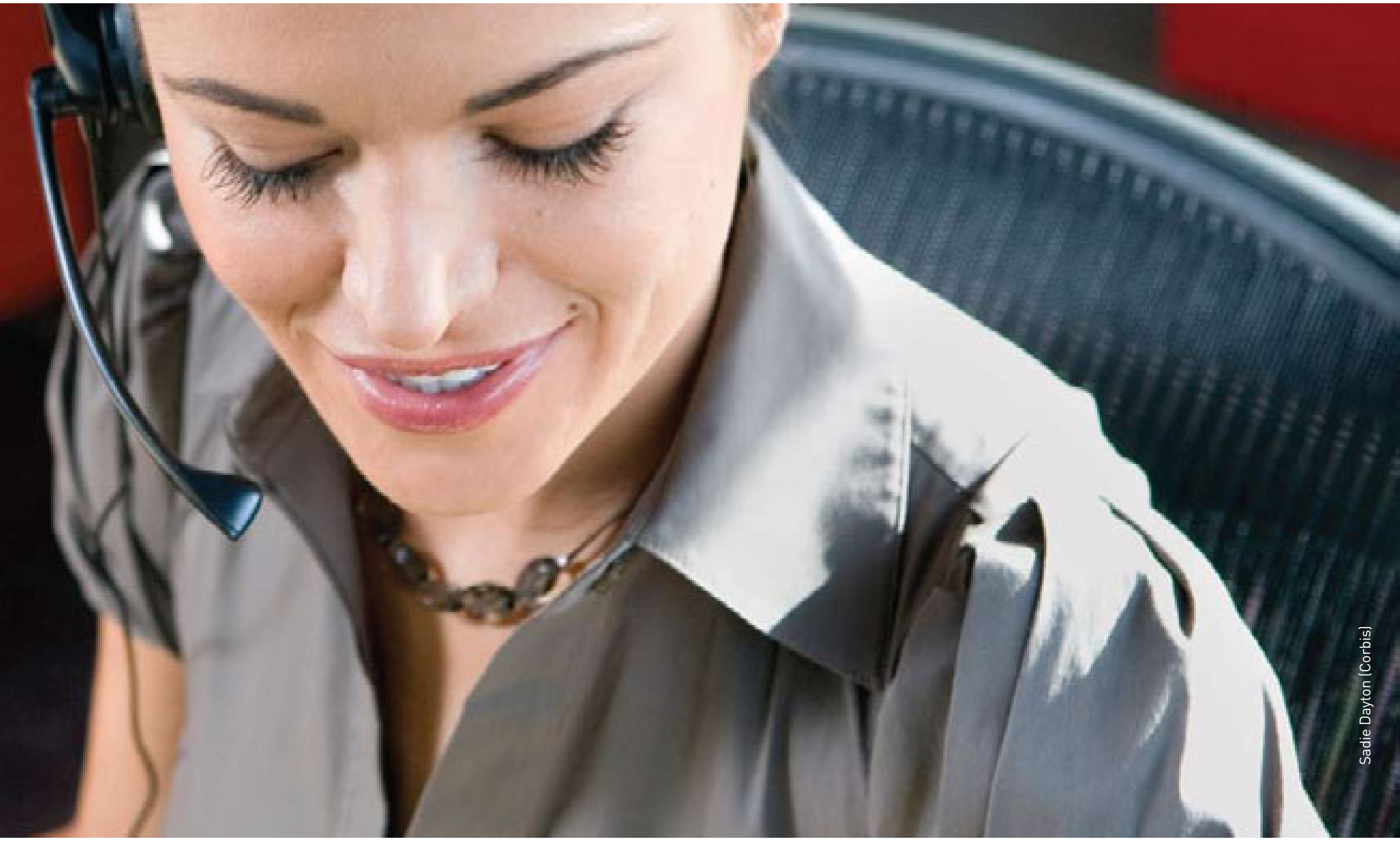
11 GAS RETAIL


Sadie Dayton (Corbis)

The retail market is the final link in the natural gas supply chain. It provides the main interface between the gas industry and customers such as households and small business. Retailers enter into contracts with gas producers and pipeline operators, and package an aggregated service for sale to customers. Because retailers deal directly with customers, the services they provide significantly affect perceptions of the performance of the gas industry.

11 GAS RETAIL

This chapter provides a survey of natural gas retail markets. It covers:

- the structure of the retail market, including industry participants and trends towards vertical integration
- the development of retail competition
- retail market outcomes, including price, affordability and service quality.

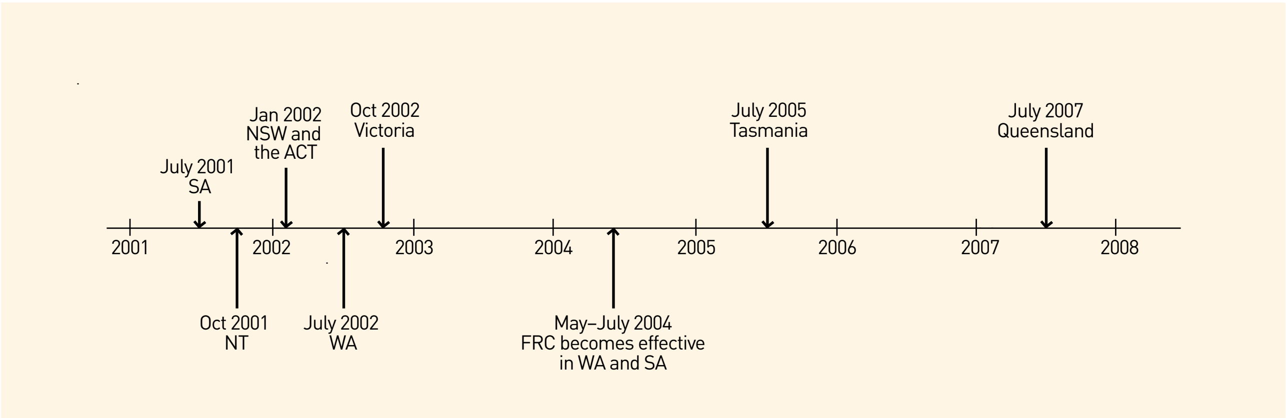
State and territory governments are currently responsible for the regulation of retail energy markets. Governments agreed in 2004, however, to transfer non-price regulatory functions to a national framework for the Australian Energy Market Commission (AEMC) and the Australian Energy Regulator (AER) to administer.[1] The Ministerial Council on Energy (MCE) has scheduled the regulatory package to be introduced to the South Australian parliament in 2010.[2]

Retail customers include residential, business and industrial gas customers. This chapter focuses on the retailing of natural gas to small customers,[3] including households and small business customers. Many energy retailers are active in both gas and electricity markets, and offer dual fuel products. This chapter should thus be read in conjunction with chapter 7, 'Electricity retail'.

While this chapter reports data that may enable performance comparisons across retailers and jurisdictions, such analysis should note that a variety of factors can affect relative performance.

1 This commitment does not cover regulatory arrangements for gas and electricity retail in Western Australia or electricity retail in the Northern Territory.
2 Sections 11.6 and 7.7 (in chapter 7) provide an update on future regulatory arrangements.
3 Small customers are those using less than 1 terajoule of gas a year.

Figure 11.1
Introduction of full retail contestability



FRC, full retail contestability.

11.1 Retail market structure

Historically, natural gas retailers in Australia were integrated with gas distributors and operated as monopoly providers in their state or region. In the 1990s governments began to reform the industry through restructuring, privatisation and the introduction of competition.

South Australia (in 1993), Victoria (in the late 1990s), Western Australia (in 2000) and Queensland (in 2007) have privatised their state owned gas retailers.[4] While New South Wales has some government ownership, its gas retail sector has always been mainly in private hands.[5] The Australian Capital Territory (ACT) Government operates a joint venture with the private sector to provide gas retail services. Before the formation of the joint venture in 2000, the ACT gas retailer was privately owned. In Tasmania, one of the two active retailers in the state's relatively new gas retail sector is state owned.

All state and territory governments have introduced full retail contestability (FRC) for gas customers, meaning all customers can enter a supply contract with a retailer of choice (figure 11.1). Most governments chose to phase in retail contestability by introducing competition for large industrial customers, followed by small industrial customers and, finally, small business and household customers.

