segment of the market over the last year, with retailers now placing greater emphasis on offering larger small business customers greater contract flexibility.

As to whether the degree of rivalry is likely to change in this market over the next one to two years, the majority of respondents expected none, but two respondents expected to see a moderate increase in rivalry, particularly in the small business segment of the market. The same respondents also noted the potential for the host retailer's market share to fall, although one contended the fall would not be material.

7.1.4 Customer switching

While specific metrics exist to measure switching between electricity retailers, there is no publicly available information on switching between a retailer's own offers. Survey participants were therefore asked to rate the level of switching between retailers and their own offers in Tasmania.

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94 In the 2014 survey, respondents noted that jurisdictional specific regulatory requirements (i.e. billing and other regulatory requirements), coupled with the very small size of this market, meant that economies of scale are far more important in Tasmania than in other jurisdictions.

See KLC and FSC, AEMC 2014 Retail Competition Review: Retailer Interviews, June 2014, p. 26.

The median ratings in this case suggest that switching of both forms is limited. In follow-up discussions, respondents informed us that switching between electricity retailers in the residential segment of the market is non-existent at present (i.e. because Aurora is the only retailer operating in this segment of the market), but there has been some switching in the small business segment of the market.

7.1.5 Overall level of competition and outlook for the next two years

The final set of questions was designed to elicit respondents' views on the current level of competition in the Tasmanian retail electricity market and the outlook for competition in this market over the next one to two years.

The responses revealed that while the extension of FRC to all small electricity customers on 1 July 2014 had removed a significant regulatory barrier to entry, competition has only really emerged in the small business segment of the market. Competition in this market was described therefore as minimal by the majority of respondents. Some of the factors that respondents pointed to in support of this view are set out below:

- There is currently only one retailer supplying residential customers in this market and two retailers supplying small business customers.
- There are a number of significant impediments to entry and expansion, including the wholesale market arrangements, RPR and the size and nature of the customer base.
- The level of customer awareness and engagement in the market is reportedly low.

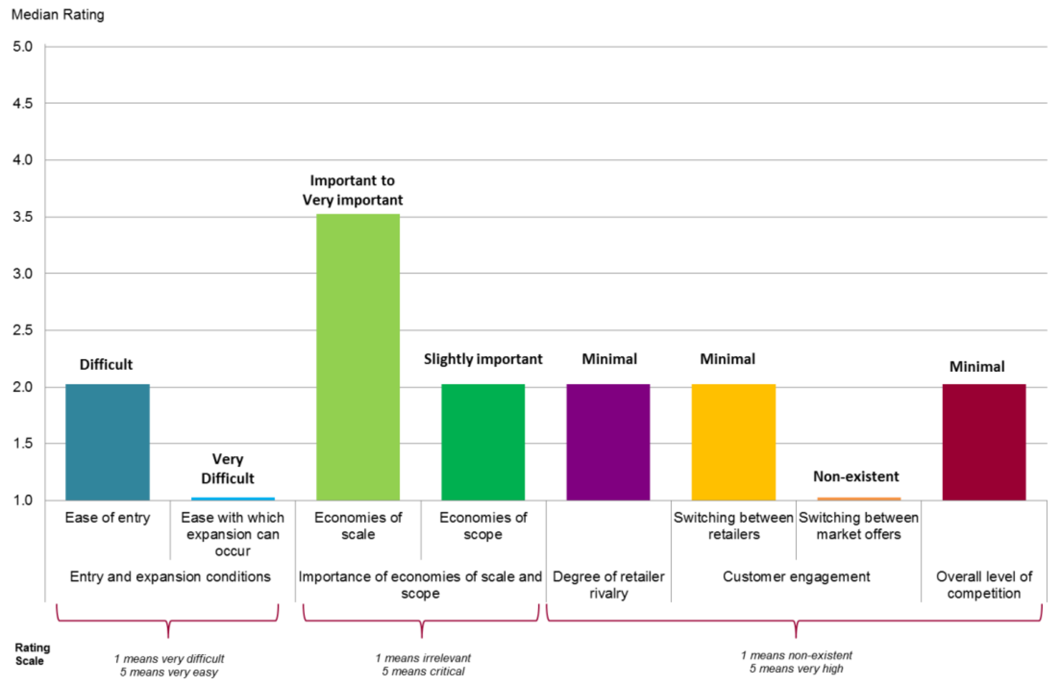
Looking forward over the next one to two years, most respondents do not expect to see any change in the level of competition in this market. One respondent did note, however, the potential for competition to increase if more retailers enter the market.

7.2 Retail gas market

Table 7.3 provides a snapshot of the structural and regulatory features of the Tasmanian retail gas market and the median ratings that respondent ascribed to the ease with which entry and expansion can occur, the importance of economies of scale and scope, the degree of retailer rivalry, customer switching and the overall level of competition in this market.

Table 7.3: Snapshot of the Tasmanian retail gas market

Structural and Regulatory Features	
Gas consumption[95]	Gas penetration rate: 6% in Hobart and 3% in regional areas Total residential demand 2012-13: 0.1 PJ Avg household usage: 11 GJ p.a.
Number of active retailers	2 retailers supplying residential and small business customers.
Changes in active retailers	No new entry has occurred in this market in the alt year.
NECF in place?	Yes, since 1 July 2012
RPR in place?	No.
Transport & Balancing Models	Contract carriage transportation model. No formal balancing market.
Survey Results - Median Ratings	



Further detail on the views expressed by respondents about conditions in the Tasmanian gas retail market is provided below.

7.2.1 Ease with which entry and expansion can occur

Like their electricity counterparts, gas survey participants were asked to rate the ease with which entry and expansion can occur in the Tasmanian retail gas market and to identify any specific barriers to entry and/or expansion in this market. Participants were also asked if they

95 Bureau of Resources and Energy Economics (BREE), 2013 Energy Consumption by Industry and Fuel Type, Table F (2011-12) and ABS, 4602.0.55.001 Environmental Issues: Energy Use and Conservation, March 2011, Table 6.

had observed any change in entry or expansion conditions over the last year, or if they expect to observe any change in the next one to two years.

Ratings and changes in entry and/or expansion conditions over the last year

Table 7.4 sets out the ratings assigned by respondents. The median ratings in this case suggest that entry into the Tasmanian retail gas market can be difficult, while expansion can be very difficult.[96]

Table 7.4: Tasmanian Gas Market Ratings – Ease of Entry and Expansion

	Median Rating
Ease of entry	Difficult
Ease of expansion	Very difficult

Note: Based on 4-5 responses.

Entry and expansion conditions in this market have reportedly become 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 *vis-à-vis* other fuels (e.g. electricity, wood and LPG), in the last year.

On the first of these matters, one respondent asserted that the owner of the Tasmanian Gas Pipeline (TGP) has significantly increased the price of transportation services to some areas in Tasmania and is not currently providing firm pricing beyond 2018. Another respondent observed that the high cost of new transmission capacity in Tasmania limited the ability of new entrants to compete with the existing retailers.

On the second matter, a number of respondents noted that competition from other fuel sources is becoming a more significant impediment to entry and expansion because gas supply and transportation costs are rising, while the prices of other fuels are either declining, or not rising at the same rate as the delivered price of gas.

Impediments to entry and/or expansion

Some of the more significant factors that respondents claimed can impede entry and/or expansion into this market include:

- The small size of the market and the limited scope for growth given the limited geographic penetration of the gas distribution network.
- Access to transmission services on the Tasmanian Gas Pipeline (TGP) and the price of those services.

[96] 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.

- Access to, and/or the price of, gas, particularly given the tightening conditions in the wholesale gas market and the limited wholesale supply options available to retailers in Tasmania.[97]
- The viability of the retail market is inextricably linked to the ongoing viability of industrial and gas fired generation loads on the TGP, because if these large loads drop off, the fixed cost of operating pipelines must be recovered from a smaller demand base, unless measures are put in place to encourage new loads.
- Competition from other fuel sources (e.g. wood, LPG and electricity).
- Political and/or regulatory risk, although no specific examples of this risk were identified in the survey responses.
- State licencing requirements.

In addition to these impediments, respondents noted that the following factors can act as a barrier to retailing gas in rural and regional areas of Tasmania:

- The level of customer awareness about the benefits of natural gas is considered lower in rural and regional areas.
- The penetration of the distribution network in rural and regional areas is currently low and the cost of developing the network to supply these customers would be quite high.
- 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 and so does not have the same rollout requirements as electricity in these areas.

Outlook for the next one to two years

Looking forward over the next one to two years, respondents informed us that conditions are likely to deteriorate further if the cost of transporting gas on the TGP continues to rise:[98]

> "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."

Concerns were also raised 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.

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97 According to respondents, the proximity of the TGP to the Gippsland Basin means that it really is the only commercially viable supply option.

98 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 TGP.

As to whether any new entry or expansion is likely to occur in the next one to two years, the survey responses suggest the following:

- None of the surveyed retailers indicated they are considering entry into this market. One respondent did note, however, the potential for a different competitor to take over Aurora if the Tasmanian Government decides to try to sell Aurora 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.

7.2.2 Importance of economies of scale, scope and vertical integration

Participants were also asked in the survey how important economies of scale, economies of scope and interests in upstream gas production are in terms of their ability to compete effectively in this market.[99] The responses to these questions suggest that economies of scale and interests in gas production are important, while economies of scope are less important.

