



28 November 2014

Skye d'Almeida  
Australian Energy Market Commission  
PO Box A2249  
Sydney South NSW 1235

Via online lodgement.

Dear Ms d'Almeida,

**Consultation Paper – 2015 Retail Competition Review (RPR0003)**

Origin Energy (Origin) welcomes this opportunity to respond to the Australian Energy Market Commission's (the Commission) Consultation Paper for the 2015 Retail Competition Review.

In Origin's view, open and competitive markets invariably serve the best interests of consumers by encouraging retailers to develop products that meet their consumers' needs. In recent years as energy markets have matured and competition has increased, retailers have broadened their focus from offering the lowest prices to improving the customer experience. Service levels have also been lifted by competitive tension between retailers, with retailers extending call centre hours, customer communications and stopping the practice of door-to-door sales.

Despite the advances in recent years towards deregulation of prices and privatisation of assets, there are some areas where regulation persists to the detriment of competitive markets and consumers. Both Victoria and South Australia persist with regulating minimum feed-in-tariff offers, New South Wales has not deregulated its gas prices and the ACT remains regulated with respect to electricity. We discuss these and other matters in response to the questions below.

**1. Will the framework set out in section 3 of this paper enable the AEMC to adequately assess the state of competition in NEM jurisdictions?**

Origin supports the framework set out in section three of the paper and agrees with the competitive market indicators that will be used to assess the state of competition in the NEM. However, it is important that the Commission is cognisant of the following issues that might arise under some aspects of their framework.

*Retailer barriers to entry, exit or expansion in the market*

In our submission to the 2014 Retail Competition Review Approach Paper, we noted the barrier to entry that price regulation poses for new entrants in the New South Wales and Queensland market.<sup>1</sup> Origin strongly endorses the decisions made by both the New South Wales and Queensland Governments over the last twelve months to deregulate prices in their electricity markets. However, despite the Commission finding that there is effective competition in both the electricity and natural gas market, New South Wales has chosen not to deregulate natural gas prices. As the Commission noted in its 2014 Retail Competition Report, the continued regulation of prices acts as a barrier to entry for further competition in the small customer natural gas market.<sup>2</sup>

Similarly, despite having well established and highly competitive retail markets, Victoria and South Australia persist with regulating mandatory minimum prices for their feed-in-tariffs to residential and small customers. In contrast, New South Wales and (South East) Queensland have ceased regulating

<sup>1</sup> Origin Energy, Submission to the 2014 Retail Competition Review Approach Paper, 28 February 2014, p.2.

<sup>2</sup> Australian Energy Market Commission, 2014 Retail Competition Review, 22 August 2014, p. Vi.

feed-in-tariffs. Like price regulation, mandated minimum feed-in-tariffs act as a barrier to entry for new retailers, as they are forced to offer a certain price for solar exports when they may wish to compete for customers on a different basis. Accordingly, it would be valuable for the Commission to consider the impact of mandated feed-in-tariffs when assessing barriers to entry and competition in the market.

### *Independent Rivalry*

In examining rivalry between retailers in the market, the Commission should consider how the market has evolved from competition based on price to competition based on price and service delivery. In our view, competitive tension is leading to tangible and observable improvements in customer experience. For example, recently Origin has undertaken a number of steps to improve customer service. When Origin extended its call centre contact hours to improve customer experience earlier this year, retailers such as AGL took similar actions, highlighting the benefits of rivalry and competitive tension between retailers. It is therefore valuable for the Commission to consider developments in customer service that are aimed at improving the customer's experience, and earning their loyalty, when examining rivalry between retailers.

### *Competitive retail prices*

Whilst Origin agrees that movements in prices are one indication of competition in a market, it is important not to lose sight of the fact that energy prices are composed of some costs that are out of a retailer's direct control. As the Commission is aware, recent increases in prices can largely be attributed to the network component of the bill; retailers play a role in recovering these costs from consumers on the network's behalf. Further, retailers are responsible for managing risk in the market place; yet risk is not historically constant, as we have seen with respect to regulatory interventions in the energy market that have suppressed wholesale prices and distorted price signals. Thus the underlying reasons for shifts in prices are not constant over time and, accordingly, comparisons cannot be made without reference to these shifts.