The retail players in most jurisdictions include:

- one or more 'host' retailers, that are subject to additional regulatory obligations
- new entrants, including new players in the gas retail sector, established interstate gas retailers, and electricity retailers branching into gas retailing.

Table 11.1 lists licensed gas retailers that are active in the market for residential and small business customers. Active retailers are those that offer supply contracts to new small customers. Privately owned retailers are the major players in most jurisdictions:

- In the eastern states, the largest retailers are AGL Energy, Origin Energy and TRUenergy. Each has significant market share in Victoria and South Australia. AGL Energy is the largest gas retailer in New South Wales and jointly owns (with the ACT Government) the largest ACT retailer. AGL Energy acquired significant market share in Queensland via the 2006–07 privatisation process, while Origin Energy was already an established retailer in that state.

4 Local councils in Dalby and Roma (Queensland) operate distribution and retail services in their local areas.
5 The New South Wales Government owns EnergyAustralia and Country Energy.

Table 11.1 Active gas retailers—small customer market, June 2009

RETAILER[1]	OWNERSHIP	QLD	NSW	VIC	SA	WA	TAS[2]	ACT
ActewAGL Retail	ACT Government and AGL Energy		Host					Host
AGL Energy	AGL Energy	Host	Host	Host	New entrant			
Alinta	Babcock & Brown Power					Host		
Aurora Energy	Tasmanian Government						New entrant	
Australian Power & Gas	Australian Power & Gas			New entrant				
Country Energy	NSW Government		Host					
EnergyAustralia	NSW Government		New entrant					
Origin Energy	Origin Energy	Host	Host	Host	Host			
Red Energy	Snowy Hydro[3]			New entrant				
Simply Energy	International Power			New entrant	New entrant			
Tas Gas Retail (formerly Option One)	Babcock & Brown Infrastructure						New entrant	
TRUenergy	CLP Group		New entrant	Host	New entrant			New entrant
Victoria Electricity	Infratil			New entrant				
Active retailers		2	6	7	4	1	2	2
Approx. market size ('000 000 customers)[4]		0.15	1.19	1.68	0.37	0.58	0.005	0.09

Host (incumbent) retailer New entrant retailer

1. Not all licensed retailers are listed. Some of the retailers listed offer gas services only as part of a gas and electricity contract. The list excludes three small retailers (BRW Power Generation (Esperance), Dalby Town Council and Roma Town Council).
2. There is no host retailer in Tasmania because gas distribution and retail services have been available only for a short time and FRC existed from market start.
3. Snowy Hydro is owned by the New South Wales Government (58 per cent), the Victorian Government (29 per cent) and the Australian Government (13 per cent).
4. Customer numbers in Queensland, New South Wales and the ACT are estimates based on the number of distribution connection points.

Sources: Jurisdictional regulator websites; ESAA, *Electricity gas Australia 2008*, Melbourne, 2008; updated by information on retailer websites and other public sources.

- In Western Australia, Alinta (owned by Babcock & Brown Power) is the largest retailer and the only retailer licensed to retail to customers consuming less than 0.18 terajoules a year on the main distribution systems.
- Various niche players are active in most jurisdictions.

The following survey (sections 11.1.1–11.1.8) provides background on developments in each jurisdiction.

11.1.1 Queensland

At June 2009 Queensland had seven licensed retailers, of which two were active in the residential and small business market—namely, the host retailers, AGL Energy (previously Sun Gas Retail)[6] and Origin Energy. In addition, the local councils in Dalby and Roma provide gas services in their local government areas. In June 2008 Australian Power & Gas withdrew from actively retailing in the gas retail market because it could no longer viably compete for gas customers.[7] EnergyAustralia obtained a retail licence in July 2007, as did Dodo Power & Gas in January 2008, but neither were actively retailing to small customers in 2009.

6 AGL Energy acquired the government owned Sun Gas Retail in 2006.
7 QCA (Queensland), *Final report—review of small customer gas pricing and competition in Queensland*, Brisbane, November 2008, p. 22.

In a review of small customer gas pricing and competition, the Queensland Competition Authority (QCA) found prices in the small customer gas retail market are not cost-reflective, and the lack of a sufficient retail margin reduces the incentive for new retailers to enter the market.[8] The QCA noted in its final determination that the residential gas retail market in Queensland at June 2008 was almost evenly split between the two host retailers.[9]

11.1.2 New South Wales

At June 2009 New South Wales had 13 licensed retailers, of which six were active in the residential and small business market:

- the host retailers—AGL Energy, Country Energy, Origin Energy and ActewAGL Retail
- two new entrants—electricity retailer EnergyAustralia and established interstate retailer TRUenergy.

Integral Energy and Jackgreen held retail licences in June 2009 but were not actively marketing to small customers.

11.1.3 Victoria

At June 2009 Victoria had 12 retailers licensed to sell gas to residential and small business customers, of which seven retailers were active:

- the host retailers in designated areas of Victoria—TRUenergy, AGL Energy and Origin Energy
- four new players in the gas retail market—Australian Power & Gas, Red Energy, Simply Energy and Victoria Electricity.

Momentum Energy and Dodo Power & Gas held retail licences in June 2009 but were not actively marketing to small customers.

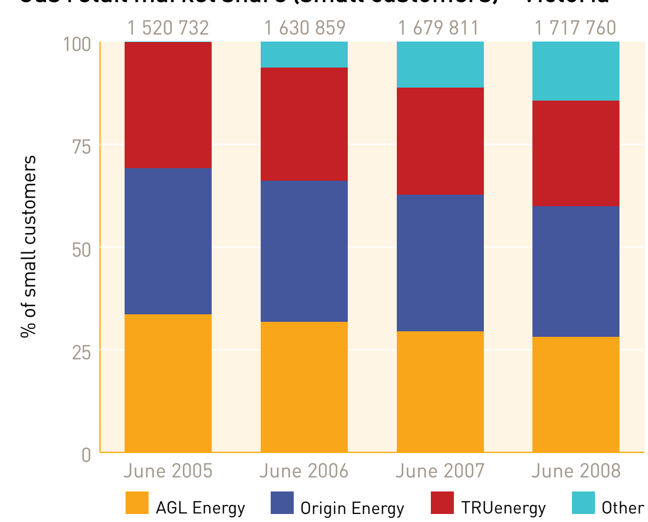
Table 11.2 and figure 11.2 set out the market share of Victorian retailers (by customer numbers) at 30 June 2008. The three host retailers (TRUenergy, AGL Energy and Origin Energy) accounted for about 86 per cent of the market, and each retailed beyond its 'local' area. While the market share of new entrants is small, new entrant penetration increased from 11 per cent of small customers in June 2007 to over 14 per cent in 2008.

Table 11.2 Gas retail market share (small customers)—Victoria, 30 June 2008

RETAILER	CUSTOMERS		
	DOMESTIC (%)	BUSINESS (%)	TOTAL (%)
Origin Energy	32.0	25.7	31.8
AGL Energy	28.0	31.3	28.1
TRUenergy	25.4	36.5	25.7
Other	14.7	6.5	14.4
Total customers (no.)	1 667 371	50 389	1 717 760

Source: ESC (Victoria), *Energy retailers: comparative performance report—customer service 2007–08*, Melbourne, December 2008, p. 5.

Figure 11.2
Gas retail market share (small customers)—Victoria



Note: Figures at top of columns are total small customer numbers.

Source: ESC (Victoria), *Energy retailers: comparative performance report—customer service*, Melbourne, various years.

8 QCA (Queensland), *Final report—review of small customer gas pricing and competition in Queensland*, Brisbane, November 2008, p. 46.

9 QCA (Queensland), *Final report—review of small customer gas pricing and competition in Queensland*, Brisbane, November 2008, p. 24.

11.1.4 South Australia

At May 2009 South Australia had 10 retailers licensed to sell gas to residential and small business customers, of which four retailers were active:

- the host retailer—Origin Energy
- three new entrants—South Australia's host retailer in electricity (AGL Energy), an established interstate retailer (TRUenergy) and Simply Energy (owned by International Power).

Country Energy, EnergyAustralia, Australian Power & Gas, Dodo Power & Gas, Momentum Energy and South Australian Electricity held retail licences but were not actively marketing to small customers in June 2009. Several of these businesses are active in the South Australian electricity retail market. Jackgreen no longer holds a gas retail licence.

