



20 February 2015

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

Via online lodgement.

Dear Ms d'Almeida,

Approach Paper – 2015 Retail Competition Review (RPR0003)

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

Whilst price and discounts continue to be a main driver of competition, the Australian energy market is maturing and evolving. Over the last year, retailers have been asking, listening and taking action to deliver more of what customers want from their retailer. Service delivery is becoming a point of competitive advantage and retailer differentiation. Examples include: access to user friendly platforms to understand energy use and product offers; changes in marketing practices (ending door-knocking and removing mass market customer exit fees); and extended customer call centre hours. The intensity of competition on both price and service delivery is increasing in the deregulated markets, with the growth in innovation highlighting the consumer benefits from removing price regulation.

States that have deregulated prices have the most number of active retailers with competitive price offerings. Competition has intensified in New South Wales since 1 July 2014 and Origin expects consumers in Queensland to benefit from deregulation and the start of the National Consumer Energy Framework (NECF) from 1 July 2015. We encourage the Commission to consider the state of competition in the rural segment of the Queensland market and the gas market in New South Wales in this review and recommend what steps are necessary to support the respective governments in deregulating those markets. Allowing effective competition to develop will accelerate service improvements and enable more competitive products currently available in deregulated jurisdictions. While price deregulation is important in facilitating competition and innovation, other constraints still exist that can stymie further developments, such as mandated minimum feed-in-tariffs and prescribed energy efficiency obligations.

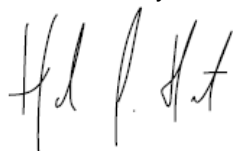
Origin has also taken key steps to improve the experience of and support available to its vulnerable customers. A dedicated team actively engages with these customers across the customer lifecycle, with early intervention, individual case management through our improved hardship program, "Power On", and post-hardship assistance. Our priority is for these customers to understand the range of choices available to them to manage their energy costs.

Overall, retailers are becoming more responsive and innovative in the market regarding products and services. This is becoming increasingly important in order to remain relevant and competitive in light of emerging competition from alternative energy sellers coupled with changes in consumer consumption patterns. The large uptake in solar PV is a clear example of a supplementary product to the grid supply of energy, which is competing directly with the products offered by retailers today. Competition is not just growing from new "traditional" retailers, but from alternative providers also.

Detailed responses to the Commission's questions are set out below.

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,

A handwritten signature in black ink, appearing to read 'Hannah Heath', written in a cursive style.

Hannah Heath
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Questions from AEMC 2015 Retail Competition Approach Paper

1. The level of customer activity in the market

Small customers have access to a range of user-friendly online platforms to support their investigation and choice of energy offers. Origin's Victorian customers can use "Origin Smart" to understand how much energy they are using and their costs. By understanding their energy use, consumers can make more informed decisions about what energy offers best suit their needs. In all jurisdictions, customers are able to compare plans and switch to Origin directly through our website. Origin's web-based energy plan comparator asks for customers to provide information about their energy use (available from their bills), the kind of household they reside in, and any plan preferences they have (such as green energy or fixed rate plans). Based on this data, four offers are presented to customers with a range of discounts depending on the plan they choose; customers can choose to view Energy Price Fact Sheets and full terms and conditions on the website before they select an offer. Origin is continuing to review and refine our website access to improve and enhance customer awareness and experience.

Customers are also able to compare their current plans with other available offers through Government websites like Energy Made Easy and My Power Planner. These websites click through to the relevant retailer, who then provides the aforementioned information to customers. Comparator websites and third party brokers, like iSelect and Energy Wizard, are another avenue for customers to obtain information about competitive offers. For customers who do not have access to the internet, they can access information on available products through retailer call centres. Origin's call centre is open from 7am until 9pm from Monday to Friday. Call centre staff are trained to provide the information about energy offers and to obtain "explicit informed consent" from people that wish to choose Origin as their energy service provider. Customers therefore have access to information on available energy products through the platform that best suits their needs.

As an energy service provider, Origin takes seriously its obligation to actively engage with vulnerable customers across the customer lifecycle with early intervention, individual case management through our hardship program ("Power On"), and post-hardship assistance. We have taken steps to improve and re-launch our Hardship Policy by re-writing key Power On documents to make them easier to understand. Importantly, we are strengthening our assistance to customers by providing over-the-phone energy efficiency advice and funding in-home visits to directly assist them. We have also worked to develop strong relationships with financial counselors to assist customers with the development of budgeting skills. Origin also recognises that vulnerable customers require properly trained staff to meet their particular needs. We have, therefore, provided 'accidental counselor' training to our staff through LifeLine to help our staff understand better hardship triggers and techniques to assist customers. Overall, Origin continues to work hard to engage with hardship customers and to ensure that they understand a range of choices available to them.