7.2.3 Retailer rivalry

To gain some insight into the degree of rivalry currently prevailing in the Tasmanian retail gas market, survey participants were asked to rate the degree of price and non-price rivalry and the overall degree of rivalry in the market. They were also asked if they had observed any changes in the degree of rivalry in the last year and if they expected to see any further changes in the next one to two years.

The ratings in this case suggest there is only a minimal degree of price and non-price rivalry in the Tasmanian retail gas market. Elaborating on this rating, one respondent noted that while rivalry between the two gas retailers may be minimal, both retailers have to compete with other alternative energy sources, such as wood, electricity and LPG. According to this respondent, competition from these other fuel sources is starting to act as more of a constraint, with the delivered price of gas now on par with the price of LPG and electricity.

When asked if there has been any change in the overall degree of rivalry in this market in the last year, respondents stated that there had been no change and they don't expect to see any changes in the next one to two years.

7.2.4 Customer switching

To elicit retailers' views on customer switching, gas survey participants were asked to rate the level of switching between gas retailers and their own offers. The median ratings in this case suggest there is minimal switching between retailers, while switching between a retailer's own offers is non-existent. The latter of these ratings appears to reflect the fact the both retailers operating in this market only offer a single product to customers.

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99 Respondents were asked to rate the importance of each factor in terms of being able to effectively compete in the market on a scale of one to five, where one is irrelevant, three is important and five is critical.

7.2.5 Overall level of competition and outlook for the next two years

Finally, gas survey participants were asked their opinions on:

- the current level of competition in the Tasmanian retail gas market; and
- the outlook for competition in this market over the next one to two years.

The responses to the first of these questions revealed that, as in the 2014 survey,[100] most respondents think there is only a minimal degree of competition in the Tasmanian retail gas market. Respondents attributed this to the following factors:

- There are only two retailers supplying the market and the degree of rivalry between the two is considered to be minimal.
- There are a number of significant impediments to entry and expansion in this market, such as the relatively low penetration of gas in Tasmania and the limited scope for growth, competition from other fuel sources, constraints on access to competitively priced transmission services and gas.
- The level of customer awareness and engagement in the market is reportedly low.

One respondent that took a slightly different view on the bounds of the market stated that if other fuel sources were factored in, it would rate the level of competition as very high.

Looking forward over the next one to two years, respondents do not expect to see any change in the level of competition in this market, although some noted that competition with other fuel sources will become more intense, as the wholesale cost of gas and transmission costs continue to rise while the price of electricity falls.

Beyond the next one to two years, respondents expect the rising cost of transportation services on the TGP, wholesale gas prices and competition from other fuel sources to continue to have the greatest bearing on competition. As in the 2014 survey, responses to the 2015 survey suggest the prospects for this market are bleak, with retailers and customers still questioning whether there will be a retail gas market in Tasmania in five years.

[100] KLC and FSC, AEMC 2014 Retail Competition Review: Retailer Interviews, June 2014, p. 27.

8. Victoria

In the 2014 survey, respondents described the Victorian retail electricity and gas markets as the most competitive in the NEM and attributed this to the following factors:[101]

- the size of the markets and the large number of active retailers in both markets;
- the time elapsed since privatisation, FRC and the removal of RPR;
- the relative ease with which entry and expansion can occur in both markets, although concerns were raised about the regulatory and consumer protection frameworks and the perceived increase in the degree of political and regulatory risk in Victoria;
- the high degree of independent rivalry in both markets, which one retailer noted ranged from "mildly hot" to "super hot"; and
- the level of customer awareness and engagement in the two markets.

Respondents in the 2014 survey also noted the potential for:[102]

- a greater degree of political and regulatory risk to adversely affect entry and expansion;
- increased vertical integration in the wholesale electricity market and, to a lesser extent, tightening conditions in the wholesale gas market to adversely affect retailers; and
- customers to become fatigued and for the South Australian or NSW markets to overtake Victoria as the most competitive markets in the NEM.

One year on from the 2014 survey, the Victorian gas and electricity markets are still viewed by retailers as the most competitive in the NEM and there is no sign that customer fatigue has set in, or that competition in any other jurisdiction has surpassed Victoria. The responses to this year's survey also indicate that the degree of rivalry in the electricity retail market has increased but there has been little change in the level of customer engagement or entry and expansion conditions in this market. The increase in rivalry was attributed by most respondents to the big three retailers who were reportedly trying to counter the loss of customers to other retailers, by offering discounts that are much closer to the rest of the market than they may have been in the past. New entry has also occurred in this market over the last year, but there has also been some consolidation with Lumo having recently been acquired by Red Energy's parent company, Snowy Hydro.

In contrast to electricity, rivalry in the retail gas market has reportedly been relatively static over the last year, although this could change given Momentum Energy's and Click Energy's recent entry into this market. The level of customer engagement in this market is also largely unchanged, while entry and expansion conditions are, according to some retailers, becoming more difficult given the tightening conditions in the wholesale gas market.

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[101] ibid, pp. 28-30.

[102] ibid.

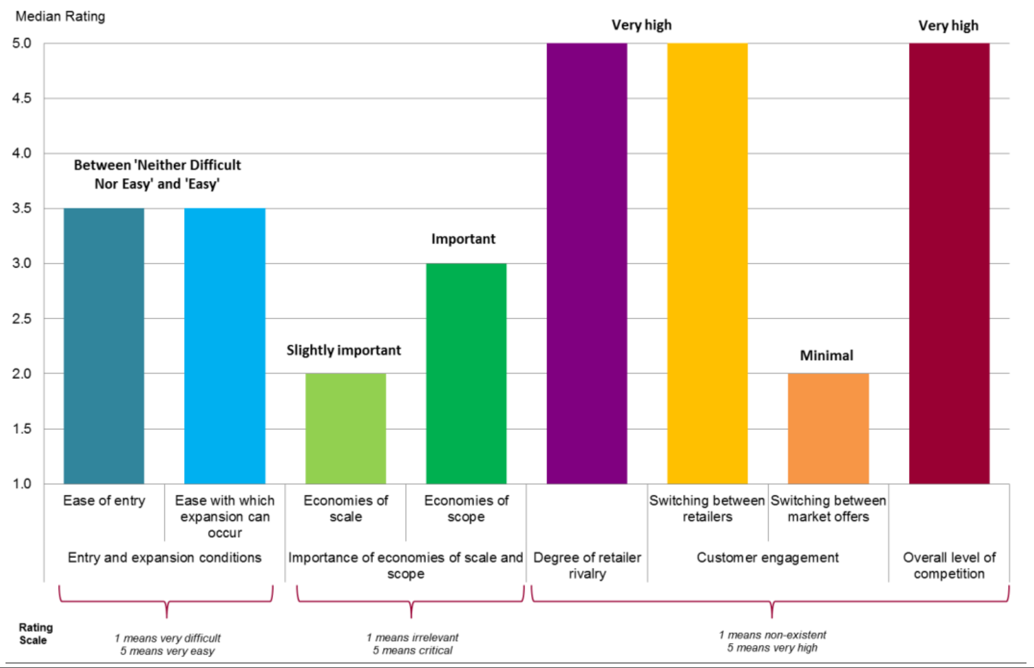
Further detail on respondents' views on the current state of competition in these markets, the changes that have occurred in the last year and the outlook for competition is provided below.

8.1 Retail electricity market

Table 8.1 provides a snapshot of the structural and regulatory features of the Victorian retail electricity market and the median ratings that respondents ascribed to the ease with which entry and expansion can occur, the importance of economies of scale and scope, the degree of retailer rivalry, customer switching and the overall level of competition in this market.

Table 8.1: Snapshot of the Victorian Retail Electricity Market

Structural and Regulatory Features	
Number of active retailers	17 active retailers[103]
Changes in the last year	In the last year the following has occurred: ▪ CovaU entered the market. ▪ M2 introduced a new brand, Commander Power & Gas, which supplies small businesses. ▪ Lumo and Red Energy are now both owned by Snowy Hydro. ▪ One retailer has reportedly ceased retailing to residential customers.
NECF in place?	No
RPR in place?	RPR removed in 2009. Price monitoring currently in place.
Survey Results - Median Ratings	



Further detail on the views expressed by survey participants about competition in this market is provided below.

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103 This count combines M2's two brands (Dodo Power and Gas and Commander Power and Gas), AGL's two brands (AGL and Powerdirect), Alinta's two brands (Alinta Energy and Neighbourhood Energy) and Snowy Hydro's two brands (Lumo and Red Energy).

8.1.1 Ease with which entry and expansion can occur

To elicit retailers' views on entry and expansion conditions in the Victorian retail electricity market, survey participants were asked to rate the ease with which entry and expansion can occur in the market and to identify any specific barriers to entry and/or expansion. Participants were also asked if they had observed any change in entry or expansion conditions over the last year, or if they expect to observe any change in the next one to two years.

Ratings and changes in entry and/or expansion conditions over the last year

Table 8.2 sets out the median ratings assigned by respondents to the ease with which entry and expansion can occur in the Victorian retail electricity market. The median ratings in this case suggest that entry into, and expansion within, this market are both relatively easy [104] which is consistent with the findings from the 2014 survey.[105]

Table 8.2: Victoria Electricity Market Ratings – Ease of Entry and Expansion

	Median Rating
Ease of entry	Between 'Neither difficult nor easy' and 'Easy'
Ease of expansion	

Note: Based on 12 responses.

As to whether there has been any change in the ease with which entry or expansion can occur over the last year, the only factor that respondents focused on was the perceived increase in the level of political and regulatory risk.