Table 11.3 sets out the market share of South Australian retailers (by customer numbers) at June 2008. New entrants accounted for about 42 per cent of the small customer market, up from 40 per cent in 2007 and 30 per cent in 2006 (figure 11.3).

11.1.5 Western Australia

Although the Western Australian retail market is open to retail competition, Alinta is the only active retailer for customers using less than 0.18 terajoules of gas a year. In May 2007 Babcock & Brown Power acquired Alinta's Western Australian gas retail business.

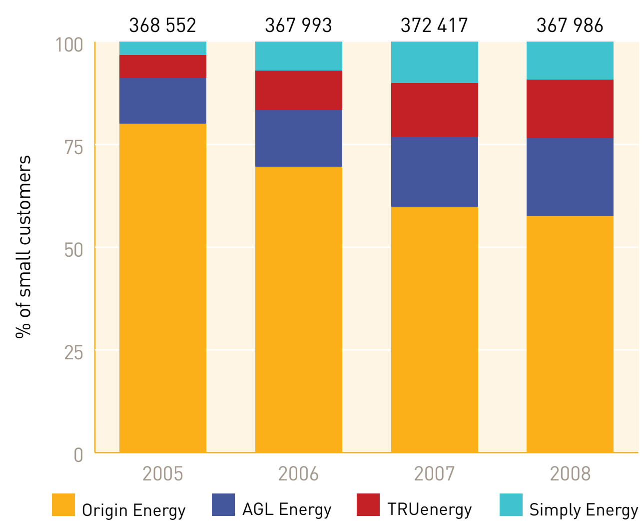
The state's host retailer in electricity, Synergy, applied for a gas trading licence in April 2007 to sell gas to small customers. Restrictions imposed by the Western Australian Government, however, prevent Synergy from supplying gas to customers using less than 0.18 terajoules a year.[10]

Table 11.3 Gas retail market share (small customers)—South Australia, 30 June 2008

RETAILER	CUSTOMERS		
	DOMESTIC (%)	BUSINESS (%)	TOTAL (%)
Origin Energy	56.9	86.4	57.5
AGL Energy	19.3	2.8	19.0
TRUenergy	14.4	8.2	14.2
Simply Energy	9.4	2.6	9.2
Total customers (no.)	360 642	7 344	367 986

Source: ESCOSA (South Australia), *2007–08 Annual performance report: performance of the South Australian energy retail market*, Adelaide, November 2008, p. 70.

Figure 11.3
Gas retail market share (small customers)—South Australia



Note: Figures at top of columns are total small customer numbers.

Source: ESCOSA (South Australia), *Annual performance report: performance of the South Australian energy retail market*, Adelaide, various years.

10 ERA (Western Australia), *Decision on gas trading licence application for Synergy (Electricity Retail Corporation)*, Perth, 26 June 2007.

11.1.6 Tasmania

At June 2009 Tasmania had two gas retailers active in the small customer market: the state owned Aurora Energy and Tas Gas Retail (formerly Option One, owned by Babcock & Brown Infrastructure). TRUenergy and Country Energy obtained retail licences in 2008 but were not actively marketing to small customers in June 2009.

11.1.7 Australian Capital Territory

At June 2009 the ACT had eight licensed retailers, of which two were active in the residential and small business market—namely, the host retailer (ActewAGL Retail) and one new entrant (interstate retailer TRUenergy). EnergyAustralia, Country Energy, Dodo Power & Gas, Australian Power & Gas, Sun Retail and Jackgreen held retail licences in June 2009 but were not actively marketing to small customers.

11.1.8 The Northern Territory

In the Northern Territory, gas is used mainly for electricity generation. NT Gas (owned by the APA Group) supplies a small quantity of gas to commercial and industrial customers in Darwin.

11.2 Trends in market integration

The energy retail sector has undergone considerable ownership consolidation, including:

- retail market convergence between electricity and gas
- vertical integration between gas production and gas retail.

Efficiencies in the joint provision of electricity and gas services have encouraged retailers to be active in both markets, and offer dual fuel retail products. Section 7.2.1 considers the convergence between the gas and electricity retail markets.

There is a continuing trend towards vertical integration between privately owned gas retailers and gas producers. Investment in gas production provides gas retailers with a natural hedge against volatile wholesale gas prices and enhances security of supply. The retailers AGL Energy, Origin Energy and TRUenergy each have interests in gas production and/or gas storage. Origin Energy is a gas producer in Queensland, Western Australia, South Australia and Victoria. AGL Energy has become a producer of coal seam gas in Queensland and New South Wales. TRUenergy has gas storage facilities in Victoria. AGL Energy, Origin Energy and TRUenergy are also major electricity generators.

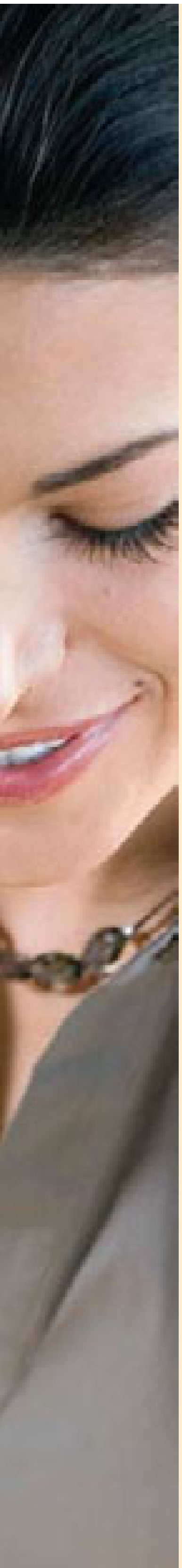
In addition, some ownership links exist between the gas pipeline and gas retail sectors. The retailers TRUenergy and Simply Energy (owned by International Power), for example, have ownership shares in the SEA Gas Pipeline from Victoria to South Australia.

11.3 Retail competition

While most jurisdictions have introduced FRC in gas, it can take time for a competitive market to develop. As a transitional measure, some jurisdictions require host retailers to supply under a regulated standing offer (or default) contract to all small customers without a market contract (see section 11.4.1). Standing offer contracts often cover minimum terms and conditions, and may include a regulated price that is subject to some form of cap or oversight. At July 2009 three jurisdictions—New South Wales, South Australia and Western Australia—applied some form of retail price regulation.

Australian governments have agreed to review the continued use of retail price caps and remove them where effective competition can be demonstrated.[11] The AEMC is assessing the effectiveness of retail competition in each jurisdiction to advise on the appropriate time to remove retail price caps.

11 Australian Energy Market Agreement 2004 (as amended), p. 28.



Box 11.1 Price and product diversity in the small customer market

The CHOICEswitch website (www.choiceswitch.com.au) provides an online estimator service that allows consumers to make quick comparisons of electricity and gas retail offers available in their area. The website also provides information on the terms, conditions and benefits of each offer.

Table 11.4 draws on data available on the CHOICEswitch website to set out the estimated price offerings in June 2009 for customers in selected suburban postcodes in Brisbane, Sydney, Melbourne and Adelaide using 60 gigajoules (GJ) of natural gas a year. The offers were only for the postcodes selected and might not have been available to all customers. The data include all financial discounts and bonuses available under each offer.

The data indicate some price diversity in the gas retail markets, although less than for electricity (see box 7.2 in chapter 7 of this report). Brisbane had the highest price spread of $73 (compared with $666 in electricity), while Melbourne and Sydney had the greatest number of retailers offering contracts to new small customers.

Compared with electricity, there were limited bonuses available under each offer. Only products offered by TRUenergy attracted a discount for prompt payment. No offer included non-financial bonuses such as magazine subscriptions or movie tickets.

In Sydney and Adelaide, where retail gas prices are regulated, only TRUenergy offered products with a discount off the regulated price (of up to 6.9 per cent). Some offers with larger discounts were provided under fixed term contracts with exit fees for early termination.

The range of retailers and products increases if a customer accepts gas retail services as part of a 'dual fuel' retail product (covering both gas and electricity services). In Melbourne, for example, an additional four retailers offered gas retail services as part of a dual fuel product. Some dual fuel products also attracted larger discounts than those for standalone gas retail products.