Additionally, Origin undertakes analytics of customer behaviour to help with delivering tailored measures to customers. Customer analytics involves examining trends in behavior to understand what motivates consumers to choose Origin and the reasons why they churn to different retailers. By understanding customer behaviour, we can target different customers with specific offers and service treatments, through the channel of their preference.

2. Barriers to retailers entering, expanding or exiting the market

There are significantly less material barriers to entry to the energy market than ever before. The introduction of full retail contestability, deregulated prices and tariff structures, and competitive wholesale markets across the four largest retail markets (New South Wales, Victoria, South East Queensland and South Australia) have substantially opened up these markets to effective competition. This is evidenced by the increased number of Tier two competitors entering those four main markets.

Nevertheless, there are still some residual barriers in some NEM markets, namely price regulation in for gas in New South Wales and electricity in Queensland. Price regulation introduces regulatory risk, and consequently is a disincentive for retailers to enter regulated markets

In recent times, South Australia deregulated both electricity and gas prices, with electricity to join gas as a deregulated market in Queensland from 1 July 2015. New South Wales has deregulated its electricity market but is maintaining price regulation in gas. Origin strongly endorses the decisions made by these governments to remove price regulation. With respect to gas, 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.¹ We look forward to examining the Commission's views on the state of competition in the New South Wales gas market through this review.

The plethora of energy efficiency schemes in different state jurisdictions can make entry into new markets burdensome. Victoria, New South Wales, South Australia and the ACT each have their own individual schemes with differing objectives. The structure and compliance obligations associated with each of these schemes results in high operational and compliance costs, which can be a disincentive for retail entry. In some instances, the scheme design can also place a disincentive on new entrants to expand operations. For example, the South Australian Residential Energy Efficiency Scheme (REES) operates on the basis of a retailer having more than 5,000 gas or energy customers or selling more than 27,000 MWh. Upon reaching this threshold the retailer must meet its REES obligation. These thresholds can act as a disincentive for new operators to enter the market to avoid regulatory costs. In each case, the result is to diminish competition in the market.

In terms of the National Energy Market (NEM), Origin does not operate in Tasmania. Its regulated structure and lack of diversity in the wholesale market act as disincentives to enter. Notwithstanding a review by the Tasmanian Government into its energy markets in 2014, there does not appear to be an appetite at present for further reforms to encourage effective competition.

Policy settings in regional Queensland are not currently conducive to promoting effective competition. The Government's Uniform Tariff Policy (UTP) and its Community Service Obligation (CSO) subsidy, which is exclusively paid to Ergon Energy's retail business, only makes it uneconomic for any other retailer to compete in regional areas. Moving towards a network-based CSO that all retailers – both Ergon and prospective competitors – have access to could allow the Government to promote the principle of its UTP policy while facilitating a competitive environment for all retailers.

Like price regulation, mandated minimum feed-in-tariffs can act as a barrier to entry for new retailers, as retailers are required to offer a certain price for solar exports when they may wish to compete for customers on the basis of a different product offering. This is particularly the case where the regulated feed-in-tariff is set higher than the market value of that power, meaning that costs are higher for retailers entering the market. The result is a disincentive for retailers to enter the market or where they do, they may choose not to market to solar customers. Further, retailers need to manage the uncertainty of future feed-in-tariff determinations. The burden falls on new entrants to forecast likely future feed-in-tariff prices and to factor this in to their business model. In contrast, deregulation of the feed-in-tariff is likely to introduce more competition and greater incentives to promote greater offer diversity.

The emergence of alternative energy sellers (AES) highlights one of the ways the energy market is evolving. AES are increasing the level of competition for energy services and opening up new markets for supplementary energy products. The Commission should have regard to the role solar energy and other embedded non-network supplies are having in expanding the scope of competition beyond traditional retailers. 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.² 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.

It is in consumers' best interests for policy makers to find the right balance between enabling innovative products to come to market without adversely impacting overall consumer protections. Both

¹ Australian Energy Market Commission, 2014 Retail Competition Review, 22 August 2014, p. Vi.