It is also important for the Commission to be conscious of what external drivers may be in play when assessing performance across states. For example, when the South Australian Government announced its decision to deregulate energy prices, it also announced a two-year arrangement with AGL and Origin regarding standing contract electricity and gas prices.<sup>3</sup> From 1 January 2013, AGL committed to reducing the existing standing contract price for residential customers by 9.1 per cent and small business by 4.5 per cent, with the retail component fixed for two years. Origin committed to reducing its gas standing contract by 1 per cent from 1 February 2013. Due consideration is necessary for factors such as these.

## **2. Which elements of the 2014 review were of most value that you would like to see repeated in the 2015 review, noting the scope of similar work being undertaken by other organisations?**

Origin supports the approach taken by the Commission in its 2014 review, noting that it found effective competition in the South East Queensland, New South Wales, Victorian and South Australian markets. The Commission is correct to identify the overlap, particularly with respect to price monitoring, between its present review and those undertaken by the Australian Energy Regulator and various state bodies. Origin's preference would be for the Commission and state jurisdictions to draw as much as possible from the work done by the AER as part of its price monitoring.

Further, the Commission's terms of reference ask for an annual review of retail competition in the market. In our view, an annual review is too frequent to analyse changes in the market meaningfully.

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<sup>3</sup> Government of South Australia News Release, "Lower Power Prices for South Australia", 18 December 2012. Available: [http://www.premier.sa.gov.au/images/news\\_releases/12\\_12Dec/energyprice.pdf](http://www.premier.sa.gov.au/images/news_releases/12_12Dec/energyprice.pdf)

For instance, the AEMC published its 2014 Retail Competition Review in August 2014 and then commenced the 2015 Review only two months later. We would suggest the Commission recommend to the Energy Council that these reviews should happen every two-to- three years rather than annually.

**3. Were there any issues not considered in the 2014 review that you would like the AEMC to consider in the 2015 review that are within the scope of the terms of reference?**

In order to carry out an assessment of competition, it is necessary to define the market or markets to be considered. In previous assessments, the AEMC has undertaken this in relation to two general areas —the product market and the geographic market—whilst recognising that boundaries of the market may change over time as jurisdictions harmonise their retail energy frameworks and markets continue to develop.

For the purpose of its 2014 Review, the AEMC considered each jurisdiction as a single geographic market (except for Queensland) with two product markets: an electricity retail market and a gas retail market. In undertaking the 2015 review, Origin considers that the Commission should broaden its definition of the product market to take into account functional and temporal aspects of the increased penetration of rooftop solar PV on retail electricity markets.

Specifically, installed rooftop solar PV now accounts for more than 700 MW of installed capacity in NSW and over one thousand MW of installed capacity in Queensland. More than 10 percent of households in Victoria and NSW have solar PV installed; in Queensland and South Australia, the numbers are higher with approximately 25 percent or more household having rooftop solar.<sup>4</sup>

As a result, solar PV provides consumers with an alternative choice in terms of where and how they source retail electricity supply. This, in effect, is another dimension of retail competition as there is a degree of substitution between sourcing electricity from a retailer and sourcing it through a self generated rooftop solar.

Accordingly, Origin believes that the Commission should expand its examination of the retail electricity market to include solar energy and other embedded non-network supplies.

***Further information***

Origin would be pleased to discuss any matters raised within this response with the Commission. Please contact Timothy Wilson (Retail Regulatory Analyst) in the first instance on (03) 8665 7155.

Yours sincerely,



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<sup>4</sup> Australian PV Institute, "Mapping Australian Photovoltaic Installations," accessed at: <http://pv-map.apvi.org.au/historical>