Impediments to entry and/or expansion

As they did in the 2014 survey, [106] a number of respondents considered the Victorian market to be the preferred entry point for new retailers, because RPR has been removed, the level of customer awareness and engagement is high and wholesale market conditions have been relatively conducive to entry to date.[107]

Notwithstanding these positive attributes and the fact that new entry has occurred in the last year,[108] concerns were raised by a number of respondents about the effect on entry and expansion conditions of Victoria's regulatory and consumer protection framework, and the

104 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.

105 KLC and FSC, AEMC 2014 Retail Competition Review: Retailer Interviews, June 2014, pp. 28-29.

106 ibid.

107 While some respondents expressed this view, we understand that CovaU entered the NSW market before the Victorian market.

108 CovaU entered the market in late 2014.

perceived increase in political and regulatory risk.[109] The factors retailers pointed to substantiate these concerns were:

- Victoria's decision not yet to sign up to NECF, and to continue to use state based regulations – Respondents acknowledged that harmonisation of the Victorian Energy Retail Code with the NECF has been an improvement. However, they expressed concerns about the potential for two different regulators (i.e. the Essential Services Commission (ESC) and the Australian Energy Regulator (AER)) to interpret the provisions differently and to give rise to higher compliance costs.
- The concession scheme in Victoria – A number of respondents claimed that the Victorian scheme is more costly to administer and more cumbersome than schemes in other jurisdictions and have called for the harmonisation of concession schemes across the NEM.
- The consumer protection framework (i.e. hardship schemes and regulations pertaining to wrongful disconnection, back billing, collections, early termination fees and late payment fees) – Respondents described this framework as more "onerous, costly and risky" than the protections provided in other jurisdictions and informed us that the nature of the obligations have prompted one retailer to cease retailing to residential customers in Victoria. Some of the specific issues that respondents raised about the consumer protection framework are set out below:
  - One respondent noted that the framework results in retailers holding higher levels of debt for longer in Victoria, and claimed this can be particularly problematic for small retailers because it "ties up working capital".
  - Another respondent noted that restrictions on a 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.
  - One respondent also noted that "the increased focus on consumer protection in a way that may go well beyond that envisioned under original licence assumptions is problematic".
- The ESC's upcoming review of hardship arrangements – Concerns were raised by some retailers about the potential for these reviews to result in even more onerous obligations, higher compliance costs and penalties.

Other NEM-wide impediments that some respondents claimed may affect entry and/or expansion in the Victorian retail electricity market include: [110]

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[109] In follow-up discussions, one respondent noted that once RPR is removed in a jurisdiction, the effects of political and regulatory risk on entry and expansion conditions become more prominent and in those jurisdictions where the risk is perceived to be high, can cause retailers to adopt a more conservative approach to competing in that market.

[110] Another impediment that was cited by one respondent was the complexities associated with AEMO's market system certification and registration.

- Access to competitively priced hedging instruments on reasonable terms and conditions. Some smaller retailers claimed this 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).
- The prudential arrangements and credit support required by AEMO, generators, financial intermediaries, the ASX and electricity networks, which smaller retailers noted can "tie up working capital" and limit their ability to expand.
- Environmental policies and/or energy efficiency schemes. The decision by the Victorian Government to maintain the Victorian Energy Efficiency Target (VEET) was viewed negatively by a number of smaller retailers who noted that jurisdictional specific schemes can increase retailers' operational and compliance costs because of their bespoke compliance and administrative requirements.

At a rural and regional level, a number of respondents informed us that entry and expansion can be impeded by the following factors:

- The small size and geographic dispersion of customers in these areas, which can result in higher customer acquisition costs.
- Loss factors in rural and regional areas 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.
- Higher network charges, which can reduce the margins available to retailers and the discounts that can be offered to customers.

These impediments are not unique to rural and regional areas of Victoria. Rather, respondents informed us that they can affect rural and regional areas in most jurisdictions.

Outlook for the next one to two years

Looking forward over the next one to two years, a number of respondents noted the potential for entry and expansion to become more difficult if any new regulations are implemented to deal with wrongful disconnections, hardship and other aspects of the consumer protection framework. One respondent also noted the potential for some improvement in entry conditions if Victoria decides to implement NECF.

Of the 15 electricity retailers that responded to the survey, three indicated they are considering expansion in Victoria over the next one to two years. A number of respondents also noted the potential for new entry to occur in this market, while others noted the potential for further consolidation amongst second tier retailers. The potential for consolidation is not unique to Victoria. Rather, respondents noted the potential for this to occur in a number of jurisdictions.

8.1.2 Importance of economies of scale, scope and vertical integration

In some markets, a retailer's ability to compete effectively with its rivals will depend on whether it is able to access economies of scale, economies of scope or minimise its exposure to input cost or supply risks by being vertically integrated. Respondents were therefore asked to rate the importance of each factor in terms of being able to effectively compete in the market on a scale of one to five, where one is irrelevant, three is important and five is critical.

The responses to these questions suggest that:

- economies of scale are of only slight importance in this market;
- economies of scope are important in this market; and
- having an interest in generation is not required to compete effectively in this market.

The reason why economies of scope are considered important in this market was not articulated in the survey responses. However, in the 2014 survey respondents noted that economies of scope tend to be more important in jurisdictions with a higher gas penetration rate, such as Victoria.[111]

8.1.3 Retailer rivalry

To help inform the AEMC's assessment of the degree of rivalry currently prevailing in the Victorian retail electricity market, survey participants were asked to rate the degree of price and non-price rivalry and the overall degree of rivalry. Participants were also asked whether they had observed any change in the degree of rivalry in the last year and if they expect to see any further changes in the next one to two years.

Table 8.3 sets out the ratings that respondents assigned to each form of rivalry in Victoria.

Table 8.3: Victoria Electricity Market Ratings – Degree of Rivalry

	Median Rating
Price rivalry	Very high
Non-price rivalry	
Overall degree of rivalry	

Note: Based on 12 responses.

The median ratings in this table suggest that the degree of rivalry in the Victorian retail electricity market is perceived to be very high, which is consistent with the views expressed by respondents in the 2014 survey.[112] However, the following indicators cited by respondents suggest that rivalry has increased in this market over the last year, or as one

111 KLC and FSC, AEMC 2014 Retail Competition Review: Retailer Interviews, June 2014, p. 40.

112 ibid, p. 28.

respondent said in the 2014 survey, the market has transitioned from a "mildly hot" to "super hot" market:[113]

- The discounts offered to small electricity customers have reportedly undergone a step change in the last year, with a large number of retailers lifting their discounts on electricity usage (or usage plus supply) charges from 15-22% in 2013-14 to 25-30% in 2014-15.[114,115] It is not clear whether or not these higher discounts have benefited consumers though, because as one retailer noted:
  - at the same time as increasing the discount, a retailer may increase the underlying usage and/or supply charges, which means that customers may be no better off; and
  - the discounts offered by most retailers are now conditional on customers paying their bills on time, so the higher discounts may not be available to all customers.[116]
- Other valuable inducements, such as Origin Energy's "first gas bill free" offer to dual fuel customers and AGL's "free Saturday of power" offer to electricity customers, have reportedly been offered to customers in the last year.
- Some retailers have reportedly amended their prices numerous times in the last year to respond to competition.
- A number of small and large retailers have increased their marketing efforts in Victoria over the last year.
- More innovative smart meter based products are starting to be offered in the market.
- Greater emphasis is reportedly being placed on customer service, with some retailers offering customers: on line portals to monitor their usage; a choice about the frequency with which they receive their bills; and longer call centre hours.

Elaborating further on the current state of rivalry in the Victorian retail electricity market, one respondent noted that it is a "highly contested market at present".

In contrast to the changes outlined above, respondents indicated there has been no change in the degree of retailer rivalry in regional or rural areas in Victoria over the last year.

In follow-up discussions, respondents were asked whether anything had triggered the increase in rivalry over the last year. Respondents suggested that the increase was driven primarily by the big three retailers who were trying to counter the loss of customers to other retailers, by

113 ibid, p. 29.

114 2013-14 discounts obtained from Your Choice website on 31 December 2013 and 2014-15 discounts obtained from retailer websites accessed on 1 January 2015.

115 As one respondent noted though, some care must be taken when comparing discounts over time because at the same time as increasing the discount, a retailer may increase the underlying usage and/or supply charges.

116 The same respondent noted that this has been a real change in the market in the last few years and that there are only a few retailers offering a pay on time discount that actually reflects the benefit to the retailer of receiving payments on time.

offering discounts that are much closer to the rest of the market than they may have been in the past.[117,118] One respondent also observed that in the lead up to its sale, Lumo increased both its discounts and marketing efforts to try to increase the size of its customer base and the valuation of its business.

Looking forward over the next one to two years, respondents stated that while there may be a further reduction in the host retailers' market shares, they do not expect to observe a significant change in the degree of rivalry in this market. As one respondent put it, rivalry is expected to remain "high and effective".

8.1.4 Customer switching

While specific metrics exist to measure switching between electricity retailers, there is no publicly available information on switching between a retailer's own offers. Survey participants were therefore asked to rate the level of switching between retailers and their own offers in Victoria. These ratings are set out in Table 8.4.

Table 8.4: Victoria Electricity Market Ratings – Level of Switching

	Median Rating
Between retailers	Very high
Between a retailer's own offers	Moderate

Note: Based on 9-12 responses.

The median ratings in this case suggest that switching between retailers is perceived to be very high, while switching between a retailer's offers is less prevalent. As in other jurisdictions, a number of second tier retailers rated switching between their own offers as non-existent to minimal because they only have one offer, while larger retailers that have a number of different offers rated it as moderate to high.