Table 11.4 Gas retail price offers for a customer using 60 GJ per year in each capital city, June 2009

RETAILER	NO. OF PRODUCTS	ANNUAL COST (INCLUDING DISCOUNTS AND FINANCIAL BONUSES) (800 – 1700)	DISCOUNTS AND BONUSES INCLUDED IN ANNUAL COST: Pay-on-time bonus	CONTRACT TERM: Fixed term	CONTRACT TERM: Exit fee
BRISBANE (POSTCODE 4032)					
AGL Energy	2	$1596 $1669	●	●	●
Origin Energy	2	$1669			
SYDNEY (POSTCODE 2148)					
Regulated price (AGL Energy)		$1206			
Energy Australia	1	$1224			
Origin Energy	1	$1206			
TRUenergy	2	$1135 $1170	●	●	●
MELBOURNE (POSTCODE 3079)					
AGL Energy	1	$883			
Energy Australia	1	$838			
Origin Energy	1	$906			
TRUenergy	3	$839 $892	●	●	●
ADELAIDE (POSTCODE 5007)					
Regulated price (Origin Energy)	2	$1181			
TRUenergy	2	$1100 $1146	●	●	●

Note: The offers were only for standalone gas products in the postcodes selected and might not have been available to all customers. The data include all financial discounts and bonuses available under each offer.

Source: CHOICEswitch energy comparison website, viewed 9 June 2009, www.choiceswitch.com.au.

The relevant state or territory government makes the final decision on this matter. The AEMC reviewed the Victorian market in 2007. In response to the review, the Victorian Government removed retail price caps on 1 January 2009.

The AEMC also reviewed the South Australian market in 2008 and outlined options to phase out retail price regulation in that state. The South Australian Government decided in April 2009 not to accept the AEMC's recommendation to remove retail price controls.[12] Box 7.1 in chapter 7 provides further information on the AEMC reviews.

The following is a sample of public data that may be relevant for assessing the effectiveness of retail competition in Australia. The data show the diversity of price and product offerings of retailers; the exercise of market choice by customers, including switching behaviour; and customer perceptions of competition. Elsewhere, this chapter touches on other barometers of competition—for example, section 11.1 considers new entry in the gas retail market. The AER does not seek to draw conclusions from the information provided and does not attempt to assess the effectiveness of retail competition in any jurisdiction.

11.3.1 Price and non-price diversity of retail offers

There is some evidence of price and product diversity in gas retail markets in Australia. Under market contracts, retailers generally offer a rebate and/or discount from the terms of a standing offer contract. Often, discounts are tied to the term of the contract—for example, longer term contracts typically attract larger discounts than do more flexible arrangements. Discounts may also be available for prompt payment of bills and for payments by direct debit.

Some product offerings bundle gas services with inducements such as loyalty bonuses, competitions, membership discounts, shopper cards and free products. Some retailers also offer discounts for contracting jointly for gas and electricity services.

In assessing the effectiveness of competition in gas retail markets in South Australia, the AEMC noted:[13]

> To provide customers with an additional incentive to take up a market offer, retailers also offer other price and non-price incentives such as rebates, one month free supply or bill credits for customers staying longer than one year, or free gifts such as magazine subscriptions, sporting club memberships and appliances. While most retailers offer accredited Greenpower or renewable energy products, some retailers are also offering other innovative products and product features which appeal to customers. Gas customers are offered discounts of between 0.5 and 7.5 per cent in comparison to the gas standing contract prices.

The variety of discounts and non-price inducements makes direct price comparisons between retail offers difficult. Further, the transparency of price offerings also varies. Some retailers publish details of their products and prices, while others require a customer to fill out online forms or arrange a consultation.

The Australian Consumers Association has launched a website—CHOICEswitch—that allows customers to compare energy retail offers. Box 11.1 draws on the website to comment on the diversity of product offerings to small customers in Brisbane, Sydney, Melbourne and Adelaide.

The price offers set out in box 11.1 are not directly comparable across jurisdictions because the underlying product structures may not be identical. For further information on retail prices, see section 11.4.

12 Patrick Conlon (Minister for Energy, South Australia), Letter to the AEMC, 6 April 2009.

13 AEMC, *Review of the effectiveness of competition in electricity and gas retail markets in South Australia—first final report*, Sydney, 19 September 2008, p. 28.

Table 11.5 Small customers switching retailers, June 2009

INDICATOR (%)	QUEENSLAND	NEW SOUTH WALES AND THE ACT	VICTORIA	SOUTH AUSTRALIA
Percentage of small customers that changed gas retailer during 2008–09 (%)	16	4	23	11
Customer switches as a percentage of the small customer base from start of FRC to June 2009 (cumulative)—gas (%)	23	30	115	81
Customer switches as a percentage of the small customer base from FRC start to June 2009 (cumulative)—electricity (%)	28.5	56.1	130.7	104.4

Notes:

If a customer switches to a number of retailers in succession, each move counts as a separate switch. Cumulative switching rates may thus exceed 100 per cent.

The customer base is estimated at 30 June 2009. The New South Wales and ACT, Queensland and Victorian data are based on transfers at delivery points.

Sources: New South Wales, ACT: AEMO, Market activity data January 2002 – June 2009; South Australia: REMCo, Market activity reports August 2004 – June 2009; Victoria and Queensland: AEMO, Gas market reports, transfer history January 2002 – June 2009.

11.3.2 Customer switching

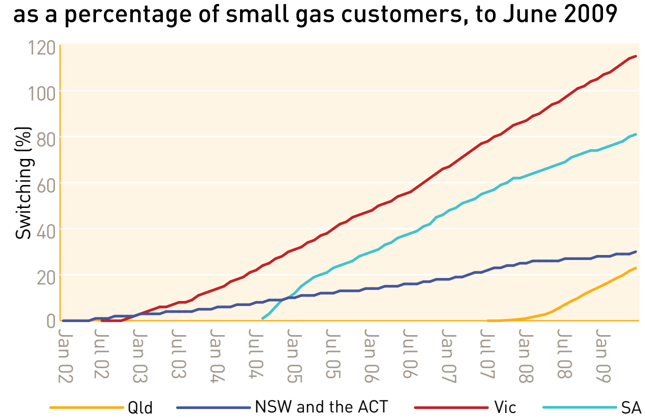
The rate at which customers switch their supply arrangements (or churn) is an indicator of customer participation in the market. Switching rates can also indicate competitive activity. High rates of switching can reflect the availability of cheaper or better offers from competing retailers, successful marketing by retailers, and customer dissatisfaction with some service providers.

Switching rates should be interpreted with care, however. Switching is sometimes high during the early stages of market development when customers are first able to exercise choice. And switching rates sometimes stabilise even as the market acquires more depth. Similarly, low switching rates are possible in a competitive market if retailers deliver good quality service that gives customers no reason to switch.

Switching rates may also reflect factors such as the number of competitors in the market, customer experience with competition, demographics, demand and the cost of the service in relation to household budgets. Consumers are more likely to be responsive to energy offers and actively seek out cheaper services if, for example, the cost of gas services represents a relatively high proportion of their budget.

Since 1 July 2009 the Australian Energy Market Operator (AEMO) has published gas churn data. Previously, a number of independent market operators—the Gas Market Company (New South Wales and the ACT), VENCorp (Victoria and Queensland) and REMCo (South Australia)—published the data.

Figure 11.4
Cumulative monthly customer switching of retailers as a percentage of small gas customers, to June 2009



Note: The customer base is estimated at 30 June 2009. The New South Wales and ACT, Queensland and Victorian data are based on transfers at delivery points.

Sources: New South Wales and ACT: AEMO, Market activity data January 2002 – June 2009; South Australia: REMCo, Market activity reports August 2004 – June 2009; Victoria and Queensland: AEMO, Gas market reports, transfer history January 2002 – June 2009.

Table 11.6 Customer transfers to market contracts

JURISDICTION	DATE	CUSTOMERS ON MARKET CONTRACTS (% OF CUSTOMER BASE)
Victoria	30 June 2008	54% of gas and electricity customers
South Australia	30 June 2008	62% of residential customers (20% with the host retailer and 42% with new entrants)
		17% of small business customers (3% with the host retailer and 14% with new entrants)
		61% of residential and small business customers (averaged)

Note: South Australian data are for gas customers only.