² Australian PV Institute, "Mapping Australian Photovoltaic Installations," accessed at: <http://pv-map.apvi.org.au/historical>

the Australian Energy Regulator and the Council of Australian Governments Energy Council are considering what an appropriate and proportionate regulatory framework for these emerging innovative providers is.

3. The degree of independent rivalry

Whilst price is the main differentiator between retailers and the focal point of competition in the market, retailers are increasingly shifting towards service improvements to retain and attract customers in a competitive market. This shift is a sign that competition is maturing in east coast markets and reflects the progressive introduction of policies that encourage increased contestability among retailers.

Historically, price regulation has limited competition in the market and impeded retailer incentives by enforcing certain price outcomes that would otherwise be determined by costs borne by retailers. The prescribed costs also limited the ability of retailers to innovate and develop new products. In the long term, deregulating prices will intensify competition in the market and provide strong incentives for product innovation as a point of differentiation between retailers. For example, competition and technological advances in metering have facilitated more flexible billing systems. Origin has undergone a transformation to our IT system, with a particular focus on consolidating our billing systems across a number of retail acquisitions in different jurisdictions. The result is a smoother and more modern billing system that allows Origin to focus on improving customer experience. The introduction of monthly billing and the return of “EasiPay”, where customer consumption is estimated in advanced of the next twelve months and smoothed into regular installments, assists customers with managing their finances. All of these improvements are necessary in a deregulated environment because retailers have a competitive incentive to improve continuously their service delivery.

As price competition becomes more intense, retailers need to invest to retain customers. Rivalry builds between retailers as they strive to create brands that are associated with desirable product offerings and efficient customer service. Improving customer experience is one of the best ways to hold onto existing customers and promote a brand reputation that leads to new acquisitions. Over the last two years, Origin has worked to deliver more responsive customer service as part of our ongoing drive to improve customer experience. This includes:

- proactively contacting existing customers to obtain energy contract renewals so they can benefit from new discounts;
- refreshing ‘My Account’ to improve customer online experience;
- re-launching EasiPay and introducing monthly billing;
- new mobile payment options introduced and sending courtesy SMS messages for payment and mover reminders;
- redesigning paper and electronic Origin bills to improve the layout, making it clearer and easier to understand; and
- rewriting energy contract and product packs and improving their design and length.

Origin also continues to improve the products that we offer our customers. We removed exit fees from bills to encourage new customers and launched a fully online product called ‘eSaver’. To attract new customers in the gas market, Origin has commenced a “First Gas Bill Free” campaign and continues to offer discounts for dual fuel customers. With competition likely to intensify in Queensland following deregulation, all energy retail markets continuing to adapt to the rise of solar PV, and the gradual roll out of smart meters, Origin anticipates significant innovations in retailer product offers in coming years.

While an important driver, removal of price regulation is not the only barrier to tariff, product and service innovation. Even in a highly competitive and mature market like Victoria, other regulatory interventions have acted to limit innovation in the marketplace, including:

- a mandated model of flexible pricing;
- residual issues associated with not adopting the National Energy Customer Framework (though the recent harmonisation of the Victorian Retail Code is an improvement);

- the jurisdictional derogation on smart meters that prevents retailers from offering metering solutions for large customers or innovating in this area;
- a complicated wrongful disconnection regime; and
- a prohibition on prepayment metering solutions.

Such additional (and often different) regulations across jurisdictions absorb retailer resources, diverting attention from more productive investments in customer products and services. All retailers therefore adjust their activities and aspirations knowing that certain investments must be made to comply with such regulation and policies.

Some of these regulatory interventions are designed to ensure service levels, but can in fact, act to hinder the quality of Origin's interaction with its customers. For example, ACT retailers are obligated to offer Greenpower products first to customers seeking to purchase electricity. This often leads to a poor customer experience as prospective customers are not generally approaching Origin with Greenpower specifically in mind. Similarly, the requirement in the NECF to advise customers proactively of the availability of a standing offer in certain circumstances can result in a poor customer experience. The customer is confused; why would a retailer discuss the standing offer when the customer is most often interested in available discounted market products?

A principal instance of regulatory intervention acting as a barrier to service innovation is the plethora of jurisdictional specific obligations that retailers must satisfy on small customer energy bills. In Origin's view, customers should be able to opt in for a simplified bill, or alternatively refer the customer to content moved online where they are willing to do so. These are just some instances of regulatory intervention do not necessarily produce better service delivery and can impede a positive customer experience.