In a number of follow-up discussions, respondents were asked whether there was any indication that Victorian electricity customers were becoming disengaged, or that fatigue had set in over the last year, as hypothesised by a number of respondents in the 2014 survey.[119] The unequivocal response was that Victorian customers are still actively engaged in the market and there is no sign that fatigue has set in.

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117 This point was also noted on slide 24 of Origin Energy's 2015 half year results presentation, which stated the following:

- As part of Origin's disciplined margin management strategy, discounts were reduced in July and August 2014
- As competitive activity persisted in VIC and increased in NSW Origin experienced net customer losses
- Origin responded in November, with competitive discount offers

118 One respondent also informed us that investors are starting to place greater weight on maintaining customer numbers.

119 KLC and FSC, AEMC 2014 Retail Competition Review: Retailer Interviews, June 2014, p. 29.

8.1.5 Overall level of competition and outlook for the next two years

The final set of survey questions were designed to elicit retailers' views on the current level of competition in the Victorian retail electricity market and the outlook for competition in this market over the next one to two years.

The responses revealed that retailers continue to view this market as the most competitive in the NEM. Some of the indicators that respondents pointed to in support of this view are set out below:

- There are 17 active retailers operating in the market and the degree of rivalry is perceived to be very high.
- Entry and expansion in this market have both been relatively easy to date (as highlighted by the new entry and expansions that have occurred in the last year), but the imposition of more onerous regulatory and consumer protection obligations on retailers is reportedly starting to affect entry and expansion conditions.
- Smart meters have been rolled out, which means there is greater potential to innovate and compete on this basis.
- The level of customer awareness and switching is perceived to be high.

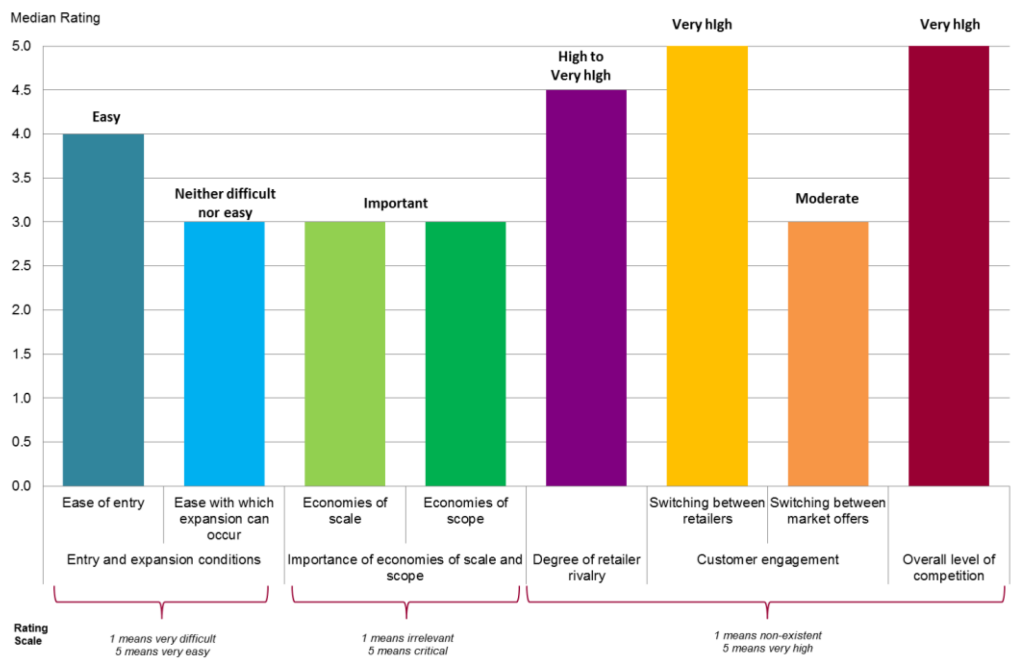
Looking forward over the next one to two years, a number of respondents stated that they expect the market to become even more competitive and that customers will benefit from an even greater level of price rivalry and product innovation.

8.2 Retail gas market

Table 8.5 provides a snapshot of the structural and regulatory features of the Victorian retail gas market and the median ratings that respondents ascribed to the ease with which entry and expansion can occur, the importance of economies of scale and scope, the degree of retailer rivalry, customer switching and the overall level of competition in this market.

Table 8.5: Snapshot of the Victorian Retail Gas Market

Structural and Regulatory Features	
Gas consumption[120]	Gas penetration rate: 91% in Melbourne and 57.5% in regional areas Total residential demand in 2012-13: 104 PJ Average household usage: 59 GJ p.a.
Number of active retailers	9 active retailers operating in the Declared Wholesale Gas Market (DWGM).[121]
Changes in active retailers	In the last year the following changes have occurred: ▪ Momentum Energy and Click Energy entered the market; ▪ Lumo and Red Energy are now both owned by Snowy Hydro.
NECF in place?	No.
RPR in place?	No, removed in 2009.
Transport & Balancing Models	Market carriage transportation model in the DWGM and contract carriage in regional pipelines. Balancing occurs through the DWGM.
Survey Results - Median Ratings	



Further detail on the views expressed by respondents about conditions in the Victorian gas retail market is provided below.

8.2.1 Ease with which entry and expansion can occur

Like their electricity counterparts, gas survey participants were asked to rate the ease with which entry and expansion can occur in the Victorian retail gas market and to identify any specific barriers to entry and/or expansion in this market. Participants were also asked if they

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120 Bureau of Resources and Energy Economics (BREE), 2013 Energy Consumption by Industry and Fuel Type, Table F (2011-12) and ABS, 4602.0.55.001 Environmental Issues: Energy Use and Conservation, March 2011, Table 6.

121 This count combines M2's two brands (Dodo Power and Gas and Commander Power and Gas) and Snowy Hydro's two brands (Lumo and Red Energy).

had observed any change in entry or expansion conditions over the last year, or if they expect to observe any change in the next one to two years.

Ratings and changes in entry and/or expansion conditions over the last year

Table 8.6 sets out the ratings assigned by respondents to the ease with which entry and expansion can occur in the Victorian retail gas market. The median ratings in this case suggest that entry into this market is easy while expansion is neither difficult nor easy.[122] A closer review of the ratings revealed that 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. The story was slightly different for expansion with all but one retailer rating it as neither difficult nor easy.

Table 8.6: Victoria Gas Market Ratings – Ease of Entry and Expansion

	Median Rating
Ease of entry	Easy
Ease of expansion	Neither difficult nor easy

Note: Based on 6-7 responses.

When asked about changes in entry and/or expansion conditions over the last year, most respondents claimed there has been no change, but a small number observed that tightening conditions in the wholesale gas market were starting to affect entry and expansion conditions in this market.

Impediments to entry and/or expansion

As they did in the 2014 survey,[123] respondents in this survey informed us that the Victorian retail gas market has been relatively conducive to entry to date and attributed this to the size of the market, the general design of the Declared Wholesale Gas Market (DWGM),[124] the removal of RPR and the high level of customer engagement. There are, however, a number of perceived impediments to entry and/or expansion in this market, including:

- Access to, and/or the price of, gas, which some respondents noted is becoming more of an issue for some retailers given the tightening demand and supply conditions in the wholesale gas market.
- The Victorian Gas Safety Case that all new retailers must develop and have approved by Energy Safety Victoria (ESV) before they can start retailing, which is reportedly relatively expensive to develop.

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122 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 easy.

123 KLC and FSC, AEMC 2014 Retail Competition Review: Retailer Interviews, June 2014, p. 30.

124 In the 2014 survey, respondents informed us that the DWGM is more conducive to entry by smaller retailers, because:

- they don't need to enter into long term gas transportation agreements; and
- they can purchase gas from the market while they are building up their customer base.

- The Victorian regulatory and consumer protection framework, which is perceived as more onerous than frameworks in other jurisdictions, and an increase in the perceived degree of political and regulatory risk (see section 8.1.1).
- The following features of the DWGM can act as an impediment to entry:
  - the complexity of the market;
  - the inability to hedge against all risks in the market;
  - AEMO's prudential requirements; and
  - AEMO's registration, accreditation and certification processes.

These perceived impediments are largely the same as those identified in the 2014 survey.[125]

At a rural and regional level, a number of respondents informed us that entry and/or expansion in areas outside the DWGM can be impeded by the following factors:

- The limited geographic coverage of pipeline networks in rural and regional areas.
- The size of 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.
- 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.
- The terms and conditions of access to some regional transmission and/or distribution pipelines.
- Higher customer acquisition costs.

Outlook for the next one to two years

Looking forward over the next one to two years, one respondent considered that entry and expansion conditions could deteriorate if conditions in the wholesale gas market do not improve. Others noted that greater regulatory and political risk could also affect entry into this market.

As to whether new entry or expansion is likely to occur over this period, the survey responses indicated that:

- one retailer is considering entry into new regional areas of Victoria over the next one to two years; and
- two second tier retailers are considering expansion in the DWGM.

125 KLC and FSC, AEMC 2014 Retail Competition Review: Retailer Interviews, June 2014, p. 30.

A number of other respondents also noted the potential for a consolidation amongst the second tier retailers in this and other markets.

8.2.2 Importance of economies of scale, scope and vertical integration

Participants were also asked in the survey rate the importance of economies of scale, economies of scope and interests in upstream gas production are in terms of their ability to compete effectively in this market.[126] The responses to these questions suggest that economies of scale and economies of scope are both important, while having an interest in gas production is of slight importance.