Sources: ESC (Victoria), *Energy retailers: comparative performance report—customer service 2007–08*, Melbourne, December 2008; ESCOSA (South Australia), *2007–08 Annual performance report: performance of South Australian energy retail market*, November 2008, p. 24.

Churn is measured as the number of switches by gas customers from one retailer to another in a period, including switches from a host retailer to a new entrant, switches from new entrants back to a host retailer, and switches from one new entrant to another (table 11.5 and figure 11.4). The data do not include customers who have switched from a standing offer contract to a market contract with their existing retailer. This exclusion may understate the true extent of competitive activity because it does not account for the efforts of host retailers to maintain market share.

Table 11.5 illustrates switching activity continued strongly in Victoria (and to a lesser extent Queensland and South Australia) in 2008–09. New South Wales and the ACT had a switching rate significantly lower than those recorded in the other states. Only 4 per cent of small customers in New South Wales and the ACT changed gas retailer in 2007–08, compared with 23 per cent in Victoria. Switching activity in South Australia reduced slightly from 13 per cent in 2006–07 to 11 per cent in 2007–08. At June 2009 cumulative switching rates in Victoria (115 per cent) and South Australia (81 per cent) were more than double the New South Wales and ACT rate (30 per cent). More generally, switching rates for gas have been lower than for electricity in all jurisdictions (see table 7.6 in chapter 7).

Switches to market contract

An alternative approach to measuring customer churn is to measure switching from standing offer contracts to market contracts. In June 2008 South Australia was the only jurisdiction that periodically published these data. In Victoria, the Essential Services Commission published data on customer switching to market contracts, but the data combined gas and electricity.

Table 11.6 summarises available data on switches to market contracts in South Australia and Victoria. The data are not directly comparable because collection methods differ.

The data indicate that in addition to customer movement between retailers, a significant number of residential customers are choosing to move away from standing offer contracts. In South Australia, more customers are choosing market contracts with new entrants in preference to the host retailer. Again, switching rates are lower than for electricity (see table 7.7 in chapter 7).

11.3.3 Customer perceptions of competition

A number of jurisdictions undertake occasional surveys on customer perceptions of retail competition. Issues covered include:

- customer awareness of their ability to choose a retailer
- customer approaches to retailers about taking out a market contract
- retailer offers received by customers
- customer understanding of retail offers.

Table 11.7 provides summary data. The surveys suggest customer awareness of retail choice has risen over time to high levels. It remains unusual for customers to approach retailers about taking out a market contract, but retailers are approaching an increasing number of customers.

Table 11.7 **Residential customer perceptions of competition**

INDICATOR	NEW SOUTH WALES[1] Sydney	NEW SOUTH WALES[1] Hunter region	VICTORIA		SOUTH AUSTRALIA	
	2006	2008	2004	2007	2003	2008
Customers aware of choice (%)	92	91	83	91	78	84
Customers receiving at least one retail offer (%)	29[2]	35[2]	22	45	20	20
Customers approaching retailers about taking out market contracts (%)	n/a	7	6	6	8	5

n/a not available.

1. New South Wales data in 2006 are based on a household survey conducted in Sydney, and the 2008 data are based on a similar household survey conducted in the Hunter region.
2. Only includes customers approached by their current retailer about switching to a market contract.

Sources: South Australia: McGregor Tan Research, *Monitoring the development of energy retail competition—residents*, Report prepared for ESCOSA, Adelaide, November 2003; McGregor Tan Research, *Review of effectiveness of competition in electricity and gas retail markets*, Report prepared for the AEMC, Adelaide, June 2008; Victoria: The Wallis Group, *Review of competition in the gas and electricity retail markets—consumer survey*, Report prepared for the AEMC, Melbourne, August 2007; New South Wales: IPART, *Electricity, gas and water research paper—residential energy and water use in the Hunter, Gosford and Wyong*, Sydney, December 2008; IPART, *Residential energy and water use in Sydney, the Blue Mountains and Illawarra—results from the 2006 household survey*, Sydney, November 2007.

11.4 Retail prices

Natural gas retail prices cover the costs of a bundled product made up of gas, transport through transmission and distribution pipelines, and retail services. Data on the composition of residential gas prices are published from time to time in regulatory determinations. Figure 11.5 draws on determinations in Queensland and South Australia to illustrate the typical make-up of a residential gas bill. Wholesale gas costs and pipeline (transmission and distribution) charges account for the bulk of retail gas prices. Retail operating costs and retail margins account for around 36 per cent of retail prices in Queensland and 22 per cent in South Australia.

11.4.1 Regulation of retail prices

While most jurisdictions have introduced FRC, at July 2009 New South Wales, South Australia and Western Australia continued to regulate gas retail prices for small customers. The host retailers in those states must offer standing offer contracts to sell gas at default prices based on some form of regulated price cap or oversight. The contracts apply to customers who have not switched to a market contract. Retail gas prices are not regulated in Queensland, Victoria, Tasmania, the ACT or the Northern Territory.

Price cap regulation was intended as a transitional measure during the development of retail markets. To allow efficient signals for investment and consumption, governments are moving towards removing retail price caps. As noted, the AEMC is reviewing the effectiveness of competition in electricity and gas retail markets to determine an appropriate time to remove retail price caps in each jurisdiction (see section 11.3 and box 7.1 in chapter 7).

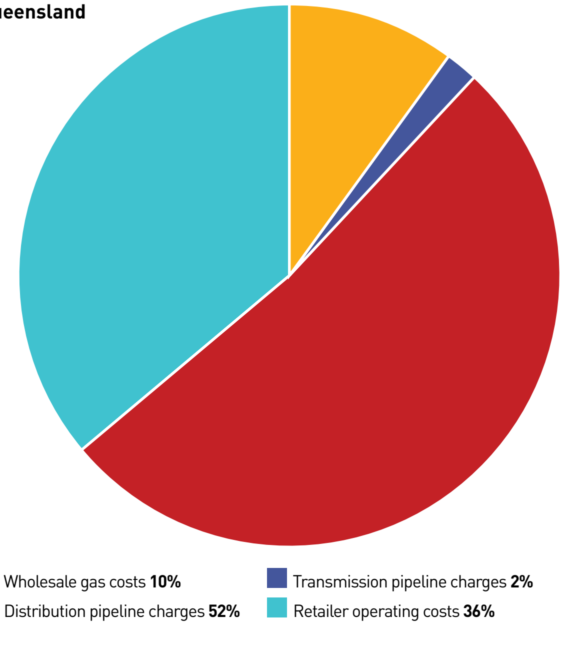
In setting default prices, jurisdictions consider gas purchase costs, pipeline charges, retailer operating costs and a retail margin. The approach varies across jurisdictions:

- In New South Wales, voluntary agreements with host retailers limit annual price increases and thus control prices under standing offer contracts.
- The South Australian regulator (the Essential Services Commission of South Australia, ESCOSA) sets default prices for the host retailer by considering the costs that a prudent retailer would incur in delivering the services.
- In Western Australia, regulations cap gas retail prices for the major distribution systems.

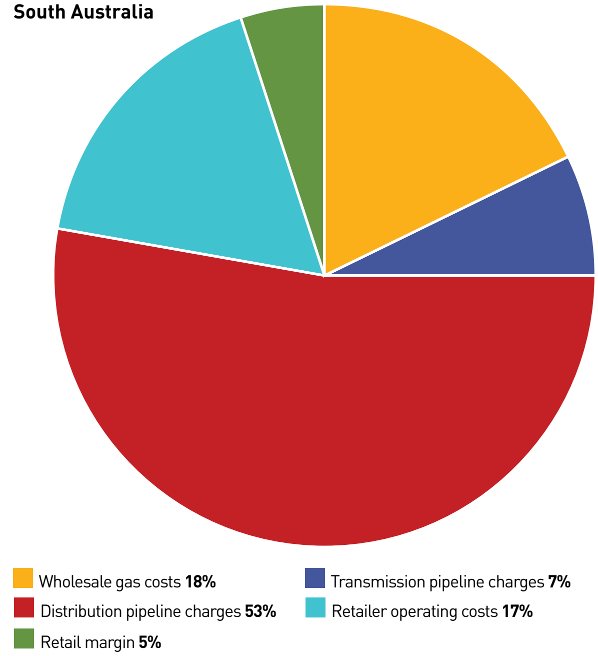
Figure 11.5

Indicative composition of a residential gas bill in Queensland and South Australia, 2008

Queensland



South Australia



Note: Based on McLennan Magasanik and Associates analysis of the composition of costs for a typical residential customer with an annual consumption of 10 gigajoules.