4. Customer satisfaction with market outcomes

In March 2014, Origin started making significant changes to our marketing and sales processes. To enhance our awareness of customers needs and to improve how we deliver information to them, we engaged Galaxy Research to undertake a customer survey on our behalf. The survey indicated that only 17 per cent of Australian bill payers felt the energy and utility sector was delivering adequate customer service – placing it behind many other industries. In response to this feedback, Origin implemented a number of changes to our customer services, including:

- extended call centre hours;
- opening a series of Customer Service Hubs and a dedicated webpage to listen to customer feedback;
- flexible payment options for our customers (including shorter billing);
- refinements to our energy contract and quote backs to make them more customer-friendly;
- redesigned electronic and paper Origin bills to improve the layout, making it clearer and easier to understand;
- courtesy SMS messages for payment and mover reminders; and
- launching the Net Promoter System (NPS) to help us measure customer satisfaction and loyalty.

To understand the impact of our customer service improvements, we used email and advertising to seek feedback proactively from customers and received nearly 3,000 submissions in response. Some customers reported issues around our billing and customer service experience, and Origin accepts that there is work still to be done in improving customer engagement. Nevertheless, we are pleased that customer satisfaction has increased to 70 per cent from 65 per cent from 2012-2013 to 2013-2014, as our new billing system and other customer service initiatives took effect.

Origin will continue to gauge customer satisfaction with the level of service they receive through the introduction of a Net Promoter System (NPS). The NPS will continue to assist Origin in understanding customer satisfaction at important junctures with the company and provide useful feedback of what we are getting right and where we need to improve.

Our endeavor to improve customer service is reflected in the decline in customer complaints to the ombudsmen. Origin specific complaints to the ombudsmen fell from 26,357 in 2012-13 to 21,795 in 2013-14. At this stage of the year, we are on track to have a lower number of customer complaints for the 2014-15 financial year. The fall in our complaint levels reflects the implementation of a new billing system and lessons from our customer surveys. Given the upgrades to IT and billing systems across all of the Tier one retailers, we would expect Ombudsmen complaints to gradually reduce across the industry.

To date, we are not aware of evidence that shows a high degree of dissatisfaction with switching retailers. We note that one of the benefits of smart meters being rolled out in Victoria is that it enables a smoother process for final meter reads, which can be done remotely and negates the need for a person to physically read the meter.

5. Competitive retail energy prices

As discussed above, retailers are engaging in priced-based competition, particularly in NSW and Victoria, which are currently experiencing record high discount levels. During the first half of the 2014-15 financial year, market churn hovered at around or above 20%. This competition is being driven by Tier one and Tier two participants alike. For instance, when Origin reduced its discounts in July and August last year, customers in New South Wales and Victoria responded by switching to other retailers. Due to the intensely price competitive environment in New South Wales and Victoria, Origin experienced a net loss of customers. In November, Origin responded by offering competitive discount offers, which stemmed the loss of customers in New South Wales and produced an overall increase in Victoria during the month of November. More recently this competition has extended beyond a percentage price discount, with Origin and AGL starting campaigns to attract customers with propositions like “Free Saturdays” from AGL and “First Gas Bill free” from Origin.

Post price deregulation, differentiated tariff pricing across retailers is becoming more apparent. Across the mainland NEM states, there is a wide spectrum of consumer offers available. As at January 2015:

- In Victoria, there were 12 electricity retailers actively competing with a peak tariff price, which had a range of 14% between the cheapest and most expensive retailer on widely available offers.
- In SA, there were 11 electricity retailers, with a peak tariff price difference of around 18%.
- In NSW, there were 11 electricity retailers, with a peak tariff price difference near 10%.
- In Queensland, 8 retailers were currently competing, with a peak tariff price difference of just over 5%.
- In the ACT, 4 retailers were offering electricity peak tariff price difference of up to 20%.

In a deregulated market, tariffs are generally set at levels to cover costs. Points of cost differentiation include wholesale positions and operating costs. Wholesale positions differ between retailers and from market to market. This can make some retailers relatively more competitive than others in certain markets. Strong priced based competition to win and retain customers is driving retailers to find ways to lower operating costs to remain competitive.

The nature of the product offered by each retailer and within individual retailers will also contribute to a spread between low and high offers. For example, many retailers are applying conditions to their best discount proposition. These include: requiring a customer to pay on time, setting up direct debit payment; receiving e-bills, etc. A lower discount offer may not have these types of conditions applied. These highlight how retailers are offering customer's choice and points of differentiation while also managing operating costs.