8.2.3 Retailer rivalry

To gain some insights into the degree of rivalry currently prevailing in the Victorian retail gas market, survey participants were asked to rate the degree of price and non-price rivalry and the overall degree of rivalry in the market. They were also asked if they had observed any changes in the degree of rivalry in the last year and if they expected to see any further changes in the next one to two years.

Table 8.7 sets out the ratings that respondents assigned to each form of rivalry.

Table 8.7: Victorian Gas Market Ratings – Degree of Rivalry

	Median Rating
Price rivalry	Very high
Non-price rivalry	Between High and Very high
Overall degree of rivalry	

Note: Based on 6 responses.

The median ratings set out in this table suggest that the overall degree of rivalry in the areas serviced by the DWGM is perceived to be high to very high. In rural and regional areas sitting outside the DWGM (e.g. Carisbrook to Horsham, Mildura and Gippsland), the degree of rivalry is reportedly lower with fewer retailers operating in these areas.

Unlike the increase in rivalry that has occurred in the Victorian retail electricity market over the last year, respondents claim that rivalry in the retail gas market has been relatively static, with discounts reportedly remaining at around the same level for the last two years.

Looking forward, respondents expect rivalry to remain high in the next one to two years. A number of respondents also noted the potential for host retailers' market shares to fall further in this period, while one respondent suggested the host retailers' market shares could increase.

126 Respondents were asked to rate the importance of each factor in terms of being able to effectively compete in the market on a scale of one to five, where one is irrelevant, three is important and five is critical.

8.2.4 Customer switching

Participants in the gas survey were also asked to rate the level of switching between gas retailers and their own gas offers. Table 8.8 sets out the ratings that respondents assigned to the two forms of switching.

Table 8.8: Victorian Gas Market Ratings – Level of Switching

	Median Rating
Between retailers	Very High
Between a retailer's own offers	Moderate

Note: Based on 6-7 responses.

Like electricity, the median ratings in this case suggest that switching between gas retailers is perceived to be very high, while switching between a retailer's offers is perceived to be less prevalent.

8.2.5 Overall level of competition and outlook for the next two years

Finally, gas survey participants were asked to provide their opinions on:

- the current level of competition in the Victorian retail gas market; and
- the outlook for competition in this market over the next one to two years.

In short, most respondents were of the view that competition in this market remains very high and pointed to the following indicators in support of this view:

- The penetration of gas in Victoria is higher than in other jurisdictions, which enables more retailers to operate in the market.
- There are currently nine active retailers operating in the DWGM and there has been recent new entry into the market.
- Entry and expansion conditions have been considered relatively easy to date, although concerns have been raised about the effect that some aspects of the DWGM design, the regulatory and consumer protection framework, the effect of tightening conditions in the wholesale gas market and the Gas Safety Case may be having on entry and expansion.
- The degree of rivalry is perceived to be very high.
- The level of customer awareness and switching in the market is perceived to be high.

Respondents made few comments on the outlook for the Victorian retail gas market, although some did note that further new entry would prompt more rigorous competition in this market. Concerns were also raised by a few respondents about the effect that any further tightening in the wholesale gas market and rising wholesale gas prices may have on the retail market.

9. NEM-Wide Observations

Many of the survey responses contained general NEM-wide observations about:

- the impediments that can exist for retailers seeking to enter and/or expand across multiple jurisdictions;
- how retail prices are determined and why there may be a large difference between the most expensive and the cheapest offers in some markets; and
- the factors likely to have the greatest influence on retail competition in gas and electricity markets over the next five years.

The remainder of this chapter provides an overview of these observations.

9.1 Impediments to expanding across jurisdictions

In the 2014 survey, respondents identified a number of impediments to entering and/or expanding across multiple jurisdictions, including:[127]

- delays in the implementation of the NECF and jurisdictional derogations;
- differences in energy efficiency schemes and feed-in tariff schemes across jurisdictions;
- differences in customer protection frameworks and concession schemes across jurisdictions; and
- differences in other regulatory requirements across jurisdictions.

In this year's survey, respondents were asked if these factors were still impeding entry and/or expansion across multiple jurisdictions. Their responses were mixed, with some retailers claiming these factors remain impediments, while others considered that differences across jurisdictions increase the cost to service customers, but do not impede or prevent entry or expansion.

Those that claimed these factors are still impeding entry and/or expansion across multiple jurisdictions made the following observations:

- *Delays in the implementation of the NECF and jurisdictional derogations* – With Queensland due to implement NECF on 1 July 2015, respondents noted that Victoria was the only jurisdiction that remained a problem in so far as implementing NECF. As they did in the 2014 survey, many respondents raised concerns about the number and extent of the various jurisdictional derogations, and claimed that these are adding to the cost of retailing across jurisdictions.
- *Differences in energy efficiency schemes and feed-in tariff schemes across jurisdictions* – Respondents noted that differences in energy efficiency schemes are particularly problematic in the ACT, South Australia and Victoria. Differences in feed-in tariff

[127] KLC and FSC, AEMC 2014 Retail Competition Review: Retailer Interviews, June 2014, pp. 38-39 and 46.

schemes were seen as a lesser issue because retailers usually have some control over whether they participate in such schemes.

- *Differences in customer protection frameworks and concession schemes across jurisdictions* – Concerns were raised by respondents about the costs of complying with different consumer protection frameworks in Victoria and other jurisdictions that have implemented jurisdictional derogations from NECF. Respondents also raised concerns about the cost associated with managing different concession schemes in each jurisdiction and a number have called for greater harmonisation of these schemes.
- *Differences in other regulatory requirements across jurisdictions* – A number of respondents noted that where differences in regulatory requirements exist, they impose costs on new entrants seeking to operate across multiple jurisdictions.

Some other impediments that were cited by one gas survey participant are differences in gas balancing markets, gas retail markets and gas transportation models. According to this respondent if steps were taken to harmonise market systems and information flows in jurisdictional gas markets, they would reduce the barriers to operating in retail gas markets across multiple jurisdictions.

Elaborating further on the effect of these differences on entry across jurisdictions, one respondent noted:

> "The lack of a truly consistent National Energy Consumer Framework (NECF) absent of jurisdiction derogations, significantly impacts on the delivery of the National Electricity Objective. We continue to see divergences in the area of energy concessions, disconnection and credit management processes, contract terms and consumer protection provisions, operation of Ombudsman schemes and information disclosures. Competition has developed despite these barriers, with continued improvements in the market framework we will see competition continue to develop."

9.2 Factors affecting retail prices

To gain a better understanding of the factors affecting retail prices, survey participants were asked to rate the importance of wholesale costs, transportation costs, competitors' prices and any other identified factors, in determining prices on a scale of one to five, where one is irrelevant and five is critical.

Table 9.1 sets out the ratings that respondents ascribed to the importance of each of these factors for both electricity and gas.

Table 9.1: Factors affecting retail electricity and gas prices (range of ratings)

	Electricity	Gas
Wholesale energy costs (including hedging costs for electricity)	Important to Critical	Important to Critical
Transmission and distribution costs	Slightly important to Critical	Important to Critical
Competitors' prices	Important to Critical	Important to Critical

Note: Based on 12 responses for electricity and 8 responses for gas.

Respondents also identified other factors that they considered could have a significant influence on pricing decisions, including:

- RPR in relevant jurisdictions, or transitional pricing arrangements that may be put in place once RPR is removed (e.g. the Transitional Tariff arrangements in NSW);
- environmental and energy efficiency schemes;
- competition from other fuel sources, particularly in gas markets where it is viewed as a 'fuel of choice'; and
- customer and political impact.

The other pricing related question asked of electricity survey participants is reproduced below:

> Recent data from the AER, QCA and Victorian Government's comparator websites indicate a significant difference between the upper and lower bounds of the market offers available to residential customers in each jurisdiction. Material differences are also observable on standing offers.
>
> (a) What do you think this degree of variation says about the state of competition?
>
> (b) Is this what you would expect to observe in a competitive market?
>
> (c) What factors do you think contribute to the range of prices for market and standing offers?

In response to question (a), a small number of respondents noted the difficulty in making comparisons across offers due to differences in terms and conditions and consumption patterns. The remainder were of the view that the variation is an indicator of the strength of competition in the market, as the following comments highlight:

> "Competition is occurring and the variances are a by-product of competition where businesses are operating under varying business and risk models within the same market."
>
> "There is a correlation between the degree of variation and the level of competition and the degree of price deregulation. More variation usually means more competitors, more competition and niche offers and price/service/conditions trade off. The longer prices have been deregulated, the greater the degree of variation."
>
> "Healthy - the upper bounds cater to very price sensitive customers and comparators market that information available to them."
>
> "Competition is effective and has allowed new entrants to gain share through lower pricing. It also shows that higher priced retailers are able to compete on non-price factors."

> "That competition is very intense as a wide spread of offers and product types is an outcome of a competitive market.
>
> "It shows that competition is evident."
>
> "It reflects strong competition and range of participants."
>
> "It is just where the market is."
>
> "Not everyone is price sensitive."

In response to question (b) on expectations, respondents informed us that significant differences between the cheapest and most expensive offers were consistent with what they would expect to observe in a workably competitive market. Further insight into why retailers think this is the case can be found in the statements below:

> "…the greater the spread, the more competitive the market."
>
> "…where consumers are willing to accept conditional terms there is the benefit of better pricing outcomes, where customers choose not to accept these, the pricing offered will reflect this."
>
> "…not all consumers are purely driven by price. However, a sizeable section of the population is, and keen discounts provide this segment with choice and a reason to switch."