Source: McLennan Magasanik and Associates, *Final report to the Queensland Competition Authority—costs of gas supply for a second tier retailer supplying small customers in Queensland*, Brisbane, November 2008 (report prepared for the QCA review of small customer gas pricing and competition in Queensland).

Notes:
South Australian data are based on 2008–09 prices and an average annual residential consumption of 24 gigajoules.

South Australia's retailer tariffs are Origin Energy's 2008–09 standing contract tariffs (Adelaide) and distribution tariffs are Envestra's 2008–09 tariffs.

Source: ESCOSA (South Australia), *2008 Gas standing contract price path inquiry: draft inquiry report and draft price determination*, Adelaide, April 2008.

Table 11.8 compares recent movements in regulated tariffs in New South Wales, South Australia and Western Australia and the mechanisms to allow further tariff revision. The changes relate to the supply of gas by host retailers to customers on default arrangements. Different approaches across jurisdictions reflect a range of factors and must be interpreted with care. In particular, the operating environments of retail businesses differ.

In 2008 the Western Australian Office of Energy reviewed the level and structure of gas tariffs, and made an interim recommendation in June 2009 to increase regulated tariffs by between 7.5 per cent and 23.6 per cent (depending on the customers' geographic location and level of gas consumption).[14] The Western Australian Government accepted this interim recommendation.[15]

The South Australian regulator (ESCOSA) indicated that a typical residential gas bill would increase by 6.15 per cent in 2008–09. This increase largely reflects a rise in network costs, wholesale gas supply costs and an increase in the retail margin.[16]

Queensland does not regulate retail prices but has experienced significant retail price increases since 2005–06 (figure 11.8). In December 2008 the Queensland regulator (the QCA) released a final report

14 Office of Energy, *Gas tariffs review—interim report*, Perth, June 2009.

15 Peter Collier (Minister for Energy, Western Australia), 'Alinta proposal accepted', Media release, 26 June 2009.

16 ESCOSA (South Australia), *2008 Gas standing contract price path inquiry: final inquiry report and final price determination*, Adelaide, June 2008; ESCOSA, *2008–09 Regulated gas price adjustment impact on residential and small business customers*, Adelaide, June 2008.

Table 11.8 Recent changes in regulated gas retail prices

JURISDICTION	PERIOD	RETAILERS	INCREASE IN REGULATED RETAIL PRICE	MECHANISM FOR FURTHER INCREASES IN REGULATED PRICE
New South Wales	1 July 2007 to 30 June 2010	AGL Energy Origin Energy ActewAGL Retail Country Energy	Increase by CPI annually in all areas except the Murray Valley district (Origin), which increases by CPI + 2% annually	Retailers can apply to IPART in special circumstances to vary prices outside the limit.
South Australia	1 July 2008 to 30 June 2011	Origin Energy	2008–09: 8.25% increase 2009–10 to 2010–11: CPI + 1% increase annually	Increased costs incurred from prescribed events can be recovered through tariff increases, and the determination may be reopened.
Western Australia	From 1 July 2009	Alinta	Increase in typical bill of 7.5–23.6%	Government decision will be implemented through regulations.

CPI, consumer price index; IPART, Independent Pricing and Regulatory Tribunal.

Sources: New South Wales: IPART, *Regulated gas retail tariffs and charges for small customers 2007-10: gas final report and voluntary transitional pricing arrangements*, Sydney, June 2007, p. 2; South Australia: ESCOSA, *2008-09 Regulated gas price adjustment impact on residential and small business customers*, Adelaide, June 2008; Western Australia: Energy Coordination (Gas Tariffs) Regulations 2000 and Office of Energy, *Gas tariffs review—interim report*, Perth, June 2008.

on its review of small customer prices and competition in the gas retail market. The QCA noted that retail prices, before the introduction of FRC in 2007, were below the level necessary for a retailer to recover its costs. To bring prices closer to cost-reflective levels, two regulated price increases of 10 per cent were approved in 2005. The QCA found, despite these increases, that prices in the residential gas retail market are still not cost-reflective and the lack of a sufficient retail margin reduces the incentive for new retailers to enter the market.[17]

11.4.2 Retail price outcomes

Retail price outcomes must be interpreted with care. Trends in retail prices may reflect movements in the cost of any one of, or a combination of, the bundled components in a retail product—for example, movements in wholesale gas prices, transmission and distribution pipeline charges or retail operating costs. In addition, regulatory arrangements affect retail price movements. As section 7.4.2 notes, while competition tends to deliver efficient outcomes, it may sometimes give a counter-intuitive outcome of higher prices, especially in the early stages of competition as historical cross-subsidies are phased out.

Sources of price data

There is little systematic publication of actual gas retail prices in Australia. The Australian Gas Association (AGA) previously published data on retail gas prices but discontinued the series after 1998. Some jurisdictions publish price information:

- Jurisdictions that regulate prices publish schedules of default prices. The schedules are a useful guide to retail prices but their relevance as a price barometer is reduced as more customers transfer to market contracts.
- The South Australian regulator (ESCOSA) publishes annual data on default and market prices.
- The Queensland and Victorian regulators (the QCA and the ESC) and ESCOSA provide an estimator service on their websites that can be used to compare the price offerings of retailers.
- In some jurisdictions, retailers are required to publish the prices struck through market contracts with customers.
- The CHOICEswitch website provides a comparison and switching service, to help consumers compare electricity and gas offers (see box 11.1). Other price comparison websites also exist.

17 QCA (Queensland), *Final report—review of small customer gas pricing and competition in Queensland*, Brisbane, November 2008, pp. 31 and 64.

Consumer price index and producer price index

The consumer price index (CPI) and producer price index, published by the Australian Bureau of Statistics, track movements in gas retail prices paid by households and businesses.[18] The indexes are based on customer surveys and, therefore, reflect both market and regulated prices.

Figure 11.6 tracks real gas price movements for households and business customers since 1991. There is considerable disparity between outcomes for each customer type. For business, the real price of gas has fallen by 10.6 per cent since 1991; for households, it has increased by 28.6 per cent (figure 11.7). In part, the disparity reflects the rebalancing of retail prices to remove cross-subsidies from business to household consumers.

It is possible to estimate retail price outcomes for households by using CPI data to extrapolate from the historic AGA price data. Figure 11.8 applies this method to estimate real gas prices for households in several states and territories since July 1996. Real household gas prices have risen since 1996 in all states except Victoria, but the pattern and rate of adjustment have varied. Customers in all states except Queensland experienced real price increases from 2000–01 to 2008–09 of between 19.9 per cent and 25.6 per cent. Prices in Queensland were relatively stable from 2000–01 to 2004–05 but have since risen sharply.

Caution must be exercised when making price comparisons. Price variation across the cities (and across individual customers) reflects a variety of factors, including variations in wholesale gas prices and the distances over which gas must be transported, and differences in regulatory arrangements. Consumption patterns and industry scale also play a role—for example:

- Victoria has a relatively large residential consumer base with consumers located close to major gas fields.
- Queensland prices reflect a small residential customer base and low rates of residential consumption, given that state's warm climate.