In response to question (c) on factors that may contribute to the wide spread of offers in a market, respondents identified a range of matters including:

- differences in the following factors across retailers:
  - cost structures, operating models and risk profiles;
  - marketing and customer acquisition strategies (i.e. if a retailer doesn't want to acquire any more customers it will price itself at the upper end of the range); and
  - financial and growth objectives.
- the degree of rivalry in the market;
- variation in other non-price factors or inducements (e.g. pre-payment or e-billing), some of which can reportedly change the risk profile of customers and allow them to benefit from higher discounts; and
- the behavioural responses of consumers (i.e. not all customers are driven to churn because of discounts).

One respondent also informed us that:

> "Many retailers opt for high standing and market prices and then use aggressive discounts to acquire customers. At the end of the discount period, retailers are aiming for increased profitability of a customer through customer empathy, as the customer reverts to non-discount prices."

9.3 Influences on competition in the next five years

In both the gas and electricity surveys, respondents were asked to identify the factors that are likely to have the greatest influence on competition in electricity and gas retail markets over the next five years. Their responses are outlined below.

9.3.1 Electricity retail markets

The factors that interviewees considered likely to have the greatest effect on competition in retail electricity markets over the next five years are set out below, in no particular order:

- *RPR* – The removal of RPR was viewed by most respondents as something that could result in a material improvement in competition in those markets where it continues to operate. At the time the survey was conducted, respondents were broadly optimistic that this would occur in South East Queensland on 1 July 2015,[128] but had no expectation that this would occur in either the ACT or Tasmania in the foreseeable future. On a separate, but related issue, one respondent noted that the deregulation of feed-in tariffs across jurisdictions would influence competition in this segment of the market.

- *Wholesale market conditions* – A number of non-vertically integrated retailers noted that further consolidation and vertical integration in wholesale markets will affect their ability to access cost reflective hedging products and, in turn, their ability to compete effectively in retail markets. A number of respondents also raised concerns about the Queensland Government's suggestion that Stanwell and CS Energy be merged (see section 5.1.1).

- *Competition from off-grid sources and alternative energy sellers* – Respondents claimed to be facing increasing competition from off-grid sources (e.g. solar panels) and alternative energy sellers and expect this to continue into the future. Concerns were also raised about the fact that alternative energy sellers are not currently subject to the same consumer protection provisions, risks and other regulatory requirements as retailers are, as highlighted in the following survey responses:

> "We are seeing a divergence in the current market framework such that the application of market rules and obligations are arguably not being applied in a consistent manner to all participants operating or seeking to operate in the market. The exemptions regime for alternative energy suppliers requires review and assessment to ensure it does not result in the creation of two competing sub-market segments.
>
> Energy retailers (and consumer benefit) will thrive in truly competitive markets; these markets need to operate without distortions that favour select groups."
>
> "Technological change and emerging business models are challenging incumbent energy businesses and promoting more effective competition. Absence of regulatory neutrality is a concern in this context and has potential to distort consumption and investment

[128] As noted earlier, the survey was conducted in February 2015 and therefore pre-dated the Queensland Government's decision to put a hold on the removal of RPR.

> decisions. There is little official information about their scale and scope which reflects absence of formal reporting obligations; this could be addressed through current reviews by the AER and Energy Market Reform Working Group. AEMC should expand market definition to include energy sold through alternative means in order to fully assess extent of effective competition."

One respondent's proposed solution to the 'uneven playing field' is to reduce the level of regulation applying to retailers, rather than subjecting alternative energy sellers to more regulation.

- *Contestability in metering* – Another factor that respondents noted may affect competition going forward is the proposed competition in metering rule change.[129] Respondents held mixed views about the effect this framework may have on competition in the retail market and customers. Some claimed that small customers would be better off, while some smaller retailers noted the potential for a retailer led roll out to make customers more 'sticky' and act as a further barrier to entry for small retailers.

- *Growing importance of scale* – One respondent noted that as retailers start to compete to supply small customers with meters and the full suite of energy solutions (including solar panels and storage), scale and access to capital will become increasingly important for retailers.

- *Product innovation* – A number of respondents expected increased product innovation and greater emphasis placed on 'value add' service provision in most retail electricity markets over the next five years as more smart meters are rolled out, network tariffs are reformed and advancements in technology occur. These respondents made it clear though that if customers were to benefit from these innovations, the regulatory framework would need to evolve:

  > "…regulatory frameworks need to evolve to both account for advancements in technology and to facilitate the ability of retailers to adopt these technologies for use in providing services to customers. The adoption of new technologies provides opportunities for retailers to better manage risk, which in turn promotes investment in innovation which drives competition and benefits for consumers."

- *Changes in the number of active electricity retailers* – A large number of respondents noted the potential for new entry to occur over the next five years and for players with different business models and/or different value proposition to enter the market. Some respondents also noted the potential for further consolidation of second tier retailers to occur in the next five years.

[129] The AEMC has been considering the COAG Energy Council's October 2013 rule change request to introduce a new framework to expand competition in metering and related services.

- *Political and regulatory uncertainty* – The final factor that respondents noted will affect competition going forward is political and regulatory uncertainty. The views expressed by some respondents on this issue are set out below:

  > "…in developing long term sustainable businesses, market and governance certainty is fundamental, improvements in these key areas would support the further development of competition."

  > "Regulatory intervention and complexity is likely to curb some retail expansion, as well as increase costs on existing and new entrant retailers."

  > "[there is] scepticism on part of some stakeholders about ability of competitive markets to deliver desirable market outcomes, resulting in further regulation."

  > "States moving further along the pathway of regulatory reform will experience greater participation and thereby competition than states who are re-regulating."

9.3.2 Gas retail markets

The three factors that respondents identified as likely to have the greatest effect on competition in retail gas markets are set out below:

- *Tightening wholesale market conditions* – Most respondents expect the tightening demand and supply conditions in the wholesale gas market (brought about, in part, by the development of LNG facilities in Queensland) to result in:
  - a significant increase in wholesale gas prices, which will flow through to retail gas prices;
  - some retailers having difficulties obtaining a firm gas supply; and
  - a limitation on the supply options available to retailers in NSW and South Australia as the predominant flow of gas from the Cooper and Bowen/Surat basins shifts from south to north.

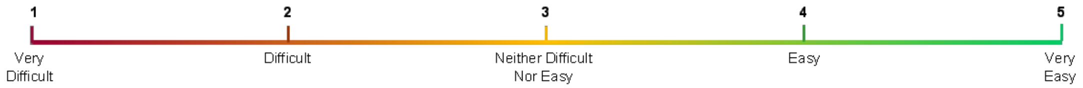
  This was seen by most respondents as the factor that will have greatest influence on competition in retail gas markets over the next five years.
- *Deterioration in the competitiveness of gas* – Higher wholesale gas prices are expected by many respondents to lead to a deterioration in the relative competitiveness of gas *vis-à-vis* other fuels and to prompt some consumers to switch to other fuels, particularly in those jurisdictions where gas is a 'fuel of choice'. Electricity was seen as the fuel that consumers in most jurisdictions would switch to, particularly given the recent decline in wholesale electricity prices and the emergence of more efficient electricity appliances (e.g. induction ovens). Competition from the electricity market was therefore seen as a real threat by a number of respondents.
- *Political and regulatory uncertainty* – In a similar manner to electricity, concerns were expressed by a number of respondents about the effect of political and regulatory uncertainty on competition, with one respondent noting that ongoing regulatory

uncertainty and inconsistent regulatory frameworks and administration will "stifle competition". A number of respondents also noted the risks that the ongoing application of RPR in NSW exposes retailers to, and claimed that its removal would reduce the barriers to entry and promote a greater degree of competition in this market.

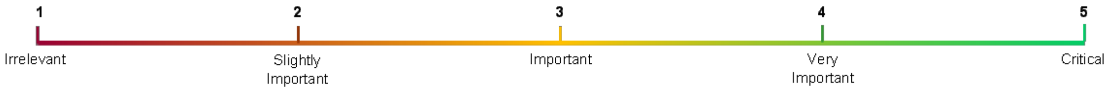
Appendix A. Survey Questions

Table 1: Electricity Retailer Survey Questions

Questions			Guidance for response	ACT	New South Wales	Queensland		South Australia	Tasmania	Victoria
						South East Qld	Remainder			
Background Questions										
1.	**(a)**	In which jurisdictions are you *actively retailing* electricity to small customers?	✓ or ✗							
	(b)	What year did you start actively retailing in these jurisdictions?	Year							
2.		If there are geographic (distribution) areas within a jurisdiction where you are **not** retailing, please identify these in general terms and explain why you have chosen not to retail in these areas.	Free text							
3.		Are you primarily marketing to one customer segment (i.e. residential or small business), and if so, which one?	Residential, small business or n.a.							
4.		Please identify any upstream interests your company (or a related entity) has in electricity generation or electricity networks in the jurisdiction.	Free text							
5.		Please identify any other brands that your parent company (or a related entity) is using to retail electricity.	Free text							
6.	**(a)**	Have you wound back operations in any jurisdiction in the last year?	✓ or ✗							
	(b)	If so, please explain what prompted this decision.	Free text							
7.		Is your company considering entry, expansion or exit from any jurisdiction over the next 1-2 years?	State whether considering entry, expansion, exit or unchanged							