18 The producer price index series tracks input costs for manufacturers.

Figure 11.6

Retail gas price index (inflation adjusted)—Australian capital cities, June 1991–March 2009

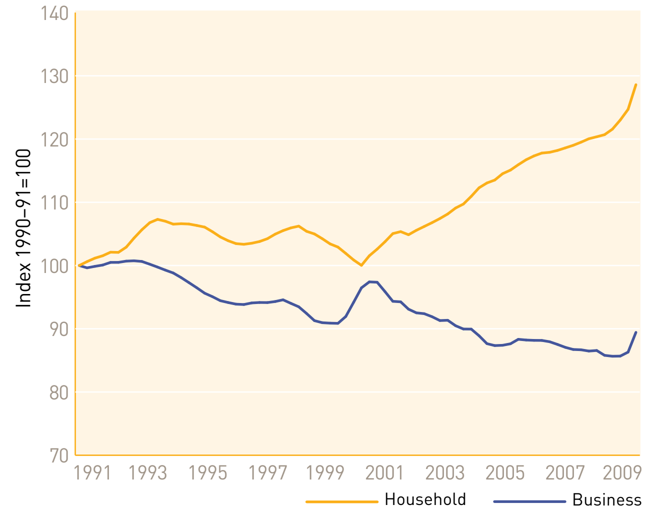
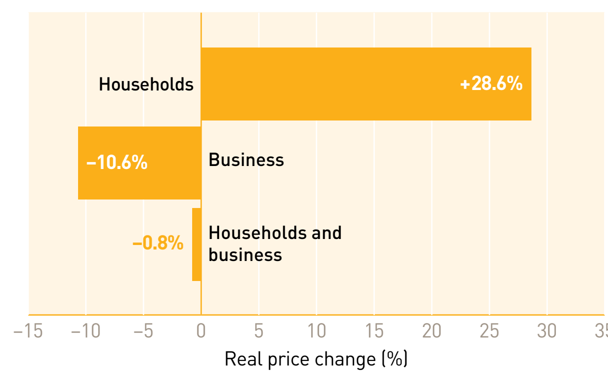


Figure 11.7

Change in the real price of gas—Australia, June 1991–March 2009

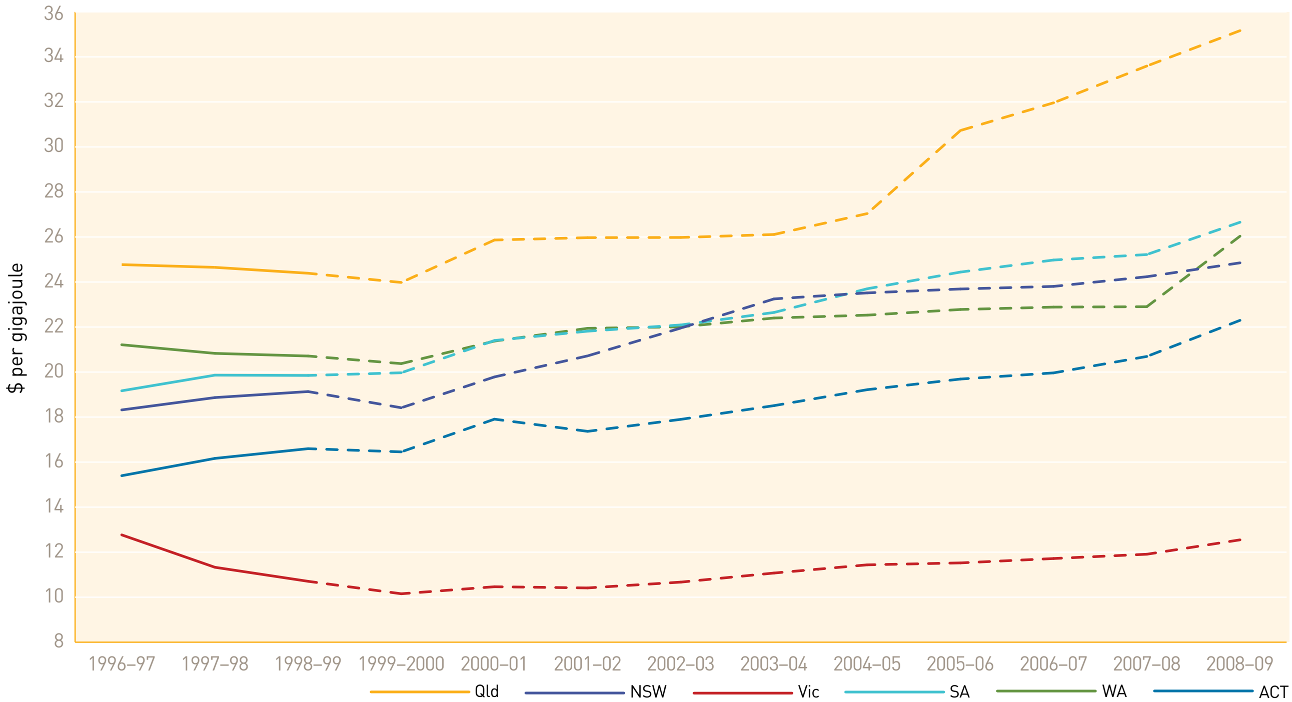


Note to figures 11.6 and 11.7: The households index is based on capital city consumer price indexes for 'gas and other household fuels' deflated by the capital city CPI series for all groups. The business index is based on the producer price index for gas supply in 'Materials used in manufacturing industries' deflated by the CPI series for all groups. The household index was affected by the introduction of the Goods and Services Tax (GST) on 1 July 2000, which increased prices paid by households for gas services.

Sources for figures 11.6 and 11.7: ABS, *Consumer price index* and *Producer price index, March quarter 2009*, cat. nos. 6401.0 and 6427.0, Canberra, various years.

Figure 11.8

Real retail gas prices, by state and territory, July 1996–March 2009



Note: The dashed lines are estimates based on inflating 1998–99 AGA data by the CPI series for gas and other household fuels for the capital city in that state.

Sources: AGA, *Gas statistics Australia*, Canberra, August 2000, p.73; ABS, *Consumer price index, Australia, March quarter 2009*, cat. no. 6401.0, Canberra.

> Western Australia traditionally has relatively low wholesale gas prices but high transport costs because most residential consumers are located a long distance from gas basins. Volumes are also relatively low.

11.5 Quality of retail services

Competition provides incentives for retailers to improve performance and quality of service as a means of maintaining or increasing market share. In addition, governments have established regulations and codes on minimum terms and conditions, information disclosure and complaints handling requirements, which retailers must meet when supplying gas to small customers. As discussed in section 7.5, jurisdictional regulators monitor and report on retail service quality to enhance transparency and accountability. Most jurisdictions also have an ombudsman to investigate and report on complaints.

In November 2000 the Utility Regulators Forum (URF) established the Steering Committee on National Regulatory Reporting Requirements. The steering committee developed a national framework in 2002 for electricity retailers to report against common criteria on service performance. In May 2007 the steering committee recommended extending national reporting arrangements for electricity retail businesses to include the gas retail sector from 2007–08.[19] It developed reporting criteria that address:

> customer affordability and access to services

> quality of customer services.

19 URF, *National energy retail performance indicators—final paper*, Canberra, May 2007, p. ii.

New South Wales, Victoria, South Australia, Western Australia and the ACT have reported performance against the URF indicators, but each jurisdiction applies different methods and assumptions. These differences may limit the validity of any national performance comparisons across jurisdictions.

11.5.1 Affordability and access indicators

The rate of residential customer disconnections for failure to meet bill payments (figure 11.9) and the rate of disconnected customers reconnected within seven days (figure 11.10) are key affordability and access indicators.

In 2007–08 the rate of residential customer disconnections rose against the previous year's rate in South Australia and Western Australia, remained below 1 per cent in Victoria, and fell in New South Wales and the ACT. The rate at which disconnected customers were reconnected in 2007–08 improved in all states.

11.5.2 Customer service indicators

Customer service measures indicate customer satisfaction with the quality of retailer service. Indicators include:

- the percentage of customer calls answered within 30 seconds (figure 11.11)
- retail customer complaints as a percentage of total customers (figure 11.12).

Call centre performance varied across the jurisdictions in 2007–08. In Victoria, the number of calls answered within 30 seconds fell from 80 per cent in 2006–07 to 78 per cent in 2007–08, while the rate in South Australia improved from 81.9 per cent to 84.6 per cent over the same period. New South Wales improved from 60 per cent in 2006–07 to 75 per cent in 2007–08.

The rate of gas complaints by residential customers was around 0.5 per cent of the customer base in New South Wales, Victoria and South Australia in 2007–08. The rate increased significantly in the ACT, from 0.14 per cent in 2005–06 to 0.76 per cent in 2007–08. In Western Australia, the rate of gas complaints by residential customers remained unchanged at 0.15 per cent. In South Australia, ESCOSA noted that the increase in 2007–08 was principally due to a large increase in complaints reported by AGL Energy following the first phase of conversion of South Australian gas customers to a new billing system in late 2007.[20]

As noted in section 7.4.2, customers have a range of options to redress customer service issues: customers can raise complaints directly with their retailer, refer complaints to their state energy ombudsman or transfer away from a business providing poor service.