Questions			Guidance for response	ACT	New South Wales	Queensland		South Australia	Tasmania	Victoria
						South East Qld	Remainder			
Ability to enter or expand										
8.		When answering the next three questions ((a)-(c)) please use the following rating scale, or mark as n.a. if you have no opinion: *[These questions may be answered even if you haven't operated in a jurisdiction]*								
	(a)	On a scale of 1 to 5, how would you rate the ease with which **entry** can occur in each jurisdiction?	Rating: 1 to 5							
	(b)	On a scale of 1 to 5, how would you rate the ease with which **expansion** can occur in each jurisdiction?	Rating: 1 to 5							
	(c)	On a scale of 1 to 5, how would you rate the ease with which **exit** can occur in each jurisdiction?	Rating: 1 to 5							
9.	(a)	To what extent do you think the following factors act as a **barrier to entry** in each jurisdiction. *[This questions may be answered even if you haven't operated in a jurisdiction]*								
		▪ Access to competitively priced hedging products	✓ or ✗							
		▪ Retail price regulation	✓ or ✗							
		▪ Prudential and credit support arrangements	✓ or ✗							
		▪ Environmental policies/energy efficiency schemes	✓ or ✗							
		▪ Political and/or regulatory risk.	✓ or ✗							
		▪ Other (please specify).	Free text							

Questions			Guidance for response	ACT	New South Wales	Queensland		South Australia	Tasmania	Victoria
						South East Qld	Remainder			
	(b)	If you identified any barriers to entry, please explain which are the most important and why:	Free text							
	(c)	In the last year, has the ease with which entry can occur changed? If so, please describe the change and its drivers.	Free text							
10.	(a)	To the extent you think there are any **barriers to expansion** in a jurisdiction, please identify them. *[Please restrict your responses to the jurisdictions in which you have operated]*	Free text							
	(b)	If you identified any barriers to expansion, please explain which are the most important and why:	Free text							
	(c)	In the last year, has the ease with which expansion can occur changed? If so, please describe the change and its drivers.	Free text							
11.	(a)	Retailers in the 2014 survey attributed difficulties in entering and/or expanding across multiple jurisdictions to the factors listed below. Are any of these factors still impeding entry/expansion across multiple jurisdictions?								
		▪ delays in NECF implementation and/or derogations.	✓ or ×							
		▪ differences in energy efficiency and/or feed-in schemes.	✓ or ×							
		▪ differences in customer protection, hardship and/or concession schemes.	✓ or ×							
		▪ differences in other regulatory requirements.	✓ or ×							
	(b)	Are there any other factors affecting entry or expansion across multiple jurisdictions?	Free text							
12.	(a)	Are there additional barriers to retailing in rural or regional areas?	✓ or ×							
	(b)	If so, please explain what they are and how significant you think they are.	Free text							

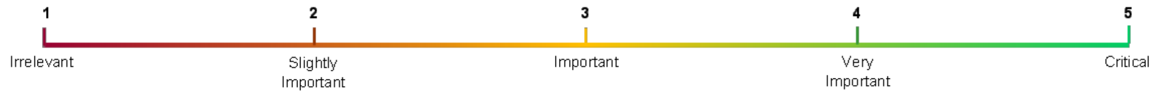
Questions			Guidance for response	ACT	New South Wales	Queensland		South Australia	Tasmania	Victoria
						South East Qld	Remainder			
13.		When answering the next three questions ((a)-(c)) please use the following rating scale, or mark as n.a. if you have no opinion: *[Please restrict your responses to the jurisdictions in which you have operated]*								
	(a)	On a scale of 1 to 5, how important are **economies of scale**[130] in terms of being able to compete effectively in each jurisdiction?	Rating: 1 to 5							
	(b)	On a scale of 1 to 5, how important are **economies of scope**[131] (e.g. selling both electricity and gas, or electricity and other services) in terms of being able to compete effectively in each jurisdiction?	Rating: 1 to 5							
	(c)	On a scale of 1 to 5, how important is **having an interest in electricity generation** in terms of being able to compete effectively in each jurisdiction?	Rating: 1 to 5							
	(d)	Has the importance of any of these factors changed in the last year? If so, please explain what the change has been and what has prompted the change.	Free text							
14.		Over the next 1-2 years, do you expect to see:	Free text							
	(a)	▪ any change in the ease with which retailers can enter or expand in any jurisdiction? If so, why?								
	(b)	▪ new retailers enter the market, retailers exit the market or further consolidation?	New entry likely, exit likely or consolidation likely							
	(c)	▪ any change in the market share held by incumbents or first tier retailers in these jurisdictions? If so, why?	Free text							

[130] The term 'economies of scale' refers to a situation where a retailer's long run average cost declines as the size of its customer base increases. This may occur if a retailer has significant fixed or sunk costs and may mean retailers have to attract a minimum number of customers to compete effectively.

[131] The term 'economies of scope' refers to a situation where the unit cost of a retailer supplying two or more products or services (e.g. gas and electricity) is lower for a given level of output than if those products or services were supplied by two separate retailers.

Questions			Guidance for response	ACT	New South Wales	Queensland		South Australia	Tasmania	Victoria
						South East Qld	Remainder			
Retailer Rivalry										
15.	When answering the next three questions ((a)-(c)) please use the following rating scale, or mark as n.a. if you have no opinion: *[Please restrict your responses to those jurisdictions in which you have operated in the last year]*		1 Non-existent	2 Minimal		3 Moderate	4 High	5 Very High		
	(a)	On a scale of 1 to 5, how would you rate the degree of **price** rivalry[132] in each jurisdiction?	Rating: 1 to 5							
	(b)	On a scale of 1 to 5, how would you rate the degree of **non-price** rivalry in each jurisdiction?	Rating: 1 to 5							
	(c)	On a scale of 1 to 5, how would you rate the **overall** degree of rivalry amongst retailers in each jurisdiction?	Rating: 1 to 5							
16.	In the last year, has there been any change in:									
	(a)	▪ the relative importance of price vs non-price rivalry in any jurisdiction?	✓ or ✗							
	(b)	▪ the degree of rivalry in regional or rural areas in any jurisdiction?	✓ or ✗							
	(c)	▪ the overall degree of rivalry in any jurisdiction in the last year?	✓ or ✗							
	If there has been a change in any of the matters listed in (a)-(c), please explain what the change has been and to what you attribute the change.		Free text							
17.	Over the next 1-2 years, do you expect to see any change in the degree of rivalry in any jurisdiction? If so, please explain what you expect to observe and what will prompt the change.		Free text							

[132] Price rivalry can take a number of forms including discounts, rebates and alternative tariff structures, while non-price rivalry can take the form of customer service, incentives, bundling products, non-price contract terms.

Questions			Guidance for response	ACT	New South Wales	Queensland		South Australia	Tasmania	Victoria
						South East Qld	Remainder			
Prices										
18.	**(a)**	Please rate the following factors in terms of their influence on your pricing decisions on a scale of 1 to 5, using the scale to the right:								
		▪ Wholesale energy and/or hedging costs.	Rating 1 to 5							
		▪ Network charges.	Rating 1 to 5							
		▪ Competitors' prices.	Rating 1 to 5							
		▪ Standing offers.	Rating 1 to 5							
		▪ Other (please specify).	Rating 1 to 5 and Free text							
	(b)	Does the importance of these factors differ across jurisdictions? If so, please explain how and why.	Free text							
19.		Recent data from the AER, QCA and Victorian Government's comparator websites indicate a significant difference between the upper and lower bounds of the market offers available to residential customers in each jurisdiction. Material differences are also observable on standing offers.								
	(a)	▪ What do you think this degree of variation says about the state of competition?	Free text							
	(b)	▪ Is this what you would expect to observe in a competitive market?	Free text							
	(c)	▪ What factors do you think contribute to the range of prices for market and standing offers?	Free text							

Questions			Guidance for response	ACT	New South Wales	Queensland		South Australia	Tasmania	Victoria
						South East Qld	Remainder			
Marketing and retention strategies										
20.		Has the level of your marketing efforts changed in the past year in any jurisdiction, and if so, why? (For example, have they ceased, increased or are they unchanged, are any new marketing channels being used)?	Free text							
Exercise of choice by customers										
21.		When answering the next two questions ((a)-(b)) please use the following rating scale, or mark as n.a. if you have no opinion: *[Please restrict your responses to those jurisdictions in which you have operated in the last year]*	1 Non-existent	2 Minimal	3 Moderate	4 High	5 Very High			
	(a)	On a scale of 1 to 5, how would you rate the level of switching by small customers **between retailers** in each jurisdiction?	Rating: 1 to 5							
	(b)	On a scale of 1 to 5, how would you rate the level of switching by small customers **between your market offers** in each jurisdiction?	Rating: 1 to 5							
Overall degree of competition										
22.		When answering the next question ((a)) please use the following rating scale, or mark as n.a. if you have no opinion: *[Please restrict your responses to those jurisdictions in which you have operated in the last year]*	1 Non-existent		2 Minimal	3 Moderate	4 High		5 Very High	
	(a)	On a scale of 1 to 5, how would you rate the **overall level of competition** in each jurisdiction?	Rating: 1 to 5							
23.		What distinguishes the jurisdictions to which you ascribe a high rating from those you assign a low rating?	Free text							

Questions			Guidance for response	ACT	New South Wales	Queensland		South Australia	Tasmania	Victoria
						South East Qld	Remainder			
24.	In the last year, have you observed a substantive change in the degree of competition in each jurisdiction? If so, what are the indicators of this change and what has prompted it?		Free text							
25.	**(a)**	Over the next 1-2 years, do you expect to see any change in the degree of competition in any jurisdiction?	✓ or ×							
	(b)	If so, what changes do you expect and what will prompt them to occur?	Free text							
Future developments										
26.	Looking forward over the next **5 years**, what factors do you think will have the greatest influence on retail competition either within individual jurisdictions or across the NEM?[133]		Free text							

133 In the 2014 interviews, retailers identified the potential removal of retail price regulation in Queensland, further consolidation and vertical integration in wholesale markets, competition from off-grid sources, competition from solar panel leasing companies and a retailer led deployment of smart meters as the factors that are likely to have the greatest effect on competition.

Table 2: Gas Retailer Survey Questions

Questions			Guidance for response	ACT	New South Wales	Queensland		South Australia	Tasmania	Victoria
						South East Qld	Remainder			
Background Questions										
1.	**(a)**	In which jurisdictions are you *actively retailing* gas to small customers?	✓ or ✗							
	(b)	What year did you start actively retailing gas in these jurisdictions?	Year							
2.		If there are geographic (distribution) areas within a jurisdiction where you are **not** retailing gas, please identify these in general terms and explain why you have chosen not to retail in these areas.	Free text							
3.		Are you primarily marketing gas to one customer segment (i.e. residential or small business), and if so, which one?	Residential, small business or n.a.							
4.		Please identify any upstream interests your company (or a related entity) has in gas production (or exploration) or gas networks in the jurisdiction.	Free text							
5.		Please identify any other brands that your parent company (or a related entity) is using to retail gas.	Free text							
6.	**(a)**	Have you wound back operations in any jurisdiction in the last year?	✓ or ✗							
	(b)	If so, please explain what prompted this decision.	Free text							
7.		Is your company considering entry, expansion or exit from any jurisdiction over the next 1-2 years?	State whether considering entry, expansion or exit or unchanged							

Questions			Guidance for response	ACT	New South Wales	Queensland		South Australia	Tasmania	Victoria
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Ability to enter or expand										
	When answering the next three questions ((a)-(c)) please use the following rating scale, or mark as n.a. if you have no opinion: *[These questions may be answered even if you haven't operated in a jurisdiction]*		1 Very Difficult		2 Difficult		3 Neither Difficult Nor Easy		4 Easy	5 Very Easy
8.	(a)	On a scale of 1 to 5, how would you rate the ease with which **entry** can occur in each jurisdiction?	Rating: 1 to 5							
	(b)	On a scale of 1 to 5, how would you rate the ease with which **expansion** can occur in each jurisdiction?								
	(c)	On a scale of 1 to 5, how would you rate the ease with which **exit** can occur in each jurisdiction?								
9.	(a)	To what extent do you think the following factors act as a **barrier to entry** in each jurisdiction? *[This questions may be answered even if you haven't operated in a jurisdiction]*								
		▪ Access to, and/or price of, gas.	✓ or ✗							
		▪ Access to, and/or price of, transmission capacity.	✓ or ✗							
		▪ Small size of the demand base.	✓ or ✗							
		▪ Requirement to participate in STTM or DWGM.	✓ or ✗							
		▪ Prudential requirements of the STTM or DWGM.	✓ or ✗							
		▪ State or territory licencing requirements.	✓ or ✗							
		▪ Political and/or regulatory risk.	✓ or ✗							
		▪ Other (please specify)	Free text							
	(b)	If you identified any barriers to entry, please explain which are the most important and why:	Free text							

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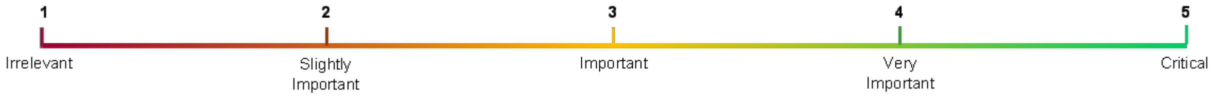
	(c)	In the last year, has the ease with which entry can occur changed? If so, please describe the change and its drivers.	Free text							
10.	(a)	To the extent you think there are any **barriers to expansion** in a jurisdiction, please identify them. *[Please restrict your responses to the jurisdictions in which you have operated in]*	Free text							
	(b)	If you identified any barriers to expansion, please explain which are the most important and why:	Free text							
	(c)	In the last year, has the ease with which expansion can occur changed? If so, please describe the change and its drivers.	Free text							
11.	(a)	Are there additional barriers to retailing in rural or regional areas?	✓ or ×							
	(b)	If so, please explain what they are and how significant you think they are. Please also identify whether these barriers are higher than they are in electricity.	Free text							
12.	When answering the next three questions ((a)-(c)) please use the following rating scale, or mark as n.a. if you have no opinion: *[Please restrict your responses to the jurisdictions in which you have operated]*									
	(a)	On a scale of 1 to 5, how important are **economies of scale** in terms of being able to compete effectively in each jurisdiction?	Rating: 1 to 5							
	(b)	On a scale of 1 to 5, how important are **economies of scope** in terms of being able to compete effectively in each jurisdiction?	Rating: 1 to 5							
	(c)	On a scale of 1 to 5, how important is **having an interest in upstream gas production** in terms of being able to compete effectively in each jurisdiction?	Rating: 1 to 5							
	(d)	Are economies of scale more important in gas than they are in electricity?	Free text							
	(e)	Has the importance of any of these factors changed in the last year? If so, please explain what the change has been and what has prompted the change.	Free text							

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13.		Over the next 1-2 years, do you expect to see:								
	(a)	▪ any change in the ease with which retailers can enter or expand in any jurisdiction? If so, why?	Free text							
	(b)	▪ new retailers enter the market, retailers exit the market or further consolidation?	New entry likely, exit likely or consolidation likely							
	(c)	▪ any change in the market share held by incumbents or first tier retailers in these jurisdictions? If so, why?	Free text							
Retailer Rivalry										
14.		When answering the next three questions ((a)-(c)) please use the following rating scale, or mark as n.a. if you have no opinion: *[Please restrict your responses to those jurisdictions in which you have operated in the last year]*	1 Non-existent	2 Minimal		3 Moderate		4 High	5 Very High	
	(a)	On a scale of 1 to 5, how would you rate the degree of **price** rivalry in each jurisdiction?	Rating: 1 to 5							
	(b)	On a scale of 1 to 5, how would you rate the degree of **non-price** rivalry in each jurisdiction?	Rating: 1 to 5							
	(c)	On a scale of 1 to 5, how would you rate the **overall** degree of rivalry amongst retailers in each jurisdiction?	Rating: 1 to 5							
15.		In the last year, has there been any change in:								
	(a)	▪ the relative importance of price vs non-price rivalry in any jurisdiction?	✓ or ✗							
	(b)	▪ the degree of rivalry in regional or rural areas in any jurisdiction?	✓ or ✗							
	(c)	▪ the overall degree of rivalry in any jurisdiction in the last year?	✓ or ✗							
		If there has been a change in any of the matters listed in (a)-(c), please explain what the change has been and to what you attribute the change.	Free text							

Questions			Guidance for response	ACT	New South Wales	Queensland – South East Qld	Queensland – Remainder	South Australia	Tasmania	Victoria
16.		Over the next 1-2 years, do you expect to see any change in the degree of rivalry in any jurisdiction? If so, please explain the change you expect to observe and what will prompt the change.	Free text							
Prices										
17.	**(a)**	Please rate the following factors in terms of their influence on your pricing decisions on a scale of 1 to 5, using the scale to the right:		1 Irrelevant — 2 Slightly Important — 3 Important — 4 Very Important — 5 Critical						
		▪ Wholesale gas prices	Rating 1 to 5							
		▪ Transmission and distribution pipeline charges.	Rating 1 to 5							
		▪ Competitors' prices.	Rating 1 to 5							
		▪ Other (please specify).	Rating 1 to 5 and Free text							
	(b)	Does the importance of these factors differ across jurisdictions? If so, please explain why.	Free text							
Exercise of choice by customers										
18.		When answering the next two questions ((a)-(b)) please use the following rating scale, or mark as n.a. if you have no opinion: *[Please restrict your responses to those jurisdictions in which you have operated in the last year]*	1 Non-existent — 2 Minimal — 3 Moderate — 4 High — 5 Very High							
	(a)	On a scale of 1 to 5, how would you rate the level of switching by small gas customers **between retailers** in each jurisdiction?	Rating: 1 to 5							
	(b)	On a scale of 1 to 5, how would you rate the level of switching by small gas customers **between your market offers** in each jurisdiction?	Rating: 1 to 5							
Overall degree of competition										
19.		When answering the next question ((a)) please use the following rating scale, or mark as n.a. if you have no opinion: *[Please restrict your responses to those jurisdictions in which you have operated in the last year]*	1 Non-existent — 2 Minimal — 3 Moderate — 4 High — 5 Very High							
	(a)	On a scale of 1 to 5, how would you rate the **overall degree of competition** in each jurisdiction?	Rating: 1 to 5							

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20.	What distinguishes the jurisdictions to which you ascribe a high rating from those you assign a low rating?		Free text							
21.	In the last year, have you observed a substantive change in the degree of competition in each jurisdiction? If so, what are the indicators of this change and what has prompted it?		Free text							
22.	**(a)**	Over the next 1-2 years, do you expect to see any change in the degree of competition in any jurisdiction?	✓ or ✗							
	(b)	If so, what changes do you expect and what will prompt them to occur?	Free text							
Future developments										
23.	Looking forward over the next **5 years**, what factors do you think will have the greatest influence on retail competition either within individual jurisdictions or across the NEM?[134]		Free text							

134 In the 2014 interviews, the only factor that retailers focused on was the development of LNG facilities in Queensland.