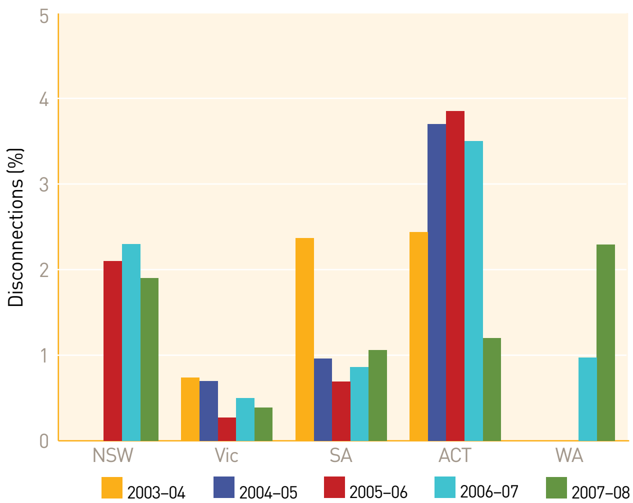
11.5.3 Consumer protection

Governments regulate aspects of the energy retail market to protect consumers' rights and ensure customers have access to sufficient information to make informed decisions. New South Wales, South Australia and Western Australia require designated host retailers to provide gas services under a standard contract to nominated customers. Standard contracts cover minimum service conditions relating to billing, procedures for connections and disconnections, information disclosure and complaints handling. During the transition to effective competition, default contracts also include regulated retail tariffs (see section 11.4.1).

While prices in Queensland are not regulated, host retailers are required to offer small customers a standard contract. This contract must be published on the retailers' website and notified to the Queensland regulator (the QCA).

20 ESCOSA (South Australia), *2007–08 Annual performance report: performance of South Australian energy retail market*, Adelaide, p. h.

Figure 11.9
Gas residential disconnections, as a percentage of the customer base



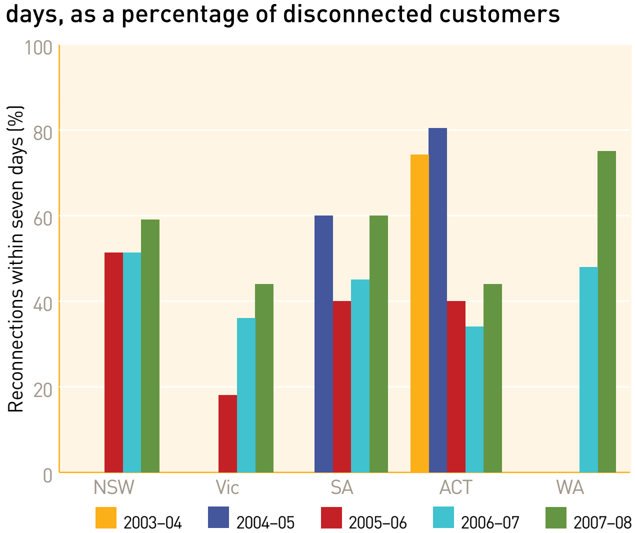
Notes:

ACT figures include residential and non-residential customers but exclude disconnections by Energy Australia.

New South Wales data are available only from 2005–06. Western Australia data are available only from 2006–07. Tasmania data are available, but the rates for disconnection and customer complaints are negligible and have not been included in the chart.

Source: see figure 11.12.

Figure 11.10
Residential gas customers reconnected within seven days, as a percentage of disconnected customers



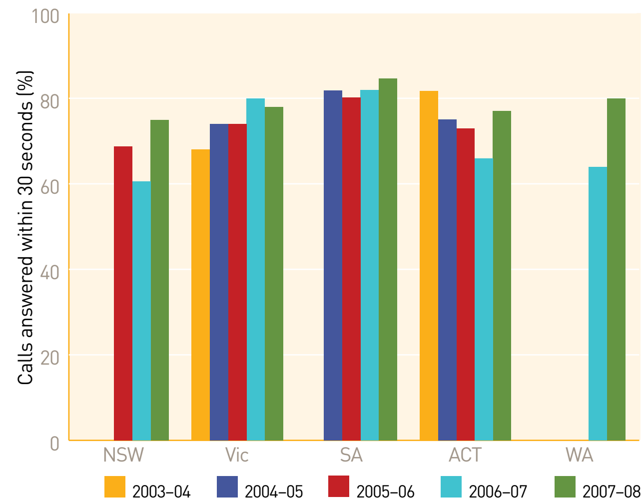
Notes:

Victorian data for 2005–06 include only six months of data from January–June 2006.

New South Wales and Victorian data are available only from 2005–06. South Australian data are available only from 2003–04. Western Australia data are available only from 2006–07.

Source: see figure 11.12.

Figure 11.11
Percentage of gas retail customer calls answered within 30 seconds



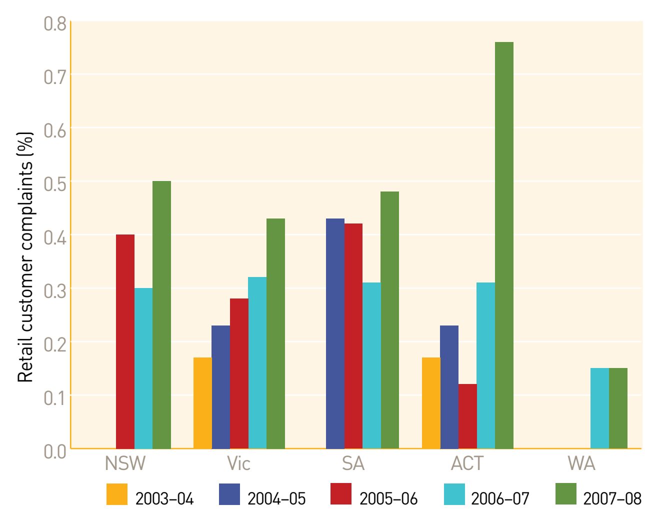
Notes:

South Australia and Victorian data in 2007–08 are for both gas and electricity.

New South Wales data are available only from 2005–06. South Australian data are available only from 2004–05. Western Australia data are only available from 2006–07.

Source: see figure 11.12.

Figure 11.12
Retail gas customer complaints, as a percentage of total customers



Note: New South Wales data are available only from 2005–06. South Australian data are available only from 2004–05. Western Australia data are available only from 2006–07.

Sources for figures 11.9, 11.10, 11.11 and 11.12: Reporting against URF templates and performance reports on the retail sector by IPART (New South Wales), the ESC (Victoria), ESCOSA (South Australia), the ERA (Western Australia) and the ICRC (ACT).

Some jurisdictions have established industry codes that apply to all retail gas services, including those sold under market contracts. The codes govern market conduct and establish minimum terms and conditions under which a retailer can sell gas to small retail customers. They may:

- constrain how retailers may contact potential customers
- require pre-contract disclosure of information, including commissions for market contracts
- provide for cooling-off periods
- provide rules for the conduct of door-to-door sales, telemarketing and direct marketing.

Most jurisdictions also have an energy ombudsman or alternative dispute resolution body to whom consumers can refer a complaint they were unable to resolve directly with the retailer. In addition to general consumer protection measures, some jurisdictions have introduced 'retailer of last resort' arrangements to ensure customers can transfer from a failed or failing retailer to another retailer. Section 7.5.3 provides further background on consumer protection arrangements for energy retail customers.

11.6 Future regulatory arrangements

Governments agreed in the Australian Energy Market Agreement 2004 (as amended) that jurisdictions other than Western Australia would transfer non-price regulatory functions to a national framework for the AEMC and the AER to administer. These functions include:

- the obligation on retailers to supply small customers
- small customer market contracts and marketing
- retailer business authorisations, ring-fencing and retailer failure
- balancing, settlement, customer transfer and metering arrangements
- enforcement mechanisms and statutory objectives.[21]

The Northern Territory will be transferring only non-price regulatory functions for gas retail.

The MCE has scheduled the regulatory package for the transfer of functions to be introduced to the South Australian parliament in 2010. The arrangements are occurring in tandem with equivalent arrangements in electricity. Section 7.7 in chapter 7 outlines progress.

21 Australian Energy Market Agreement 2004 (as amended).